

**MERGE ENERGY BHD.**  
(Company No. 420099-X)  
(Incorporated In Malaysia)

## **Notes to the Interim Financial Report**

### **A1 Basis of preparation**

The interim financial report is unaudited and has been prepared in accordance with applicable approved Malaysian Financial Reporting Standards ("MFRS") No. 134 "Interim Financial Reporting" and Chapter 9 Part K paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Securities Exchange").

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 January 2014. There was no qualification in the audited financial statements for the year ended 31 January 2014.

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted in the annual financial statements for the year ended 31 January 2014. The transition from previous FRs to the new MFRSs had no impact on the Group financial position, financial performance, cash flow and the notes to the financial statement.

### **A2 Seasonal or cyclical factors**

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

### **A3 Items affecting assets, liabilities, equity, net income or cash flows**

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence during the current financial quarter.

### **A4 Change in estimates**

There were no significant changes in the estimates of amounts reported in the interim periods of prior financial years that have a material effect in the current financial quarter.

### **A5 Debt and equity securities**

There were no issuance and repayment of debt and equity securities, share buy-back, share cancellations, share held as treasury shares and resale of treasury shares for the current financial year to-date.

### **A6 Dividend paid**

No dividends were paid for the current quarter under review.

## A7 Segment Revenue and Segment Result by Business Segments

Segment information is presented in respect of the Group's business segment. All inter-segment transactions have been entered into in the normal course of business and have been established under terms and conditions that are not materially different from that obtainable in transactions with unrelated parties. The effects of the inter-segment transactions are eliminated on consolidation.

| Business Segments               | Investment Holding | Construction | Property Investment | Trading | Oil & Gas | Others | Elimination | Group  |
|---------------------------------|--------------------|--------------|---------------------|---------|-----------|--------|-------------|--------|
|                                 | RM'000             | RM'000       | RM'000              | RM'000  | RM'000    | RM'000 | RM'000      | RM'000 |
| 3 months ended<br>31 July 2014  |                    |              |                     |         |           |        |             |        |
| Revenue                         |                    |              |                     |         |           |        |             |        |
| External sales                  | -                  | 32,531       | 7                   | 752     | 2,794     | -      | -           | 36,084 |
| Inter-segment sales             | -                  | -            | 42                  | 7       | 11        | -      | (60)        | -      |
|                                 | -----              | -----        | -----               | -----   | -----     | -----  | -----       | -----  |
|                                 | -                  | 32,531       | 49                  | 759     | 2,805     | -      | (60)        | 36,084 |
|                                 | =====              | =====        | =====               | =====   | =====     | =====  | =====       | =====  |
| Segment Profit /(Loss)          | (209)              | 800          | (13)                | 2       | (422)     | (2)    | 2           | 158    |
| Share of results in Associate   | -                  | (14)         | -                   | -       | -         | -      | -           | (14)   |
|                                 | -----              | -----        | -----               | -----   | -----     | -----  | -----       | -----  |
| Profit / (Loss) before taxation | (209)              | 786          | (13)                | 2       | (422)     | (2)    | 2           | 144    |
| Taxation                        | -                  | (56)         | (3)                 | (16)    | (20)      | -      | -           | (95)   |
| Zakat                           | -                  | -            | -                   | -       | -         | -      | -           | -      |
|                                 | -----              | -----        | -----               | -----   | -----     | -----  | -----       | -----  |
| Profit/(Loss) after taxation    | (209)              | 730          | (16)                | (14)    | (442)     | (2)    | 2           | 49     |
|                                 | =====              | =====        | =====               | =====   | =====     | =====  | =====       | =====  |

**A7 Segment Revenue and Segment Result by Business Segments (cont'd)**

| Business Segments               | Investment Holding | Construction | Property Investment | Trading | Oil & Gas | Others | Elimination | Group  |
|---------------------------------|--------------------|--------------|---------------------|---------|-----------|--------|-------------|--------|
|                                 | RM'000             | RM'000       | RM'000              | RM'000  | RM'000    | RM'000 | RM'000      | RM'000 |
| 3 months ended<br>31 July 2013  |                    |              |                     |         |           |        |             |        |
| Revenue                         |                    |              |                     |         |           |        |             |        |
| External sales                  | -                  | 25,331       | 9                   | 413     | 2,343     | -      | -           | 28,096 |
| Inter-segment sales             | -                  | -            | 42                  | -       | -         | -      | -           | 42     |
|                                 | -----              | -----        | -----               | -----   | -----     | -----  | -----       | -----  |
|                                 | -                  | 25,331       | 51                  | 413     | 2,343     | -      | -           | 28,138 |
|                                 | =====              | =====        | =====               | =====   | =====     | =====  | =====       | =====  |
| Segment Profit /(Loss)          | (220)              | 386          | (6)                 | 33      | 243       | (2)    | 2           | 436    |
| Share of results in Associate   | -                  | -            | -                   | -       | -         | -      | -           | -      |
|                                 | -----              | -----        | -----               | -----   | -----     | -----  | -----       | -----  |
| Profit / (Loss) before taxation | (220)              | 386          | (6)                 | 33      | 243       | (2)    | 2           | 436    |
| Taxation                        | -                  | (4)          | (5)                 | (24)    | 11        | -      | -           | (22)   |
| Deferred Taxation               | -                  | -            | -                   | -       | -         | -      | -           | -      |
|                                 | -----              | -----        | -----               | -----   | -----     | -----  | -----       | -----  |
| Profit/(Loss) after taxation    | (220)              | 382          | (11)                | 9       | 254       | (2)    | 2           | 414    |
|                                 | =====              | =====        | =====               | =====   | =====     | =====  | =====       | =====  |

**A7 Segment Revenue and Segment Result by Business Segments (cont'd)**

| Business Segments               | Investment Holding<br>RM'000 | Construction<br>RM'000 | Property Investment<br>RM'000 | Trading<br>RM'000 | Oil & Gas<br>RM'000 | Others<br>RM'000 | Elimination<br>RM'000 | Group<br>RM'000 |
|---------------------------------|------------------------------|------------------------|-------------------------------|-------------------|---------------------|------------------|-----------------------|-----------------|
| 6 months ended<br>31 July 2014  |                              |                        |                               |                   |                     |                  |                       |                 |
| Revenue                         |                              |                        |                               |                   |                     |                  |                       |                 |
| External sales                  | -                            | 47,275                 | 14                            | 1,142             | 5,073               | -                | -                     | 53,504          |
| Inter-segment sales             | -                            | -                      | 84                            | 7                 | 11                  | -                | (102)                 | -               |
|                                 | -----                        | -----                  | -----                         | -----             | -----               | -----            | -----                 | -----           |
|                                 | -                            | 47,275                 | 98                            | 1,149             | 5,084               | -                | (102)                 | 53,504          |
|                                 | =====                        | =====                  | =====                         | =====             | =====               | =====            | =====                 | =====           |
| Segment Profit /(Loss)          | (394)                        | 859                    | (13)                          | (53)              | 186                 | (3)              | 4                     | 586             |
| Share of results in Associate   | -                            | (32)                   | -                             | -                 | -                   | -                | -                     | (32)            |
|                                 | -----                        | -----                  | -----                         | -----             | -----               | -----            | -----                 | -----           |
| Profit / (Loss) before taxation | (394)                        | 827                    | (13)                          | (53)              | 186                 | (3)              | 4                     | 554             |
| Taxation                        | -                            | (141)                  | (6)                           | (32)              | (41)                | -                | -                     | (220)           |
| Deferred Taxation               | -                            | -                      | -                             | -                 | -                   | -                | -                     | -               |
|                                 | -----                        | -----                  | -----                         | -----             | -----               | -----            | -----                 | -----           |
| Profit/(Loss) after taxation    | (394)                        | 686                    | (19)                          | (85)              | 145                 | (3)              | 4                     | 334             |
|                                 | =====                        | =====                  | =====                         | =====             | =====               | =====            | =====                 | =====           |

**A7 Segment Revenue and Segment Result by Business Segments (cont'd)**

| Business Segments               | Investment Holding<br>RM'000 | Construction<br>RM'000 | Property Investment<br>RM'000 | Trading<br>RM'000 | Oil & Gas<br>RM'000 | Others<br>RM'000 | Elimination<br>RM'000 | Group<br>RM'000 |
|---------------------------------|------------------------------|------------------------|-------------------------------|-------------------|---------------------|------------------|-----------------------|-----------------|
| 6 months ended<br>31 July 2013  |                              |                        |                               |                   |                     |                  |                       |                 |
| Revenue                         |                              |                        |                               |                   |                     |                  |                       |                 |
| External sales                  | -                            | 41,669                 | 20                            | 1,149             | 3,783               | -                | -                     | 46,621          |
| Inter-segment sales             | -                            | 765                    | 84                            | 2                 | -                   | -                | (851)                 | -               |
|                                 | -----                        | -----                  | -----                         | -----             | -----               | -----            | -----                 | -----           |
|                                 | -                            | 42,434                 | 104                           | 1,151             | 3,783               | -                | (851)                 | 46,621          |
|                                 | =====                        | =====                  | =====                         | =====             | =====               | =====            | =====                 | =====           |
| Segment Profit /(Loss)          | (393)                        | 1,687                  | (4)                           | (219)             | (170)               | (2)              | 4                     | 903             |
| Share of results in Associate   | -                            | (3)                    | -                             | -                 | -                   | -                | -                     | (3)             |
|                                 | -----                        | -----                  | -----                         | -----             | -----               | -----            | -----                 | -----           |
| Profit / (Loss) before taxation | (393)                        | 1,684                  | (4)                           | (219)             | (170)               | (2)              | 4                     | 900             |
| Taxation                        | -                            | (8)                    | (10)                          | (48)              | 20                  | -                | -                     | (46)            |
| Deferred Taxation               | -                            | -                      | -                             | -                 | -                   | -                | -                     | -               |
|                                 | -----                        | -----                  | -----                         | -----             | -----               | -----            | -----                 | -----           |
| Profit/(Loss) after taxation    | (393)                        | 1,676                  | (14)                          | (267)             | (150)               | (2)              | 4                     | 854             |
|                                 | =====                        | =====                  | =====                         | =====             | =====               | =====            | =====                 | =====           |

**A8 Valuation of property, plant and equipment**

The valuation of property, plant and equipment has been brought forward without amendment from the previous annual financial statements for the year ended 31 January 2014.

**A9 Material subsequent events**

There were no other material events subsequent to the end of the quarter under review, which are likely to affect the result of the Group's operation substantially.

**A10 Changes in composition of the Group**

There were no changes in the composition of the Group for the current quarter under review.

**A11 Contingent liabilities or contingent assets**

The Company has given corporate guarantees amounting to RM55.85 million (31/01/2014 : RM36.91 million) to licensed banks for banking and suppliers credit facilities granted to a subsidiary company. Consequently, the Company is contingently liable for the amount of banking facilities utilized by a subsidiary company amounting to RM25.75 million (31/01/2014 : RM15.98 million)

## **Additional information required by Bursa Malaysia Listing Requirements**

### **B1 Review of performance**

For the six months ended 31 July 2014, the Group recorded revenue of RM53.50 million and profit before taxation of RM554,000 compared to revenue of RM46.62 million and profit before taxation of RM900,000 for the preceding year six months ended 31 July 2013. The decline of profit in the current quarter was mainly due to written off business development expenditure amounting to RM947,000 incurred by its' subsidiary company as compared to the same period in the preceding year. The directors has assessed the possibility of securing the business and decided to write-off the said expenditure

### **B2 Comparison of the quarterly results to the results of the preceding quarter**

For the current quarter under review, the Group recorded revenue of RM36.08 million and profit before taxation of RM144,000 as compared to a revenue of RM17.42 million and profit before taxation of RM409,000 million in the preceding quarter ended 30 April 2014. The lower profit recorded are off the same as mentioned in item B1.

### **B3 Prospects**

The recent awarded ECERDC Ganchong water treatment works project in Pekan Pahang amounting to RM158 million is expected to bring positive earnings to the Group for the next three years.

Moving forward, the Group will continue to leverage on its water works expertise as well as its oil and gas business to enhance the Group's performance.

Barring any unforeseen circumstances, the board of directors is optimistic of the overall Group performances and future undertakings.

### **B4 Profit forecast**

Not applicable as no profit forecast was published.

**B5 Taxation**

|                              | Current Quarter<br>31 July 2014<br>RM'000 | Current Year To-Date<br>31 July 2014<br>RM'000 |
|------------------------------|---|--|
| Income Tax<br>- Current Year | 95<br>-----<br>95<br>=====                | 220<br>-----<br>220<br>=====                   |

Provision for tax was made in the current quarter on business and non business income derived mainly from operating income, rental, interest on repo and fixed deposit.

**B6 Unquoted investments and properties**

There was no sale of unquoted investments or properties for the current quarter and financial year to date.

**B7 Purchase or disposal of quoted investments**

There was no purchase or disposal of quoted investments for the current quarter.

**B8 Borrowing**

The Group borrowings as at 31 July 2014 are as follows: -

|                                    | 31 July 2014<br>RM'000 | 31 July 2013<br>RM'000 |
|------------------------------------|------------------------|------------------------|
| <u>Short term borrowing</u>        |                        |                        |
| - Hire purchase creditor           | 317                    | 275                    |
| - Letter of Credit / Trust Receipt | 221                    | -                      |
| - Bank Overdraft                   | -                      | -                      |
| - Term Loan                        | 13                     | 267                    |
| <u>Long term borrowing</u>         |                        |                        |
| - Hire purchase creditor           | 487                    | 525                    |
| - Term Loan                        | 476                    | -                      |
| Total                              | 1,514                  | 1,067                  |

**B9 Material litigation**

There is no litigation for the financial year as at 31 July 2014.



**B10 Dividend**

No dividends were proposed or declared for the current quarter and financial year to date. (2014: Nil).

**B11 Earnings per share**

The basic earnings per share for the financial year has been calculated based on the consolidated profit after taxation attributable to the owner of the parent of RM276,000 and on the number of ordinary shares in issue of 67,000,000.

**B12 Realised and Unrealised Profit / Loss Disclosures**

The following analysis is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the context of disclosure pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad

|   | As at<br>31 July 2014<br>RM'000 | As at<br>31 Jan 2014<br>RM'000<br>(Audited) |
|---|---------------------------------|---|
| Total retained profits / (accumulated losses)<br>of Merge Energy Bhd and its subsidiaries : |                                 |   |
| - Realised  | (43,494)                        | (43,857)                                    |
| - Unrealised  | 4,686                           | 4,686                                       |
|   | <hr/>                           | <hr/>                                       |
|   | (38,808)                        | (39,171)                                    |
| Total share of retained profits / (accumulated losses)<br>of the associate :                |                                 |   |
| - Realised  | (234)                           | (202)                                       |
| - Unrealised  | -                               | -   |
|   | <hr/>                           | <hr/>                                       |
|   | (39,402)                        | (39,373)                                    |
| Add : Consolidation adjustments   | 20,419                          | 20,474                                      |
|   | <hr/>                           | <hr/>                                       |
| Total group retained profits / (accumulated losses)<br>as per consolidated accounts         | <u><u>(18,623)</u></u>          | <u><u>(18,899)</u></u>                      |

By Order of the Board  
Yew @ Yeoh Siew Yen  
MAICSA 7048094  
Company Secretary  
Shah Alam  
25 September 2014