

4 INFORMATION ON YGL CONVERGENCE GROUP

4.1 HISTORY

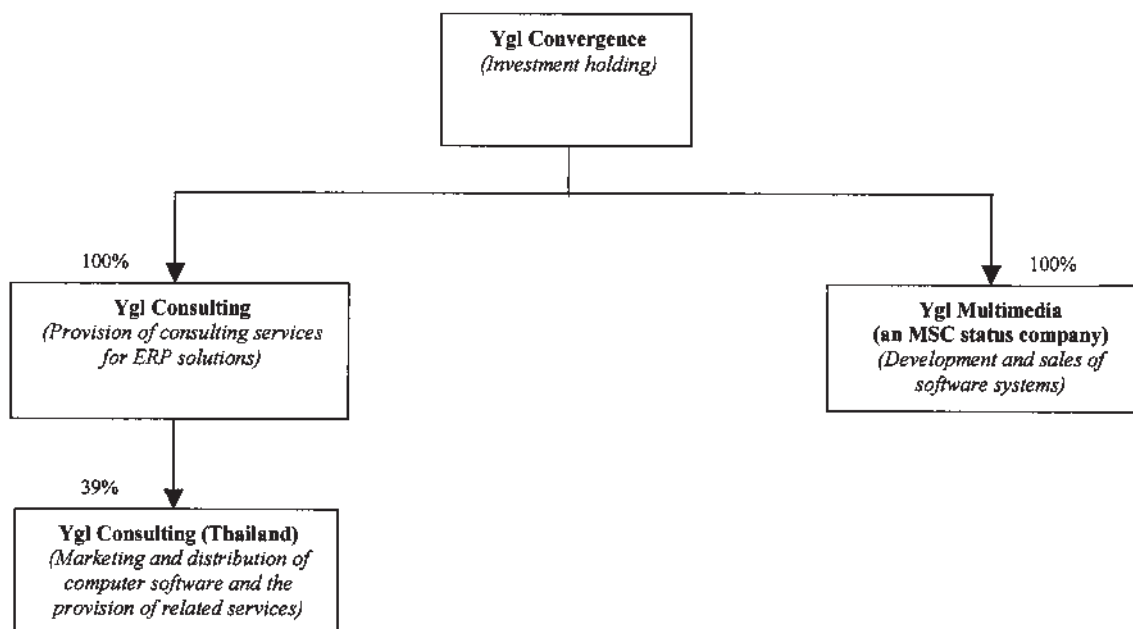
Incorporation

Ygl Convergence was incorporated on 14 April 2004 in Malaysia under the Act as a public limited company. It was incorporated to be the investment holding company of the Group in conjunction with the listing of the Group on the MESDAQ Market.

The principal activities of the Company's subsidiaries are as follows: -

Name of subsidiary	Date and place of incorporation	Equity interest (%)	Issued and paid-up share capital as at 6 June 2005 (RM)	Audited shareholders' funds as at 31 December 2004 (RM)	Principal activity
Ygl Consulting	30 December 1977/ Malaysia	100.0	300,000	2,476,994	Provision of consulting services for ERP solutions
Ygl Multimedia	3 October 2003/ Malaysia	100.0	2	768,795	Development and sales of software systems

Through Ygl Consulting, Ygl Convergence also holds a 39.0% equity interest in Ygl Consulting (Thailand), which is principally involved in the marketing and distribution of computer software and provision of related services. The Group's corporate structure with its principal activities and focus are depicted below: -



4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

History and Principal Activities

The Ygl Convergence Group started operations through Ygl Consulting in 1993. The Promoters, Yeap Kong Chean and Yeap Kong Tai, are Chartered Accountants with more than ten (10) years working experience in both international and local accounting firms.

Ygl Consulting commenced business with the objectives of assisting clients to reduce duplication of work, streamline business processes and improve the quality of management information through computerization. The company initially supported Tier 3 accounting software (i.e. UBS) and was able to grow from strength to strength to support World Class ERP Solutions and serve Tier 1 and Tier 2 customers today. The Group is the reseller and implementation partner for established world renowned brands of ERP and Business Intelligence solutions such as Baan, Great Plains, ACCPAC and Crystal Enterprise.

Over time, with the Group's available resources in programmers, the Group diversified to software development to complement its consulting services, initially with the introduction of software modules to support the World Class ERP Solutions which the Group sold and implemented. In 1999, Ygl Value Added Solutions was introduced following clients demand for solutions to fill the gap of off the shelf ERP software.

In a bid to capture higher margins and contributions through the development of its own software solutions, Ygl in 2001, commenced R&D on its Ygl ServiceERP Solutions, with the development of its Taxcom C+ software, after the promoters saw the opportunity that the service industry in Malaysia was ready for IT solutions to automate labour intensive workflows due to escalating professional staff costs. Available ERP solutions on the market placed more emphasis on the manufacturing sector and did not provide the solutions needed for the service industry. Given that the founders already had an in-depth working knowledge as providers of services and combined with their IT expertise, they set out to develop software solutions which would be practical, affordable and yet automate the workflows of the services firm. This culminated in the successful launch of Taxcom C+ in 2003, that has received positive market response. This has paved the way for the subsequent successful releases of Taxcom B+ and Revenue+ in 2004 and Taxcom.net in 2005.

4.1.1 Restructuring and Listing Scheme

In conjunction with the listing of and quotation for the entire issued and paid-up capital of the Company on the MESDAQ Market, the Company undertook a restructuring exercise that was approved by the SC on 24 March 2005. The restructuring exercise involved the following steps: -

(i) Acquisition of Ygl Consulting

Pursuant to the SPA between Ygl Convergence and the shareholders of Ygl Consulting dated 31 May 2005, which replaced an earlier SPA dated 4 May 2004, Ygl Convergence acquired 300,000 ordinary shares of RM1.00 each in Ygl Consulting, representing 100.0% of the issued share capital of Ygl Consulting for a purchase consideration of RM2,199,998 satisfied entirely by the issue of 21,999,980 Ygl Convergence Shares at par credited as fully paid up.

The purchase consideration was arrived at on a willing buyer-willing seller basis based on the NTA of Ygl Consulting as at 31 December 2003, of RM1,738,567 and its earnings potential. The acquisition of Ygl Consulting was completed on 31 May 2005.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

(ii) Acquisition of Ygl Multimedia

Pursuant to the SPA between Ygl Convergence and the shareholders of Ygl Multimedia dated 4 May 2004, Ygl Convergence acquired 2 ordinary shares of RM1.00 each in Ygl Multimedia, representing 100.0% of the issued share capital of Ygl Multimedia for a purchase consideration of RM300,000 satisfied entirely by the issue of 3,000,000 Ygl Convergence Shares at par credited as fully paid up.

The purchase consideration was arrived at on a willing-buyer willing seller basis based on its earnings potential. Ygl Multimedia achieved a PAT of RM928,793 for the FYE 31 December 2004 and its NTA as at 31 December 2004 stood at RM332,627. The acquisition of Ygl Multimedia was completed on 31 May 2005.

(iii) Public Issue

In conjunction with the listing of and quotation for its entire issued and paid-up share capital on the MESDAQ Market, Ygl Convergence will issue 8,400,000 new Ygl Convergence Shares at an issue price of RM0.90 per share to the Public by way of private placement and public offer, subject to the terms and conditions of this Prospectus.

Upon completion of the Public Issue, the issued and paid-up share capital of Ygl Convergence will increase from RM2,500,000 comprising 25,000,000 Ygl Convergence Shares to RM3,340,000 comprising 33,400,000 Ygl Convergence Shares credited as fully paid-up.

(iv) Bonus Issue

As part of the Listing and as an incentive to shareholders of Ygl Convergence subsequent to the Public Issue, Ygl Convergence shall implement a bonus issue of 33,400,000 new Bonus Shares to be issued to all shareholders of Ygl Convergence prior to the Listing on the basis of one (1) new Share in Ygl Convergence for every one (1) existing Share held after the Public Issue. The Bonus Issue will be completed prior to the Listing.

Upon completion of the Bonus Issue, the issued and paid-up share capital of Ygl Convergence will increase from RM3,340,000 comprising 33,400,000 Shares in Ygl Convergence to RM6,680,000 comprising 66,800,000 Shares in Ygl Convergence.

(v) Listing and Quotation on MESDAQ Market

Upon completion of the Public Issue, the entire issued and paid-up share capital of Ygl Convergence of RM6,680,000 comprising 66,800,000 Ygl Convergence Shares will be listed on the MESDAQ Market.

(vi) ESOS

Ygl Convergence will implement an ESOS involving up to 10% of Ygl Convergence's issued and paid-up share capital at any time during the existence of the ESOS, to be issued pursuant to the options to be granted under the ESOS to the Eligible Person of the Group.

The ESOS includes the granting of Options to three (3) of Ygl Convergence's current non-executive directors who are entitled to the ESOS. Their maximum entitlement under the ESOS is 140,000 Options each.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

4.2 SHARE CAPITAL

As at the date of this Prospectus, the issued and paid-up share capital of Ygl Convergence is RM2,500,000 comprising 25,000,000 Ygl Convergence Shares credited as fully paid-up. Upon completion of the Public Issue and Bonus Issue, the issued and paid-up share capital of the Company will increase to RM6,680,000 comprising 66,800,000 Ygl Convergence Shares credited as fully paid-up.

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

Date of Allotment	No. of ordinary shares allotted	Par value (RM)	Consideration	Total issued and paid-up share capital (RM)
14 April 2004	2	1.00	Subscribers' Share	2
30 April 2004	20	0.10	Share split	2
31 May 2005	24,999,980	0.10	Issued pursuant to the Acquisitions	2,500,000

4.3 BUSINESS OVERVIEW

4.3.1 Overview of Ygl Convergence Group

The Group comprises Ygl Consulting and Ygl Multimedia.

The Group is an integrated IT services group which has two (2) synergistic core divisions, namely:-

- (i) Consulting Division; and
- (ii) Software Division.

(i) Consulting Division

Ygl Consulting provides consultancy services related to ERP and is the reseller and implementation partner for Tier 1 and Tier 2 World Class ERP Solutions such as:-

World Class ERP Solution	Principal	Since
▪ Baan ^	SSA Global TechnologiesTM Inc	1998
▪ Great Plains	Microsoft Corporation	2002
▪ ACCPAC	ACCPAC International Inc	1994

^ *Appointed as a reseller for Baan in both Malaysia and Thailand*

Ygl Consulting has been successful in implementing World Class ERP Solutions in Malaysia and neighbouring ASEAN countries. The company has approximately eleven (11) years experience in the IT consulting services industry and is one of the more established ERP consulting firms in Malaysia, having implemented ERP for over two hundred (200) sites in Malaysia and in neighbouring countries.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

Based on the Directors' knowledge, Ygl Consulting is one of few companies in Malaysia that implements both Tier 1 (high-end) and Tier 2 (mid-end) World Class ERP Solutions. This unique combination provides the Group with higher value income sources from Tier 1 projects, and at the same time covering downtime (i.e. the time gap between large projects) with a "steadier" income source from more affordable Tier 2 projects. This diversity in the ERP products offered enable the Group to benefit from its Tier 2 clients upgrading to Tier 1 ERP solutions

The Group has combined its extensive experience in ERP consulting and developed its own implementation methodology, called *YglSuccessFormula*. Using this methodology, the Group has successfully delivered on its project commitments.

In respect of Baan ERP solutions, Ygl Consulting was appointed by SSA Global TechnologiesTM Inc as the first Malaysian company to be a reseller for Baan in Thailand in 2002.

In addition, being a partner of various World Class ERP Solutions with principals having a global presence, the Group has the advantage of being able to tap on its principals' resources and client base. This has the following benefits for the Group:-

- the Group can tap into the principals' global industry knowledge and track record. The World Class ERP Solutions supported by the Group have an extensive client base worldwide in diverse industries. This will assist the Group in penetrating new markets and new industries.
- the Group can tap into the principal's marketing fund for large scale jobs.
- the Group can benefit from the principals' technical expertise where the technical expertise cannot be sourced locally.

(i) **Software Division**

The Group's software development is carried out by Ygl Multimedia.

Ygl Multimedia, an MSC status company, is involved in the development and sale of software systems, namely Ygl ServiceERP Solutions and Ygl Value Added Solutions.

To complement the Group's Consulting Division activities, Ygl Multimedia also develops specialized and add-on software solutions to support the World Class ERP Solutions sold by the Group, known as Ygl Value Added Solutions.

The Group's initial core software module for Ygl ServiceERP Solutions is its off-the-shelf, Taxcom C+ software, which automates the calculations of tax payable for companies and outputs the relevant filing forms and supporting documents. The software is compliant with Inland Revenue Board of Malaysia standards and supports the IRB's E-Filing System for tax submissions. Subsequent roll-outs of Ygl ServiceERP Solutions, include Taxcom B+ that automates the tax computations for individuals and partnerships which can also support electronic applications of tax submissions under the E-Filing System; and Taxcom.net that automates the calculations of tax payable for individuals on the web. TAXCOM is targeted at the tax advisers market, whilst Taxcom.net is targeted at the individual taxpayers market.

The Group believes that it is the "first mover" in Malaysia to commercialize its niche off-the-shelf tax computation software solutions for tax advisers and accountants in Malaysia.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

Ygl ServiceERP Solutions and Ygl Value Added Solutions which have been released as at the date of this Prospectus have been well received by its clients. This is the result of Ygl Convergence's two (2) synergistic subsidiaries, Ygl Consulting providing the insight to world-class state-of-the-art computing technology and best business practices and Ygl Multimedia developing the solutions that will fill the gaps in the corporate applications market which the World Class ERP Solutions are not covering.

4.3.2 Products of the Group
(i) Consulting Division

The Consulting Division has developed its own in-house implementation methodology for the implementation of World Class ERP Solutions. A summary of its in-house implementation methodology is set out below:-

Methodology	Functionality
YglSuccessFormula	<p>Ygl implementation methodology which covers project objectives, management and users expectation, project management and milestones, timeline and allocation of resources, clients' sign-off documentations, progressive billings and finally collections.</p> <p>YglSuccessFormula is the result of implementing and using the methodologies from Baan, GreatPlains and ACCPAC on real project sites over ten (10) years. YglSuccessFormula is adapted for Asian users' knowledge level and management expectations.</p>

(ii) Software Division

The Software Division comprises Ygl ServiceERP Solutions and Ygl Value Added Solutions.

Ygl ServiceERP Solutions are proprietary corporate applications software used mainly by the service industry. The service industry is defined as providing and/or selling professional services as opposed to goods. This industry is distinctive from the manufacturing, trading, wholesale and distribution industry covered well by the world class and local ERP vendors. Due to the time required to develop the entire Ygl ServiceERP Solutions, Ygl ServiceERP Solutions was designed and developed on a modular basis. Ygl Convergence has launched the following modules:-

Product	Functionality
Taxcom C+	Program that automates the whole process of calculating income tax payable from various income sources and expenditures. This program outputs the IRB FORM C and relevant supporting documentations for audit purposes. This program is for corporate tax preparation. Built in interface to IRB e-Filing and e-Filing.
Taxcom B+	Program that automates the whole process of calculating income tax payable from various income sources and expenditures. This program output the IRB FORM B and P and relevant supporting documentations for audit purposes. This program is for personal tax preparation. Built in interface to IRB e-Filing and e-Filing.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

<i>Product</i>	<i>Functionality</i>
Revenue+	Linked to Taxcom. Generates bills at completion of tax preparation work. May be used by other service industries to generate professional bills that are based on time, project etc. Users may define their own service descriptions to be included in the detailed section of their bill.
Clients Receivable	Linked to Professional Billing. Automatically updates clients receivable upon billing. Allows knock-off of receipts against particular bill(s). Prints clients' monthly statements and official receipts. Credit control with alert capabilities (over credit limit, long overdue etc)
Taxoffice	The bundling of Taxcom C+, Taxcom B+, Revenue+ and Clients Receivables. A corporate solution tailored for Malaysian tax practitioners of any size. It handles tax computations for corporate and individual, automatic billing, clients receivables and integrates with UBS accounting solutions.
Taxcom.net	Web version of Taxcom B+ for individual taxpayers to sign in to Ygl Convergence Group hosted web site and launch their individual return forms on-line to IRB. The program is equipped with on-line help text and instructions at the relevant sections to guide the taxpayers through filling in all the required tax information, so taxpayers without the tax knowledge may fill their own forms.
BIInterface	Business Intelligence interface for all Ygl ServiceERP Solutions products. Allows users to deploy World Class Business Intelligence such as Crystal Reports to tailor make their own management, analysis and audit reports.

Ygl Value Added Solutions are developed to complement the World Class ERP Solutions software supported by Ygl such as Baan, Great Plains and ACCPAC. Ygl Value Added Solutions developed includes Ygl-POS, Ygl-TimeShare, Ygl-SalesAnywhere, Ygl-eManufacturing, Ygl-Paylink and Ygl-eReporting. These modules are currently deployed for Ygl Consulting's Baan, Great Plains and ACCPAC users.

<i>Product</i>	<i>Functionality</i>
POS	Point of sales program that links to ACCPAC, Baan and Great Plains for large retail and healthcare industry. Accepts payments in cash, credit card and on account. Reverses inventory control online. Automatic posting to accounts receivable and general ledger. Highly customizable to suit peculiar business needs (user defined field etc). Web enabled.
TimeShare	An integrated solution for the timeShare industry. Automates the operation of the timeshare industry from telemarketing activities to members contract, billing, collections, members accounting and finally the finance modules from ACCPAC, Baan and Great Plains. The system cuts down the supporting staff cost, speed up members (customers) enquiries and automate the day-to-day activities such as keep-in-views, follow-up letters and calls. May be integrated with CRM product from ACCPAC, Baan and Great Plains.
SalesAnywhere	Program that may be loaded into laptops and portable data collectors with barcode scanning capability. For travelling salesperson to take customer orders and print sales acknowledgements on the spot at customers' site. Customers' orders collected may be downloaded electronically into ACCPAC, Baan and Great Plains sales control module.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

<i>Product</i>	<i>Functionality</i>
eManufacturing	<p>Shop Floor Control modules to compliment existing functionality of Baan manufacturing. Modules in Ygl-eManufacturing include Auto Bill of Material, Owing Alert, Auto Transfer and Auto Purchase Order.</p> <ul style="list-style-type: none"> • Auto Bill of Material enables the user to coordinate thousands of electronic components within the Bill of Material into spreadsheet and import them directly into Baan ERP systems. • Owing Alert is an alert tool that highlights exceptional raw material shortages to material planner. This is to prevent material shortages that affect scheduled production run. • Auto Transfer facilitates issuing of all raw material components required for a specific production order from the material store, taking into account stock availability and standard packaging requirement for electronic components. • Auto Purchase Order is an electronic data interchange (“EDI”) solution that complies with EDI technologies. Purchase orders are generated automatically by the system based on stock level and user specified criteria, and transmitted to the suppliers via the internet. <p>This is targeted at the high-tech electronic industry.</p>
Paylink	<p>Links Accounts Payable system (Baan, ACCPAC, Great Plains) to automated cheque facilities offered by major banks. Ygl-Paylink extracts suppliers detail and amount payable from Accounts Payable, converts to bank interface, transmit to bank for payment, and upon finalization by banks update in-house accounts payable on payment detail. These tasks are performed electronically.</p>
eReporting	<p>Over 300 customized reports to complement the standard reports of Baan, Great Plains and ACCPAC ERPs. Covers finance, sales, purchase, service, quality control and manufacturing. Users may purchase the report template and use it to report information from their respective ERP systems.</p>

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4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

4.3.3 Product Architecture

Ygl ServiceERP and Ygl Value Added Solutions product is written with architecture similar to World Class ERP Solutions. This architecture is called the open architecture. The open architecture as compared with the conventional program, which is developed in totality, is more complex and takes more time to develop. Ygl Convergence's products are developed in 3 distinctive layers as detailed below:-

(i) **Relational Database Services layer**

Controls the different types of relational databases (sold worldwide by different vendors) to be deployed together with the Group's program. Certain more advanced databases are more expensive than the others. This allows the Group's users to choose the relational databases suitable to them at any point of time

(ii) **Business Logic Services layer**

Controls the specific execution task, such as printing a report, calculation of certain parameters etc. Tasks or objects handled separately allow a big program to be maintained, released and sold separately.

(iii) **User Interface Services Layer**

Controls the user interaction screen. Users are transparent to the Business Logic and Database Services.

The advantage is the Group's customer may upgrade the database, and the day-to-day users still face the same screen. The conventional system developed in totality will warrant a program change and the screen interfaces may change. Users will need to be re-trained.

4.3.4 Competitive Edge

The Group's competitive edge is set out below:-

(i) **Combined Consulting and Software Division create synergies**

The complementary and integrated Consulting and Software Divisions provide customers with the confidence and peace of mind in relying on the Group for their ERP needs:-

- The Consulting Division's customers are assured of Ygl Multimedia having complementary customization services that tailor their World Class ERP Solutions to their peculiar needs
- Ygl Multimedia software customers may rely on Ygl Consulting's implementation expertise to fill the gap between user expectations/requirements and the IT solutions package actually delivered.

The savings on staff cost may be passed down to the clients.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

(ii) Consulting Services cover both Tier 1 and Tier 2 Products

Ygl Consulting supports both Tier 1 (Baan) and Tier 2 (ACCPAC, Great Plains) ERP products. Hence, the Group's clients enjoy the following benefits:-

- Peace of mind in terms of the most economically feasible solutions to meet their needs. There are very few consulting companies that support different tier ERP solutions, and the customers are not normally informed on the functionality differences between the various ERP packages. This assists clients in making informed choices.
- The Group's expertise in the Tier 1 ERP area may be channelled in a certain areas to the Tier 2 ERP users.

(iii) Ygl ServiceERP Solutions are in the very niche Service Industry Market

The Group sees the service industry market as being very distinctive from the normal ERP space, which caters for manufacturing, trading and wholesale industries. The service industry market has the following characteristics:-

- Less capital intensive, but having high staff overheads problem. Overheads increase from year to year given the need to pay growing staff increments and bonuses.
- Less labor intensive, but having to deal with a high percentage of qualified and professional staff.
- Zero material handling and keeping cost, but having very challenging professional staff retention cost concerns.
- Lower start-up costs and lower barriers of entry, as compared with the other industries that require higher capital and start-up commitments. This then results in more peer competition in terms of jobs and professional staff.
- The professional staff retention problem is aggravated in terms of competition for staff from other industries (i.e. non professional service firms such as the manufacturers).
- Totally different kind of control, in terms of staff utilization, performance measurement and client satisfaction.

To create software that adds value to the service providers, software developers require to have professional service mind-frame, not only in terms of software design, but also on how to sell to the service providers as well. The Group prides itself with having the professional service provider perspective to write and sell these service sector ERP programs.

(iv) Solutions Affordability

User expectations in today's market have been upgraded to demand for not only quality, but also affordability.

- Ygl Consulting positions Baan to compete with SAP in the Tier 1 ERP market. Based on the Promoters' experience, implementation time for Baan is shorter, and the consultant man-days rate is lower. This makes it easier for certain customers to make the buying decision, and shortens the sales cycle.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

- Ygl ServiceERP Solutions (eg. TAXCOM) is retailing at the Tier 3 market price, but having Tier 2 software functionalities. This makes it easy for the service provider to calculate their return of investment and make the initial purchase. The TAXCOM upgrade costs to the Group will be minimal as time goes on, as the bulk of the programming work has been completed. The selling cost is limited only to CD and packaging. This enables the Group to further reduce the entry cost for TAXCOM, and profit from the add-on modules that may be purchased later. Any potential competitor will have a hard time trying to match the Group's cost, and at the same time develop a program that is acceptable to the demanding professionals.

(v) Software Architecture

The open architecture used by the Group for its Ygl ServiceERP Solutions gives the users the option to select their databases, user interfaces, modules, and writing their own report. Such luxuries are only available in Tier 1 and some of Tier 2 ERP software.

(vi) Software Inter-Connectibility

The subsequent Ygl ServiceERP Solutions modules will have the dependency and inter-connectibility with the core module (eg. TAXCOM), which gives the Group the competitive advantage over other software vendors in terms of winning the customer loyalty. There will be substantial duplication of efforts if the Group's core module users were to opt for other support modules from other vendors.

(vii) Compliance with the IRB Requirements

The authority in tax is the IRB. The output format of the TAXCOM software must be in compliance with the IRB submitting requirement, otherwise the tax return form prepared by the tax accountant will not be accepted by IRB. Due to the tight submission deadlines imposed by the IRB, any lodgments rejected will result in penalties being imposed on the taxpayer clients.

TAXCOM has received the acknowledgement from the IRB for being in compliance with the e-filing and e-filing format. This distinguishes Ygl Convergence from any other potential competitors in providing up-to-date technological advances assisting the taxpayers and tax practitioners to prepare, submit and pay tax on-line.

(viii) Endorsement by Educational Institutions

The adoption by University Utara Malaysia ("UUM") and University Sains Malaysia ("USM") of TAXCOM as part of the syllabus for the taxation course recognises the Group's novel approach to computerizing the conventional manual or spreadsheet based tax computation process. This will help to position the Group as the leader in the tax accounting industry, and will help to build the confidence of the market for other Ygl ServiceERP Solutions products.

(ix) The Group's Large Customer Site Implementations underlines the Group's reliability

Over the last eleven (11) years, the Group has accumulated a number of successful customers' sites (over 200 sites). These customers provide the Group with upgraded services and products; also act as referral sites for the Group's potential customers. This provides a barrier of entry for the new competitors, as there are no short cuts in developing a large number of successful sites.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

(x) Multiple Principal Training for Staff

The Group engages graduates, diploma holders, experienced consultants and programmers. The Group's employees are trained in-house and on the job. In addition, they are trained and certified by the principals of the Group such as SSA, Global Technologies™ Inc, Microsoft Corporation, ACCPAC International Inc and Business Objects SA. This enhances the technical competence and market value of the Group's employees, and at the same time upgrades the quality of Ygl's services and products of the Group.

(xi) Strong Business Know-How

The Group takes pride in Ygl Software Programming Architecture and Interfaces. However, what sets the Group apart from its competitors are the non-technical factors that play a very important role in ensuring ultimate customer acceptance:-

- The understanding of what the customers require, that will give them the best return on their investments. This is required as early as before the software is developed.
- The understanding of the customers' business processes and the best practices and the ability to consolidate requirements at various operational levels.
- Appreciation of the IT knowledge level of local users. Functionalities may be arranged in such manner that closely resembles the day-to-day functions of the users. This ensures speed implementation and final user acceptance.

(xii) Promoters' unique combination of professional experience and ERP consulting expertise

- The Promoters of the Group, Yeap Kong Chean and Yeap Kong Tai, are qualified Chartered Accountants and members of both the Institute of Chartered Accountants, Australia and the Malaysia Institute of Accountants. In addition to their extensive experience in ERP consulting, the Promoters have over ten (10) years experience each in tax and audit advisory work.
- This unique combination of skill sets has benefited the Group, as the Promoters have been able to combine their expertise in audit and tax with the working knowledge of World Class ERP Solutions to develop practical and affordable solutions.
- The Group believes that the Promoters' unusual combination of skills and experience will also serve as a competitive edge against other software developers looking to enter the service industry market as they would need to hire other professionals with business knowledge in the service industry.

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4.3.5 Key Milestones of the Ygl Convergence Group

The section below sets out some of the significant milestones of the Group.

Year	Events
1993	Started consulting services in Pulau Pinang implementing UBS (Tier 3) accounting solutions for small business owners
1994	Appointed ACCPAC International Inc (Tier 2) business partner. Won the first mandate from public listed ERP clients (Sriwani Dutyfree and Eden Restaurant Group)
1996	Started office in Kuala Lumpur
1998	Appointed Baan (Tier 1) Implementation Partner
1998	Won "Technology Award" from ACCPAC International Inc for Malaysia. The Technology Award was to recognise Ygl as a technologically advanced Company in Malaysia
1998	Appointed ACCPAC Development Partner. ACCPAC Development Partner is given the Software Development Kit ("SDK") to develop program that interface with ACCPAC
1998	Started R&D team to develop Ygl Value Added Solutions
1999	Appointed Microsoft Development Partner. Microsoft Development Partner is given the SDK to develop program that interface with Microsoft product
1999	Rolled out 1 st module of Ygl Value Added Solutions (<i>Ygl TIMESHARE</i>)
2001	Appointed Crystal Enterprise Partner by Crystal Decisions. The Crystal product is the most widely used Business Intelligence software in the World
2001	Won "Certified Consulting Partner of the Year Award" from Crystal Decisions for whole Asia Pacific
2001	Commenced R&D on Ygl ServiceERP Solutions
2002	Upgraded from Baan Implementation Partner to Baan Reseller for Malaysia. Baan Reseller is authorised by Baan to sell both services and Baan software. A Baan Reseller is also given the Baan Development Tools to develop programs that interface with Baan products
2002	First local Malaysian company appointed Baan Reseller for Thailand
2002	Appointed Microsoft Business Solutions (Great Plains) Partner
2003	Rolled out 1 st module of Ygl ServiceERP Solutions (<i>Taxcom C+</i>)
2004	Ygl Consulting acquired a 39.0% equity interest in Ygl Consulting Thailand
2004	Ygl Multimedia granted MSC status by MDC. Granted Pioneer Status by MITI, under the Promotion of Investments Act, 1986
2004	Ygl TAXCOM adopted by UUM as part of the taxation course
2004	Ygl TAXCOM acknowledged by IRB as complying with income tax submission requirement and present IRB e-Filing and e-Filing system
2004	Ygl TAXCOM adopted by USM as part of the taxation course
2004	Subsequent roll out of Ygl ServiceERP Solutions modules (<i>Taxcom B+, Revenue+, Clients Receivable</i>)
2004	Awarded Enterprise 50 by the MITI
2004	Awarded Technology Fast 500 Company for the whole of Asia Pacific by Deloitte
2005	Rolled out Ygl ServiceERP Solutions module (<i>Taxcom.net</i>)

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

4.3.6 Competition

As the Group's operations are divided into two (2) divisions, namely the Consulting Division and the Software Division, it faces different levels of competition.

In the Consulting Division, the Group does not only face competition from the other distributors of Baan, ACCPAC and Great Plains, but also other Tier 1 and Tier 2 ERP product solution providers providing solutions like SAP, Oracle, Exact/Macola and Karensoft.

The Software Division is operating in a niche sector. However, there are in-coming competition from other local tax software developers.

4.3.7 Barriers to Entry

As mentioned in Section 3, the IT software industry has a large number of participants and is subject to rapid change and intense competition. The competitive edge of the Group, as presented in Section 4.3.4, together with the following provide barriers of entry for the Group's products:-

(i) Strong Track Record of Successful Implementations

The Group has implemented World Class ERP Solutions for over two hundred (200) sites in Malaysia and in neighbouring countries. Prospective clients will be more assured of its track record in implementing ERP projects than newer entrants to the market.

Further, Ygl Value Added Solutions have been deployed for some established organizations in Malaysia, in conjunction with the World Class ERP Solutions from the world class principals. Testimonies obtained from these reference sites form the basis of acceptance into the principals' 3rd Party Developer Programs. This takes time to achieve and will create the barrier for competitors, as they have to build up the success stories with customers before they may be considered.

(ii) Backing from the principals of World Class ERP Solutions

The Group has been implementers and resellers of Tier 1 (Baan) and Tier 2 (Great Plains, ACCPAC) World Class ERP Solutions for approximately three (3) to eleven (11) years and have formed close relationships with the respective principals, namely SSA Global TechnologiesTM Inc, Microsoft Corporation, and ACCPAC International Inc.

It would be difficult for new entrants to gain the trust and acceptance of these principals without having to go through the long gestation period of building up their successful track record in ERP Consulting work. This acts as a barrier of entry for the Group's consulting business.

(iii) Programming Expertise and Business Know-How of the Group

The Group has a programming division which is capable of customizing as well as developing solutions for World Class ERP Solutions to meet its customers' specific requirements. This ensures that the customers get to use World Class ERP Solutions which have been localized and customized for customers specific requirements. The Group therefore has an edge over other ERP implementers and resellers as it can provide this value added service to clients.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

In addition, the Promoters' professional background and their in-depth understanding of the operations of tax accounting practice have influenced the development and marketing of TAXCOM. TAXCOM is built by accountants for accountants and tax agents, and distinguishes itself as one of the pioneer tax solutions.

Besides the functionalities and best practices that are in-built into the software, the marketing aspect is a challenge for competitors to match. The prospective clients will, more often than not, ask very technical tax practices and IRB treatments which will pose an impossible challenge for any IT sales consultant with no accounting and/or tax knowledge.

(iv) Mid-Market Functionalities at an Affordable Price

TAXCOM inherits the following mid-market functionalities that are not normally available in low-priced software product:-

- Open system with choices of relational database to cater for higher volume transactions
- Business Intelligence interface
- Capability to link with Ygl Value Added Solutions, such as CRM
- Web enabled capabilities

This arises as a result of the Group's experience with World Class ERP Solutions.

Any serious competitor entering the market to compete with the Group would have to consider the development time to market using such specifications, the development costs to such a comparable level of functionalities, the commitment to keep abreast of the changing tax requirements, and finally the volume to sell to break even.

Being the first mover in the market, the Group will have a strong advantage over these new entrants.

(v) Tax law and practices knowledge required

The tax legislations and guidelines as well as submission requirements for the Asian countries differ from the West. This rules out potential competition from foreign ERP players, due to the high opportunity costs of localisation and the economies of scale required to compete at low cost.

(vi) Ever Changing Submission Requirements

TAXCOM as compared with normal Accounting software is very different, as the software gets obsolete immediately without the constant updates. The developers must keep abreast with income tax developments, and require the hands-on knowledge of the ever-changing income tax preparation and submission process. This is possible for Ygl Convergence as its Promoters have experience in tax advisory. This is a great challenge for a normal IT developer to emulate.

(vii) User Base

Since the launch of TAXCOM until 6 June 2005, approximately 100 tax practitioners and corporations have used the software for income tax calculations. The testimonies from fellow professionals in the close community of accountants may further accelerate TAXCOM acceptance in the market.

Taxcom.net, which was launched in early 2005 has a subscriber base of more than 2,000 individuals as of 6 June 2005.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

With such accumulation of user base, it will be difficult for the potential competitors to gain entry to the market.

(viii) Substantial Research Required

To successfully identify an area which is not covered by a World Class ERP Solutions requires substantial research effort. That is the reason why there are not a lot of local developers developing value added solutions for World Class ERP Solutions as a business. The Group is privileged in that the research cost has been absorbed by the Consulting Division, which has been implementing the World Class ERP Solutions over a long period of time.

4.3.8 Intellectual Property, Proprietary Rights, Licenses, Brand Names and Trademarks

The Ygl ServiceERP Solutions and Ygl Value Added Solutions are internally developed by the Group. Hence, the Group's proprietary software is protected under the Copyrights Act, 1987.

To counter illegal copying of the Group software, the Group's programs are delivered in executable files in encrypted form. There is a user activation request procedure that has to be completed before the Group's program may be put to use. The user activation code is provided by the Group upon receipt of payment, else the program is limited by transactions and time. Ygl program is designed in such a way that it does not work if copied into different computers, other than the one previously installed and activated. The Group's clients have to request for a new validation key in the event that they wish to change computers.

To protect the Group's intellectual property, certain precautionary steps such as the following are taken:-

- All research & development staff have to sign a confidentiality agreement with the Group. If breached, the offenders are liable for damages.
- The business requirements and programming scopes are handled by the consulting group i.e. Ygl Consulting, while the coding is handled by the programming group i.e. Ygl Multimedia. The consultants and programmers are from different companies and this segregation of duties helps to ensure that confidentiality is maintained.
- Within the programming group, different programmers handle different modules and sub-modules. The integration between and within modules is handled by the supervisor, who knows the integration codes, but not the detail functional coding.
- Programmers in different locations work on a centralized database. The centralized database is on a constant monitoring program that detects abnormal file transfers in terms of file type, file size, times of operation, etc.

The Ygl Convergence Group has submitted applications to the Registrar of Trademarks, Intellectual Property Corporation of Malaysia for the registration of the trademark of "Ygl " and "Taxcom" in Malaysia. The applications are currently pending registration.

4.3.9 R&D

Ygl Convergence takes pride in Ygl Software Programming Architecture and Interfaces. However, what sets the Group apart from its competitors are the non-technical factors that play a very important role in ensuring ultimate customer acceptance:-

- The understanding of what the customers require, that will give them the best return on their investments. This is required as early as before the software is developed.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

- The understanding of the customers' business processes and the best practices and the ability to consolidate requirements at various operational levels.
- Appreciation of the IT knowledge level of local users. Functionalities may be arranged in such manner that closely resembles the day-to-day functions of the users. This ensures speed implementation and final user acceptance.

The Group has invested a total of RM1.27 million in R&D for the past 5 FYE 31 December 2004. With the successful commercialisation of its TAXCOM and Taxcom.net software, the Promoters believe that it is time for Ygl Convergence to reap the benefits from past years' investment and capture significant market share in the Ygl ServiceERP Solutions market as newcomers may not have such a range of comprehensive yet affordable software for the service industry.

4.3.10 Employees

As at 6 June 2005, the Group has nineteen (19) employees including the executive directors employed in the following capacities:-

Department	Number of employees	Average years of service
Executive Directors	2	11
R&D	3	2
Management	7	5
Consulting	3	6
Marketing	2	1
Administration	2	9
Total	19	

Having attained the MSC status at its subsidiary level and with sufficient funds raised from the Public Issue, the Group will be able to strengthen the marketing team and increase the number of knowledge workers employed by the Group, as well as its expenditure for R&D activities.

The Group provides various kinds of training to its employees. Employees are exposed to various R&D functions in order to ensure that they are adequately acquainted with the Company's R&D and product implementation processes. Currently, the employees of the Group, including the Promoters, are duly certified in a number of areas by the various principals of the Group.

The employees of the Group do not belong to any labour union and enjoy a cordial relationship with the management. There is and has been no labour dispute between the employees and the management.

4.3.11 Principal Assets and Principal Place of Business

The Group's operations are currently situated at its headquarters at 10 China Street, 10200 Pulau Pinang, Malaysia. In addition, the Group has set up a branch in Kuala Lumpur, operating from its own property at Suite 9-10, Wisma UOA II, Jalan Pinang, 50450 Kuala Lumpur.

The Group's operation was also expanded to Thailand and is currently operating through its associate company located at Unit No 7/24, The Parkland, Bagna, Bangkok 10260 Thailand.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

4.3.12 Modes of Marketing and Distribution and Principal Market

The Group currently has modes of marketing and distribution in place that are vital to the success of the Group. The following are some of the marketing and distribution efforts of the Group:-

(i) Recognition

The Group was recognised by IRB for its effort in developing taxation software that will assist corporations and individuals in their filling and filing of income tax forms. In addition, the Group participated with IRB in a nationwide roadshow organised by Malaysian Institute of Accountants to educate the public on the e-filing initiative.

The Group's TAXCOM software is being used as part of UUM's and USM's taxation course. This gives the Group a wide coverage as it is exposed to all students who will be taking the course.

In addition, the Group has also been appointed as implementation and development partners of World Class ERP Solutions' principals, namely SSA Global TechnologiesTM Inc, ACCPAC International Inc and Microsoft Corporation. With the appointment, this shows that Ygl Convergence is capable and competent in delivering the best to the customers.

(ii) Promotional activities

There is an on-going process of market penetration undertaken by the Group to create awareness and elevate the Group's profile. The Group participates in all trade shows organized by their business partners, principals and trade associations in the industry.

The Group will also initiate periodic conferences that are in collaboration with their principals. Advertisements in newspapers and accountants' magazines will be attempted to convey branding message of Ygl Convergence's products.

(iii) Maintain existing user base

In order to maintain the existing user base, the Group focuses on the following:-

(a) Assurance Visits

Ygl Convergence Group visits all its customers as a continuing way of gathering feedback in relation to the Group's services, products and future expectations. In addition, problems faced by customers in their current system can be converted into future sales opportunities for the Group.

(b) Invitations to Conference and Events

All conference and events hosted or participated by Ygl Convergence will be extended to their customers. This keeps their customers abreast of the latest technology offerings. The conference serves as an opportunity for Ygl Convergence to provide further services.

The Group mainly operates in Malaysia with presence in Thailand. It plans to replicate its success in Malaysia in other countries, namely China, ASEAN and the Middle East.

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

4.4 SUBSIDIARY AND ASSOCIATED COMPANIES**4.4.1 Information on Ygl Consulting****(i) History and business**

Ygl Consulting was incorporated as a private limited company under the Act in Malaysia on 30 December 1977 as Malaysian Jellyfish Manufacturing Co. Sdn. Bhd. It changed its name to Yeap Geok Lake Consulting Sdn. Bhd. on 7 October 1992 and thereafter commenced its provision of consulting services in 1993. It assumed its present name on 9 August 1996. The principal activities of Ygl Consulting are to provide consulting services for ERP solutions, i.e. being the reseller and implementation partner for World Class ERP Solutions.

Ygl Consulting operates from Pulau Pinang and has a branch office in Kuala Lumpur. It does not have any subsidiary company. However, it owns a 39.0% equity interest in Ygl Consulting (Thailand).

(ii) Share capital

The present authorised share capital of Ygl Consulting is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of Ygl Consulting is RM300,000 comprising 300,000 ordinary shares of RM1.00 each.

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

Date of allotment	No. of ordinary shares allotted	Par value (RM)	Consideration	Total issued and paid-up share capital (RM)
30 December 1977	15,000	1.00	Subscribers' shares	15,000
28 March 1978	285,000	1.00	Other than cash	300,000

4.4.2 Information on Ygl Multimedia**(i) History and business**

Ygl Multimedia was incorporated as a private limited company under the Act in Malaysia on 3 October 2003. It was awarded MSC status by MDC on 26 February 2004. The principal activity of Ygl Multimedia is the development and sales of software systems. It commenced operations on 2 April 2004.

Ygl Multimedia does not have any subsidiary or associated company.

(ii) Share capital

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

4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

Details of the changes in the paid-up capital of the company since its incorporation are as follows: -

Date of allotment	No. of ordinary shares allotted	Par value (RM)	Consideration	Total issued and paid-up share capital (RM)
3 October 2003	2	1.00	Subscribers' shares	2.00

4.4.3 Information on Ygl Consulting (Thailand)
(i) History and business

Ygl Consulting (Thailand) was incorporated as a private limited company under the Thai Civil and Commercial Code in Thailand on 16 August 2002. The principal activities of Ygl Consulting (Thailand) are to engage in the marketing and distribution of computer software and the provision of related services.

Ygl Consulting (Thailand) is 39% owned by Ygl Consulting.

(ii) Share capital

The present authorised and paid-up share capital of Ygl Consulting (Thailand) is THB2,000,000 comprising 200,000 ordinary shares of THB10.00 each.

Details of the changes in the paid-up capital of the company since its incorporation are as follows: -

Date of allotment	No. of ordinary shares allotted	Par value (THB)	Consideration	Total issued and paid-up share capital (THB)
16 August 2002	200,000	10.00	Subscribers' shares	2,000,000

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4 INFORMATION ON YGL CONVERGENCE GROUP (Cont'd)

4.5 MAJOR CUSTOMERS

The Group's top ten (10) customers during the latest FYE 31 December 2004 are as follows:-

Name of Customer	Contribution to Revenue (%)	Length of Relationship (years)
Sanshin (Malaysia) Sdn Bhd	28	4
Malaysia Smelting Corporation Berhad	11	5.5
TSI Holdings Sdn Bhd	10	5.5
Delta Business Solutions Sdn Bhd	4	1
GBA Corporation Sdn Bhd	2	5.5
Zhulian Jewellery Manufacturing Sdn Bhd	2	3.5
Projek Lintasan Kota Sdn Bhd	2	2
Singatronics (M) Sdn Bhd	1	6
Oryx Advance Material Sdn Bhd	1	2
Intertechnology Distribution Sdn Bhd	1	1

The Group does not rely on one particular customer. The revenue contribution of its customers as set out above was based on the duration and contract sum of its ERP projects.

4.6 MAJOR SUPPLIERS

The Group's top ten (10) suppliers during the latest FYE 31 December 2004 are as follows:-

Name of Supplier	Contribution to Purchases (%)	Length of Relationship (years)
Baan (Malaysia) Sdn Bhd	34	7
ACCPAC International Pte Ltd	23	11
Value Systems Distribution Sdn Bhd	20	4
Great Plains Software (S) Pte Ltd	11	3
Crystal Decisions (S) Pte Ltd	6	4
LanPro (Penang) Sdn Bhd	2	2
Trayton Systems	1	3
Tiara Mist (M) Sdn Bhd	1	1
Softkey E-Solution Sdn Bhd	1	2
Manufacturing Information System Inc	1	2

The Group does to a certain extent depend on the suppliers set out above. Please refer to Section 3(A)(xv) of this Prospectus.

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5 INDUSTRY OVERVIEW

5.1 OVERVIEW OF THE WORLD AND MALAYSIAN ECONOMY

In 2004, the global economy expanded at its strongest pace of 4.8% since 1984, led by United States ("US"), reinforced by strong growth in the Asian region and revival of growth in Japan and Europe. Above-trend growth in the first half-year reflected the strong rebound from the lower base of 2003 due to economic uncertainties related to the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome in Asia. In the second half-year, despite the dampening effects of sharply higher oil prices and the reversal of interest rate trends, the growth momentum was maintained, reflecting sustained strong consumer spending and the revival in investments. Overall, global economy exhibited greater resilience to energy stocks.

With the more robust growth in global trade and domestic demand, the momentum of economic growth in Malaysia, which began in the second half 2003, gathered pace in 2004. Real GDP increased by 7.1% in 2004 (2003: 5.3%), the fastest growth since 2000. The economy benefited from the rapid growth of global trade in manufactures and higher process for primary commodities. Although global growth moderated somewhat in the second half on the year, the Malaysian economy remained resilient with stronger domestic demand providing the impetus for sustained expansion. The private sector was the main force of economic expansion, while the Government continued with fiscal consolidation.

The improvement in the economy was reflected by positive growth across all sectors except construction. The main drivers of growth were the manufacturing, services and primary commodities sectors. Value added in the manufacturing sector expanded strongly by 9.8%, as output growth in both export- and domestic-oriented industries reflected stronger external and domestic demand for manufactured goods. In the export-oriented industries, the strongest output expansion was seen in the electronics industry, benefiting from the upturn in the global semiconductor cycle. However, the high production during the earlier part of the year led to some inventory accumulation, which led to more moderate expansion in the second half of the year.

(Source: Bank Negara Malaysia Annual Report 2004)

5.2 ECONOMIC OUTLOOK

Going forward, the outlook for 2005 remains favourable. World output and world trade are projected to expand at a steady pace of 4% and 5.8% respectively in 2005. The pace of slowdown in the US and People's Republic of China ("PRC") is expected to be modest, on the basis that adjustments of the imbalances in these economies would be gradual. The scenario assumes that the US dollar weakness would be orderly and that the US fiscal deficit narrows, albeit moderately. In addition, as oil prices recede from its peak in October 2004, inflationary pressures are expected to remain manageable, providing flexibility for gradual increases in interest rates in the US to a neutral level. Monetary conditions are, therefore, expected to remain supportive of growth. Meanwhile, PRC is expected to manage some softening of the economy.

The prospects for the Malaysian economy in 2005 remain sound. Real GDP is expected to expand by 5 – 6 %. The sustained global growth, the modest downturn in the global semiconductor industry as well as relatively favourable prices for primary commodities are expected to provide support to export growth. While the global electronics industry is consolidating after reaching a peak in mid-2004, the cyclical downturn is forecast to be modest in view of the strong Asian demand, the rapid inventory adjustments and relatively low inventory levels. Current indications point to an expected upturn in the global electronics cycle in the second half-year. In the domestic economy, the private sector would remain as the main driver of growth, as the Government remains committed to optimising expenditure in order to strengthen the fiscal position. With the core inflation projected to remain low in 2005 (1.8%), monetary policy is able to remain supportive of the further expansion in private sector activities.

In addition to higher expenditure in the telecommunications sector, IT spending is also expected to increase as a result of efforts by financial institutions and business enterprises to improve their operating efficiency through the adoption of faster and more sophisticated business applications.

(Source: Bank Negara Malaysia Annual Report 2004)

5 INDUSTRY OVERVIEW (Cont'd)

5.3 ICT INDUSTRY GROWTH, PACKAGED SOFTWARE INDUSTRY FORECAST AND PROFESSIONAL SERVICES INDUSTRY

Ygl is in the high growth ICT industry, that promises opportunities within and outside Malaysia:

- IDC has forecasted that for the packaged software market in Malaysia is expected to grow from USD390.32 million in 2004 to USD577.74 million in 2009. This represents a compounded annual growth rate of 8.2%. The packaged software market comprises programs of code sets available through sale, lease, rental or as a service. Such software include applications packaged application software, application development and deployment tools and system infrastructure software. The size of the applications software market in Malaysia (which includes the enterprise applications market) for 2004 is USD191.45 million. This is expected to grow to USD203.26 million in 2005. *(Source: IDC. The information was sourced from IDC's report done for Malaysia Packaged Software Industry Forecast, 2004-2009 which was not prepared for inclusion in this Prospectus).*
- For the Asia/Pacific market, the packaged software industry is valued at USD10,868.42 million in 2004 and is expected to grow to USD17,350.82 million by 2009. For the applications software market, the size of the market is USD4,529.72 in 2004 and this is expected to grow to USD4,988.52 in 2005. *(Source: IDC. The information was sourced from IDC's report done for Malaysia Packaged Software Industry Forecast, 2004-2009 which was not prepared for inclusion in this Prospectus).*
- The potential for automating the work processes of the professional services industry in Malaysia i.e. the public accounting firms, registered tax agents and lawyers is good as these professionals are experiencing escalating professional staff cost, more demanding customers, shorter deadlines and competition from the newcomers, which do not require a high capital commitment to enter the market. This situation will be worsening after AFTA, when the foreign professional firms will be allowed to enter Malaysia and other ASEAN countries, to compete with local firms both for the clients and professional staff. Ygl sees the opportunity to assist professional firms to upgrade both their technology utilisation and professional staff efficiencies to face the more competitive environments.

5.4 GROWTH POTENTIAL IN THE SERVICE INDUSTRY

There will be a growth in the service industry in the Asian region and in Malaysia, as these countries upgrade from 3rd world status to developed nation status.

The inevitable escalation in staff costs will stimulate deployment of IT as the mean to cut down the duplication of effort in the services industry. The professional services industry has been slow in the adoption of IT, as compared with the manufacturers. Through the introduction of AFTA and other trade liberalization, the service industry will face even higher professional staff cost due to competition from bigger players from other countries. The only alternative to stay competitive is to increase the output per capita. The market for Ygl ServiceERP Solutions is expected to be therefore on an increasing trend, as compared with the conventional ERP market.

5.5 PROSPECTS AND FUTURE PLANS AND STRATEGIES OF YGL CONVERGENCE GROUP

5.5.1 Prospects of the Group

(i) Consulting Division

The Malaysian government and those in other ASEAN countries are promoting the use of IT to increase the productivity and efficiency of their industries:-

- SME loan by Small and Medium Industries Development Corporation. SMEs may apply for loan to purchase ERP software and hardware at low interest rate. The scheme provides assistance to SMEs to use ICT to improve competitiveness, efficiency and productivity.

5 INDUSTRY OVERVIEW (Cont'd)

- MSC for high-tech and high growth local IT companies. MSC status companies are provided with the network with other IT experts, freedom in employment of overseas programmers and the pioneer status.
- Malaysia External Trade Development to promote Malaysian product and services overseas.

Such initiatives and the public awareness created may boost the Group's initiatives to sell more services and products both within and outside Malaysia.

The conventional ERP market in Malaysia is traditionally divided into Tier 1, 2 and 3, with the respective players covering certain market share based on values of the software. However, in the Group's experience, there is mid-high tier that covers manufacturers with RM500,000 ERP budget, not enough for Tier 1 solutions but may demand for functionalities not normally provided by Tier 2 vendors. The Group has focused its niche in this mid-high tier by either offering Baan or highly customized ACCPAC and Great Plains solutions.

The Board believes that the distinction of Ygl Consulting from other ERP implementers in Malaysia is that the Group supports both Tier 1 and Tier 2 market solutions. Almost all other consulting companies in Malaysia are supporting one tier solution only. The Group has been able to optimize the professional staff allocation in between big and medium size projects, both with different duration and project waiting time.

Ygl Tier 1 customers may enjoy the same solution for less investments, because the Group may pass the savings (arising from staff efficiencies) to them in terms of lower implementation costs.

This mid-high market as defined by the Group is the area of focus for Tier 1 vendors such as SAP and Oracle recently, who have just launched their initiatives for the SMEs. However, there is this great task of convincing the SMEs because of the high per day implementation cost. Once the SMEs request for more implementation time above the standards offered (the SME packages come with basic functionality and implementation days), the cost escalates to Tier 1 cost.

(ii) Software Division

The "push factor" for demand of Ygl's TAXCOM software was the commencement of the IRB's e-Filing initiatives. Effective from May 2004, IRB launched the e-Filing system. This system is to streamline the existing "paper" submissions of income tax return forms. Under the e-Filing System, the tax return is filed electronically to the IRB directly from the tax practitioners, thus cutting down on the manual acceptance, traffic jams, waiting caused by tax submission deadlines. This has the following impact to the tax practitioners:

- Tax practitioners who are on the conventional manual or Excel spreadsheet type tax returns would have to retype all the tax figures and disclosure information in the template provided by IRB for e-Filing purposes.
- On top of the additional typing and checking cost, the tax practitioners have to invest in IT learning cost.

The result of this will help push the tax practitioners to buy Ygl TAXCOM. Ygl TAXCOM is already equipped with inbuilt interfaces to IRB's e-Filing and e-Filing system. If the tax return forms are prepared from Ygl TAXCOM, the electronic version of the tax return form may be transferred directly to IRB in a compliant format without the need to re-key any information.

5 INDUSTRY OVERVIEW (Cont'd)

5.5.2 Future Plan and Strategies of the Group

The Promoters of the Group intend to develop both the Consulting and Software Divisions in tandem. The Group's strategies for future growth will be as follows:-

(i) *Regional Expansion by Consulting Division as Market Penetration Strategy*

Ygl Convergence Group has already built up its reputation as an established ERP consulting group in Malaysia. The Group's next stage of growth is to entrench and leverage on its close relationships with its World Class ERP Solutions principals to set up Ygl regional offices in other countries, possibly in China, ASEAN and the Middle East. As at to date, Ygl has already set up a regional office in Thailand, which is the distributor of Baan ERP product. This is held through a 39.0% owned Thai associated company namely, Ygl Consulting (Thailand).

(ii) *Leverage on the reliability of World Class ERP Solutions and close links with principals*

As the Group offers a range of World Class ERP Solutions, it believes that it will be better positioned as compared with other local ERP developers to penetrate foreign markets for ERP because:-

- The World Class ERP Solutions have been tested and used in thousands of customer sites worldwide in diverse industries. The consistency and stability of these solutions is assured.
- The World Class ERP Solutions have in-built best business practices, which are more in line with worldwide developments thus providing a better growth path for the customers.
- The Group can tap into the principal's marketing fund for large scale jobs.
- The Group can benefit from the principals' technical expertise where the technical expertise cannot be sourced locally.

The Group's regional expansion will assist the Group in capturing revenues from other countries in respect of its consulting business and Ygl Value Added Solutions.

(iii) *Leveraging on Synergies between Consulting and Software Divisions*

Ygl's Consulting Division can grow its business by continuing to tap the programming expertise of its Software Division to provide specialized solutions which can complement the World Class ERP Solutions provided to customers. The value proposition of Ygl Consulting to its customers is that the Group can customize and develop software to enable the World Class ERP Solutions to suit the peculiar needs of the customers, since the programmers are available in house.

(iv) *Continued Growth through Development of Software*

Ygl's Software Division can grow by tapping into the programming expertise and best business practices inherent in the World Class ERP Solutions supported by Ygl Consulting. By doing so the following benefits are derived:-

- Software developed by Ygl's Software Division inherits world-class programming architecture and best practices due to the Group's experience through working with World Class ERP Solutions.

5 INDUSTRY OVERVIEW (Cont'd)

- The R&D costs can be optimized and programming resources can be better utilized as the trial and error time can be eliminated.
- Ygl Value Added Solutions developed for the principals of World Class ERP Solutions have potential to penetrate international markets. Through the development partner programs signed by the Group with the principals of World Class ERP Solutions, Ygl Convergence may sell Ygl products via their international network of dealers and distributors.

The Ygl ServiceERP Solutions are entirely owned by the Group. These products will significantly improve the Group's sales split from more of consulting-based to software-based. The margins of the Group will also be much higher through repeated software sales.

(v) *Ygl ServiceERP Solutions' niche focus*

The Ygl ServiceERP Solutions developed by Ygl Multimedia for the Malaysian service industry market have not been developed by major international ERP vendors.

The reasons for this is that:-

- the service industry in Malaysia and many other Asian countries is not seen as significant in terms of value as a market for international ERP products as compared to the manufacturing and trading industries.
- The developer must combine both programming expertise with in-depth understanding of local work practices and difficulties faced by the service industry to produce the relevant software solution that convinces the professionals.

The Group has tapped into the service industry market as its Promoters have an in-depth understanding of the requirements of the service industry. The service industry is deemed lucrative by the Group because of the availability of local knowledge, and resources and the presence of few competitors.

(vi) *Recurring Software Revenues*

As the TAXCOM application is used under stringent tax legislation and IRB guidelines which change regularly, it needs be revised very regularly and is subject to constant updates and upgrades. The updates and upgrades require development effort. The Group's existing users would have to sign up for maintenance on a yearly basis to ensure that the their software is up to date with the new tax rulings and guidelines.

Accordingly, maintenance contracts are signed with Ygl Multimedia to entitle them to free upgrades, without which their existing solution becomes obsolete and unusable almost immediately.

The Taxcom.net product is used by individual tax payers to compute their income tax through the web on an annual basis. The subscription fee is therefore payable on an annual basis.

5 INDUSTRY OVERVIEW (Cont'd)

(vii) Marketing Strategies

Currently, there are on-going marketing processes being undertaken by the Group to ensure successful market penetration of its products. Amongst them are trade shows, conferences, advertisements and business calls and circulation of product brochures.

In addition, the Group also enters into collaboration with the authority, i.e. IRB, other technology providers and banks to deploy Ygl TAXCOM and Ygl Paylink. Further, with the unique combination of supporting other ERP software principals and the development of its proprietary software, the Group would be able to widen its market penetration through on-going marketing processes.

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