

## CORPORATE GOVERNANCE STATEMENT

The Malaysian Code on Corporate Governance ("the Code") sets out principles and best practices on structures and processes that companies may use in their operations towards achieving the optimal governance framework.

The Board of Directors of YLI Holdings Berhad ("the Board") has always recognised the importance of adopting good corporate governance. The Board is committed to ensure that the highest standards of corporate governance are practised throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the performance of the Company.

The Board is pleased to report to shareholders on the manner the Group has applied the principles, and the extent of compliance with the best practices of good governance as set out in Part 1 and Part 2 respectively of the Code pursuant to paragraph 15.26 of the Listing Requirements of Bursa Malaysia Securities Berhad (BMSB) throughout the year save where otherwise identified.

The statement below sets out how the Group has applied the principles and the extent of its compliance with the best practices throughout the financial year ended 31 March 2004.

### THE BOARD OF DIRECTORS

#### The Board

The Board is responsible for the control and proper management of the Company. The Board has delegated specific responsibilities to four main committees namely the Audit, Remuneration, Nomination and Options Committees, which operate within approved terms of reference. These Committees have the authority to examine particular issues and report to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however lies with the entire Board.

#### (i) Board Composition

The Group is led and controlled by an experienced Board, many of whom have intimate knowledge of the business. The current Board consists of three Executive Directors and five Non-Executive Directors, of whom four are independent. The composition of the Board also reflects the investment of the minority shareholders of the Company as only two out of the total of eight members represent the interests of Fuji Fusion Sdn Bhd, the largest shareholder of the Company.

There is a clear division of responsibility between the Executive Chairman and the Group Managing Director. The management of the Group's business and implementation of policies and day-to-day running of the business is delegated to the Executive Directors. The Non-Executive members provide unbiased and independent views to safeguard the interests of shareholders

The Board considers that the current size of the Board adequate and facilitates effective decision-making. The Nomination Committee has reviewed the present composition of the Board and the four main existing committees and is satisfied that they have adequately carried out their functions within their scope of work.

#### (ii) Board meetings

The Board meets on a scheduled basis at least four times a year, with additional meetings convened as and when necessary. Besides Board meetings, the Board also exercises control on matters that require Board's approval through Directors' Circular Resolutions. Amongst others, key matters such as approval of annual and quarterly results, financial statements, dividend recommendations, major acquisitions and disposals, major capital expenditures, risk management policies, appointment of Directors are discussed and decided by the Board.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

During the financial year ended 31 March 2004, four (4) Board Meetings were held. The attendance record of each Director is as follows:-

Board of Directors' Meeting			May 03	July 03	Nov 03	Feb 04		
Directors	Position	Attendance				Total	%	
1 Loh Toa Thau @ Loh Eng Kim	Executive Chairman	•	•	•	•	4/4	100	
2 Loh Yok Yeong	Group Managing Director	•	•	•	•	4/4	100	
3 Lee Then Wah	Group Executive Director	•	•	•	•	4/4	100	
4 Dato' Ir. Syed Muhammad Shahabudin	Director	•	•	•	•	4/4	100	
5 Dato' Haji Yahaya bin Ahmad	Director	X	X	•	•	2/4	50	
6 The late Chan Kok Soo	Director	•	•	•	•	4/4	100	
7 Foong Kai Choong	Director	•	•	X	•	3/4	75	
8 Ng Chong Wee	Director	•	•	•	•	4/4	100	

Total number of meetings held:

4
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### (iii) Supply of Information

All Directors are supplied with board papers pertaining to agenda items prior to the Board meeting. This is issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be properly briefed before the meeting.

In addition, there is a schedule of matters reserved specifically for the Board's decision, including amongst others, the approval of annual and quarterly results, Group budget, acquisitions and disposals of assets that are material to the Group, major investments, dividend recommendations, risk management policies, including key policies, procedures and authority limits.

In exercising their duties, the Directors have access to all information within the Company. All Directors have access to the advice and services of the Company Secretary and may obtain independent professional advice at the Company's expense in furtherance of their duties.

At meetings, the Management updates the Board on the business and market factors relevant to the Group.

### (iv) Appointments to the Board

The Nomination Committee was set up on 24 May 2001 comprising three Non-Executive Directors, two of whom are independent. The present members are Dato' Ir. Syed Muhammad Shahabudin (Independent Non-Executive Director) who is the Chairman, Dato' Haji Yahaya bin Ahmad (Independent Non-Executive Director) and Foong Kai Choong (Non-Independent Non-Executive Director).

The Nomination Committee assists the Board on the following functions:

- (1) Recommends to the Board candidates for Directorships
- (2) Consider candidates proposed by the Managing Director or any director
- (3) Recommends to the Board of Directors to fill the seats on Board committees

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### (iv) Appointments to the Board (continued)

- (4) Review the Board structure, size and composition

As an integral element of the process of appointing new Directors, the Nomination Committee will ensure that there is an orientation and education programme for new Directors with respect to the business and management of the Group.

During the financial year ended 31 March 2004, the Nomination Committee held two meetings as follows:-

Date	Business
29 May 2003	<ol style="list-style-type: none"> <li>1. Review the composition of Board and Board Committees</li> <li>2. Review the effectiveness of the Board and Board Committees</li> <li>3. Proposal for re-election of retiring directors</li> </ol>
26 February 2004	Proposal for appointment of new director

### (v) Re-election of Directors

In accordance with the Company's Articles of Association, all Directors except for the Group Managing Director who is on contract with the Company, shall retire from office once at least in each three years but shall be eligible for re-election. Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act 1965.

Mr Tan Hock Hin who was appointed on 1 April 2004 shall retire at the forthcoming Annual General Meeting of the Company.

The names of Directors who are standing for re-election at the Ninth Annual General Meeting of the Company to be held on 9 September 2004 are contained in the Statement Accompanying Notice of Annual General Meeting.

### (vi) Directors' Training

All the Directors have attended the Directors' Mandatory Accreditation Programme and will continue to undergo other relevant training programmes to further enhance their skills and knowledge and to keep abreast with the latest statutory and/or regulatory requirements in compliance with Practice Note No. 15/2003 of the Listing Requirements on the Continuing Education Programme. The Company Secretary ensures that every new Director is provided with essential information pertaining to his responsibility under the rules and regulations and all Directors are kept informed of any changes in relevant laws and regulations.

## DIRECTORS' REMUNERATION

### (i) Remuneration Committee

The Remuneration Committee was formed on 24 May 2001. It comprises mainly Non-Executive Directors. The members are Foong Kai Choong (Chairman) who is a Non-Executive Director, Dato' Ir. Syed Muhammad Shahabudin, Dato' Haji Yahaya bin Ahmad (Independent Non-Executive Directors) and Loh Yok Yeong (Group Managing Director).

During the financial year ended 31 March 2004, one meeting was held on 20 November 2003.

### (ii) Remuneration Policy

The Remuneration Committee recommends to the Board for approval the remuneration package of Executive Directors. The remuneration system takes into account individual performance, comparison of the Company's actual performance relative to other companies in the same sector and additional responsibilities of the Directors. The fees of the Directors are subject to shareholders' approval at the Annual General Meeting.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### (iii) Details of the Directors' remuneration

The aggregate remuneration of the Directors during the financial year ended 31 March 2004 is set out below:-

#### A. Aggregate Remuneration

	Executive Directors RM	Non-Executive Directors RM
Fees	92,000	73,000
Salaries	852,600	-
Bonus	142,100	-
Benefits in kind	47,379	-
Other benefits	479,160	-
	1,613,239	73,000

#### B. Band (RM)

Band (RM)	Executive Directors	Non-Executive Directors	Total
0 – 50,000	-	5	5
150,000 - 200,000	1	-	1
600,000 - 650,000	1	-	1
750,000 - 800,000	1	-	1

The Board feels that it is inappropriate to disclose the remuneration of individual Directors and has opted not to do so.

### RELATIONS WITH SHAREHOLDERS

The Company keeps shareholders informed by announcements and timely release of quarterly financial results through the Bursa Malaysia Link, press releases, annual report and circulars to shareholders. The Company also responds to ad-hoc requests from institutional investors and analysts for a better understanding on the Group's strategy and financial performance.

Any queries and concerns regarding the Group may be conveyed to the following person:-

Mr Tan Hock Hin, Senior Independent Non-Executive Director

Telephone number : 04-2821942  
 Facsimile number : 04-2820821  
 Email address : corporate@ylihq.po.my

Shareholders and members of the public are invited to access the Group's website at [www.yli.com.my](http://www.yli.com.my) to obtain the latest information on the Group.

The Annual General Meeting ("AGM") is the principal forum for dialogue and interaction with individual shareholders and investors where they may seek clarifications on the Group's businesses. The notice of the AGM and the Annual Reports are sent to shareholders at least 21 days before the date of the meeting. The notice of the AGM is also published in a national newspaper and released to the BMSB for public dissemination. Members of the Board as well as the Auditors of the Company are present at the AGM to answer questions raised at the meeting.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### ACCOUNTABILITY AND AUDIT

#### (i) Financial Reporting

The Directors have a responsibility to present a true and fair assessment of the Groups' financial position and prospects primarily through the annual report to shareholders and quarterly financial statements to the BMSB.

The Audit Committee assists the Board in reviewing the information disclosed to ensure accuracy, adequacy and completeness of all annual and quarterly reports, audited or unaudited, and approved by the Board of Directors before releasing to the BMSB.

A statement by the Directors of their responsibilities in preparing the financial statements is set out on page 23 of this Annual Report.

#### (ii) Statement on Internal Control

The Board of Directors acknowledges its responsibility for maintaining a sound system of internal control and for reviewing its adequacy and integrity. Due to limitations that are inherent in any system of internal control, it should be noted that such system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Further, such system can only provide reasonable but not absolute assurance against material risks or loss.

The Group has in place an on-going process for identifying, evaluating and managing significant risks that may be faced by the Group. The system of internal control covers operational, financial, compliance with applicable laws and risk management. The internal control system helps to safeguard shareholders' investment and the Group's assets.

Internal Audit facilitates the overall internal control system and an internal control working committee comprising the Group Managing Director and heads of major departments assists the Board to oversee the existing risk management framework that had been in place within the Group. The risk management framework had been reviewed subsequent to updates given by executives and heads of various key departments to the internal auditor and internal control working committee.

In reviewing the adequacy and the integrity of the system of internal control, the management and executives from each key area identify the significant risks, likelihood, impact and measures developed to manage the risks relating to their areas. Possible new risks emerging from their operational activities have also been addressed using the questionnaire designed by the Internal Auditor. Each risk is assessed in terms of likelihood and impact to the Group. The risk profile and control measures are raised to senior management and the Audit Committee which assists the Board in reviewing the controls in place to manage risks. Strategies to manage risks are then communicated to the operating levels. The effectiveness of the system is monitored and reviewed quarterly by the Audit Committee, which receives report from the Internal Auditor. Control measures are in place to resolve any weaknesses (if any) identified in the reports. The Internal Auditor also monitors compliance with procedures issued by the Company and highlights any significant findings in respect of non-compliance.

During the period under review, no significant weaknesses were identified within the Group. There were no material losses incurred during the financial year as a result of weaknesses in internal control that would require disclosure in the annual report. The Management continues to review and take measures to strengthen the internal control environment.

This statement has been seen and approved by the Board of Directors at the meeting held on 27 May 2004.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### (ii) Statement on Internal Control (continued)

The external auditors have reviewed this Statement on Internal Control and are satisfied that the statement appropriately reflects the process the Board has adopted in reviewing the adequacy and integrity of the internal control system of the Group.

### (iii) Relationship with the External Auditors

The Board has established a close and transparent relationship with the external auditors of the Company. As disclosed on pages 24 to 27 the Audit Committee is the independent channel of communication for the external and internal auditors. It also reviews the activities of the internal audit function as well as the effectiveness of the system of internal control.

### Additional Compliance Information

#### Non-audit fees

The amount of non-audit fees paid to external auditors for the financial year was RM21,439.

#### Exercise of Options

During the financial year, a total of 2,948,000 options were exercised in respect of the YLI Group Employees' Share Option Scheme.

#### During the financial year:

- a) No proceeds were raised by the Company from any corporate proposal.
- b) There were no share buybacks by the Company during the financial year.
- c) None of the Directors has been convicted for offences within the past ten (10) years other than traffic offences, if any.
- d) The Company did not sponsor any American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") programmes.
- e) There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by the regulatory bodies.
- f) The Company did not release any profit estimate, forecast or projection for the financial year. There is no variance between the results for the financial year and the unaudited results previously released by the Company.
- g) There is no profit guarantee given by the Company.
- h) There were no material contracts of the Company and its subsidiaries involving Directors' and major shareholders' interests.
- i) There were no contracts relating to a loan by the Company and its subsidiaries in respect of the preceding item.

#### Recurrent Related Party Transactions of a Revenue or Trading Nature ("RRPT")

During the financial year, the Company did not enter into any RRPT.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### Directors' Responsibilities Statement in respect of Annual Audited Financial Statements

Under the Companies Act, 1965, the Directors are required to prepare financial statements for each financial year to give a true and fair view of the state of affairs of the Group and the Company. In preparing the financial statements, the Directors have:-

- adopted and used accounting policies consistently in dealing with items which are considered material in relation thereto;
- made accounting estimates where applicable that are prudent, just and reasonable; and
- ensured that the Company has taken reasonable steps to deter and minimize fraud and other irregularities.

## AUDIT COMMITTEE REPORT

### Members

Dato' Ir. Syed Muhammad Shahabudin\*# *Chairman*      \* *Independent Non-Executive Director*  
Dato' Haji Yahaya bin Ahmad\*      \*\* *Executive Director (Group Managing Director)*  
Tan Hock Hin\*  
Ng Chong Wee\*  
Loh Yok Yeong\*\*  
Chan Kok Soo\*@

*Mr Tan Hock Hin and Mr Ng Chong Wee are members of MIA*

@ *Passed away on 27 April 2004*

# *Appointed as member with effect from 20 November 2003. Subsequently on 27 May 2004, Dato' Ir. Syed Muhammad Shahabudin was appointed as Chairman of the Audit Committee*

### Terms of Reference

#### 1.0 Membership

1.1 The Committee shall be appointed by the Board of Directors amongst the Directors of the Company which fulfils the following requirements: -

- (a) the Committee must be composed of no fewer than 3 members;
- (b) a majority of the Committee must be independent directors; and
- (c) at least one member of the Committee:
  - (i) must be a member of the Malaysian Institute of Accountants; or
  - (ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:
    - (aa) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
    - (bb) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

1.2 The members of the Committee shall elect a Chairman from among themselves who shall be an independent director.

1.3 No alternate director should be appointed as a member of the Committee.

1.4 In the event of any vacancy in the Committee resulting in the non-compliance of the Listing Requirements of the Exchange pertaining to composition of audit committee, the Board of Directors shall within three months of that event fill the vacancy.

1.5 The terms of office and performance of the Committee and each of its members must be reviewed by the Board of Directors at least once every 3 years to determine whether the Committee and its members have carried out their duties in accordance with their terms of reference.

#### 2.0 Meetings

##### 2.1 Frequency

2.1.1 Meetings shall be held not less than four times a year.

2.1.2 Upon the request of the external auditor, the Chairman of the Committee shall convene a meeting of the Committee to consider any matter the external auditor believes should be brought to the attention of the Directors or shareholders.



## AUDIT COMMITTEE REPORT (CONTINUED)

### 2.2 Quorum

2.2.1 A quorum shall consist of a majority of independent directors.

### 2.3 Secretary

2.3.1 The Company Secretary shall be the Secretary of the Committee or in his absence, another person authorised by the Chairman of the Committee.

### 2.4 Attendance

2.4.1 The Head of Finance, the Internal Auditor and a representative of the external auditor shall normally attend meetings.

2.4.2 Other Directors and employees may attend any particular meeting only at the Committee's invitation, specific to the relevant meeting.

2.4.3 At least once a year, the Committee shall meet with the external auditors without any executive Board members present.

### 2.5 Reporting Procedure

2.5.1 The minutes of each meeting shall be circulated to all members of the Board.

### 2.6 Meeting Procedure

The Committee shall regulate its own procedure, in particular: -

- (a) the calling of meetings;
- (b) the notice to be given of such meetings;
- (c) the voting and proceedings of such meetings;
- (d) the keeping of minutes; and
- (e) the custody, production and inspection of such minutes.

### 3.0 RIGHTS

The Committee in performing its duties shall in accordance with a procedure to be determined by the Board of Directors:

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Company;
- (d) have direct communication channels with the external auditor and person(s) carrying out the internal audit function or activity (if any);
- (e) be able to obtain independent professional or other advice; and
- (f) be able to convene meetings with external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary.

## AUDIT COMMITTEE REPORT (CONTINUED)

### 4.0 Functions

The Committee shall, amongst others, discharge the following functions:

#### 4.1 To review:

- (a) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on: -
  - (i) the going concern assumption;
  - (ii) changes in or implementation of major accounting policy changes;
  - (iii) significant and unusual events; and
  - (iv) compliance with accounting standards and other legal requirements.
- (b) any related party transaction and conflict of interest situation that may arise within the Company or group including any transaction, procedure or course of conduct that raises questions of management integrity.
- (c) with the external auditor:
  - (i) the audit plan;
  - (ii) his audit report;
  - (iii) his management letter on internal control issues arising from his year end audit and management's response; and
  - (iv) the assistance given by the Company's employees to the external auditor.

#### 4.2 To monitor the management's risk management practices and procedures.

#### 4.3 In respect of the appointment of external auditors:

- (a) to review whether there is reason (supported by grounds) to believe that the external auditor is not suitable for reappointment;
- (b) to consider the nomination of a person or persons as external auditors and the audit fee;
- (c) to consider any questions of resignation or dismissal of external auditors.

#### 4.4 In respect of the internal audit function:

- (a) to review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work;
- (b) to review the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- (c) to review any appraisal or assessment of the performance of members of the internal audit function;
- (d) to approve any appointment or termination of senior staff members of the internal audit function; and
- (e) to inform itself of any resignation of internal audit staff member and provide the resigning staff member an opportunity to submit his reasons for resigning.

#### 4.5 To promptly report such matter to the Exchange if the Committee is of the view that the matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements.

#### 4.6 To carry out such other functions as may be agreed to by the Committee and the Board of Directors.

## AUDIT COMMITTEE REPORT (CONTINUED)

### 4.0 Functions (continued)

For the financial year ended 31 March 2004, eight (8) Audit Committee meetings were held. The attendance of each member is as set out below:

Directors	Position	Attendance
Chan Kok Soo@	Chairman	7/8
Dato' Ir. Syed Muhammad Shahabudin*	Member	4/4
Dato' Haji Yahaya bin Ahmad	Member	4/8
Ng Chong Wee	Member	8/8
Loh Yok Yeong	Member	8/8
Tan Hock Hin**	Member	N/A

\* Appointed as member with effect from 20 November 2003. Subsequently appointed as the Chairman of Audit Committee on 27 May 2004

\*\* Appointed on 1 April 2004

@ Passed away on 27 April 2004

### Activities of the Audit Committee

Based on duties specified in the Terms of Reference, the main activities performed by the Audit Committee during the financial year ended 31 March 2004 were as follow:

- a. Reviewed the Group's quarterly results and year end financial statements, prior to recommending to the Board of Directors for approval.
- b. Reviewed with the external auditors the audit plan, audit report and the audit approach.
- c. Considered and recommended the reappointment and remuneration of the external auditors.
- d. Reviewed and approved the internal auditor's annual audit plan, audit findings and reports and assessed his performance, adequacy of resources and approved his remuneration.
- e. Reviewed and approved the risk management framework and assessed the adequacy of the internal control system.
- f. Monitored related party transactions entered into by the Group.
- g. Reviewed the external auditor's management letter and management's response.

### Activities of the Internal Audit Department

The Group has in place its own internal audit department, an independent department which functions on the audit plan that has been tabled to the Audit Committee for its review and approval. The audit plan focuses on financial and operational areas, compliance with applicable laws and assesses the adequacy of internal controls as well as the effectiveness of risk management framework. The Internal Auditor reports to the Audit Committee on a quarterly basis and provides the committee with independent views on the effectiveness of the system of internal control after its reviews. The internal audit reports are deliberated by the Audit Committee and duly acted upon by the Management. The Management has taken steps to strengthen the control on any weaknesses identified in the reports. The audit on the Group was undertaken using the risk-based approach.



# FINANCIAL REPORT



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## DIRECTORS' REPORT

For The Financial Year Ended 31 March 2004

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2004.

### Principal activities

The principal activity of the Company during the financial year is that of investment holding. The principal activities of the Group consist of manufacturing and marketing of ductile iron pipes and fittings and waterworks related products for waterworks and sewerage industry. There have been no significant changes in the nature of these activities during the financial year.

### Financial results

	Group RM	Company RM
Net profit after taxation	<u>21,153,265</u>	<u>6,619,886</u>

### Dividends

Dividends proposed, declared or paid since 31 March 2003 are as follows:

RM

In respect of the financial year ended 31 March 2003:

As shown in the Directors' Report for that financial year, a first and

final dividend of 5.0% less tax at 28%, paid on 8 October 2003

2,258,712

Dividend on additional 1,643,000 ordinary shares due to exercise  
of employee share options

59,148

2,317,860

The Directors now recommend the payment of a first and final dividend of 7.0% less tax at 28% amounting to RM4,937,033 subject to the approval of members at the forthcoming Annual General Meeting of the Company, which will be paid on 7 December 2004 to shareholders registered on the Company's Register of Members at the close of business on 22 November 2004.

### Share capital

During the financial year, the authorised share capital of the Company was increased from RM100,000,000 ordinary shares of RM1 each to RM500,000,000 comprising 500,000,000 ordinary shares of RM1 each. The issued and fully paid up share capital of the Company was also increased from RM62,742,000 to RM97,957,000 by way of:

- (a) an issue of 2,948,000 ordinary shares of RM1 each for cash at the respective option prices by virtue of the exercise of options granted under the Company's Employees' Share Option Scheme; and
- (b) a bonus issue of 32,267,000 ordinary shares of RM1 each on 17 October 2003 on the basis of one (1) new ordinary share for every two (2) existing ordinary shares held. The bonus issue was effected by the capitalisation from the retained earnings account of the Company.

The newly issued ordinary shares rank pari passu in all respects with all the existing issued and fully paid shares except that the bonus shares will not be entitled to any dividends, rights, allotments and/or other distributions where the entitlement date precedes that date of allotment of the bonus shares.

### Reserves and provisions

All material transfers to or from reserves or provisions during the financial year have been disclosed in the financial statements.

**DIRECTORS' REPORT** (CONTINUED)

For The Financial Year Ended 31 March 2004

**Directors**

The Directors who have held office during the period since the date of the last report are as follows:

Loh Toa Thau @ Loh Eng Kim  
 Loh Yok Yeong  
 Lee Then Wah  
 Dato' Ir. Syed Muhammad Shahabudin  
 Dato' Haji Yahaya bin Ahmad  
 Foong Kai Choong  
 Ng Chong Wee  
 Tan Hock Hin (appointed on 1 April 2004)  
 Chan Kok Soo (passed away on 27 April 2004)

**Directors' interests**

According to the Register of Directors' Shareholdings, particulars of interests of Directors who held office at the end of the financial year are as follows:

	Number of ordinary shares of RMI each			
	1 April	Bought / bonus issue	Sold	31 March
<b>YLI Holdings Berhad</b>				
Loh Toa Thau @ Loh Eng Kim				
Direct	580,000	388,500	(650,000)	<b>318,500</b>
Indirect	28,195,004	13,817,502	(3,560,000)	<b>38,452,506</b>
Loh Yok Yeong				
Direct	264,000	821,000	(889,000)	<b>196,000</b>
Indirect	28,195,004	13,817,502	(3,560,000)	<b>38,452,506</b>
Lee Then Wah				
Direct	65,000	424,000	(344,000)	<b>145,000</b>
Chan Kok Soo				
Direct	16,000	8,000	(20,000)	<b>4,000</b>
	Number of options over ordinary shares of RMI			
	1 April	Adjusted for bonus issue	Exercised	31 March
<b>YLI Holdings Berhad</b>				
Loh Toa Thau @ Loh Eng Kim	299,000	100,000	(299,000)	<b>100,000</b>
Loh Yok Yeong	672,000	90,000	(762,000)	<b>0</b>
Lee Then Wah	340,000	79,000	(364,000)	<b>55,000</b>

Other than as disclosed above, none of the other Directors held any interest in shares in the Company and its related corporations during the financial year.

The Company has been granted exemption by the Companies Commission Of Malaysia from having to disclose the list of option holders and details of their holdings. This information has been separately filed with Companies Commission of Malaysia.

**Directors' benefits**

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in note 8 to the financial statements.

## DIRECTORS' REPORT (CONTINUED)

For The Financial Year Ended 31 March 2004

### Directors' benefits (continued)

Neither during nor at the end of the financial year was the Company or any of its related corporations a party to any arrangement whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate except for the share options granted to Executive Directors pursuant to the ESOS.

### Other statutory information

Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their book values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (a) which would render the amounts written off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

No contingent or other liability of any company in the Group has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company and its subsidiary companies to meet their obligations when they fall due.

In the interval between the end of the financial year and the date of this report:

- (a) no item, transaction or event of a material and unusual nature has arisen which, in the opinion of the Directors, would substantially affect the results of the Group's and of the Company's operations for the financial year in which this report is made except as disclosed in note 34(ii) to the financial statements; and
- (b) no charge has arisen on the assets of any company in the Group which secures the liability of any other person nor has any contingent liability arisen in any company in the Group.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.



**DIRECTORS' REPORT** (CONTINUED)

For The Financial Year Ended 31 March 2004

**Employees' Share Option Scheme**

The Employees' Share Option Scheme ("ESOS") of YLI Holdings Berhad was approved by the shareholders at the Extraordinary General Meeting ("EGM") held on 28 September 1999 and will be in force for a period of 5 years from this date. The main features of the ESOS are as follows:

- (a) Eligible persons are Malaysian citizens who are all full time employees of the Group (including Executive Chairman and Executive Directors) who have been confirmed and have attained the age of eighteen years. The eligible persons must have served at least one year of continuous service.
- (b) Eligible employees of the Group who have accepted the offer to participate in other employees' share option scheme implemented by any other company within the Group which is in force for the time being shall not be eligible to participate in the ESOS.
- (c) The total number of shares to be offered shall not exceed 10% of the issued and paid up share capital of the Company at any time during the existence of the ESOS.
- (d) No option shall be granted for less than 1,000 shares nor more than 500,000 shares and shall always be in multiples of 1,000 shares.
- (e) The option price shall be the average of the mean market quotation as shown in the daily official list issued by the Bursa Malaysia (previously known as Kuala Lumpur Stock Exchange) for the five (5) market days preceding the date of offer, provided that the option price shall not be less than the last transacted market price of the shares at the date preceding the date of offer or the par value of the shares.
- (f) The ESOS remains in force until 29 November 2004.
- (g) The number of shares comprised in the option price or the maximum number of shares and/or percentage of the total YLI Holdings Berhad's shares comprised in the option that may be executed in a particular financial year so far as the options remain unexercised, shall be adjusted following any alterations in capital structures of the Company by ways of capitalisation of profits or reserves, rights issues, reduction, subdivision, consolidation of capital or otherwise howsoever taking place.
- (h) The new shares to be allotted upon any exercise of an option will rank pari passu in all respects with the then existing ordinary shares of the Company save and except that the new shares will not be entitled to any dividends, rights, allotments or distributions which entitlement date precedes the relevant exercise date of the option.

Subject to the approval of the relevant authorities, the terms and conditions of the ESOS may from time to time be modified and/or amended by a resolution of the Board of Directors or Options Committee without the prior approval of the Company's shareholders in a general meeting provided that no such amendment shall be made which would either prejudice the rights then accrued to any option holder without the consent or sanction of that option holder or alter to the advantage of any option holder.

The movements of the ESOS during the financial year are as follows:

<b>Date of expiry</b>	<b>Balance at 1 April 2003</b>	<b>Adjusted for bonus issue</b>	<b>Exercised</b>	<b>Lapsed</b>	<b>Balance at 31 March 2004</b>
29 November 2004	2,942,000	614,000	(2,948,000)	(4,000)	604,000

The lapsed amounts are attributed to employees' resignations.

**DIRECTORS' REPORT** (CONTINUED)

For The Financial Year Ended 31 March 2004

**Employees' Share Option Scheme (continued)**

As at 31 March 2004, options to subscribe for 9,000, 39,000 and 556,000 ordinary shares of RM1 each can be exercised at the respective option prices of RM1.00, RM1.77 and RM2.60 per share. The respective option prices have also been adjusted pursuant to the bonus issue undertaken by the Company during the financial year. These options remain unexercised as at 31 March 2004. The consideration is payable in full on application.

**Auditors**

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 27 May 2004.

**Loh Toa Thau @ Loh Eng Kim**

Director

**Lee Then Wah**

Director

## REPORT OF THE AUDITORS

### To The Members Of YLI Holdings Berhad

We have audited the financial statements set out on pages 36 to 68. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and of the Company as at 31 March 2004 and of the results and cash flows of the Group and of the Company for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiary company of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiary companies of which we have not acted as auditors are indicated in note 14 to the financial statements. We have considered the financial statements of these subsidiary companies and the auditors' reports thereon.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

**PricewaterhouseCoopers**

[AF-1146]

Chartered Accountants

**Cho Choo Meng**

[2082/09/04 (J)]

Partner of the firm

Penang

27 May 2004

## INCOME STATEMENTS

For The Financial Year Ended 31 March 2004

	Note	Group		Company	
		2004 RM	2003 RM	2004 RM	2003 RM
Revenue	5	<b>102,270,663</b>	113,755,212	<b>9,638,595</b>	44,602,551
Cost of sales		<b>(66,141,192)</b>	(68,832,411)	<b>0</b>	0
Gross profit		<b>36,129,471</b>	44,922,801	<b>9,638,595</b>	44,602,551
Other operating income		<b>648,960</b>	364,233	<b>38,872</b>	173
Selling and distribution costs		<b>(3,294,797)</b>	(3,542,549)	<b>0</b>	0
Administrative expenses		<b>(5,547,481)</b>	(5,263,824)	<b>(417,796)</b>	(304,504)
Other operating expenses		<b>(141,997)</b>	(157,821)	<b>0</b>	0
Profit from operations	7	<b>27,794,156</b>	36,322,840	<b>9,259,671</b>	44,298,220
Finance costs	9	<b>(133,998)</b>	(155,171)	<b>0</b>	0
Share of loss of a jointly controlled entity		<b>(141)</b>	0	<b>0</b>	0
Profit from ordinary activities before taxation		<b>27,660,017</b>	36,167,669	<b>9,259,671</b>	44,298,220
Taxation	10	<b>(6,506,752)</b>	(9,264,296)	<b>(2,639,785)</b>	(12,480,023)
Net profit after taxation		<b>21,153,265</b>	26,903,373	<b>6,619,886</b>	31,818,197
<b>Earnings per share (sen)</b>					
- basic	11	<b>21.90</b>	28.47		
- diluted	11	<b>21.84</b>	28.28		
<b>Dividends per share (sen)</b>					
- special interim dividend	12	<b>Nil</b>	7.5	<b>Nil</b>	7.5
- proposed first and final dividend	12	<b>7.0</b>	5.0	<b>7.0</b>	5.0

**BALANCE SHEETS**

As At 31 March 2004

	Note	Group		Company	
		2004 RM	2003 RM	2004 RM	2003 RM
<b>Non current assets</b>					
Property, plant and equipment	13	<b>74,779,787</b>	72,713,763	<b>0</b>	0
Subsidiary companies	14	<b>0</b>	0	<b>18,306,448</b>	18,306,448
Jointly controlled entity	15	<b>0</b>	0	<b>141</b>	0
		<u><b>74,779,787</b></u>	<u>72,713,763</u>	<u><b>18,306,589</b></u>	<u>18,306,448</u>
<b>Current assets</b>					
Inventories	16	<b>22,611,156</b>	11,512,145	<b>0</b>	0
Receivables	17	<b>29,745,373</b>	20,100,093	<b>4,350</b>	4,350
Amounts due from subsidiary companies	18	<b>0</b>	0	<b>63,875,645</b>	58,222,417
Amount due from a jointly controlled entity	19	<b>1,595,712</b>	0	<b>1,595,712</b>	0
Tax recoverable		<b>1,504,463</b>	211,745	<b>68,168</b>	65,266
Marketable securities	20	<b>497,720</b>	0	<b>497,720</b>	0
Deposits, bank and cash balances	21	<b>42,802,746</b>	45,666,937	<b>21,633,753</b>	20,762,290
		<u><b>98,757,170</b></u>	<u>77,490,920</u>	<u><b>87,675,348</b></u>	<u>79,054,323</u>
<b>Less: Current liabilities</b>					
Payables	22	<b>5,354,307</b>	5,684,493	<b>241,129</b>	163,447
Provision for taxation		<b>0</b>	642,369	<b>0</b>	0
Revolving credit	23	<b>957,182</b>	957,281	<b>0</b>	0
Hire-purchase liabilities	24	<b>23,589</b>	194,551	<b>0</b>	0
Special interim dividend	12	<b>0</b>	3,401,676	<b>0</b>	3,401,676
		<u><b>6,335,078</b></u>	<u>10,880,370</u>	<u><b>241,129</b></u>	<u>3,565,123</u>
<b>Net current assets</b>		<u><b>92,422,092</b></u>	<u>66,610,550</u>	<u><b>87,434,219</b></u>	<u>75,489,200</u>
<b>Less: Non current liabilities</b>					
Deferred taxation	25	<b>6,877,745</b>	5,454,950	<b>0</b>	0
Hire-purchase liabilities	24	<b>0</b>	23,589	<b>0</b>	0
		<u><b>6,877,745</b></u>	<u>5,478,539</u>	<u><b>0</b></u>	<u>0</u>
		<u><b>160,324,134</b></u>	<u>133,845,774</u>	<u><b>105,740,808</b></u>	<u>93,795,648</u>
<b>Capital and reserves</b>					
Share capital	26	<b>97,957,000</b>	62,742,000	<b>97,957,000</b>	62,742,000
Share premium	27	<b>6,292,194</b>	1,597,060	<b>6,292,194</b>	1,597,060
Revaluation and other reserves	28	<b>1,326,792</b>	1,326,971	<b>0</b>	0
Retained earnings	29	<b>54,748,148</b>	68,179,743	<b>1,491,614</b>	29,456,588
Shareholders' equity		<u><b>160,324,134</b></u>	<u>133,845,774</u>	<u><b>105,740,808</b></u>	<u>93,795,648</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Financial Year Ended 31 March 2004

	Note	Issued and fully paid ordinary shares of RMI each		Non-distributable		Distributable		Total RM
		Number of shares	Nominal value RM	Share premium RM	Revaluation and other reserves RM	Retained earnings RM		
At 1 April 2002								
As previously reported		61,786,000	61,786,000	334,971	1,853,514	44,754,769		108,729,254
Change in accounting policy								
- MASB 19	34(i)	0	0	0	0	2,224,296		2,224,296
- MASB 25	34(ii)	0	0	0	(519,935)	(70,055)		(589,990)
As restated		61,786,000	61,786,000	334,971	1,333,579	46,909,010		110,363,560
Net profit for the financial year								
As previously reported		0	0	0	0	26,870,795		26,870,795
Change in accounting policy - MASB 25	34(ii)	0	0	0	0	32,578		32,578
As restated		0	0	0	0	26,903,373		26,903,373
Reclassification	28	0	0	0	(10,000)	10,000		0
Dividend for the financial year ended								
- 31 March 2002		0	0	0	0	(2,240,964)		(2,240,964)
- 31 March 2003	12	0	0	0	0	(3,401,676)		(3,401,676)
Issue of shares								
- exercise of share options		956,000	956,000	1,262,089	0	0		2,218,089
Exchange fluctuation differences arising in the financial year								
Net gain not recognised in income statement		0	0	0	3,392	0		3,392
At 31 March 2003		62,742,000	62,742,000	1,597,060	1,326,971	68,179,743		133,845,774

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** (CONTINUED)

For The Financial Year Ended 31 March 2004

	Note	Issued and fully paid ordinary shares of RM1 each		Non-distributable		Distributable	Total RM
		Number of shares	Nominal value RM	Share premium RM	Revaluation and other reserves RM	Retained earnings RM	
At 1 April 2003							
As previously reported		62,742,000	62,742,000	1,597,060	1,846,906	68,217,220	134,403,186
Change in accounting policy - MASB 25	34(ii)	0	0	0	(519,935)	(37,477)	(557,412)
As restated		62,742,000	62,742,000	1,597,060	1,326,971	68,179,743	133,845,774
Net profit for the financial year		0	0	0	0	21,153,265	21,153,265
Dividend for the financial year ended: 31 March 2003	12	0	0	0	0	(2,317,860)	(2,317,860)
Issue of shares							
- exercise of share options		2,948,000	2,948,000	4,695,134	0	0	7,643,134
- bonus issue		32,267,000	32,267,000	0	0	(32,267,000)	0
Exchange fluctuation differences arising in the financial year		0	0	0	(179)	0	(179)
Net loss not recognised in income statement		0	0	0	(179)	0	(179)
<b>At 31 March 2004</b>		<b>97,957,000</b>	<b>97,957,000</b>	<b>6,292,194</b>	<b>1,326,792</b>	<b>54,748,148</b>	<b>160,324,134</b>

## COMPANY STATEMENT OF CHANGES IN EQUITY

For The Financial Year Ended 31 March 2004

	Note	Issued and fully paid ordinary shares of RMI each		Non-distributable	Distributable	Total RM
		Number of shares	Nominal value RM	Share premium RM	Retained earnings RM	
At 1 April 2002						
As previously reported		61,786,000	61,786,000	334,971	1,056,735	63,177,706
Change in accounting policy – MASB 19	34(i)	0	0	0	2,224,296	2,224,296
As restated		61,786,000	61,786,000	334,971	3,281,031	65,402,002
Net profit for the financial year		0	0	0	31,818,197	31,818,197
Dividend for the financial year ended:						
- 31 March 2002 *		0	0	0	(2,240,964)	(2,240,964)
- 31 March 2003	12	0	0	0	(3,401,676)	(3,401,676)
Issue of shares						
- exercise of share options		956,000	956,000	1,262,089	0	2,218,089
At 31 March 2003		62,742,000	62,742,000	1,597,060	29,456,588	93,795,648
At 1 April 2003		62,742,000	62,742,000	1,597,060	29,456,588	93,795,648
Net profit for the financial year		0	0	0	6,619,886	6,619,886
Dividend for the financial year ended 31 March 2003	12	0	0	0	(2,317,860)	(2,317,860)
Issue of shares:						
- exercise of share options		2,948,000	2,948,000	4,695,134	0	7,643,134
- bonus issue		32,267,000	32,267,000	0	(32,267,000)	0
<b>At 31 March 2004</b>		<b>97,957,000</b>	<b>97,957,000</b>	<b>6,292,194</b>	<b>1,491,614</b>	<b>105,740,808</b>

\* Inclusive of dividend on additional 463,000 ordinary share due to exercise of employee share options.



## CASH FLOW STATEMENTS

For The Financial Year Ended 31 March 2004

	Note	Group		Company	
		2004 RM	2003 RM	2004 RM	2003 RM
<b>Operating cash flows</b>					
Cash flows from operations	30	11,943,280	54,682,008	8,861,708	40,977,281
Taxation paid		(7,019,044)	(12,127,203)	(2,642,687)	(12,417,181)
Interest paid		(105,601)	(2,369)	0	0
Interest received		1,246,064	698,541	720,899	409,123
		<u>(5,878,581)</u>	<u>(11,431,031)</u>	<u>(1,921,788)</u>	<u>(12,008,058)</u>
<b>Net operating cash flows</b>		<b>6,064,699</b>	<b>43,250,977</b>	<b>6,939,920</b>	<b>28,969,223</b>
<b>Investing cash flows</b>					
Acquisition of marketable securities		(1,143,719)	0	(1,143,719)	0
Acquisition of unit trusts		(2,000,000)	0	0	0
Proceeds from disposal of marketable securities		759,803	0	759,803	0
Proceeds from disposal of unit trusts		2,021,806	0	0	0
Proceeds from disposal of property, plant and equipment		192,000	188,895	0	0
Purchase of property, plant and equipment		(8,863,440)	(10,968,708)	0	0
<b>Net investing cash flows</b>		<b>(9,033,550)</b>	<b>(10,779,813)</b>	<b>(383,916)</b>	<b>0</b>
<b>Financing cash flows</b>					
Advances to a subsidiary company		0	0	(10,300,000)	(33,177,294)
Advances to a jointly controlled entity		(1,595,712)	0	(1,595,712)	0
Repayment of advances by subsidiary companies		0	0	4,287,573	13,100,000
Repayment of short term borrowings		0	(382,195)	0	0
Repayment of hire-purchase liabilities		(223,047)	(280,272)	0	0
Repayment of term loans		0	(3,844,743)	0	0
Dividends paid		(5,719,536)	(2,240,964)	(5,719,536)	(2,240,964)
Net proceeds from issuance of ordinary shares		7,643,134	2,218,089	7,643,134	2,218,089
<b>Net financing cash flows</b>		<b>104,839</b>	<b>(4,530,085)</b>	<b>(5,684,541)</b>	<b>(20,100,169)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(179)</b>	<b>3,392</b>	<b>0</b>	<b>0</b>
<b>Net change in cash and cash equivalents during the financial year</b>		<b>(2,864,191)</b>	<b>27,944,471</b>	<b>871,463</b>	<b>8,869,054</b>
Cash and cash equivalents at the beginning of the financial year		45,666,937	17,722,466	20,762,290	11,893,236
Cash and cash equivalents at the end of the financial year	31	<u>42,802,746</u>	<u>45,666,937</u>	<u>21,633,753</u>	<u>20,762,290</u>

## NOTES TO THE FINANCIAL STATEMENTS

For The Financial Year Ended 31 March 2004

### I General information

The principal activity of the Company during the financial year is that of investment holding. The principal activities of the Group consist of manufacturing and marketing of ductile iron pipes and fittings and waterworks related products for waterworks and sewerage industry.

The Group had 366 (2003: 377) employees at the end of the financial year. The Company does not have any employee at the end of the current and previous financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of the Bursa Malaysia (previously known as Kuala Lumpur Stock Exchange).

The address of the registered office and principal place of business of the Company is as follows:

71-A, Jalan Jelutong  
11600 Penang  
Malaysia

### 2 Financial risk management objectives and policies

The Group's overall financial management objective is to ensure that the Group creates value for its shareholders. The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, credit, liquidity and cash flow risk. The Group focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Financial risk management is carried out through risk reviews, internal control systems and adherence to Group financial risk management policies. The Group operates within clearly defined guidelines and the Group's policy is not to engage in speculative transactions.

#### (a) Foreign currency exchange risk

The Group is exposed to currency risk as a result of the foreign currency transactions entered into by subsidiary companies in currencies other than their functional currency. The Group maintains a natural hedge, whenever possible, by borrowing in the currency of the country in which the property or investment is located or by borrowing in currencies that match the future revenue stream to be generated from its investments. Foreign exchange exposure in non functional currencies of the operating entities are kept to an acceptable level. Material foreign currency transaction exposures are hedged, mainly with derivative financial instruments such as forward foreign exchange contracts.

#### (b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's cash and bank balances and deposits placed with licensed banks and financial institutions. The Group manages its interest rate risks by varying maturities and interest rate terms on its cash and bank balances deposited with creditworthy licensed banks and financial institutions.

#### (c) Credit risk

Credit risk arises when sales are made on deferred credit terms. Credit risk is managed through credit assessment and approvals, credit limits and monitoring procedures. Where appropriate, the Group obtained letter of credits, bank guarantees or alternatively advance payment from customers. The Group considers the risk of material loss in the event of non-performance by a financial counter party to be unlikely.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For The Financial Year Ended 31 March 2004

### 2. Financial risk management objectives and policies (continued)

#### (d) Liquidity and cash flow risk

In the management of liquidity and cash flow risk, the Group monitors and maintains a level of cash and cash equivalents, which is deemed adequate by the management to meet its working capital requirements and to mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

#### (e) Market risk

The Group's exposure to market risk arises mainly from fluctuation in the price of key raw materials. The Group manages its risk by implementing an ongoing system of price comparison against alternative materials.

### 3 Basis of preparation

The financial statements of the Group and of the Company have been prepared under historical cost convention unless otherwise indicated in the significant accounting policies below and comply with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

The new applicable approved accounting standards adopted in these financial statements are as follows:

- MASB Standard 25: "Income Taxes"
- MASB Standard 27: "Borrowing Costs"
- MASB Standard 29: "Employee Benefits"

With the exception of MASB 25 (see note 34(ii)), there are no changes in the accounting policies that materially affect the net profit or shareholders' equity as a result of the adoption of the above standards in these financial statements.

### 4 Significant accounting policies

All significant accounting policies set out below are consistent with those applied in the previous financial year except as otherwise stated.

#### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary companies made up to 31 March 2004.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated and unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the Group.

The subsidiary companies are consolidated using the merger method of accounting except for a subsidiary company which is consolidated using the acquisition method of accounting in accordance with Malaysian Accounting Standard No. 2 "Accounting for Acquisitions and Mergers".

Under the merger method of accounting, the results of subsidiary companies are presented as if the companies have been combined throughout the current and previous financial years. The difference between cost of acquisition over the nominal value of the share capital and reserves of the subsidiary companies is taken to merger reserve. Merger debit arising on consolidation is set off against the revaluation and other reserves of the Group.

Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the financial year are included from the date of acquisition up to date of disposal. At the date of acquisition, the fair values

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For The Financial Year Ended 31 March 2004

### 4 Significant accounting policies (continued)

#### (a) Basis of consolidation (continued)

of the subsidiary company's net assets are determined and these values are reflected in the consolidated financial statements. The difference between the acquisition cost and fair values of the subsidiary company's net assets is reflected as goodwill on consolidation.

#### (b) Property, plant and equipment

Property, plant and equipment are initially stated at cost. Land and buildings are subsequently stated at valuation in the years indicated in note 13 to the financial statements and subsequent additions are stated at cost less subsequent amortisation/depreciation and any impairment losses. The cost of other property, plant and equipment comprises their purchase costs and any incidental costs of acquisition. All other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The freehold and leasehold land and buildings have not been revalued since 1994 and 1998. The Directors have adopted the transitional provisions in respect of assets carried at previously revalued amounts for International Accounting Standards ("IAS") No. 16 (Revised): Property, Plant and Equipment as allowed for by the Malaysian Accounting Standards Board ("MASB") to retain the carrying amounts of these freehold and leasehold land and buildings on the basis of their previous revaluation subject to the continuing application of current depreciation policy.

Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in the carrying amount is charged to the income statement.

Freehold land is not depreciated as it has an infinite life. Leasehold land is amortised over the life of the unexpired lease of the land on the reducing balance basis. Depreciation on other property, plant and equipment is calculated so as to write off the cost or valuation on the reducing balance basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are as follows:

	%
Leasehold flats	2.0
Buildings	2.0
Plant and machinery	10.0 – 33.3
Tools and equipment	10.0
Motor vehicles	10.0 – 20.0
Furniture and fittings	5.0
Office equipment and air conditioners	10.0 – 25.0
Renovation	10.0

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in profit from operations. On disposal of the revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is capitalised when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group.

#### (c) Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill on consolidation, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the affected asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For The Financial Year Ended 31 March 2004

### 4 Significant accounting policies (continued)

#### (c) Impairment of assets (continued)

An impairment loss is charged to the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

Reversal of impairment losses recognised in prior financial years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation reserve. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

#### (d) Investments in subsidiary companies

Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities. Subsidiary companies are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Investments in subsidiary companies are stated at cost. Allowance for diminution in the value of an investment is made where in the opinion of the Directors, there has been a decline other than temporary in the value of the investment. Where there has been a decline other than temporary in the value of an investment, such a decline is recognised as an expense in the period in which the decline is identified.

#### (e) Jointly controlled entities

Jointly controlled entities are corporations, partnerships or other entities over which there is agreed control by the Group with one or more parties. The Group's interest in jointly controlled entities is accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising the Group's share of the post acquisition results of jointly controlled entities in the income statement and its share of post acquisition movements within reserves in reserves. The cumulative post acquisition movements are adjusted against the cost of the investment and includes goodwill on acquisition (net of accumulated amortisation).

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Where necessary, in applying the equity method, adjustments have been made to the financial statements of jointly controlled entities to ensure consistency of accounting policies with those of the Group.

#### (f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. Raw material is stated at cost of purchase. The cost of work in progress and finished goods comprises raw materials, direct labour, other direct costs and an appropriate proportion of production overheads (based on normal operating capacity).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For The Financial Year Ended 31 March 2004

### 4 Significant accounting policies (continued)

#### (f) Inventories (continued)

Where necessary, allowance is made for obsolete, slow moving or defective inventories.

#### (g) Trade receivables

Trade receivables are carried at invoiced amount less an allowance for doubtful debts. The allowance is established when there is an objective evidence the Group will not be able to collect all amounts due according to the original terms of receivables based on a review of all outstanding amounts at the financial year end. Bad debts are written off in the period in which they are identified.

#### (h) Income taxes

Deferred taxation is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary companies and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

#### (i) Marketable securities

Investments in quoted shares (within current assets) are carried at the lower of cost and market value, determined on an aggregate portfolio basis by category of investment. Cost is derived at on the weighted average basis. Market value is calculated by reference to the stock exchange quoted selling prices at the close of business on the balance sheet date. Decreases in the carrying amount of marketable securities are charged to the income statement while increases are credited to the income statement to the extent of the cost of investments.

#### (j) Hire-purchase liabilities

Property, plant and equipment acquired under hire-purchase agreements are capitalised and depreciated in accordance with the depreciation policy set out in the accounting policy on property, plant and equipment. Outstanding obligations due under hire-purchase are included as liabilities in the financial statements. Finance charges arising from hire-purchase are allocated to the income statements so as to give a constant periodic rate of interest on the outstanding liabilities at the end of each accounting period.

#### (k) Share capital

##### (i) Classification

Ordinary shares are classified as equity.

##### (ii) Dividends to shareholders of the Company

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue will not be recognised as a liability at balance sheet date until it has been approved by the shareholders at the Company's annual general meeting.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

For The Financial Year Ended 31 March 2004

**4 Significant accounting policies (continued)****(l) Foreign currencies****(i) Reporting currency**

The financial statements are presented in Ringgit Malaysia.

**(ii) Foreign currency transactions and balances**

Foreign currency transactions are accounted for at exchange rates prevailing at the transaction dates. At balance sheet date, foreign currency monetary assets and liabilities are translated into Ringgit Malaysia at the rates of exchange ruling at that date. Exchange differences arising from settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The principal closing rates used in translation of foreign currency amounts are as follows:

	<u>2004</u>	<u>2003</u>
	RM	RM
Foreign currency		
I US Dollar	3.8000	3.8000
I Chinese Renminbi	0.4591	0.4591

**(m) Revenue recognition**

Revenue comprises the invoiced value for sale of goods, net of sales tax, trade discounts and allowances after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on an accrual basis determined by the principal outstanding and the rate applicable.

Rental income is recognised on an accrual basis in accordance with the substance of the rental agreement.

**(n) Finance costs**

Finance costs comprise interest on bank borrowings. All interest incurred in connection with bank borrowings are charged directly to the income statement.

**(o) Employee benefits****(i) Short term employee benefits**

Wages, salaries, annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

**(ii) Defined contribution plan**

Subsidiary companies incorporated in Malaysia contribute to the Employees Provident Fund of Malaysia, which is a defined contribution plan while the subsidiary incorporated in the People's Republic of China contributes to the national defined contribution plan of the People's Republic of China. The Group's contributions to these defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, these companies have no further payment obligations.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

For The Financial Year Ended 31 March 2004

**4 Significant accounting policies (continued)****(o) Employee benefits (continued)****(ii) Defined contribution plan (continued)**

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior financial years.

**(p) Financial instruments****(i) Description**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument or another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

**(ii) Financial instruments recognised on the balance sheet**

The accounting policies and recognition methods adopted for financial instruments recognised on the balance sheets are separately disclosed in the individual accounting policy statements associated with each item.

**(iii) Fair value estimation for disclosure purposes**

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

**5 Revenue**

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Sales of goods	101,549,764	113,346,089	0	0
Interest income from:				
- licensed banks and finance companies	720,899	409,123	720,899	409,123
- a subsidiary company	0	0	142,890	142,500
Dividend income from a subsidiary company	0	0	8,774,806	44,050,928
	<u>102,270,663</u>	<u>113,755,212</u>	<u>9,638,595</u>	<u>44,602,551</u>



**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

For The Financial Year Ended 31 March 2004

**6 Significant party balances and transactions**

In relation to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances.

## (i) Significant related party balances

	<u>Company</u>	
	2004	2003
	RM	RM
Amounts due from subsidiary companies (note 18) (non-trade) :		
- Yew Lean Foundry & Co. Sdn. Bhd.	55,614,232	48,762,620
- Yew Li Foundry & Co. Sdn. Bhd.	5,906,000	7,206,000
- Logam Utara (M) Sdn. Bhd.	0	50,000
- Zhangzhou YLI Electro-Metallurgy Co. Ltd.	2,355,413	2,203,797
	<u>63,875,645</u>	<u>58,222,417</u>

## (ii) Significant transactions with related parties during the financial year are as follows:

	<u>Company</u>	
	2004	2003
	RM	RM
Gross dividend income from a subsidiary company:		
- Yew Lean Foundry & Co Sdn. Bhd.	8,774,806	44,050,928
Interest income from a subsidiary company:		
- Zhangzhou YLI Electro-Metallurgy Co. Ltd.	142,890	142,500
Advances to a subsidiary company:		
- Yew Lean Foundry & Co. Sdn. Bhd.	10,300,000	33,177,294
	<u>10,300,000</u>	<u>33,177,294</u>

The above transactions were based on terms and agreements made in the normal course of business between the Company and the related parties.

**NOTES TO THE FINANCIAL STATEMENTS** (CONTINUED)

For The Financial Year Ended 31 March 2004

**7 Profit from operations**

Profit from operations is stated after charging:

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Auditors' remuneration:				
- statutory audit	73,575	65,283	25,000	25,000
- other services	21,439	11,300	7,000	5,300
Depreciation of property, plant and equipment	6,428,299	6,019,891	0	0
Rental of land and building	40,484	47,358	0	0
Property, plant and equipment written off	236,348	1,675,254	0	0
Bad debts written off	27,000	0	0	0
Foreign exchange loss (realised)	8,206	11,563	0	0
Staff costs	9,998,353	9,476,424	0	0
and crediting:				
Interest income from licensed banks and finance companies	1,246,064	698,541	720,899	409,123
Profit on disposal of unit trusts	21,806	0	0	0
Profit on disposal of marketable securities	23,872	0	23,872	0
Rental income	12,000	51,520	0	0
Profit on disposal of property, plant and equipment	59,231	24,486	0	0
Dividend income from marketable securities	15,000	0	15,000	0

The above staff costs excluding Non-Executive Directors' fees are analysed as follows:

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Directors' fees	92,000	92,000	0	0
Wages, salaries and bonus	7,556,737	7,354,707	0	0
Defined contribution plan - contributions	671,776	643,568	0	0
Other employee benefits	1,677,840	1,386,149	0	0
	9,998,353	9,476,424	0	0

**8 Directors' remuneration**

The Directors of the Company in office during the financial year are as follows:

Non-Executive Directors

Dato' Ir. Syed Muhammad Shahabudin  
Dato' Haji Yahaya bin Ahmad  
Foong Kai Choong  
Ng Chong Wee  
Chan Kok Soo (passed away on 27 April 2004)