

PEJABAT URUSAN
YLI HOLDINGS



YLI HOLDINGS BERHAD

Co. No. 367249-A

Annual Report 2016



**DIVERSIFICATION
& EXPANSION**

OUR VISION

To be a pre-eminent group in providing products and services to the water industry, thus contributing effectively towards nation building.

OUR MISSION

By constantly enhancing our capabilities in manufacturing and services, we intend to be the leading player in the rapidly growing water and sewerage sectors within the Asian region. We will continue to look for opportunities to further enhance shareholders' value.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Independent Non-Executive Chairman

**Tan Sri Syed Mohd Yusof Bin
Tun Syed Nasir**

Managing Director

Dato' Hj Samsuri Bin Rahmat

Executive Directors

**Tuan Haji Ali Sabri Bin Ahmad
Seah Heng Chin**

Independent Non-Executive Directors

**Tan Sri Academician Ir (Dr) Ahmad
Zaidee Bin Laidin
Tuan Haji Ab Gani Bin Haron
Mohammad Khayat Bin Idris**

BOARD COMMITTEES

Audit Committee

Tuan Haji Ab Gani Bin Haron
- Chairman

**Tan Sri Academician Ir (Dr) Ahmad
Zaidee Bin Laidin
Mohammad Khayat Bin Idris**

Remuneration Committee

Mohammad Khayat Bin Idris
- Chairman
**Tuan Haji Ab Gani Bin Haron
Dato' Hj Samsuri Bin Rahmat**

Nomination Committee

**Tan Sri Academician Ir (Dr) Ahmad
Zaidee Bin Laidin**
- Chairman
**Tuan Haji Ab Gani Bin Haron
Mohammad Khayat Bin Idris**

REGISTERED OFFICE

45, Lorong Rahim Kajai 13
Taman Tun Dr Ismail
60000 Kuala Lumpur
Malaysia
Tel : 03 7722296
Fax : 03 77222057

COMPANY SECRETARY

Molly Gunn Chit Geok
MAICSA 0673097

AUDITORS

Baker Tilly Monteiro Heng
Chartered Accountants
Baker Tilly MH Tower
Level 10, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur
Malaysia

SHARE REGISTRAR

Plantation Agencies Sdn. Berhad
3rd Floor, Standard Chartered Bank
Chambers
Lebuh Pantai,
10300 Penang, Malaysia
Tel : 04 2625333
Fax : 04 2622018

PRINCIPAL BANKERS

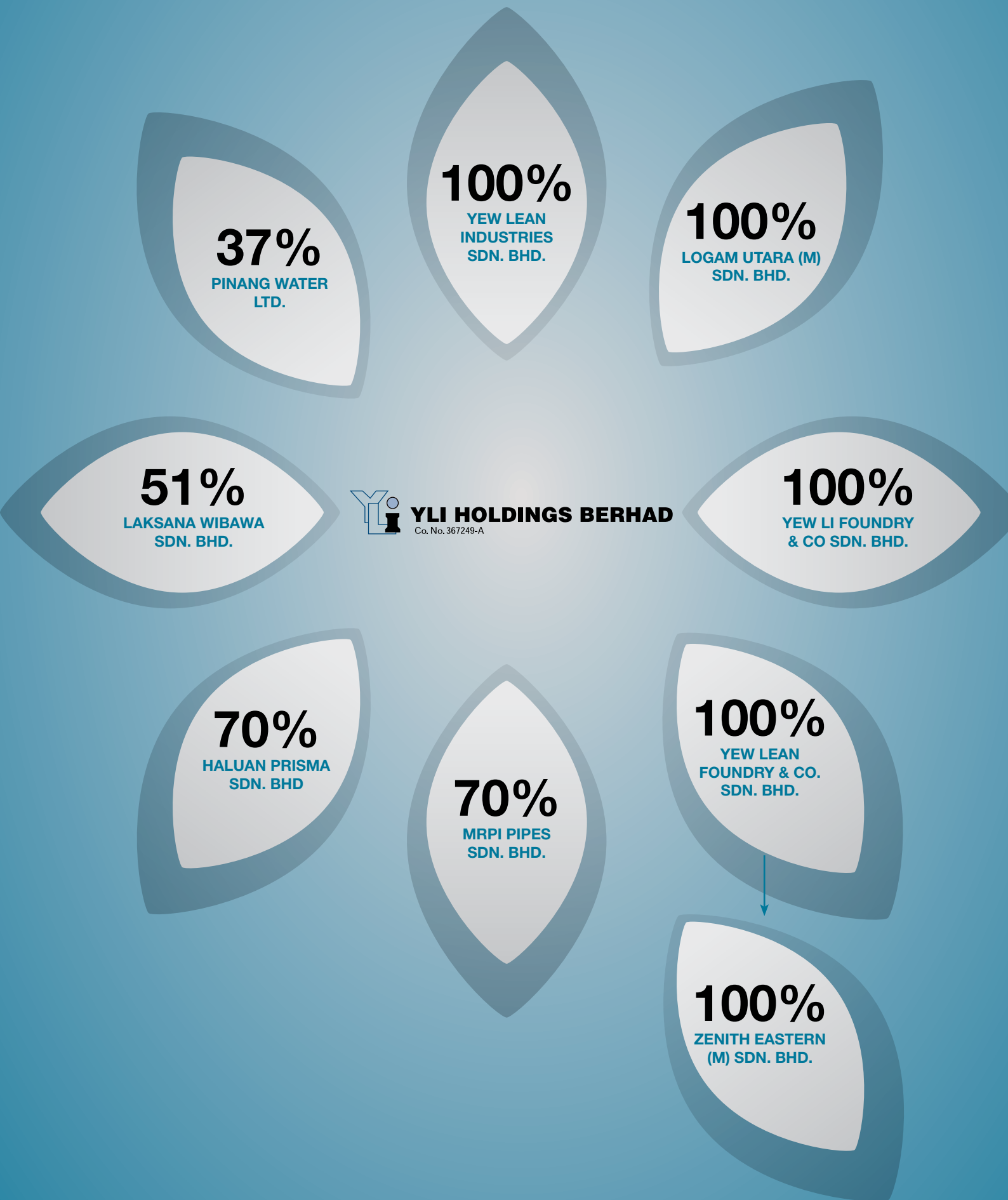
AmBank (M) Berhad
AmInvestment Bank Berhad
Citibank Berhad
Hong Leong Bank Berhad
Malayan Banking Berhad
United Overseas Bank
(Malaysia) Berhad

STOCK EXCHANGE LISTING

The Main Market of
Bursa Malaysia Securities Berhad

Sector : Industrial Products
Stock Name : YLI
Stock Code : 7014

CORPORATE STRUCTURE



CHAIRMAN'S STATEMENT



“

On behalf of the Board of Directors of YLI Holdings Berhad, I wish to present to you the Annual Report and Audited Financial Statements of the Group for the financial year ended 31 March 2016. Owing to the headwinds from many external fronts, the Group registered a loss after taxation for the financial year despite a slight increase in revenue. Notwithstanding the current challenging outlook, the Board of Directors is hopeful that the financial performance of the Group will improve as the Government intensifies its implementation of the National Water Infrastructure and delivery programme. Already the Group has also seen a positive development for its subsidiary producing mild steel pipes and fittings, following the announcement of a supply and purchase agreement which was signed on 24 March 2016.

”

CHAIRMAN'S STATEMENT

FINANCIAL PERFORMANCE

For the financial year under review, the Group recorded a revenue of RM128.24 million, slightly higher than RM124.44 million recorded in the previous financial year. Whilst the revenue recorded was higher for the current financial year, the Group's profitability continues to be eroded by external factors beyond its control.

The past year has been a difficult one for the Group. The Malaysian economy recorded a Gross Domestic Product ("GDP") growth rate of 5% in 2015, down from 6% in 2014. The slowdown was partially due to the downturn of commodity prices (including crude oil) and the imposition of a 6% Goods and Services Tax ("GST") on 1 April 2015.

As a result, the Group registered a higher loss after taxation of RM4.23 million in 2016, as compared to a loss after taxation of RM1.68 million in the previous financial year. Consequently, the Group's shareholders' funds decreased slightly to RM153.33 million as compared to RM154.92 million recorded in the previous financial year.

The operating environment of the Group will remain challenging in the year ahead. Higher minimum wages which was raised again on 1 July 2016, the influx and dumping of Chinese iron and steel products in South East Asia following the tariff relaxation under the AFTA regime and the reduction of government subsidies will continue to impact our bottom line.

INDUSTRY OUTLOOK

As mentioned above, the current industry outlook for the Group will remain tough. However the Board of Directors believes that the demand for the Group's products (i.e. pipe and fittings made of ductile iron, mild steel and high density polyethylene) will improve over time as the Government gradually intensifies its efforts to improve the infrastructure and delivery of water resources with emphasis on areas with a high rate of non-revenue water and are facing heightened water shortages.

In its endeavour to maintain its position as the leading manufacturer and supplier of premium quality water and sewerage pipes and fittings in the ASEAN region, the Group will continue to focus on its cost containment measures and invest in research and marketing initiatives to diversify its product range and widen its foothold beyond its traditional markets.

The Group has also seen an improved outlook for Laksana Wibawa Sdn Bhd (a 51% owned subsidiary of the Group) following the signing of a supply and purchase agreement ("S&P agreement") announced on 24th March 2016. With a provisional contract sum of RM97.3 million for the proposed development of Langat 2 water treatment plant and water reticulation system in Selangor Darul Ehsan and Wilayah Persekutuan Kuala Lumpur, Laksana Wibawa Sdn Bhd was appointed the supplier of mild steel pipes, fittings and related products for this contract, which will take two to three years to fulfil.

In order to mitigate the risk of specialising in a single field or industry, the Group would continue to look for opportunities to diversify the earnings base of the Group and find investments that would generate good and sustainable returns for its shareholders.



CHAIRMAN'S STATEMENT

CORPORATE GOVERNANCE

The Statement on Corporate Governance is set out on page 13 to page 20. The Board will ensure the requirements of Bursa Malaysia's listing requirements are strictly adhered to by the Company at all times.

CORPORATE SOCIAL RESPONSIBILITY

While we strive to maximize shareholders' return through our core business activities, we also recognise our responsibility to our employees, business associates and the communities within which the Company operates.

Acknowledging employees as the key impetus which drives its business forward, the Group has always strived to safeguard the best interest of all its employees. The Group has a Safety Committee that ensures working conditions are in compliance with the Occupational Safety and Health Act 1994 (OSHA) requirements. Employees are also provided with all necessary trainings on an ongoing basis to enable them to meet the ever-changing business requirements. The Group has also implemented grievance procedures to ensure employee grievances would always be resolved professionally and in compliance with the prevailing laws governing industrial relations.

The Group adheres strictly to all environmental laws and regulations. Production processes are vigorously monitored and upgraded to ensure full compliance with the changing environmental laws and regulations. The Group also continuously seeks alternative methods to further enhance environmental protection through improvement in energy efficiency as well as minimization of industrial waste.

APPRECIATION

In closing and on behalf of the Board of Directors, I would like to thank the management and employees of the Group for their perseverance and dedication in driving the Group's business forward. I also wish to thank all our valued customers, bankers and business associates for their support. Last but not least, my sincere gratitude to all our shareholders for their unwavering confidence in the Group.

Tan Sri Syed Mohd Yusof bin Tun Syed Nasir

Chairman



FINANCIAL TRACK RECORD

| | FINANCIAL YEAR ENDED 31 MARCH | | | | |
|---|-------------------------------|----------------|----------------|----------------|----------------|
| | 2016 RM'000 | 2015 RM'000 | 2014 RM'000 | 2013 RM'000 | 2012 RM'000 |
| Revenue | 128,235 | 124,441 | 128,257 | 100,514 | 143,292 |
| Profit/(Loss) Before Taxation | (3,951) | (1,251) | 1,248 | (3,923) | (4,745) |
| Profit/(Loss) After Taxation Attributed to Shareholders | (2,031) | (553) | 955 | (2,448) | (2,625) |
| Shareholders' Funds | 153,326 | 154,923 | 151,629 | 149,906 | 152,233 |
| Total Assets Employed | 220,280 | 248,896 | 204,906 | 209,871 | 226,246 |
| Profit/(Loss) After Taxation as a Percentage of Shareholders' Funds (%) | (1.3) | (0.4) | 0.6 | (1.6) | (1.7) |
| Basic/Diluted Earnings/(Loss) Per Share (sen) | (2.00) | (0.56) | 0.97 | (2.49) | (2.67) |
| Net Assets Per Share (RM) | 1.51 | 1.53 | 1.54 | 1.52 | 1.55 |
| No. of Shares in Issue (Net of Treasury Shares) | 101,340 | 101,340 | 98,439 | 98,439 | 98,439 |

OUR PERFORMANCE

| | | 2016 RM'000 | 2015 RM'000 | % CHANGE |
|-------------------------|---|----------------|----------------|-------------|
| INCOME STATEMENT | Revenue | 128,235 | 124,441 | 3.05 |
| | Profit/(Loss) Before Taxation | (3,951) | (1,251) | 215.82 |
| | Profit/(Loss) After Taxation Attributed to Shareholders | (2,031) | (553) | 267.27 |
| BALANCE SHEET | Shareholders' Funds | 153,326 | 154,923 | (1.03) |
| | Total Assets Employed | 220,280 | 248,896 | (11.50) |
| RATIOS | Current Ratio | 2.02 | 1.87 | 8.02 |
| | Return on Equity | (1.32) | (0.36) | 266.67 |
| | Return on Total Assets | (0.92) | (0.22) | 318.18 |
| | Financial Leverage Ratio | 0.19 | 0.17 | 11.76 |
| | Basic/Diluted Earnings/(Loss) Per Share | (2.00) | (0.56) | 257.14 |
| | Net Tangible Asset Per Share | 1.50 | 1.51 | -0.66 |
| | 31 March Closing Price | 0.60 | 0.81 | -25.93 |

PROFILE OF DIRECTORS



TAN SRI SYED MOHD YUSOF TUN SYED NASIR

Malaysian, aged 68

Independent Non-Executive Chairman

Tan Sri Syed Mohd Yusof Bin Tun Syed Nasir is the Chairman of YLI Holdings Berhad. He was appointed to the Board of the Company on 15 August 2007.

After graduating with a Bachelor of Economics majoring in Accountancy, Tan Sri Syed Mohd Yusof started his career with Petronas. He served in various positions there, rising to Head of Northern Region before leaving Petronas to venture into business. He was formerly the Chairman of Southern Bank Berhad and Killinghall (Malaysia) Bhd, a former Director of Southern Finance Berhad and AM Trustee Berhad. Currently he sits on the Board of Titijaya Land Berhad and several private limited companies.

He is not related to any director and/or any major shareholder of the Group and does not have any conflict of interest with the Company. He has attended all four Board Meetings for the financial year ended 31 March 2016.



DATO' HJ. SAMSURI RAHMAT

Malaysian, aged 61

Managing Director

Non-Independent Executive Director

Dato' Hj. Samsuri Rahmat was appointed as the Managing Director on 9 June 2008. He was formerly the Chief Operating Officer of the Company. He is a member of the Remuneration Committee of YLI Holdings Berhad. He graduated with a Bachelor of Science (Honors) degree in Environmental Studies from University Putra Malaysia in 1980. He also holds a Master of Arts degree in Economics from Western Michigan University, the United States of America.

He has held various key positions in the Ministry of Science, Technology and Environment, Ministry of International Trade and Industry, Ministry of National and Rural Development, Socio-Economic Research Unit and Economic Planning Unit (both under the Prime Minister's Department) for sixteen years before joining the private sector in 1996. Prior to joining the Company, he was the Executive Vice Chairman and also Executive Director of TRIpIc Berhad.

As the Managing Director, he is mainly responsible for the Group's strategic direction as well as its business and corporate development. He also sits on the Board of various subsidiaries of the YLI Group. He is not related to any director and/or any major shareholder of the Group and does not have any conflict of interest with the Company. He has attended all four Board Meetings for the financial year ended 31 March 2016.

PROFILE OF DIRECTORS



TUAN HAJI ALI SABRI AHMAD

Malaysian, aged 59

Non-Independent Executive Director

Tuan Haji Ali Sabri Ahmad was appointed as Executive Director on 9 June 2008. He graduated with a Diploma in Civil Engineering from Institut Teknologi Mara in 1980. He also holds a Bachelor of Science degree in Civil Engineering from the University of Glasgow, Scotland in 1986.

He has over twenty years of working experience in major construction projects ranging from civil infrastructure, building works, hospital, road works, elevated viaduct, hotel, residential and commercial developments. He has held various key positions in organizations involved in major construction and project management in Malaysia as well as abroad. Prior to joining the Company, he was the Construction Manager in Kumpulan Ikhtisas Projek (M) Sdn. Bhd. He also sits on the Board of various subsidiaries of the YLI Group.

He is not related to any director and/or any major shareholder of the Group and does not have any conflict of interest with the Company. He has attended all four Board Meetings for the financial year ended 31 March 2016.



MR. SEAH HENG CHIN

Malaysian, aged 42

Non-Independent Executive Director

Mr Seah Heng Chin was appointed as Executive Director on 14 November 2014. He graduated with a Bachelor of Art (Hons) Business Administration from Coventry University in 1997. He is a FCCA member and member of MIA. He also holds a Master's degree in Business Administration from Strathclyde University, Scotland.

He has over seventeen years of working experience in both accounting and audit related field for various industries. Prior to his appointment as Executive Director, he was holding the post of Financial Controller since June 2008 in Yew Lean Foundry & Co Sdn Bhd, a wholly owned subsidiary of YLI Holdings Berhad. He also sits on the Board of Laksana Wibawa Sdn Bhd, a 51% owned subsidiary of the YLI Group.

He is not related to any director and/or any major shareholder of the Group and does not have any conflict of interest with the Company. He has attended all four Board Meetings for the financial year ended 31 March 2016.

PROFILE OF DIRECTORS



TUAN HAJI AB GANI HARON

Malaysian, aged 65

Independent Non-Executive Director

Tuan Haji Ab Gani Haron was appointed to the Board on 9 June 2008. He is the Chairman of the Audit Committee and a member of Nomination Committee and Remuneration Committee of YLI Holdings Berhad.

He graduated with a Bachelor of Economics (Honors) degree from Universiti Malaya in 1976 and obtained his Diploma Perakaunan from Universiti Malaya in 1977. He is also a qualified member of Malaysian Institute of Accountants.

He has over thirty years of working experience in civil service. He started his career as an accountant in the Accountant General's office. He had since held various key positions in the Accountant General's office. He was the Deputy Accountant General (Operations) in the Accountant General's office until November 2007. He sits on the Board of Censof Holdings Berhad, Amanah Raya (Labuan) Limited and YFG Berhad.

He is not related to any director and/or any major shareholder of the Group and does not have any conflict of interest with the Company. He has attended all four Board Meetings for the financial year ended 31 March 2016.



ENCIK MOHAMMAD KHAYAT IDRIS

Malaysian, aged 63

Independent Non-Executive Director

Encik Mohammad Khayat Idris was appointed to the Board on 9 June 2008. He is the Chairman of the Remuneration Committee and the member of Audit Committee and Nomination Committee of YLI Holdings Berhad.

He graduated with a Bachelor of Engineering (Honors) degree from Universiti Teknologi Malaysia in 1977. He also holds a Master of Science degree in electrical power engineering from University of Strathclyde, United Kingdom.

He has over twenty five years of illustrious working experience in the academic profession. He joined Institut Teknologi Mara as a lecturer in Electrical Engineering Power in 1977 and had since held key positions within the organization. Prior to his appointment as a Director of YLI, he was the Deputy Director of Development in UiTM.

He is not related to any director and/or any major shareholder of the Group and does not have any conflict of interest with the Company. He has attended all four Board Meetings for the financial year ended 31 March 2016.

PROFILE OF DIRECTORS



TAN SRI ACADEMICIAN IR (DR) AHMAD ZAIDEE LAIDIN

Malaysian, aged 73

Independent Non-Executive Director

Tan Sri Academician Ir (Dr) Hj Ahmad Zaidee Laidin was appointed to the Board on 24 February 2009. He is the Chairman of the Nomination Committee and a member of Audit Committee of YLI Holdings Berhad.

He holds a Master of Science in Technological Economies (Management & Industrial Science), University of Stirling and is a registered Professional Engineer with the Board of Engineers Malaysia.

He is an Honorary Fellow of the Institution of Engineers, Malaysia, as well as Academy of Sciences Malaysia and is currently serving in the councils of both bodies. He was elected as a Senior Fellow of the Academy that entitled him to be called Academician.

He was awarded the Degree of Doctor of the University by University of Stirling, the Honorary Degree of Doctor of Technology by Oxford Brookes University, and the Honorary Doctor of Letters by the Manchester Metropolitan University as well as Honorary Professor of Napier University, United Kingdom. His latest achievement was the Honorary Doctorate in Electrical Engineering given by Universiti Teknologi MARA.

He is the Past President of the Federation of Engineering Institutions of Southeast Asia and the Pacific (FEISEAP) and a Past President of Institution of Engineers, Malaysia (IEM) as well as the Honorary Fellow of the ASEAN Federation of Engineering Organizations.

He is currently Chairman of Universiti Teknologi MARA, a Board member of Syarikat Mengurus Air Banjar & Terowong Sdn Bhd (SMART) and Chairman of ERINCO Sdn. Bhd.

Academically, he is a member of the International Academic Advisory Committee to Universiti Teknologi Petronas, the current Secretary General of the Academy of Sciences Malaysia, a Board Member of Open University Malaysia and Meteor Learning Sdn. Bhd. He is also Chairman and Director of Malay Education and Development Research Institute, an NGO. He also serves on the Board of UNITEN.

He is not related to any director and/or any major shareholder of the Group and does not have any conflict of interest with the Company. He has attended three out of four Board Meetings for the financial year ended 31 March 2016.



FINANCIAL CALENDAR

FINANCIAL YEAR END

31 March 2016

ANNUAL GENERAL MEETING

15 September 2016

ANNOUNCEMENT OF RESULTS

First Quarter

27 August 2015

Second Quarter

26 November 2015

Third Quarter

25 February 2016

Fourth Quarter

31 May 2016

ANNUAL REPORT

Date of Issuance

28 July 2016

STATEMENT ON CORPORATE GOVERNANCE

The Malaysian Code on Corporate Governance 2012 (“the Code”) sets out broad principles and specific recommendations 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. The Board views this as a fundamental part of 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 recommendations of good governance as set out in the Code throughout the year save where otherwise identified.

The statement below sets out how the Group has applied the eight (8) principles and the extent of its compliance with the twenty six (26) recommendations throughout the financial year ended 31 March 2016.

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Establish clear functions reserved for the board and delegation to management

The Board which is responsible for the control and proper management of the Company comprises members with a wide range of experience in fields such as accounting, marketing, financial and management operations, engineering, corporate planning, restructuring and construction. The Board has delegated specific responsibilities to three main committees namely the Audit, Remuneration and Nomination 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.

1.2 Clear roles and responsibilities in discharging fiduciary and leadership functions

The Group is led and controlled by an experienced Board, many of whom have intimate knowledge of the business and industry. The current Board consists of three Executive Directors and four Independent Non-Executive Directors. The Independent Non-Executive Directors are free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Together they play an important part in the process of deliberating and examining business strategies proposed by the Management, taking into account the long term interest of the Company, its shareholders, employees, customers and other stakeholders.

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

1.3 The Board should formalise ethical standards through a code of conduct and ensure its compliance

The Board has formalised a Code of Conduct for its directors which is incorporated in the Board Charter. The Board would periodically review the said Code of Conduct.

As part of our ongoing effort in promoting good corporate governance and ensuring best practices are adopted where applicable/practicable, the Company has also adopted a Whistle Blowing Policy. The Board encourages their employees and stakeholders to raise genuine concern on unethical behavior such as fraud, corruption, criminal offences and miscarriage of justice or endangerment of an individual’s health and safety that is taken place to the Board. The various channels of reporting have been put in place allowing employees or stakeholders report directly to the Chairman or Managing Director or Chairman of Audit Committee of the Company. All reports will be investigated promptly and appropriate course of action will be taken accordingly.

STATEMENT ON CORPORATE GOVERNANCE

PRINCIPLE 1: ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

1.4 The Board should ensure that the company's strategies promote sustainability

The Board will pay more attention into the aspects of environment, social and governance (ESG) to implement more in the near future to ensure the long-term sustainability of the Company's business.

1.5 The Board should have procedures to allow its members access to information and advice

The Board recognized that the information furnished to the Board play crucial parts in the directors' decision making process. Therefore, all directors have full, unrestricted and timely access to all information necessary for the discharge of their responsibilities. All Directors are provided with an agenda and a set of Board papers issued in sufficient time prior to Board meetings to ensure that the Directors can appreciate the issues to be deliberated and to obtain further explanations, where necessary.

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

1.6 The Board should ensure it is supported by a suitably qualified and competent company secretary

The Board is supported by an experienced and competent Company Secretary who is qualified to act as company secretary under Section 139A of the Companies Act, 1965. She is a Fellow member of the Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA"). The Company Secretary is responsible for ensuring full compliance of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Company's Memorandum and Articles of Association and any other procedures, applicable rules and regulations by the Company.

The Company Secretary advises the Board from time to time on any updates relating to new statutory and regulatory requirements regarding to the duties of the Directors. The Company Secretary organizes and attends all Board meetings, Board Committee meetings, Annual General Meeting, Extraordinary General Meeting and any other meetings that require the attendance of Company Secretary and ensures that meetings are properly convened, and that accurate and proper records of the proceedings and resolutions passed are taken and maintained accordingly.

The Company Secretary has also attended the relevant continuous professional development programmes as required by the Companies Commission of Malaysia or MAICSA to obtain the practicing certificate.

1.7 The Board should formalise, periodically review and make public its board charter

The Board is guided by a Board Charter which sets out the principles governing the Board of Directors and management on their roles and responsibilities with the aims of preserving the concept of sound corporate governance practices towards transparency, accountability and effectiveness in operation of the business.

The Board will periodically review the Board Charter and make any changes whenever necessary. The Board Charter is made available for reference at the corporate website: www.yli.com.my.

STATEMENT ON CORPORATE GOVERNANCE

PRINCIPLE 2: STRENGTHEN COMPOSITION

2.1 The Board should establish a Nominating Committee which should comprise exclusively of non-executive directors, a majority of whom must be independent

The Nomination Committee consists of not less than three (3) members and all members are Non-Executive Directors and are independent. The present Nomination Committee comprises Tan Sri Academician Ir (Dr) Ahmad Zaidee bin Laidin (Senior Independent Non-Executive Director) who is the Chairman, Tuan Haji Ab Gani bin Haron (Independent Non-Executive Director) and Encik Mohammad Khayat bin Idris (Independent Non-Executive Director).

The Company currently does not have any gender, ethnicity and age policy or target. The evaluation of the suitability of candidates as the new Board member is based on the candidates' competency, skills, character, time commitment, knowledge, experience and other qualities in meeting the needs of the Company. Nevertheless, the Board is supportive of gender diversity in the boardroom as recommended by the Code to promote the representation of women in the composition of the Board. The Board will endeavor to ensure that gender, ethnicity and age diversity will be taken into account in nominating and selecting new Directors to be appointed to the Board.

During the financial year ended 31 March 2016, the Committee carried out the following activities in the discharge of its functions and duties:-

- (1) Assessed the Board and Board Committees and contributions of each Director.
- (2) Reviewed the structure, size, balance, composition and effectiveness of the Board and Committees.
- (3) Reviewed and recommended to the Board for re-election of the Directors who retired under the Articles of Association.
- (4) Recommended on the re-appointment of a director under Section 129(6) of the Companies Act, 1965.
- (5) Assessed the independence of independent directors.
- (6) Reviewed the Terms of Reference and recommended the relevant amendments thereto.
- (7) Recommended to the Board the appointment of managing director in Haluan Prisma Sdn Bhd, a subsidiary of the Company.

2.2 The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of directors

Re-election of Directors

In accordance with the Company's Articles of Association, all Directors shall retire from office once at least in each three years but shall be eligible for re-election.

Newly appointed directors shall hold office only until the next Annual General Meeting and shall be eligible for re-election.

During the financial year the Nomination Committee assessed the Directors and Board Committees, reviewed the composition and effectiveness of the Board and Board Committees and is satisfied that they had carried out their functions within their scope of work.

During the financial year ended 31 March 2016, the Nomination Committee held two (2) meetings.

2.3 The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors

Remuneration Committee

The remuneration Committee shall consist of not fewer than 3 members. The present Remuneration Committee comprises Encik Mohammad Khayat bin Idris (Chairman) who is an Independent Non-Executive Director, Dato' Hj Samsuri bin Rahmat (Managing Director) and Tuan Haji Ab Gani bin Haron (Independent Non-Executive Director).

During the financial year ended 31 March 2016, the Remuneration Committee held two (2) meetings.

STATEMENT ON CORPORATE GOVERNANCE

PRINCIPLE 2: STRENGTHEN COMPOSITION (CONT'D)

2.3 The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors (cont'd)

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.

Details of the Directors' remuneration

The aggregate remuneration of the Directors during the financial year ended 31 March 2016 is set out below:-

A. Aggregate Remuneration

| | Group | | Company | |
|------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|
| | Executive Directors RM | Non-Executive Directors RM | Executive Directors RM | Non-Executive Directors RM |
| Fees | 107,427 | 24,000 | 57,427 | 24,000 |
| Salaries | 1,169,522 | - | - | - |
| Bonus | 276,560 | - | - | - |
| Benefits in kind | 172,520 | 164,625 | 7,562 | 140,000 |
| Other benefits | 210,700 | 482,000 | - | 482,000 |
| Total | 1,936,729 | 670,625 | 64,989 | 646,000 |

B. Band (RM)

| Band (RM) | Group | | Company | |
|-----------------------|---------------------|-------------------------|---------------------|-------------------------|
| | Executive Directors | Non-Executive Directors | Executive Directors | Non-Executive Directors |
| 0 – 50,000 | - | 1 | 3 | 1 |
| 50,001 – 100,000 | - | 2 | - | 2 |
| 350,001 – 400,000 | 1 | - | - | - |
| 450,001 – 500,000 | - | - | - | 1 |
| 500,001 – 550,000 | 1 | 1 | - | - |
| 1,000,001 – 1,050,000 | 1 | - | - | - |

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

PRINCIPLE 3: REINFORCE INDEPENDENCE

3.1 The Board should undertake an assessment of its independent directors annually

The Board is responsible for ensuring that the independent directors are capable to exercise their independent judgement and provide necessary check and balances in the best interests of the Group.

In line with Recommendation 3.1 of the MCCG 2012 whereby the Board is required to develop criteria to assess independence of directors annually, the Board has adopted the same criteria used in the definition of "independent directors" prescribed by the MMLR of Bursa Securities.

STATEMENT ON CORPORATE GOVERNANCE

PRINCIPLE 3: REINFORCE INDEPENDENCE (CONT'D)

3.1 The Board should undertake an assessment of its independent directors annually (cont'd)

The Independent Directors of the Company fulfilled the criteria of "Independence". They act independently of management and are not involved in any other relationship with the Group that may impair their independent judgment and decision making.

The Nomination Committee carried out the board evaluation of every directors' performance and assessed the independence of the independent directors annually based on the developed criteria.

3.2 The tenure of an independent director should not exceed a cumulative term of nine years. Upon completion of the nine years, an independent director may continue to serve on the board subject to the director's re-designation as a non-independent director

The Board is aware that the tenure of an Independent Director which should not exceed a cumulative term of nine (9) years as recommended by MCCG 2012 and that an Independent Director may continue to serve on the Board if the Independent Director is re-designated as a Non-Independent Non-Executive Director upon completion of the cumulative term of nine (9) years.

3.3 The Board must justify and seek shareholders' approval in the event it retains as an independent director, a person who has served in that capacity for more than nine years

Subject to the assessment of the Nomination Committee and the shareholders' approval, the Board may retain an Independent Director who has served nine (9) years or more on the Board. Presently, none of the Independent Director of the Company has served as a director with tenure that has exceeded a cumulative term of nine (9) years.

3.4 The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the Board

The Chairman and the Group Managing Director are held by different individuals and the Chairman is a non-executive member of the Board. There is a clear delegation of responsibility between the Chairman, Tan Sri Syed Mohd Yusof Tun Syed Nasir and Group Managing Director, Dato' Hj Samsuri bin Rahmat to ensure the balance of the power and authority held by two different individuals.

The Chairman is primarily responsible for orderly conduct and function of the Board whereas the Group Managing Director is responsible for the day-to-day running of the Group's business, implementation of the Board's policies and making operational decisions.

3.5 The board must comprise a majority of independent directors where the chairman of the board is not an independent director

The Board presently consists of three Executive Directors and four Independent Non-Executive Directors. Tan Sri Syed Mohd Yusof Bin Tun Syed Nasir is an Independent Non-Executive Chairman. The composition of the Board complies with paragraph 15.02 of the MMLR of Bursa Securities. The Nomination Committee has reviewed the present composition of the Board and the three main existing committees and is satisfied that they have adequately carried out their functions within their scope of work.

PRINCIPLE 4: FOSTER COMMITMENT

4.1 The Board should set out expectations on time commitment for its members and protocols for accepting new directorship

All Directors of the Company do not hold more than 5 directorships under paragraph 15.06 of the MMLR of Bursa Securities.

STATEMENT ON CORPORATE GOVERNANCE

PRINCIPLE 4: FOSTER COMMITMENT (CONT'D)

4.1 The Board should set out expectations on time commitment for its members and protocols for accepting new directorship (cont'd)

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 expenditure, risk management policies, appointment of Directors are discussed and decided by the Board.

During the financial year ended 31 March 2016, four (4) Board Meetings were held. The attendance record of each Director is as follows:-

| Board of Directors' Meeting | | May '15 Aug '15 Nov '15 Feb '16 | | | | Total | % |
|---|------------------------|---------------------------------|---|---|---|-------|-----|
| Directors | Position | Attendance | | | | | |
| 1 Tan Sri Syed Mohd Yusof bin Tun Syed Nasir | Non-Executive Chairman | • | • | • | • | 4/4 | 100 |
| 2 Dato' Hj Samsuri bin Rahmat | Managing Director | • | • | • | • | 4/4 | 100 |
| 3 Tuan Haji Ali Sabri bin Ahmad | Executive Director | • | • | • | • | 4/4 | 100 |
| 4 Seah Heng Chin | Executive Director | • | • | • | • | 4/4 | 100 |
| 5 Tan Sri Academician Ir (Dr) Ahmad Zaidee bin Laidin | Director | • | • | - | • | 3/4 | 75 |
| 6 Tuan Haji Ab Gani bin Haron | Director | • | • | • | • | 4/4 | 100 |
| 7 Mohammad Khayat bin Idris | Director | • | • | • | • | 4/4 | 100 |

Total number of meetings held: 4

4.2 The board should ensure its members have access to appropriate continuing education programmes

As required under the MMLR of Bursa Securities, all the Directors had attended the Directors' Mandatory Accreditation Programme ("MAP"). The Directors will continue to attend various professional programmes necessary to enhance their professionalism in the discharge of their duties.

During the financial year ended 31 March 2016, the Directors have evaluated their own training needs on a continuous basis and attended the following:-

| Directors | Types of Training | Duration |
|---|---|----------|
| Tan Sri Syed Mohd Yusof bin Tun Syed Nasir | Business Sustainability & Insider Trading | ½ day |
| Dato' Hj Samsuri bin Rahmat | | |
| Tuan Haji Ali Sabri bin Ahmad | | |
| Seah Heng Chin | | |
| Tan Sri Academician Ir (Dr) Ahmad Zaidee bin Laidin | | |
| Tuan Haji Ab Gani bin Haron | | |
| Mohammad Khayat bin Idris | | |

STATEMENT ON CORPORATE GOVERNANCE

PRINCIPLE 5: UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 The Audit Committee should ensure financial statements comply with applicable financial reporting standards

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

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 Bursa Securities.

A statement by the Directors of their responsibilities in preparing the financial statements is set out on page 26 of this Annual Report.

5.2 The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors

The Board has established and maintains a close and transparent professional relationship with the external auditors of the Company. As disclosed on pages 22 to 23 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.

PRINCIPLE 6: RECOGNISE AND MANAGE RISKS

6.1 The Board should establish a sound framework to manage risks

The Board continues to review and evaluate the effectiveness of the Group's internal control system by formalising the whistle blowing policy and the corporate risk management system has put in place to safeguard the shareholders' investment and the Group's assets. These controls provide reasonable but not absolute assurance against material misstatement, loss or fraud.

6.2 The Board should establish an internal audit function which reports directly to the Audit Committee

The Company's internal audit function is carried out by outsourced external advisor who assist the Audit Committee and Board in providing independent assessment on the adequacy, efficiency and effectiveness of the Group's governance, risk management and internal control processes.

The Statement on Risk Management and Internal Control as set out on pages 24 to 25 provides an overview of the state of internal controls within the Group.

PRINCIPLE 7: ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

7.1 The board should ensure the company has appropriate corporate disclosure policies and procedures

The Board ensures that the disclosure of material information pertaining to the Group's performance and operations to the public is in accordance with the disclosure requirements under the MMLR of Bursa Securities and other applicable laws and regulations. The Board encouraged the voluntary disclosure of its business to ensure the Company has a better corporate governance quality.

The top management is responsible to monitor the operations of the Group and to make necessary announcement on material information that will affect the decision making of the Board to the public in timely manner.

7.2 The board should encourage the company to leverage on information technology for effective dissemination of information

The Board encourages the public to access the Company's website to obtain information such as Company's announcements, annual report, financial information, share price and the corporate structure.

Shareholders and members of the public are invited to access the Company's website at www.yli.com.my and Bursa Securities website at www.bursamalaysia.com to obtain the latest information on the Group.

STATEMENT ON CORPORATE GOVERNANCE

PRINCIPLE 8: STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1 The board should take reasonable steps to encourage shareholder participation at general meetings

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 Bursa Securities for public dissemination. Members of the Board and external auditors are invited to present at the AGM to answer questions raised at the meeting.

8.2 Poll voting

With effect from 1 July 2016, all resolutions set out in the notice of general meetings will be carried out by poll voting. The Board will make an announcement of the detailed results showing the number of votes cast for and against each resolution at general meetings to facilitate greater shareholder participation.

8.3 The board should promote effective communication and proactive engagements with shareholders

The Company keeps shareholders informed by announcements and timely release of quarterly financial results through the Bursa Malaysia LINK, press releases and annual reports. The Company also endeavours to meet requests for meetings from institutional investors and analysts for a better understanding on the Group's strategy and financial performance, all within the legal and regulatory framework in respect of the release of information.

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

Tuan Haji Ab Gani Bin Haron, Independent Non-Executive Director
Telephone number : 03 -77222296
Facsimile number : 03 -77222057
Email address : corporate@yli.com.my

ADDITIONAL COMPLIANCE INFORMATION

During the financial year:

a) Utilisation of proceeds from corporate proposals

No proceeds were raised by the Company from any corporate proposal.

b) Share buybacks

- (i) The Company did not purchase any of its own shares during the financial year ended 31 March 2016.
- (ii) All shares previously purchased are retained as treasury shares and none of these shares were resold or cancelled during the financial year.
- (iii) Details of shares retained as treasury shares during the financial year ended 31 March 2016 are as follows:

| | No. of shares retained as Treasury Shares |
|---------------------------|---|
| As at 1 April 2015 | 121,000 |
| Movements during the year | - |
| As at 31 March 2016 | 121,000 |

c) Options, warrants or convertible securities exercised

The Company has not issued any options, warrants or convertible securities.

d) Depository Receipt Programme

The Company did not sponsor any Depository Receipt Programme during the financial year ended 31 March 2016.

e) Sanctions and/or penalties imposed

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by the regulatory bodies during the financial year ended 31 March 2016, which have the material impact on the operations or financial position of the Group except as disclosed below:

The Company's wholly-owned subsidiary, Yew Lean Foundry & Co. Sdn. Bhd. was charged under Sections 31 and 37 of the Environmental Quality Act, 1974. Yew Lean Foundry & Co. Sdn. Bhd. has fully settled the fine imposed by the Butterworth Sessions Courts on 26 May 2016.

f) Variation in actual results from those previously announced or released

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) Comparison of profit achieved with the profit guarantee

There was no profit guarantee given by the Company.

h) Material contracts

There were no material contracts of the Company and its subsidiaries involving Directors' and major shareholders' interests.

i) Recurrent Related Party Transactions of Revenue Nature ("RRPT")

The Company did not enter into any RRPT.

Non-audit fees

For the financial year ended 31 March 2016, the amount of non-audit fees incurred for services rendered to the Company or its subsidiaries by its external auditors or a firm or company affiliated to the said auditors was RM20,100.

Conviction for offences

None of the Directors has been convicted for offences within the past ten (10) years other than traffic offences.

Compliance Statement

The Board is of the view that the Group is generally in compliance with the Principles and Recommendations of the MCGG 2012. Where a specific Recommendation of the MCGG 2012 has not been observed during the financial year under review, the non-observance has been explained and the reasons thereof has been included in this Statement.

This Statement was approved by the Board of Directors on 31 May 2016.

AUDIT COMMITTEE REPORT

Chairman

Tuan Haji Ab Gani bin Haron*
Independent Non-Executive Director

Members

Tan Sri Academician Ir (Dr) Ahmad Zaidee bin Laidin
Independent Non-Executive Director

Encik Mohammad Khayat bin Idris
Independent Non-Executive Director

* **Member of MIA**

TERMS OF REFERENCE

The Terms of Reference of the Audit Committee can be viewed in the Board Charter in the Company's website at www.yli.com.my

DETAILS OF ATTENDANCE OF MEMBERS AT AUDIT COMMITTEE MEETINGS

For the financial year ended 31 March 2016, four (4) Audit Committee meetings were held.

The attendance of each member is set out below:

| Committee Members | Position | May '15 Aug '15 Nov '15 Feb '16 | | | | Total | % |
|---|----------|---------------------------------|---|---|---|-------|-----|
| | | Attendance | | | | | |
| Tuan Haji Ab Gani bin Haron | Chairman | • | • | • | • | 4/4 | 100 |
| Tan Sri Academician Ir (Dr) Ahmad Zaidee bin Laidin | Member | • | • | x | • | 3/4 | 75 |
| Mohammad Khayat bin Idris | Member | • | • | • | • | 4/4 | 100 |

Total number of meetings held: 4

SUMMARY OF WORKS OF THE AUDIT COMMITTEE

The Audit Committee ("AC") in discharging their duties and functions in accordance with their Terms of Reference had carried out their works during the financial year ended 31 March 2016 as follows:-

1. The AC had ensured that the quarterly results of YLI Group complied with the Malaysian Financial Reporting Standard ("MFRS") and paragraph 9.22 of MMLR. The quarterly financial results for the 4th quarter ended 31 March 2015, 1st quarter ended 30 June 2015, 2nd quarter ended 30 September 2015 and 3rd quarter ended 31 December 2015 were reviewed by the AC at their meetings held on 28 May 2015, 27 August 2015, 26 November 2015 and 25 February 2016.
2. At the AC Meeting held on 28 May 2015, the AC discussed with the external auditors their Audit Review Memorandum and some audit issues were resolved. The AC also reviewed the Statement on Risk Management and Internal Control and the Audit Committee Report and recommended to the Board for approval and for inclusion in the 2015 Annual Report. The AC also approved the Internal Audit Plan for 2016 and recommended to include the two new subsidiaries in the said Plan. The AC also recommended the external auditors to be re-appointed at the annual general meeting of the Company to be held in 2015.
3. The AC held two special meetings with the external auditors without the presence of management on 28 May 2015 and 26 November 2015 to determine whether there were any significant issues or unusual items which had arisen in their audit. There was no significant issue raised by the external auditors. At the special meeting with the external auditors on 28 May 2015, the AC was informed that the management was co-operative during their audit for the financial year ended 31 March 2015.

AUDIT COMMITTEE REPORT

SUMMARY OF WORKS OF THE AUDIT COMMITTEE (CONT'D)

4. At each quarterly meeting, the AC discussed whether there were any related party transactions and conflicts of interest situation that may arise within the Group and asserted that there were no related party transactions for the year ended 31 March 2016.
5. At their meeting held on 26 November 2015, the AC reviewed and approved the Audit Plan for the year ended 31 March 2016 and were briefed by the external auditors on the risk assessment and audit approach. The external auditors also updated the AC on the new revised Audit Reporting Standard which will be effective for audits of financial statements for periods ending on or after 15 December 2016 and for the inclusion of a section on "Key Audit Matters" ("KAM") in the audit report which will be compulsory for the listed entities.
6. At their meeting held on 25 February 2016, the AC reviewed and discussed with the external auditors their External Audit Plans for the years ending 31 March 2016 and 2017.

SUMMARY OF WORK OF THE INTERNAL AUDIT FUNCTION

The Group's internal audit function has been outsourced since June 2008. The total costs incurred for internal audit amounted to RM52,440 for the year ended 31 March 2016.

The Group's internal audit activities are mainly carried out in accordance with the annual audit plan that has been tabled to the AC for its review and approval and selected ad-hoc audits on management's requests. The internal auditor adopted risk based approach and focuses on financial, operational, compliance with applicable laws and assesses the adequacy of internal controls as well as the effectiveness of risk management framework for key operating companies within the Group. The representative of the internal auditor reports directly to the AC and assists the AC to monitor and manage risks and provide the AC with independent views on the effectiveness of the system of internal control after their reviews. The internal audit findings and recommendations of the internal auditor are reviewed quarterly by the AC and their recommendations for improvements on control and minutes of AC meetings are circulated to the Board.

The internal auditors carried out their duties during the financial year ended 31 March 2016 in accordance with their Internal Audit Plan and a summary of their activities are as follows:-

- a. On 28 May 2015, the Internal Auditor presented to the AC their report on internal control review on the Conversion and Production of a subsidiary company.
- b. On 27 August 2015, the Internal Auditor presented to the AC their report on internal control review on the Sales to Receipt & Logistic Management of YLI Holdings Berhad.
- c. On 26 November 2015, the Internal Auditor presented to the AC their report on internal control review on the General Safety and Security of a subsidiary company. They also informed the AC that all previous audit findings had been followed-up and implemented accordingly except for one finding which is still under progress.
- d. On 25 February 2016, the Internal Auditor presented to the AC their report on internal control review on the Procure to Pay of a subsidiary company.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Malaysian Code of Corporate Governance 2012 requires listed companies to maintain a sound system of risk management and internal control to safeguard shareholders' investment and the Group's assets.

Guided by the Statement on Risk Management and Internal Control: Guideline for Directors of Listed Issuers, the Board of Director of YLI Holdings Berhad is pleased to present the Statement on Risk Management and Internal Control which is prepared in accordance with Paragraph 15.26(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

RESPONSIBILITY FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its overall responsibility for the Group's systems of risk management and internal control for reviewing the adequacy and effectiveness of those systems. In view of the limitations that are inherent in any systems of internal control, the systems of risk management and internal control are designed to manage risk within tolerable levels rather than eliminate the risk of failure to achieve business objectives. Hence, such system by its nature can only provide reasonable and not absolute assurance against material misstatement, error or losses.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced, or potentially exposed to, by the Group in pursuing its business objectives. This process has been in place throughout the financial year and up to the date of approval of this statement. The adequacy and effectiveness of this process have been continually reviewed by the Board and are in accordance with the said Guideline in respect of risk management and internal control.

RISK MANAGEMENT

The Board and the management practice proactive significant risks identification in the processes and activities of the Group, particularly in major proposed transactions, changes in nature of activities and/or operating environment, or venturing into new operating environment which may entail different risks, and put in place the appropriate risk response strategies and controls until those risks are managed to, and maintained at, a tolerance level acceptable by the Board.

INTERNAL AUDIT

The Board acknowledges the importance of internal audit function and has outsourced its internal audit function to an independent professional accounting and consulting firm, BDO Governance Advisory Sdn. Bhd. as part of its efforts to provide adequate and effective risk management and internal control systems. The performance of internal audit function is carried out as per the annual audit plan approved by the Audit Committee.

The internal audit adopts a risk-based approach in developing its audit plan which addresses all the core auditable areas of the Group based on their risk profile. The audit focuses on high risk area to ensure that an adequate action plan has in place to improve the controls in place. The audit ascertains that the risks are effectively mitigated by the controls. On a quarterly basis or earlier as appropriate, the internal auditors report to the Audit Committee on areas for improvement. The highlighted areas will be followed up closely to determine the extent of their recommendations that have been implemented by the management.

The Group's risk management and internal control systems covered key operating companies within the Group but does not apply to its jointly controlled entity, Pinang Water Ltd. as the Group does not exercise day to day absolute control over this entity.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTERNAL CONTROL

Apart from risk management and internal audit, the Group has put in place the following key elements of internal control:

- An organization structure with well-defined scopes of responsibility, clear lines of accountability, and appropriate levels of delegated authority;
- A process of hierarchical reporting which provides a documented and auditable trail of accountability;
- A set of documented internal policies and procedures which is subject to review and improvement when needed;
- Regular and comprehensive information provided to management, covering financial and operational performance and key business indicators, for effective monitoring and decision making;
- Monthly monitoring of results against budget, with major variances being followed up and management action taken, where necessary; and
- Regular visits to operating units by members of the Board and senior management.

WHISTLE BLOWING POLICY

A Whistle Blowing Policy for the Group has been adopted effective 23 February 2012. The policy is built into the Group's culture, abhorrence for fraud, and aims to provide broad principles and strategy for the Group to adopt in relation to fraud in order to promote high standard of integrity. It also promotes a transparent and open environment for fraud reporting within the Group. The Policy reaffirms the Board's commitment to safeguard those who report in good faith against any form of reprisal.

REVIEW OF THIS STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors have conducted a limited assurance engagement on this Statement on Risk Management and Internal Control. Their review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015) issued by the Malaysian Institute of Accountants. RPG 5 (Revised 2015) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Group.

CONCLUSION

The Board has received assurance from Group Managing Director and Executive Director - Group Finance & Business Development that the Group's risk management and internal control systems have been operating adequately and effectively, in all material aspects, during the financial year under review and up to date of this statement. Taking this assurance into consideration, the Board is of the view that there were no significant weaknesses in the current system of risk management and internal control of the Group that may have material impact on the operations of the Group for the financial year ended 31 March 2016. The Board and the management will continue to take necessary measures and ongoing commitment to strengthen and improve its internal control environment and risk management.

This statement is issued in accordance with a resolution of the Directors dated 31 May 2016.

DIRECTORS' RESPONSIBILITY 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.

YLI HOLDINGS BERHAD

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