

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017**

| | Note | Individual Quarter 3 months ended 30 September | | Cumulative Quarter 9 months ended 30 September | |
|--|------|--|------------------|--|--------------------|
| | | 2017 RM | 2016 RM | 2017 RM | 2016 RM |
| Continuing Operations | | | | | |
| Revenue | 13 | 973,262 | 1,106,462 | 4,162,335 | 3,924,150 |
| Cost of Sales | | <u>(1,292,932)</u> | <u>(874,923)</u> | <u>(3,389,498)</u> | <u>(2,668,749)</u> |
| Gross Profit / (Loss) | | (319,670) | 231,539 | 772,837 | 1,255,401 |
| Other Operating Income | | 87,737 | 22,483 | 141,965 | 76,592 |
| Selling and Distribution Costs | | - | - | - | - |
| Administrative Expenses | | (150,587) | (170,462) | (450,934) | (447,917) |
| Other Operating Expenses | | (599,201) | (369,513) | (1,309,153) | (901,851) |
| (Loss) / Profit for the period from continuing operations | | <u>(981,721)</u> | <u>(285,953)</u> | <u>(845,285)</u> | <u>(17,775)</u> |
| Finance Costs | | (10,052) | (8,393) | (29,328) | (25,623) |
| Gain on Financial Assets Measured at Fair Value | 22 | - | - | - | - |
| Share of Results of Associate Company | | 135,486 | 60,975 | 325,763 | 163,782 |
| (Loss) / Profit Before Tax | 14 | <u>(856,287)</u> | <u>(233,371)</u> | <u>(548,850)</u> | <u>120,384</u> |
| Income Tax Expense | 17 | (17,057) | (16,156) | (43,052) | (44,074) |
| (Loss) / Profit for the period | | <u>(873,344)</u> | <u>(249,527)</u> | <u>(591,902)</u> | <u>76,310</u> |
| Profit attributable to : | | | | | |
| Owners of the Company | | (816,346) | (246,297) | (516,489) | 93,788 |
| Non-controlling interests | | (56,998) | (3,230) | (75,413) | (17,478) |
| (Loss) / Profit for the period | | <u>(873,344)</u> | <u>(249,527)</u> | <u>(591,902)</u> | <u>76,310</u> |
| Other comprehensive income | | | | | |
| Item that may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences on translation of foreign operation | | (10,394) | 42,058 | (64,599) | (114,445) |
| Total Comprehensive (Loss) / Income for the period | | <u>(883,738)</u> | <u>(207,469)</u> | <u>(656,501)</u> | <u>(38,135)</u> |
| Total comprehensive (loss) / income attributable to: | | | | | |
| Owners of the Company | | (826,740) | (204,239) | (581,088) | (20,657) |
| Non-controlling interests | | (56,998) | (3,230) | (75,413) | (17,478) |
| | | <u>(883,738)</u> | <u>(207,469)</u> | <u>(656,501)</u> | <u>(38,135)</u> |
| Earnings per share attributable to owners of the Company (in sen) | | | | | |
| Basic EPS | 27 | (0.35) | (0.14) | (0.22) | 0.05 |

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

NOTES TO CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

| | Individual Quarter 3 months ended 30 September 2017 <u>RM</u> | Cumulative 9 months ended 30 September 2017 <u>RM</u> |
|--|---|---|
| (a) Interest income | 10,350 | 11,620 |
| (b) Other income including investment income | n/a | n/a |
| (c) Gain / (Loss) on disposal of quoted / unquoted investment or properties | n/a | n/a |
| (d) Gain / (Loss) on foreign exchange | (721) | (1,281) |
| (e) Gain / (Loss) on derivatives | n/a | n/a |
| (f) Interest expense | 10,052 | 29,328 |
| (g) Depreciation | 124,955 | 271,787 |
| (h) Amortization | 424,142 | 1,184,128 |
| (i) Provision for and write-off of receivables | 189,743 | 1,545,097 |
| (j) Provision for and write-off of inventories | n/a | n/a |
| (k) Exceptional item | n/a | n/a |

n/a denotes not applicable

YGL CONVERGENCE BERHAD (649013-W)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017**

| | Note | 30 September 2017 (Unaudited) RM | 31 December 2016 (Audited) RM |
|--|------|--|-------------------------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, Plant and Equipment | | 4,915,797 | 4,834,888 |
| Investment Property | | 284,873 | 285,230 |
| Goodwill and Other Intangible Assets | | 6,353,753 | 6,604,045 |
| Investment in Associate Company | | 1,025,405 | 699,642 |
| | | <u>12,579,828</u> | <u>12,423,805</u> |
| Current Assets | | | |
| Trade and Other Receivables | 22 | 3,734,122 | 3,962,471 |
| Current Tax Assets | | 50,255 | 64,717 |
| Cash and Cash Equivalents | 19 | 5,499,477 | 1,097,656 |
| | | <u>9,283,854</u> | <u>5,124,844</u> |
| TOTAL ASSETS | | <u>21,863,682</u> | <u>17,548,649</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share Capital | | 24,970,802 | 19,357,214 |
| Share Premium, non-distributable | | 2,247,330 | 2,420,349 |
| Exchange Translation, non-distributable | | 438,684 | 503,283 |
| (Accumulated Losses) / Retained Profits | | (8,849,195) | (8,332,706) |
| Equity attributable to owners of the Company | | <u>18,807,621</u> | <u>13,948,140</u> |
| Non-controlling Interests | | 53,971 | 52,151 |
| TOTAL EQUITY | | <u>18,861,592</u> | <u>14,000,291</u> |
| Non-Current Liabilities | | | |
| Term Loan | 20 | 646,182 | 658,060 |
| Deferred Tax Liabilities | | 11,300 | 25,763 |
| | | <u>657,482</u> | <u>683,823</u> |
| Current Liabilities | | | |
| Trade and Other Payables | 22 | 1,105,140 | 1,382,457 |
| Amount due to director | | 675,806 | 667,436 |
| Term Loan | 20 | 16,204 | 20,529 |
| Bank Overdraft | 20 | - | - |
| Deferred revenue | | 520,095 | 759,263 |
| Current Tax Liabilities | | 27,363 | 34,850 |
| | | <u>2,344,608</u> | <u>2,864,535</u> |
| TOTAL LIABILITIES | | <u>3,002,090</u> | <u>3,548,358</u> |
| TOTAL EQUITY AND LIABILITES | | <u>21,863,682</u> | <u>17,548,649</u> |
| Net assets per share attributable to owners of the Company (sen) | | 8.10 | 7.71 |

The condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

YGL CONVERGENCE BERHAD (649013-W)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017**

| | Note | Share Capital RM | Share Premium RM | Exchange Translation Reserve RM | Retained Earnings RM | Total RM | Non-controlling Interests RM | Total Equity RM |
|----------------------------------|------|------------------------|------------------------|--|----------------------------|-------------------|------------------------------------|-----------------------|
| <i>Audited</i> | | | | | | | | |
| At 1 January 2016 | | 19,357,214 | 2,420,349 | 496,053 | (8,037,413) | 14,236,203 | 68,695 | 14,304,898 |
| Net loss for the year | | - | - | - | (295,293) | (295,293) | (16,544) | (311,837) |
| Other comprehensive income | | - | - | 7,230 | - | 7,230 | - | 7,230 |
| Exchange translation differences | | | | | | | | |
| At 31 December 2016 | | <u>19,357,214</u> | <u>2,420,349</u> | <u>503,283</u> | <u>(8,332,706)</u> | <u>13,948,140</u> | <u>52,151</u> | <u>14,000,291</u> |
| <i>Unaudited</i> | | | | | | | | |
| At 1 January 2017 | | 19,357,214 | 2,420,349 | 503,283 | (8,332,706) | 13,948,140 | 52,151 | 14,000,291 |
| Issue of share capital | | | | | | | | |
| - private placement | | 5,613,588 | (173,019) | - | - | 5,440,569 | - | 5,440,569 |
| Net profit for the year | | - | - | - | (516,489) | (516,489) | 1,820 | (514,669) |
| Other comprehensive loss | | - | - | (64,599) | - | (64,599) | - | (64,599) |
| Exchange translation differences | | | | | | | | |
| At 30 September 2017 | | <u>24,970,802</u> | <u>2,247,330</u> | <u>438,684</u> | <u>(8,849,195)</u> | <u>18,807,621</u> | <u>53,971</u> | <u>18,861,592</u> |

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

| Note | 9 MONTHS ENDED 30 SEPTEMBER (UNAUDITED) | YEAR ENDED 31 DECEMBER (AUDITED) |
|---|---|--|
| | 2017 RM | 2016 RM |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Loss) / Profit before taxation | (548,850) | (261,587) |
| Adjustments for:- | | |
| Depreciation of property, plant and equipment | 271,429 | 291,967 |
| Depreciation of investment property | 358 | 477 |
| Amortisation of software development costs | 1,184,128 | 1,611,377 |
| Amortisation of membership | 1,212 | 1,616 |
| Share of result of associates | (325,763) | (183,291) |
| Impairment loss on intangible assets | - | - |
| Bad debts written off | 48,524 | - |
| Property, plant and equipment written off | - | 24,329 |
| Allowance for doubtful debts | 292,790 | - |
| Allowance for doubtful debts written back | - | - |
| Unrealised (gain) / loss on foreign exchange | (82,439) | (44,095) |
| Gain on acquisition of subsidiary | - | - |
| Gain on disposal of subsidiary | - | - |
| Interest income | (11,620) | (9,430) |
| Interest expense | 29,328 | 33,820 |
| Hire purchase term charges | - | - |
| Operating (loss) / profit before working capital changes | 859,097 | 1,465,183 |
| Changes in software development costs | (995,639) | (1,464,524) |
| Receipts from customers | 3,075,768 | 4,507,033 |
| Changes in receivables | (3,259,885) | (5,054,586) |
| Payments to suppliers, contractors and employees | (1,732,297) | (2,462,287) |
| Changes in payables | 1,527,537 | 2,242,305 |
| Changes in deferred revenue | (239,168) | 89,292 |
| Cash used in operations | (764,587) | (677,584) |
| Interest received | 11,620 | 9,430 |
| Interest paid | (29,328) | (33,820) |
| Tax (paid) / refund | (43,052) | (76,031) |
| Net cash used in operating activities | (825,347) | (778,005) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (353,419) | (10,938) |
| Net cash inflow from acquisition subsidiary | - | - |
| Proceeds from disposal of shares in subsidiary | - | - |
| Proceeds from disposal of other investment | - | - |
| Net cash used in investing activities | (353,419) | (10,938) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from share issue | 5,614,987 | - |
| Share issuance expenses | - | - |
| Payment of term loan instalments | (16,204) | (20,569) |
| Payment of hire purchase instalments | - | - |
| Hire purchase term charges paid | - | - |
| Net cash (used in) / from financing activities | 5,598,783 | (20,569) |
| NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS | 4,420,017 | (809,512) |
| EFFECT OF CHANGES IN EXCHANGE RATES | (18,196) | 12,063 |
| CASH AND CASH EQUIVALENTS BROUGHT FORWARD | 1,097,656 | 1,895,105 |
| CASH AND CASH EQUIVALENTS CARRIED FORWARD | <u>5,499,477</u> | <u>1,097,656</u> |
| Represented by: | | |
| CASH AND BANK BALANCES | 5,499,477 | 1,097,656 |
| BANK OVERDRAFT | - | - |
| | <u>5,499,477</u> | <u>1,097,656</u> |

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to the interim financial statements.

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134 INTERIM FINANCIAL REPORTING

1. Basis of Preparation

The interim financial report is unaudited and has been prepared in compliance with MFRS 134, Interim Financial Reporting and Appendix 9B, para 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad for the ACE Market.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2016 and the attached explanatory notes. The explanatory notes provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2016.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2016 except for the adoption of the following MFRSs and Amendments to MFRS which are applicable to the financial statements as disclosed therein:

Standards effective for financial periods beginning on or after 1 January 2017

| | |
|------------------------|---|
| Amendments to MFRS 12 | Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014-2016 Cycle) |
| Amendments to MFRS 107 | Disclosure Initiative |
| Amendments to MFRS 112 | Recognition of Deferred Tax Assets for Unrealised Losses |

The application of the above MFRSs and Amendments to MFRS did not result in any significant changes in accounting policies and presentation of the financial results of the Group for the current quarter.

The Group has not applied the following standards which have been issued by MASB but not yet effective for the current quarter. The initial adoption of these standards is not expected to have significant impact to the financial statements of the Group.

Effective for financial periods beginning on or after 1 January 2018

| | |
|---------------------------|--|
| Amendments to MFRS 1 | First-time Adoption of Malaysian Financial Reporting Standards |
| Amendments to MFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| MFRS 4 | Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts (Amendments to MFRS 4) |
| MFRS 9 | Financial Instruments (IFRS 9 as issued by IASB in July 2014) |
| MFRS 15 | Revenue from Contracts with Customers |
| Clarifications to MFRS 15 | Revenue from Contracts with Customers |
| Amendments to MFRS 128 | Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle) |
| Amendments to MFRS 140 | Transfers of Investment Property |
| IC Interpretation 22 | Foreign Currency Transactions and Advance Consideration |

Effective for financial periods beginning on or after 1 January 2019

| | |
|----------------------|--|
| MFRS 16 | Leases |
| IC Interpretation 23 | Uncertainty over Income Tax Treatments |

2. Auditors’ Report of Preceding Annual Financial Statements

The auditors’ report of the preceding financial year was not subject to any qualification.

3. Seasonality or Cyclicity of Interim Operations

The business of the Group was not affected by any significant seasonal or cyclical factors.

4. Unusual Items due to their Nature, Size or Incidence

There were no unusual items in the financial statements in the current financial quarter under review.

5. Material Changes in Estimates

There were no changes in estimates that have had a material effect in the current financial quarter under review.

6. Issues, Repurchases and Repayment of Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities, share buy-back, share cancellation, shares held as treasury shares and resale of treasury shares for the current financial quarter under review other than set out below:

For the quarter ended 30 September 2017, the Company through private placement issued 38,714,400 new ordinary shares in Ygl on the ACE Market representing 20% of the issued and paid-up share capital of Ygl on 7 July 2017.

7. Dividend Paid

No dividends were paid in the current quarter under review.

8. Segmental Information

Segmental information was provided for the operations in Malaysia and Asia Pacific region.

| <u>Segment Revenue</u> | 3 months ended 30 September | | Cumulative 9 months ended 30 September | |
|------------------------------------|--------------------------------|-----------|---|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue from operations: | | | | |
| Malaysia | 706,990 | 790,903 | 3,215,585 | 3,162,321 |
| Asia Pacific | 266,272 | 315,559 | 946,750 | 761,829 |
| Total revenue | 973,262 | 1,106,462 | 4,162,335 | 3,924,150 |
| Elimination of inter-segment sales | - | - | - | - |
| External sales | 973,262 | 1,106,462 | 4,162,335 | 3,924,150 |
| Interest revenue | 10,350 | 2,082 | 11,620 | 8,287 |

**Ygl Convergence Berhad (649013-W) (“Ygl” or “Group”)
Quarterly report for the third quarter ended 30 September 2017**

| | 3 months | | Cumulative 9 months | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | ended 30 September 2017 | ended 30 September 2016 | ended 30 September 2017 | ended 30 September 2016 |
| <u>Segment Results</u> | | | | |
| Results from operations: | | | | |
| Malaysia | (537,680) | (144,186) | 4,781 | 362,046 |
| Asia Pacific | (444,041) | (141,767) | (850,066) | (379,821) |
| | (981,721) | (285,953) | (845,285) | (17,775) |
| Finance cost | (10,052) | (8,393) | (29,328) | (25,623) |
| Share of associate's profit / (loss) | 135,486 | 60,975 | 325,763 | 163,782 |
| Tax expense | (17,057) | (16,156) | (43,052) | (44,074) |
| Non-controlling interests | 56,998 | 3,230 | 75,413 | 17,478 |
| Total results | (816,346) | (246,297) | (516,489) | 93,788 |

9. Valuations of Property, Plant & Equipment

The valuations of property, plant and equipment have been brought forward, without amendments from the financial statements for the financial year ended 31 December 2016.

10. Events After the Statement of Financial Position Date

There were no other material events subsequent to the end of the current financial quarter under review to the date of this announcement.

11. Changes in the Composition of the Group

There was a change in the composition of the Group as below:

Acquisition of Ygl Information Technology (Suzhou) Co.Ltd

For the quarter ended 30 September 2017, the Company on 25 July 2017 through its wholly owned subsidiary, namely Ygl Convergence (HK) Limited (“Ygl HK”) had acquired 55% of the equity interest in Ygl Information Technology (Suzhou) Co. Ltd (“Ygl Suzhou”), a company incorporated in China, from the director for a cash consideration of CNY151,000 (equivalent to approximately RM97,166 based on exchange rate of CNY1:MYR0.6435). The acquisition is to pave way for YGL Group to venture into the China market for its proprietary products and leverage on the expertise of Ygl HK as a contractor of software and technology for government and semi-government entities.

| | |
|--|---------------------|
| Net asset of Ygl Information Technology (Suzhou) Co. Ltd. | RM Nil |
| Consideration paid by cash | RM 97,166 |
| Cash and cash equivalent of subsidiary on acquisition date | Nil |
| Net cash outflow of the Group | <u>97,166</u> |

12. Changes in Contingent Liabilities

There is no contingent liability as at 27 November 2017 (the latest practicable date not earlier than 7 days from the date of issue of this financial result).

PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

13. Review of Performance

Current Quarter - Group

For the quarter under review, Ygl Group recorded a revenue of RM973,262 which was a decrease of 12.0% as compared to a revenue of RM1,106,462 achieved in the preceding year corresponding quarter ended 30 September 2016. Gross loss for the quarter under review was RM319,670 as compared to gross profit of RM231,539 for the preceding year corresponding quarter which was a downward turn of 238.1%. This was due to overseas project costs write offs and higher direct costs during the quarter under review.

Net loss from operations for the quarter under review was RM981,721 as compared to net loss from operations in the preceding year corresponding quarter ended 30 September 2016 of RM285,953. This was due to higher direct costs charged out for certain Hong Kong project, additional cost in Suzhou and provision of bad and doubtful debts in Malaysia during the quarter under review.

Malaysia Segment

For the quarter under review, the Malaysia segment recorded a revenue of RM706,990 which was a decrease of 10.61% as compared to a revenue of RM790,903 achieved in the preceding year corresponding quarter ended 30 September 2016. Loss from operations for the quarter under review was RM537,680 as compared to loss from operations of RM144,186 for the preceding year corresponding quarter which was a further decrease of 272.9%. This was due to provision of bad and doubtful debts and higher direct costs during the quarter under review.

Asia Pacific Segment

For the quarter under review, the Asia Pacific segment recorded a revenue of RM266,272 which was a decrease of 15.6% as compared to a revenue of RM315,559 achieved in the preceding year corresponding quarter ended 30 September 2016. Loss from operations for the quarter under review was RM444,041 as compared to loss from operations of RM141,767 for the preceding year corresponding quarter which was a further decrease of 213.2%. This was due to higher direct costs charged out for certain Hong Kong projects and additional cost in Suzhou during the quarter under review.

Cumulative Quarters - Group

For the nine months period ended 30 September 2017, Ygl Group recorded a revenue of RM4,162,335 representing an increase of 6.1% as compared to a revenue of RM3,924,150 achieved in the nine months period ended 30 September 2016. There was gross profit of RM772,837 for the nine months period ended 30 September 2017 compared to gross profit of RM1,255,401 as achieved in the nine months period ended 30 September 2016 which was a decrease of 38.4. This was due to higher direct costs charged out for certain projects in Hong Kong and additional direct costs in Suzhou during the period.

Net loss from operations for the nine months period under review was RM845,285 as compared to net loss from operations in the preceding year corresponding quarter ended 30 September 2016 of RM17,775. This was due to higher direct costs charged out for certain Hong Kong projects, additional direct costs in Suzhou and the provision of bad and doubtful debts in Malaysia during the quarter under review.

Malaysia Segment

For the nine months ended 30 September 2017, the Malaysia segment recorded a revenue of RM3,215,585 representing an increase of 1.7% as compared to a revenue of RM3,162,321 achieved in the nine months period ended 30 September 2016. Net profit from operations was RM4,781 for the nine months period ended 30 September 2017 as compared to a net profit of RM362,046 recorded in the nine months period ended 30 September 2016. This was due to provision of bad and doubtful debts certain higher direct costs during the period.

Asia Pacific Segment

For the nine months ended 30 September 2017, the Asia Pacific segment recorded a revenue of RM946,750 representing an increase of 24.3% as compared to a revenue of RM761,829 achieved in the nine months period ended 30 September 2016. There was net loss from operations was RM850,066 for the nine months period ended 30 September 2017 as compared to a net loss of RM379,821 as recorded in the nine months period ended 30 September 2016. The increase in net loss was due to higher direct costs charged out for certain Hong Kong projects and certain direct costs in Suzhou.

14. Material Changes in Profit Before Tax Against Preceding Quarter

There was a net loss before tax of RM548,850 for the quarter under review as compared to a net profit before tax of RM307,437 recorded in the preceding second quarter ended 30 June 2017. This was due to the provision of bad and doubtful debts in Malaysia, higher direct costs charged out for certain Hong Kong projects and certain additional costs in Suzhou.

15. Corporate Proposals

There are no other corporate proposals announced but not completed as at the date of announcement as at 27 November 2017 (the latest practicable date not earlier than 7 days from the date of issue of this financial result) other than set out below.

On 6 November 2017, the Company announced the implementation of the ESOS with immediate effect. The ESOS may entail listing of such number of new Ygl ordinary shares up to 30% of the total number of issued shares (excluding treasury shares) of Ygl to be issued pursuant to the exercise of ESOS options to eligible employees and Directors of Ygl and its subsidiaries who meet the eligibility criteria for participation in the scheme.

16. Prospects for 2017

Despite the cost write offs and provision of bad and doubtful debts, Ygl still holds a positive outlook for 2017. Ygl is focusing in its core product mainly Ygl e-Manufacturing Solution, and venturing into internet portals which are in line with the current world trend such as Industry 4.0, smart warehouse, Internet of Things and Big Data. As the cost of Ygl proprietary products are not susceptible to the rise in US Dollar against Malaysian Ringgit, compared to the international enterprise software which are in US Dollar denomination. Ygl product offerings are very competitive to its targeted customers which are the SMEs in Asia region.

**Ygl Convergence Berhad (649013-W) (“Ygl” or “Group”)
Quarterly report for the third quarter ended 30 September 2017**

17. Taxation

| | Current Quarter 30 September 2017 RM | Cumulative Quarter 30 September 2017 RM |
|--------------------------|---|--|
| Current tax expense | | |
| Malaysian income tax | 16,674 | 42,669 |
| Foreign tax | 383 | 383 |
| | <hr/> 17,057 | <hr/> 43,052 |
| Deferred tax | - | - |
| Total income tax expense | <hr/> 17,057 | <hr/> 43,052 |

There was a tax expense despite the net loss position of the Group as certain companies within the Group are still subject to income tax.

18. Status on Utilisation of Proceeds

Private Placement

Pursuant to the private placement exercise undertaken by the Company on 7 July 2017, the Company had raised approximately RM5.614 million which is earmarked for business expansion, R&D expenses and working capital purposes. As at to date, status of utilisation of the proceeds are as follows:

| Details | Actual Utilisation RM'000 | Expected Utilisation RM'000 |
|---|--|--|
| 1) Listing and placement expenses | 173 | 180 |
| 2) Business expansion | 97 | 2,700 |
| 3) R&D expenses | 235 | 1,250 |
| 4) Working capital | 570 | 1,484 |
| 5) Balance of proceed not yet utilised | 4,539 | - |
| Total proceeds arising from private placement | <hr/> 5,614 | <hr/> 5,614 |

19. Cash and cash equivalents

| | As at 30 September 2017 RM'000 | As at 30 September 2016 RM'000 |
|------------------------|---|---|
| Cash and bank balances | 5,499 | 1,189 |
| Less: Overdraft | - | - |
| | <hr/> 5,499 | <hr/> 1,189 |

20. Company Borrowings and Debt Securities

The Group’s borrowings are as follows:

| | As at 30 September 2017 RM | As at 30 September 2016 RM |
|-----------------------------------|---|---|
| <u>Payable within 12 months</u> | | |
| Secured - Term Loan | 16,204 | 20,260 |
| Secured - Hire purchase liability | - | - |
| Secured - Bank Overdraft | - | - |
| | 16,204 | 20,260 |
| <u>Payable after 12 months</u> | | |
| Secured - Term Loan | 646,182 | 663,545 |
| Secured - Hire purchase liability | - | - |
| | 646,182 | 663,545 |
| Total | 662,386 | 683,805 |

The Group does not have any foreign currency borrowings.

21. Capital Commitment

The Group’s objectives when managing capital are to maintain a strong capital base and to safeguard the Group’s ability to continue as a going concern, so as to maintain shareholder, stakeholder and market confidence and to sustain future development of the business.

As at 27 November 2017 (the latest practicable date not earlier than 7 days from the date of issue of this financial result), the Group has no material capital commitment in respect of property, plant and equipment.

22. Financial Instruments

The Company has classified its financial assets in the following categories:

| | As at 30 September 2017 RM | As at 30 September 2016 RM |
|---|---|---|
| <u>Financial assets</u> | | |
| Account receivables | 3,045,657 | 2,493,590 |
| Other receivables, prepayments and deposits paid | 688,465 | 1,165,809 |
| Cash and cash equivalents | 5,499,477 | 1,189,792 |
| | 9,233,599 | 4,849,191 |

**Ygl Convergence Berhad (649013-W) (“Ygl” or “Group”)
Quarterly report for the third quarter ended 30 September 2017**

The Company has classified its financial liabilities in the following categories:

| | As at 30 September 2017 RM | As at 30 September 2016 RM |
|---|---|---|
| <u>Financial liabilities at amortised cost</u> | | |
| Account payables | 262,276 | 242,936 |
| Other payables, accruals and deposits received | 842,864 | 1,097,166 |
| Bank overdraft | - | - |
| Term loan | 662,386 | 683,805 |
| Hire purchase liabilities | - | - |
| Amount owing to directors | 675,806 | 670,415 |
| | ----- | ----- |
| | <u>2,443,332</u> | <u>2,694,322</u> |
| | ===== | ===== |

All other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2016.

Financial Risk Management Objectives and Policies

The Group’s operating, investing and financing activities expose it to currency risk, interest rate risk, price risk, credit risk and liquidity risk. The chief executive office, supported by the management team, assesses and makes recommendations to the board for risk management purposes. The methods used to assess financial risks include statistical analysis and financial models. The Board has identified the following financial risk management objectives and policies:

- a) To minimize the group’s exposure to foreign currency exchange rates and future cash flow risks;
- b) To accept reasonable level of price risk and credit risk that commensurate with the expected returns of the underlying operations and activities; and
- c) To minimize liquidity risk by proper cash flow planning, management and control.

The Group’s risk management policies include:

- a) Credit controls which include evaluation, acceptance, monitoring and feedback to ensure reasonable credit worthy customers are accepted; and
- b) Money market instruments, short term deposits and bank overdrafts to manage liquidity risk.

The Group does not have a formal policy on future or exchange contracts or hedge activities as foreign currency transactions are dealt directly by the respective overseas subsidiary companies.

There have been no significant changes on the Group’s exposure to financial risks from the previous year. Neither have there been any changes to the Group’s risk management objectives and policies from the previous year.

The Group does not deal in any derivative financial instruments in the quarter under review as such there was no derivative financial instrument reported and no other comprehensive income reported in the financial statements in the quarter under review except those that were of loans and receivables in nature.

Trade Receivables

Aging analysis of financial assets:

| | As at 30 September 2017 RM | As at 30 September 2016 RM |
|------------------|---|---|
| Up to 90 days | 786,376 | 1,174,933 |
| >90 to 180 days | 1,000,381 | 422,161 |
| >180 to 360 days | 482,201 | 282,340 |
| >360 days | 776,699 | 614,156 |
| Total amount | 3,045,657 | 2,493,590 |

The financial assets are classified as impaired asset when they are more than 360 days past due and after impairment tests reveal that their recovery is doubtful. Adequate impairment losses have been allowed for these impairment assets.

Loans and Advances

These non-derivative financial assets and liabilities are measured at amortised cost using the effective interest method where the initial amounts are measured at fair value. Gains or losses arisen from the fair value measurement with the related interest income or expense are recognised in the statement of comprehensive income. The effective discount rate used was 4.95% over expected five years of repayment. The discounted amounts arisen from inter-company advances were eliminated in the consolidation of accounts at group level.

23. Significant Related Party Transactions

For the third quarter ended 30 September 2017, there was no significant related party transaction entered by the Group.

24. Material Litigation

Neither the Company nor its subsidiary companies is engaged in any litigation or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the Company or its subsidiary companies and the Board does not know of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company or its subsidiary companies.

25. Profit Estimate/Forecast

Not applicable.

26. Dividend

The Board did not declare any dividend payments for the current financial quarter under review.

27. Earnings Per Share

The basic earnings per share of the Group is calculated by dividing the net profit for the period by the weighted average number of ordinary shares.

| | 3 months ended 30 September | | Cumulative 9 months ended 30 September | |
|---|--------------------------------|-------------|---|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Profits/(Loss) for the period attributable to shareholders (RM) | (816,346) | (246,297) | (516,489) | 93,788 |
| Weighted average number of ordinary shares in issue | 212,452,039 | 193,572,140 | 212,452,039 | 193,572,140 |
| Basic earnings/(loss) per share (sen) | (0.35) | (0.14) | (0.22) | (0.05) |

28. Realised and Unrealised Accumulated Losses

The disclosure as required by Bursa Malaysia Securities Berhad on the realized and unrealised unappropriated profits or accumulated losses is as follows:

| | As at 30 September 2017 RM | As at preceding financial year end 31 December 2016 RM |
|---|----------------------------------|---|
| Total accumulated profits / (losses) of Ygl and its subsidiaries: | | |
| Realised | (8,482,039) | (7,601,443) |
| Unrealised | 82,439 | 44,095 |
| | (8,399,600) | (7,557,348) |
| Total share of accumulated losses from associated company: | | |
| Realised | (449,595) | (775,358) |
| Unrealised | - | - |
| | (8,849,195) | (8,332,706) |
| Less: Consolidation adjustments | - | - |
| Total group accumulated profits / (losses) as per consolidated accounts | (8,849,195) | (8,332,706) |