

Y&G CORPORATION BHD
(Formerly known as “Merces Holdings Berhad”)
(Company No. 6403-X)
(Incorporated in Malaysia)

PART A. EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS

A1. Basis of Preparation

The Interim Financial Statements for the third quarter ended 30 September 2008 are unaudited and have been prepared in accordance with the requirements of FRS 134 – "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board (“MASB”) and Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad.

These explanatory notes attached to the Interim Financial Statements provide an explanation of event and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2007.

The accounting policies and methods of computation adopted by Company and the Group in preparing its financial statements are consistent with the audited financial statements for the year ended 31 December 2007.

A2. Audit Report Qualification

The audited financial statements for the year ended 31 December 2007 were not subject to any qualification.

A3. Seasonal or Cyclical Factors

The business operations of the Group for the quarter under review were not subject to any seasonal or cyclical factors.

A4. Nature and Amount of Unusual Items

There were no unusual items which affect the assets, liabilities, equity, net income or cash flow of the Group for the current quarter and financial year-to-date except as follows :

- a) A property belonging to a wholly-owned sub-subsidiary, Diamond Earnings Sdn Bhd (“DESB”), which has been charged to a financial institution for credit facilities granted to another subsidiary, Merces Builders Sdn Bhd (“MBSB”), had been auctioned-off at an auction price of RM211,000 to recoup partially the outstanding amount due by MBSB. The disposal of the said Property (having a carrying value of RM 0.973 million) has resulted in a loss of RM 0.762 million which was recognized upon being notified by the said financial institution during the current financial quarter.
- b) Another property belonging to a wholly-owned subsidiary, Nikmat Bidara Sdn Bhd (“NBSB”), which has also been charged for the same credit facilities granted to MBSB, had on 26 August 2008 been issued Notice of Intention To Foreclose. The said Property, which has a carrying value of RM2.477 million, has yet been foreclosed by the said financial institution as at the date of this report.

A5. Nature and Amount of Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years which may have a material effect in the current financial quarter.

A6. Issuance and Repayment of Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debts and equity securities for the current financial quarter.

A7. Dividends Paid

The Company did not make any payment of dividends during the current financial quarter and financial year-to-date.

A8. Segmental Reporting

No segmental analysis is prepared as the Group is primarily engaged in a single business segment of property development and building construction and the principal activities are predominantly in Malaysia.

A9. Valuation of Property, Plant and Equipment

The valuation of property, plant and equipment has been brought forward without any amendments from the audited financial statements for the year ended 31 December 2007.

A10. Material Events Subsequent to the end of the Period Under Review

There were no material events subsequent to the end of the current financial quarter that have not been reflected in the financial statement for the current quarter as at the date of this report except as follows :

Y&G's wholly-owned subsidiary, Elemen Cekap Sdn Bhd ("ECSB"), had on 17 October 2008 disposed of 100% equity interest comprising 2 ordinary shares of RM1.00 each in Bimbingan Cekap Sdn Bhd ("BCSB") for a total cash consideration of RM2.00 ("Disposal") to BCSB's Directors, Madam Teh Mi Mi and Mr Yeoh Chee Keong.

BCSB was incorporated on 23 May 2007 and currently is dormant. The present authorised capital of BCSB is RM100,000 divided into 100,000 ordinary shares of RM1.00 each and its issued and paid-up capital is RM2.00 divided into 2 ordinary shares of RM1.00 each.

None of the Directors and/or major shareholders of Y&G and persons connected with them have any interest, direct or indirect in the Disposal except for Madam Teh Mi Mi is the wife of Mr Yap Jun Jien, the Executive Director of the Company.

A11. Change in Composition of Group

There were no changes in the composition of the Group during the financial quarter under review and year-to-date.

A12. Change in Contingent Liabilities

There were no material changes in contingent liabilities or contingent assets since the last annual financial statements.

PART B: ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA LISTING REQUIREMENTS

B1. Review of Performance

The Group's revenue was mainly derived from construction works for the financial quarter ended 30 September 2008 under review and financial year-to-date.

Turnover for the current financial quarter was RM 12.942 million, an increase of RM 11.815 million as compared to the preceding year's corresponding quarter of RM 1.127 million. Turnover for the current financial year-to-date was RM 14.812 million, an increase of RM 9.771 million as compared to the preceding year's corresponding year-to-date of RM 5.041 million. The significant increase in turnover was due to the significant increase in the construction activities which commenced in the previous financial quarter ended 30 June 2008.

Loss before tax for the current financial quarter was RM 1.193 million as compared to the profit before tax of RM 0.145 million reported in the preceding year's corresponding quarter. Loss before tax for the current financial year-to-date was RM 1.433 million as compared to the profit before tax of RM 0.136 million reported in the preceding year's corresponding year-to-date. Despite of the substantial increase in turnover for both the current financial quarter and year-to-date as compared to the preceding year's corresponding periods, the loss suffered for current financial quarter and year-to-date is primarily due to the provision for impairment of investment in a deconsolidated subsidiary and the provision for doubtful receivables amounting to RM 2.317 million. If these provisions were excluded, the Group would have made a profit before tax of RM 1.124 million and RM 0.884 million for the current financial quarter and year-to-date respectively.

B2. Comparison with immediate preceding quarter

Turnover for the current financial quarter ended 30 September 2008 increased to RM 12.942 million as compared to RM 1.228 million reported in the preceding quarter. The significant increase in turnover was due to the significant increase in the construction activities which commenced in the previous financial quarter ended 30 June 2008.

Loss before tax for the current financial quarter was RM 1.193 million as compared to loss before tax of RM 0.91 million reported in the preceding quarter despite of the substantial increase in turnover for the current financial quarter primarily due to the provision for impairment of investment in a deconsolidated subsidiary and the provision for doubtful receivables amounting to RM 2.317 million.

B3. Next Year Prospect

In view that market for the property development and construction is sustaining, the Directors expect an improvement in the revenue of the Group for the remaining period of financial year ending 31 December 2008.

B4. Variance of Actual Profit from Profit Forecast

Not applicable as the Company did not issue any profit forecast.

B5. Taxation

The taxation shown in the Quarterly Report on Unaudited Consolidated Income Statement comprised :-

	Current Quarter RM'000	Current Year Todate RM'000
Taxation for current quarter / year	(492)	(492)
Over/(Under)prov of prior years' tax	-	169
	<u>(492)</u>	<u>(323)</u>

Provision for taxation has been made in the current financial quarter despite of the Group suffering loss before tax of RM 1.193 million primarily due to the non-deductibility of the provisions and the loss on disposal of property as stated in B1 and A4.a) above respectively.

The overprovision for taxation as reported in the current financial year-to-date represents overprovision for taxation in respect of previous financial year ended 31 December 2007 primarily due to the non-taxability of Non-Trade Payables written off amounting to RM 0.661 million.

B6. Sale of Unquoted Investments and Properties

There was no sale of unquoted investments and/or properties for the current quarter under review and financial year-to-date except as stated in A4.a) above.

B7. Quoted Securities

There was no purchase or disposal of quoted securities for the current quarter under review and financial year-to-date.

B8. Corporate Proposals

There was no corporate proposals announced and uncompleted for the current quarter under review and financial year-to-date.

B9. Group Borrowings and Debt Securities

Group Borrowings as at 30 September 2008 are as follows:-

	Secured RM'000	Unsecured RM'000	Total RM'000
(a) Short Term Borrowings :			
Bank overdraft	5,215	810	6,025
Revolving credits	-	-	-
Bankers acceptance	182	-	182
Hire Purchase	501	-	501
Term loans	1,200	-	1,200
	<u>7,098</u>	<u>810</u>	<u>7,908</u>
(b) Long Term Borrowing :			
Term loans	2,800	-	2,800
	<u>2,800</u>	<u>-</u>	<u>2,800</u>

There was no borrowings or debt securities denominated in foreign currencies.

B10. Off Balance Sheet Financial Instruments

There was no financial instruments with off balance sheet risk at the date of this report.

B11. Material Litigations

The changes in material litigations (including status of any pending material litigations) since the previous quarterly report are listed in the Appendix 1 attached hereto.

B12. Dividend

The Board of Directors does not recommend any interim dividend for the current quarter under review and financial year-to-date.

B13. Earning Per Share

Basic earning / (loss) per share is calculated by dividing the net profit / (loss) after taxation for the quarter by weighted average of ordinary shares in issue during the quarter.

	Individual Quarter	Cumulative Quarter
Net Profit / (Loss) (RM'000)	(1,685)	(1,756)
Weighted average number of ordinary share in issue ('000)	51,000	51,000
Earning / (Loss) per share (sen)	(3.30)	(3.44)
Diluted EPS	N/A	N/A

By Order of the Board

Wong Keo Rou (MAICSA 7021435)
Secretary
Kuala Lumpur
Date : 26 November 2008