

**13 ACCOUNTANTS' REPORT**  
*(Prepared for the inclusion in this Prospectus)*

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13 June 2005

The Board of Directors  
**Ygl Convergence Berhad**  
10 China Street  
10200 Penang

Dear Sirs

**ACCOUNTANTS' REPORT**

**1. INTRODUCTION**

This report has been prepared by Moore's Rowland, approved company's reporting accountants, for inclusion in the Prospectus to be dated 17 June 2005 in connection with the Public Issue of 8,400,000 new ordinary shares of RM0.10 each in Ygl Convergence Berhad (hereinafter referred to as "Ygl Convergence" or "the Company") at an issue price of RM0.90 per share, and the listing of and quotation of the entire enlarged issued and paid-up share capital of Ygl Convergence of 66,800,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

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**2. GENERAL INFORMATION**

**2.1 The Company**

The Company, Ygl Convergence Berhad was incorporated in Malaysia under the Companies Act, 1965 (“the Act”) as a public limited company on 14 April 2004.

The authorised share capital of Ygl Convergence as at the date of this report is RM10,000,000 comprising 100,000,000 ordinary shares of RM0.10 each.

The issued and paid-up share capital as at the date of this report is RM2,500,000 comprising 25,000,000 ordinary shares of RM0.10 each.

**2.2 Principal Activity**

The principal activity of the Company is investment holding.

**2.3 Changes in Share Capital**

The movement in the issued and paid-up share capital of Ygl Convergence since incorporation are:

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<b>Date of allotment</b>	<b>No. of ordinary shares allotted*</b>	<b>Consideration</b>	<b>Total issued and paid-up share capital (cumulative)</b>
			RM
14 April 2004 (Date of incorporation)	2	Cash	2
30 April 2004 (subdivision of shares)	20	-	20
31 May 2005	24,999,980	Acquisitions of subsidiary companies	2,500,000

*\*- Ordinary shares of RM1.00 each before subdivision and RM0.10 each after subdivision*

Upon completion of the Public Issue of 8,400,000 new ordinary shares of RM0.10 each and Bonus Issue of 33,400,000 new ordinary shares of RM0.10 each, the issued and paid-up share capital of Ygl Convergence will be increased to RM6,680,000 comprising 66,800,000 ordinary shares of RM0.10 each.

#### **2.4 Acquisition of Subsidiary Companies**

As an integral part of its public flotation exercise, Ygl Convergence acquired:

- a) The entire issued and paid-up share capital of Ygl Consulting Sdn Bhd ("Ygl Consulting") comprising 300,000 ordinary shares of RM1.00 each at a total purchase consideration of RM2,199,998 from Mr. Yeap Kong Tai, Mr. Yeap Kong Chean and Puan Sarina Karim. The purchase consideration for the acquisition was satisfied entirely through the issue of 21,999,980 new ordinary shares of RM0.10 each in Ygl Convergence. The acquisition was completed on 31 May 2005.

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- b) The entire issued and paid-up share capital of Ygl Multimedia Resources Sdn Bhd ("Ygl Multimedia") comprising 2 ordinary shares of RM1.00 each at a total purchase consideration of RM300,000 from Mr. Yeap Kong Tai and Mr. Yeap Kong Chean. The purchase consideration for the acquisition was satisfied entirely through the issue of 3,000,000 new ordinary shares of RM0.10 each in Ygl Convergence. The acquisition was completed on 31 May 2005.

**2.5 Public Issue**

As part of the listing exercise, Ygl Convergence will implement a Public Issue of 8,400,000 new ordinary shares of RM0.10 each, representing 25.15% of the enlarged issued and paid-up share capital of the Company, at an issue price of RM0.90 per share, to be allocated in the following manner:

- (a) 7,560,000 ordinary shares, representing 22.63% of the enlarged issued and paid-up share capital of Ygl Convergence, will be for application by individuals, companies, societies, co-operatives and institutions with corresponding addresses in Malaysia; and
- (b) 840,000 ordinary shares, representing 2.52% of the enlarged issued and paid-up share capital of Ygl Convergence, will be for application by eligible directors, employees and business associates of Ygl Convergence Group.

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The proceeds from the Public Issue totalling RM7,560,000 (8,400,000 ordinary shares at RM0.90 per share) will be utilised for the following:

	RM
Future business expansion and capital expenditure	4,130,000
Research and development expenditure	1,320,000
Working capital	610,000
Estimated listing expenses	1,500,000
	-----
	<b>7,560,000</b>
	=====

The estimated listing expenses of RM1,500,000 will be written off against the share premium account.

## 2.6 Bonus Issue

Following the Public Issue, the Company will implement a Bonus Issue of 33,400,000 new ordinary shares of RM0.10 each to its shareholders which will be credited as fully paid-up on the basis of one new ordinary share for every one existing share held. The Bonus Issue is to be effected through the capitalisation of RM3,340,000 from the share premium account.

Upon completion of the Bonus Issue, the issued and paid-up share capital of the Company will increase from RM3,340,000 comprising 33,400,000 ordinary shares of RM0.10 each to RM6,680,000 comprising 66,800,000 ordinary shares of RM0.10 each.

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**2.7 Employees Share Options Scheme**

The Company will also implement an Employees Share Options Scheme (“ESOS”) involving up to 10% of Ygl Convergence’s issued and paid-up share capital at any time during the existence of the ESOS. Options under the ESOS will be granted to eligible directors and employees of Ygl Convergence Group, comprising Ygl Convergence, Ygl Consulting and Ygl Multimedia.

**3. BACKGROUND OF THE SUBSIDIARY COMPANIES**

**Ygl Consulting**

Ygl Consulting was incorporated in Malaysia on 30 December 1977 under the Act as a private company limited by shares under the name of Malaysian Jellyfish Manufacturing Co. Sdn Bhd (“MJM”). On 7 October 1992, MJM changed its name to Yeap Geok Lake Consulting Sdn Bhd and commenced its consulting business in 1993. Subsequently, on 9 August 1996, Yeap Geok Lake Consulting Sdn Bhd changed its name to its current name. Ygl Consulting is principally engaged in the business of Enterprise Resources Planning (“ERP”) consulting and the reseller and implementation partner for World Class ERP solutions. Ygl Consulting operates from Penang and has a branch office in Kuala Lumpur. Ygl Consulting has an associated company, Ygl Consulting (Thailand) Co. Ltd, a company incorporated in Thailand in which Ygl Consulting holds 39% equity interest. The associated company is principally engaged in the marketing and distribution of computer software and the provision of related services.

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The authorised share capital as at the date of this report is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital as at the date of this report is RM300,000 comprising 300,000 ordinary shares of RM1.00 each.

The movements in the issued and paid-up share capital of Ygl Consulting since the date of incorporation until the date of this report are:

<b>Date of allotment</b>	<b>No of ordinary shares of RM1.00 each allotted</b>	<b>Consideration</b>	<b>Total issued and paid-up share capital (cumulative)</b>
			<b>RM</b>
30 December 1977 (Date of incorporation)	15,000	Cash	15,000
28 March 1978	285,000	Cash	300,000

**Ygl Multimedia**

Ygl Multimedia was incorporated in Malaysia on 3 October 2003 under the Act as a private company limited by shares. Ygl Multimedia is in the business of software development and it commenced operations on 2 April 2004. On 26 February 2004, Ygl Multimedia was awarded MSC status by the Multimedia Development Corporation.

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The authorised share capital as at the date of this report is RM100,000 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid-up share capital from the date of incorporation to the date of this report is RM2 comprising 2 ordinary shares of RM1.00 each.

Subsequent to the acquisitions in Section 2.4, Ygl Convergence is the holding company of Ygl Consulting and Ygl Multimedia.

**4. FINANCIAL STATEMENTS AND AUDITORS**

We were appointed as auditors of Ygl Convergence for the first financial period ended 31 December 2004

The financial statements of Ygl Consulting for the five financial years under review from 31 December 2000 to 2004 and the financial statements of Ygl Multimedia for the first financial period ended 31 December 2004 were audited by other firms of Chartered Accountants.

Our audit report on Ygl Convergence for the period ended 31 December 2004 was not subject to any qualifications. The auditors' reports of Ygl Consulting for the five financial years under review from 31 December 2000 to 2004 and the auditors' report of Ygl Multimedia for the period ended 31 December 2004 were also not subject to any qualifications.



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**5. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES**

This report is prepared on a basis consistent with the accounting policies normally adopted by Ygl Consulting and in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

**6. DIVIDENDS**

No dividends were paid or declared by Ygl Convergence during the financial period under review.

Ygl Consulting declared and paid an interim dividend of RM990,000 less 28% tax amounting to RM712,800 for the financial year ended 31 December 2004

Ygl Multimedia declared and paid a tax exempt interim dividend of RM160,000 for the financial period ended 31 December 2004

**13 ACCOUNTANTS' REPORT (Cont'd)****7. SUMMARISED INCOME STATEMENTS****7.1 Proforma Group**

The following proforma consolidated financial results of the Group for the past five financial years ended 31 December 2004 are provided for illustrative purposes based on the audited financial statements of Ygl Convergence, Ygl Consulting and Ygl Multimedia, assuming that the Group had existed throughout the years under review.

	----- Year ended 31 December -----				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Gross Revenue	1,617,394	2,095,068	2,816,824	2,882,949	4,448,519
Gross profit	115,918	449,628	835,195	1,579,600	2,831,239
Profit/Loss before finance costs, depreciation and tax expense	(24,055)	282,280	574,987	1,364,725	2,398,042
Finance costs	(5)	(11,309)	(10,709)	(7,171)	(8,481)
Depreciation	(54,316)	(58,349)	(72,114)	(63,320)	(48,635)
Profit / (Loss) before tax	(78,376)	212,622	492,164	1,294,234	2,340,926
Tax expense	(1,057)	(48,612)	(147,696)	(349,078)	(267,942)
Profit / (Loss) after tax	(79,433)	164,010	344,468	945,156	2,072,984

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	----- At 31 December -----				
	2000	2001	2002	2003	2004
	'000	'000	'000	'000	'000
Paid-up capital comprising shares of RM0.10 each (Number of shares)	25,000	25,000	25,000	25,000	25,000

	----- Year ended 31 December -----				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Gross EPS	(0.003)	0.009	0.020	0.052	0.094
Net EPS	(0.003)	0.007	0.014	0.038	0.083

*Notes*

- (a) *The Group's proforma consolidated financial results have been prepared based on accounting policies consistent with those adopted in the preparation of audited financial statements of the Group unless they are inconsistent with applicable approved accounting standards issued and adopted by the Malaysian Accounting Standards Board in force at the present moment, in which case the latter standards have been used retrospectively as the basis of preparation of the proforma consolidated financial results.*
- (b) *The Group's share of results of its associated company has not been accounted for as it is deemed not material to the Group's results.*
- (c) *There are no minority interests in the financial years under review.*

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- (d) *There are no extraordinary or exceptional items during the financial years under review.*
- (e) *Gross/Net Earnings per share for the respective years under review is calculated based on the proforma profit before/after tax attributable to shareholders of Ygl Convergence and the number of ordinary shares of RM0.10 each in issue.*

*The number of ordinary shares in issue is based on the enlarged issued and paid-up share capital of Ygl Convergence after the issuance of shares as consideration for the acquisitions of Ygl Consulting and Ygl Multimedia, but before the Public Issue.*

## 7.2 Ygl Convergence

The summarised result of Ygl Convergence based on the audited financial statements for the first financial period under review is set out below:

	Period ended 31 December 2004 RM
Gross revenue	-
	=====
Gross profit	-
	=====
Loss before finance cost, depreciation and tax expense	5,420
Finance cost	-
Depreciation	-
	-----
Loss before tax	5,420
Tax expense	-
	-----
Loss after tax	5,420
	=====

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**13 ACCOUNTANTS' REPORT (Cont'd)**


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**7.3 Ygl Consulting**

The summarised results of Ygl Consulting based on the audited financial statements for the financial years under review are set out below:

	----- Year ended 31 December -----				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Gross Revenue	1,617,394	2,095,068	2,816,824	2,882,949	3,442,194
	=====	=====	=====	=====	=====
Gross profit	115,918	449,628	835,195	1,579,600	1,867,973
	=====	=====	=====	=====	=====
Profit/Loss before finance costs, depreciation and tax expense	(24,055)	282,280	574,987	1,364,725	1,474,669
Finance costs	(5)	(11,309)	(10,709)	(7,171)	(8,481)
Depreciation	(54,316)	(58,349)	(72,114)	(63,320)	(48,635)
	-----	-----	-----	-----	-----
Profit / (Loss) before tax	(78,376)	212,622	492,164	1,294,234	1,417,553
Tax expense	(1,057)	(48,612)	(147,696)	(349,078)	(267,942)
	-----	-----	-----	-----	-----
Profit / (Loss) after tax	(79,433)	164,010	344,468	945,156	1,149,611
	=====	=====	=====	=====	=====

**13 ACCOUNTANTS' REPORT (Cont'd)**

	----- At 31 December -----				
	2000	2001	2002	2003	2004
Paid-up capital					
comprising ordinary					
shares of RM1.00 each					
(Number of shares)	300,000	300,000	300,000	300,000	300,000
	=====	=====	=====	=====	=====
	----- Year ended 31 December -----				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
Gross EPS	(0.26)	0.71	1.64	4.31	4.73
	=====	=====	=====	=====	=====
Net EPS	(0.26)	0.55	1.15	3.15	3.83
	=====	=====	=====	=====	=====

*Notes:*

- (a) *Gross revenue (comprises sales of Ygl Consulting developed software and World Class ERP Solutions) was low in year 2000 and increased significantly over the years. This was because software development was at its infant stage prior to 2000. In 2000, more programming staff were deployed to research and develop new software for Ygl Consulting which resulted in increased sales of developed software from 2001 onwards. Gross revenue increased by approximately 38% from 2001 to 2003 mainly due to sales of newly developed e-Manufacturing software and Ygl Consulting Taxcom C+ software. In 2004, gross revenue increased by a further 19% from 2003 mainly due to improvement in the sales of e-Manufacturing and e-Reporting software and Baan ERP software.*

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- (b) *Ygl Consulting's gross profit margin ranges from 7% to 30% from 2000 to 2002. The low gross profit margin in 2000 was due to the deployment of Ygl Consulting's staff to research and develop Ygl Consulting developed software.*

*The increasing trend in the gross profit margin from year 2001 onwards was due to enhancement of expertise among consultants over the years which enabled Ygl Consulting to control costs more effectively as evidenced in the significant increase in the gross profit margin from 2002 to 2003. The gross profit margin for 2004 was consistent with that of 2003.*

- (c) *The steady increase in depreciation charge is due to additional assets purchased over the years. The decrease in 2003 was because no depreciation was charged for motor vehicles which were fully depreciated in 2002. Also an amount of RM6,450 was capitalised as development expenditure in 2003. The decrease in 2004 was mainly due to certain computers and office equipment which had been fully depreciated.*

- (d) *The effective tax rates as compared to the statutory rates are:*

	----- Year ended 31 December -----				
	2000	2001	2002	2003	2004
	%	%	%	%	%
<i>Effective tax rates</i>	-	22.86	29.79	27.23	18.90
	=====	=====	=====	=====	=====
<i>Statutory tax rate on chargeable income</i>					
<i>- first RM100,000</i>	28.00	28.00	28.00	20.00	20.00
<i>- subsequent RM400,000</i>	28.00	28.00	28.00	28.00	20.00
<i>- above RM500,000</i>	28.00	28.00	28.00	28.00	28.00
	=====	=====	=====	=====	=====

**13 ACCOUNTANTS' REPORT (Cont'd)**

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*In 2000, Ygl Consulting incurred a loss and had no taxable income.*

*In 2001, the effective tax rate was low compared to the statutory rate because of the availability of unabsorbed capital allowances brought forward which has been fully utilised in arriving at the taxable income for the year.*

*In 2002, the effective tax rate was high compared to the statutory rate because certain expenses had been disallowed in arriving at the taxable income .*

*In 2003 the effective tax rate approximated the statutory tax rate.*

*In 2004 the effective tax rate was low as compared to the statutory tax rate because the current year tax expense included an amount of RM80,750 which represented overestimation of deferred tax liability in the previous financial year and the recognition of deferred tax asset amounting to RM55,450 relating to deductible temporary differences as it is now probable that future taxable profit will be available against which the asset can be utilised.*

- (e) There were no extraordinary or exceptional items during the financial years under review.*
- (f) Gross/Net Earnings per share is calculated based on profit before/after tax and the number of ordinary shares of RM1.00 each in issue.*

**7.4 Ygl Multimedia**

The summarised result of Ygl Multimedia based on the audited financial statements for the first financial period under review is set out below:



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	Period ended 31 December 2004 RM
Gross revenue	1,072,844
Gross profit	<u>963,802</u>
Profit before finance cost, depreciation and tax expense	928,793
Finance cost	-
Depreciation	-
Profit before tax	<u>928,793</u>
Tax expense	-
Profit after tax	<u>928,793</u>

*Notes*

- a) *Gross revenue represents Service ERP sales comprising mainly of Taxcom C+ and Taxcom B+ software.*
- b) *There were no finance cost or depreciation charge for the period ended 31 December 2004 as Ygl Multimedia does not have any property, plant and equipment or bank borrowings.*
- c) *There were no extraordinary or exceptional items for the period under review.*
- d) *Ygl Multimedia has been granted pioneer status by the Ministry of International Trade and Industry under the Promotion of Investments Act, 1986, which exempts the statutory income of promoted products of Ygl Multimedia from income tax for a period of 5 years.*

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**8. SUMMARISED BALANCE SHEETS**

8.1 The summarised balance sheet of Ygl Convergence at 31 December 2004 is set out below:

	31 December 2004 RM
<b>CURRENT ASSET</b>	
Cash balance	2
Less:	
<b>CURRENT LIABILITY</b>	
Sundry payables	(5,420)
	-----
<b>NET CURRENT LIABILITY</b>	(5,418)
	=====
Financed by:	
<b>SHARE CAPITAL</b>	2
<b>ACCUMULATED LOSS</b>	(5,420)
	-----
	(5,418)
	=====

**8.2 Ygl Consulting**

The summarised balance sheets of Ygl Consulting at the end of its past five financial years at 31 December 2004 are set out below:

## 13 ACCOUNTANTS' REPORT (Cont'd)

	----- 31 December -----				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
<b>PROPERTY, PLANT AND EQUIPMENT</b>	74,168	1,073,661	1,145,851	1,108,005	1,078,387
<b>ASSOCIATED COMPANY</b>	-	-	-	-	10
<b>OTHER INVESTMENT</b>	19,876	19,876	19,876	-	-
<b>DEVELOPMENT EXPENDITURE</b>	-	-	-	301,616	-
<b>GOODWILL</b>	20,000	10,000	-	-	-
<b>DEFERRED TAX ASSET</b>	-	-	-	-	55,450

**CURRENT ASSETS**

Inventories	-	-	-	-	62,783
Trade and other receivables	411,983	257,141	270,227	781,178	2,289,214
Amount owing by directors	765,386	739,999	1,051,499	285,983	-
Tax recoverable	1,421	1,421	35,723	1,421	1,421
Cash and bank balances	1,923	1,763	2,477	3,360	392

-----	1,180,713	1,000,324	1,359,926	1,071,942	2,353,810
-----					
Less:					
<b>CURRENT LIABILITIES</b>					
Sundry payables and accruals	708,208	1,257,857	1,229,461	74,486	153,661
Amount owing to directors	-	-	-	-	520,994
Short term borrowings	-	91,423	146,751	120,249	162,840
Tax payable	-	4,022	21,610	165,895	173,168
-----	708,208	1,353,302	1,397,822	360,630	1,010,663

**13 ACCOUNTANTS' REPORT (Cont'd)**

	----- 31 December -----				
	2000	2001	2002	2003	2004
	RM	RM	RM	RM	RM
<b>NET CURRENT ASSETS / (LIABILITIES)</b>	472,505	(352,978)	(37,896)	711,312	1,343,147
	-----	-----	-----	-----	-----
	586,549	750,559	1,127,831	2,120,933	2,476,994
	=====	=====	=====	=====	=====
Financed by:					
<b>SHARE CAPITAL</b>	300,000	300,000	300,000	300,000	300,000
<b>UNAPPROPRIATED PROFIT</b>	286,549	450,559	795,027	1,740,183	2,176,994
	-----	-----	-----	-----	-----
<b>SHAREHOLDERS' EQUITY</b>	586,549	750,559	1,095,027	2,040,183	2,476,994
<b>LONG TERM AND DEFERRED LIABILITIES</b>					
Long term loan	-	-	32,804	-	-
Deferred tax liability	-	-	-	80,750	-
	-----	-----	-----	-----	-----
	586,549	750,559	1,127,831	2,120,933	2,476,994
	=====	=====	=====	=====	=====

**8.3 Ygl Multimedia**

The summarised balance sheet of Ygl Multimedia at 31 December 2004 is set out below:

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	31 December 2004 RM
<b>DEVELOPMENT EXPENDITURE</b>	436,168
<b>CURRENT ASSETS</b>	
Trade and other receivables	361,325
Cash and bank balances	480,102
	-----
	841,427
	-----
Less:	
<b>CURRENT LIABILITIES</b>	
Trade and other payables	343,800
Amount owing to directors	165,000
	-----
	508,800
	-----
<b>NET CURRENT ASSETS</b>	332,627
	-----
	768,795
	=====
Financed by:	
<b>SHARE CAPITAL</b>	2
<b>UNAPPROPRIATED PROFIT</b>	768,793
	-----
	768,795
	=====

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**9. PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**

The proforma consolidated statement of assets and liabilities of Ygl Convergence at 31 December 2004 which has been presented for illustrative purposes only on the assumption that the acquisitions of Ygl Consulting and Ygl Multimedia, the Public Issue and Bonus Issue had been effected at 31 December 2004. The proforma consolidated statement of assets and liabilities has been prepared from the audited financial statements of Ygl Convergence, Ygl Consulting and Ygl Multimedia and it should be read in conjunction with the notes thereon as set out in Section 11.

	<i>Note</i>	<b>RM</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<i>11.2</i>	1,078,387
<b>ASSOCIATED COMPANY</b>	<i>11.3</i>	10
<b>DEVELOPMENT EXPENDITURE</b>	<i>11.4</i>	436,168
<b>DEFERRED TAX ASSET</b>		55,450
<b>CURRENT ASSETS</b>		
Inventories		62,783
Trade and other receivables	<i>11.5</i>	2,329,507
Tax recoverable		1,421
Cash and bank balances		6,540,504
		-----
		<b>8,934,215</b>

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	<i>Note</i>	<b>RM</b>
Less:		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	<i>11.6</i>	181,859
Amount owing to directors	<i>11.7</i>	685,994
Bank overdraft	<i>11.8</i>	162,840
Tax payable		173,168
		-----
		1,203,861
 <b>NET CURRENT ASSETS</b>		 7,730,354
		-----
		9,300,369
		=====
 Financed by:		
 <b>SHARE CAPITAL</b>	 <i>11.9</i>	 6,680,000
 <b>SHARE PREMIUM</b>		 1,880,000
 <b>ACCUMULATED LOSS</b>		 (5,420)
		-----
<b>SHAREHOLDERS' EQUITY</b>		8,554,580
 <b>DISCOUNT ON ACQUISITION</b>	 <i>11.10</i>	 745,789
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		9,300,369
		=====

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**13 ACCOUNTANTS' REPORT (Cont'd)**


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**10. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The proforma consolidated cash flow statement of Ygl Convergence for the year ended 31 December 2004 which has been presented for illustrative purposes only on the assumption that the acquisitions of Ygl Consulting and Ygl Multimedia and the Public Issue had been effected at 31 December 2004. The proforma consolidated cash flow statement has been prepared from the audited financial statements of Ygl Convergence, Ygl Consulting and Ygl Multimedia.

	<b>RM</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit before tax	2,340,926
Adjustments for:	
Amortisation of development costs	109,042
Depreciation	48,635
Allowance for doubtful debts	150,000
Interest expenses	8,481
	-----
Operating profit before working capital changes	2,657,084
Changes in inventories	(62,783)
Changes in receivables	(1,412,354)
Changes in payables	793,367
	-----
Cash generated from operations	1,975,314
Interest paid	(8,481)
Tax paid	(396,869)
	-----
Net cash from operating activities	1,569,964
	-----



## 13 ACCOUNTANTS' REPORT (Cont'd)

	<b>RM</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property, plant and equipment	(19,017)
Purchase of other investment	(14,025)
Proceeds from disposal of other investment	14,025
Product development costs paid and capitalised as development expenditure	(243,594)
	-----
Net cash used in investing activities	(262,611)
	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from Public Issue	7,560,000
Repayment of term loan	(26,073)
Dividend paid	(872,800)
Estimated listing expenses	(1,500,000)
	-----
Net cash from financing activities	5,161,127
	-----
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>6,468,480</b>
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	<b>(90,816)</b>
	-----
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	<b>6,377,664</b>
	=====
Represented by:	
<b>CASH AND BANK BALANCES</b>	<b>6,540,504</b>
<b>BANK OVERDRAFT</b>	<b>(162,840)</b>
	-----
	<b>6,377,664</b>
	=====

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**13 ACCOUNTANTS' REPORT (Cont'd)**


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**11. NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**
**11.1 Significant accounting policies**
**a) Basis of Accounting**

The financial statements have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

**b) Depreciation and Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Freehold land is not subject to amortization. All other property, plant and equipment are depreciated on straight line method to write off the cost of each property, plant and equipment over its estimated useful life at the following annual rates:-

	<b>Annual rate of depreciation</b>
	%
Freehold office premises	2
Furniture and fittings	20
Computer	50
Office equipment	20
Telephone	20
Air conditioner	20

**13 ACCOUNTANTS' REPORT (Cont'd)**

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c) **Subsidiary Company**

A subsidiary company is a company in which the Company has the power to control the financial and operating policies so as to obtain benefits from its activities.

The Company's interests in subsidiary companies are stated at cost less accumulated impairment loss. The investments are written down when there is an impairment loss on the value of such investments. The impairment loss is charged to the income statement.

d) **Basis of Consolidation**

The proforma consolidated statement of assets and liabilities incorporates the assets and liabilities of the Company and of its subsidiary companies at 31 December 2004. All inter-company balances are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised gains on transactions are eliminated in full and unrealised losses are also eliminated in full unless cost cannot be recovered.

The financial statements of the subsidiary companies are consolidated on the acquisition method of accounting and the results of subsidiary companies acquired or disposed of are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

**13 ACCOUNTANTS' REPORT (Cont'd)**

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At the date of acquisition, the fair values of the net assets of the subsidiary companies are determined and these values, if any, are reflected in the proforma consolidated statement of assets and liabilities.

e) Associated Company

Associated company is a company in which the Company holds a long term equity interest, has representation on the board of directors and is in a position to exercise significant influence in the management, but not control, over the financial and operating policies.

Investment in associated companies are stated at cost less accumulated impairment loss. The investments are written down when there is an impairment loss on the value of such investments. The impairment loss is charged to the income statement.

The Group's share of results of the associated company is accounted for in the consolidated income statement using the equity method of accounting in place of dividends received. On the consolidated balance sheet, the Group's share of post-acquisition results and reserves of the associated company is added to the cost of investment which reflects the Group's share of the net assets of the associated company.

The post acquisition results and reserves of the associated company accounted for is based on the latest audited financial statements of the company concerned made up to the end of the financial year.

**13 ACCOUNTANTS' REPORT (Cont'd)**

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f) Goodwill or Discount on Acquisition

The difference between the acquisition cost and the fair values of attributable net assets acquired at the date of acquisition is reflected as goodwill or discount on acquisition as appropriate. Discount on acquisition is retained in the proforma consolidated statement of assets and liabilities and is amortised on a straight line basis over a period of 25 years. Where goodwill is considered to be capable of generating future economic benefits, it is capitalised in the financial statements and amortised on the straight line basis over a period of 25 years, otherwise, it is written off in the income statement in the year of acquisition. The carrying amount and amortisation period are reviewed annually, and goodwill is written down when its value has deteriorated or when it ceases to have a useful life.

g) Research and Development

Research expenditure incurred with a prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as and when incurred. Expenditure incurred on product development is capitalised as intangible asset when it is probable that the product being developed is technically and commercially feasible and the Group has sufficient resources to complete the development. Other development expenditure is recognized in the income statement as an expense as and when incurred. Development expenditure previously recognized as an expense is not recognized as an asset in a subsequent period.

**13 ACCOUNTANTS' REPORT (Cont'd)**

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Capitalised development expenditure is amortised from the commencement of commercial production of the product to which such expenditure relates on a straight line basis over the period in which its expected economic benefits are recognized, subject to a maximum period of 5 years.

**h) Investment**

Investment is stated at cost and an allowance is made only when the Directors are of the view that there is a diminution in value which is other than temporary. Diminution in the value of investment is recognised as an expense in the year in which the diminution is identified.

**i) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

**i) Receivables**

Trade and other receivables are carried at the anticipated realisable value.

**13 ACCOUNTANTS' REPORT (Cont'd)**

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All known bad debts are written off while allowance for doubtful debts is made, based on estimates of possible losses which may arise from non-collection. Specific allowance is made for any debt which is considered doubtful or has been classified as non-performing.

ii) Payables

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

iii) Interest Bearing Borrowings

Interest bearing bank loans and overdrafts are recorded at the amount of proceeds received. All borrowing costs are recognised as an expense in the income statement as and when incurred.

j) Inventories

Inventories are valued at the lower of cost and net realisable value, whilst cost is determined on the first-in-first-out basis.

**13 ACCOUNTANTS' REPORT (Cont'd)**

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k) Employee Benefits

Wages, salaries, bonuses and social security contributions are recognized as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognized when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognized when the absences occur.

As for defined contribution plans, the Group makes contributions to the state pension scheme, the Employees Provident Fund in accordance with the law. Obligations for contributions to defined contribution plans are recognized as an expense in the income statement as and when incurred.

l) Revenue

Revenue represents the income received from the sales of computer software and the provision of professional services.

m) Taxation

i) Current Taxation

Current tax expense is the expected tax payable in respect of the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date.



ii) Deferred Taxation

Deferred tax is provided, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognized for goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that at the time of the transaction affects neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

n) Impairment of Assets

The carrying amounts of the Group's assets, other than inventories and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is immediately recognised in the income statement whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount.

**13 ACCOUNTANTS' REPORT (Cont'd)**

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The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. Such reversal is immediately recognised in the income statement.

**o) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash balance, balances and deposits with financial institutions, excluding fixed deposits pledged, and highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents are presented net of bank overdraft in the cash flow statement.

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**13 ACCOUNTANTS' REPORT (Cont'd)**


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**11.2 Property, Plant and Equipment**

	<b>RM</b>
<i>Cost</i>	
Freehold office premises	1,038,825
Furniture and fittings	166,624
Computer	180,106
Office equipment	30,570
Telephone	8,813
Air conditioner	12,883
	-----
	1,437,821
	-----

	<b>RM</b>
<i>Accumulated Depreciation</i>	
Freehold office premises	10,032
Furniture and fittings	133,834
Computer	176,922
Office equipment	19,383
Telephone	7,113
Air conditioner	12,150
	-----
	359,434
	-----

**13 ACCOUNTANTS' REPORT (Cont'd)**

	<b>RM</b>
<i>Net Book Value</i>	
Freehold office premises	1,028,793
Furniture and fittings	32,790
Computer	3,184
Office equipment	11,187
Telephone	1,700
Air conditioner	733
	-----
	1,078,387
	=====

The freehold office premises are charged to a licensed bank for banking facilities granted to Ygl Consulting.

**11.3 Associated Company**

	<b>RM</b>
Unquoted shares, at cost	10
	===

The associated company is Ygl Consulting (Thailand) Co. Ltd, a company incorporated in Thailand in which Ygl Consulting holds 39% of the equity interest. The associated company is principally engaged in the marketing and distribution of computer software and the provision of related services. The investment in associated company is being held in trust by the directors and a former director of Ygl Consulting.

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**13 ACCOUNTANTS' REPORT (Cont'd)**


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**11.4 Development Expenditure**

	<b>RM</b>
Product development expenditure, at cost	545,210
Less:	
Amortisation for the year	109,042
	-----
	436,168
	=====

Development expenditure represents development costs incurred in the development of Ygl Multimedia's own software.

**11.5 Trade and Other Receivables**

	<b>RM</b>
Gross trade receivables	2,045,952
Less:	
Allowance for doubtful debts	150,000
	-----
	1,895,952
Amount owing by associated company	156,457
Other receivables	247,702
Deposits and prepayments	2,396
	-----
	2,329,507
	=====

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**13 ACCOUNTANTS' REPORT (Cont'd)**

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Other receivables are unsecured, interest free and have no fixed terms of repayment. Included in other receivables is an amount of RM150,360 owing to third parties who are related to a director of Ygl Multimedia.

The amount owing by the associated company represents unsecured advances which are interest free and have no fixed terms of repayment.

**11.6 Trade and Other Payables**

	<b>RM</b>
Trade payables	64,794
Other payables	63,513
Accruals	53,552
	-----
	<b>181,859</b>
	=====

Other payables are unsecured, interest free and have no fixed terms of repayment. Included in other payables is an amount of RM9,000 owing to a company in which the directors of Ygl Multimedia have financial interests.

**13 ACCOUNTANTS' REPORT (Cont'd)**

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**11.7 Amount owing to Directors**

	<b>RM</b>
Yeap Kong Chean	342,997
Yeap Kong Tai	342,997
	-----
	685,994
	=====

The amount owing to the directors is unsecured, interest free and has no fixed terms of repayment.

**11.8 Bank Overdraft**

The bank overdraft is secured by the property of Ygl Consulting and is further guaranteed by the directors of Ygl Consulting in their personal capacities. The bank overdraft bears interest at 1.00% above Base Lending Rate of the lending bank on monthly rest.

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**13 ACCOUNTANTS' REPORT (Cont'd)**

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**11.9 Share capital**

	RM
Authorised	
100,000,000 shares of RM0.10 each	10,000,000
	=====
Issued and fully paid	
66,800,000 ordinary shares of RM0.10 each	6,680,000
	=====

**11.10 Discount on Acquisition, at cost**

The discount on acquisition arose from the acquisitions of Ygl Consulting and Ygl Multimedia.

**12. SEGMENT ANALYSIS**

No segment analysis is prepared as the Group is involved in a single industry relating to software solutions. The business of the Group is principally carried out in Malaysia.



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**13 ACCOUNTANTS' REPORT (Cont'd)**

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**13. PROFORMA CONSOLIDATED NET TANGIBLE ASSETS COVER**

Based on the proforma consolidated statement of assets and liabilities of Ygl Convergence at 31 December 2004 as set out in Section 9 above, the proforma consolidated net tangible assets cover will be as follows:

Net tangible assets per proforma consolidated statement of assets and liabilities	RM8,864,201 =====
Number of ordinary shares of RM0.10 each	66,800,000 =====
Proforma consolidated net tangible assets per share of RM0.10 each	RM0.13 =====


**13 ACCOUNTANTS' REPORT (Cont'd)**

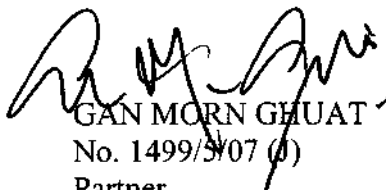
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**14. AUDITED FINANCIAL STATEMENTS**

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2004.

Yours faithfully

  
MOORES ROWLAND  
No. AF: 0539  
Chartered Accountants

  
GAN MORN GHUAT  
No. 1499/S/07 (J)  
Partner