

MERCES HOLDINGS BERHAD

(Company No. 6403-X)

(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENT

A1. Accounting Policies and Method of Computations

The interim financial statements have been prepared in accordance with MASB Standard 26 Interim Financial Reporting and Chapter 9 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The same accounting policies and method of computation are followed in the interim financial statements as compared with the annual audited financial statements for the year ended 31 December 2004.

The condensed financial statements are to be read in conjunction with the annual financial report for year ended 31 December 2004.

A2. Audit Report Qualification

The financial statements for the year ended 31 December 2004 was reported on without any qualification.

A3. Seasonal or Cyclical Factors

The main business operation of the Group i.e. construction and property development business are not materially affected by seasonal or cyclical factors but is generally dependent on the Malaysia economy.

A4. Nature and Amount of Unusual Items

Save as disclosed in the Notes, there are no material items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence.

A5. Nature and Amount of Changes in Estimates

There were no significant changes in the estimated amounts reported in prior interim periods of the current financial year or prior year that have a material effect in the current interim period.

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 year to date.

A7. Dividends Paid

There were no dividends paid separately for ordinary shares and other shares for the current financial year to date.

A8. Segmental Reporting

	Turnover RM'000	Profit/(Loss) before taxation RM'000	Total Assets Employed RM'000
Construction	2,107	(567)	37,100

Property Development	2,063	(856)	53,383
Property & investment holdings	93	(959)	11,855
	<u>4,263</u>	<u>(2,382)</u>	<u>102,338</u>

Geographical segment information is not significant to the Group as the principal activities occur predominately in Malaysia.

A9. Valuation of Property, Plant and Equipment

The valuations of property, plant and equipment have been brought forward without amendment from the previous annual financial statements and there were no valuations of property, plant and equipment for the current financial year to date.

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

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

A11. Change in Composition of Group

There were no changes in the composition of the Group for the current quarter and financial 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.

B1. Review of Performance

During the financial quarter under review, the Group registered a turnover of RM 3.4 Million as compared to RM 898,856 in the preceding quarter. The increase in turnover is mainly attributed to the increase in property development and construction activities during this period.

B2. Material Changes in the Quarterly Results Compared to the Results of the Preceding Quarter

The Group recorded a loss before taxation of RM 1.3 million for the current quarter ended 30 June 2005 compared to a loss of RM 1.1 million in the preceding quarter.

B3. Current Year Prospect

Barring any unforeseen circumstances, the Board will continue to undertake steps to improve the profitability of the Group for the coming financial year.

B4. Variance of Actual Profit from Profit Forecast

Explanatory note for variance of actual profit from forecast is not applicable, as the Company did not issue any profit forecast during the period.

B5. Taxation

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

Current Quarter	Current Year To date
RM'000	RM'000

Taxation for current quarter/year	-	-
Recovery of previous year's taxes	-	-
	<u>-</u>	<u>-</u>

B6. Profit/(Loss) on Sale of Unquoted Investments or Properties

There were no profit or loss on disposal of unquoted investments or properties for the current quarter and the financial year to date.

B7. Quoted Securities

There were no purchase or disposal of quoted securities for the current quarter and financial year to date

B8. Corporate Proposals

There were no corporate proposals announced and uncompleted for the current quarter and financial year to date.

B9. Group Borrowings and Debt Securities

Group Borrowings as at 30 June 2005 are as follows -

	Secured RM'000	Unsecured RM'000	Total RM'000
(a) Short Term Borrowings			
Bank overdraft	17,937	602	18,539
Revolving credits	5,179	-	5,179
Bankers acceptance	137	-	137
Term loans/Bridging loans	<u>17,775</u>	<u>-</u>	<u>17,775</u>
	<u>41,028</u>	<u>602</u>	<u>41,630</u>
(b) Long Term Borrowing			
Term loans/Bridging loans	<u>-</u>	<u>-</u>	<u>-</u>

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

B10. Off Balance Sheet Financial Instruments

There were 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 litigation) since the last annual balance sheet as at 31 December 2004 are listed in the Appendix 1 attached hereto.

B12. Dividend

The Board of Directors does not recommend any dividend payment for the financial period under review

B13. Earning Per Share

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

	Individual Quarter	Cumulative Quarter
Net Earnings/(Loss) ('000)	(1,292)	(2,380)
Weighted average number of ordinary share in issue('000)	51,000	51,000
Earnings/(Loss) per share (sen)	(2.53)	(4.67)

Diluted EPS is not applicable for the Period under review.

By Order of the Board,

Chia Kwok Why
Company Secretary

15th August 2005
Petaling Jaya