

Notes to the Interim Financial Report

A1 Corporate Information

The Company is a public limited company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

A2 Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with MFRS 134 : Interim Financial Reporting in Malaysia and the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Group for the financial year ended 31 March 2019.

The accounting policies and methods of computation adopted by the Group in these interim financial statements are consistent with those adopted in the annual financial statements for the financial year ended 31 March 2019 except for those standards, amendments and interpretations which are effective from the annual period beginning on or after 1 April 2019 as disclosed below.

New MFRSs

MFRS 16 Leases

Amendments / Improvements to MFRSs

MFRS 3 Business Combinations
MFRS 9 Financial Instruments
MFRS 11 Joint Arrangements
MFRS 112 Income Taxes
MFRS 119 Employee Benefits
MFRS 123 Borrowing Costs
MFRS 128 Investments in Associates and Joint Ventures
MFRS 140 Investment Property

New IC Int

IC Int 23 Uncertainty Over Income Tax Treatments

The adoption of these new standards, amendments / improvements and new IC Int interpretations have no material impact to these interim financial statements.

A3 Seasonal or cyclical factors

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

A4 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.

A5 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 period.

A6 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.

A7 Dividend paid

No dividends were paid for the current quarter under review.

A8 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 RM'000	Construction RM'000	Property Investment RM'000	Maintenance, Facility Management and Services RM'000	Oil & Gas RM'000	Auto Service and Maintenance Workshop RM'000	Others RM'000	Elimination RM'000	Group RM'000
3 months ended 30 June 2019									
Revenue									
External sales	-	22,153	16	(12)	1,954	-	-	-	24,111
Inter-segment sales	-	-	56	1	-	-	-	(57)	-
	<u>-</u>	<u>22,153</u>	<u>72</u>	<u>(11)</u>	<u>1,954</u>	<u>-</u>	<u>-</u>	<u>(57)</u>	<u>24,111</u>
Segment Profit / (Loss)	(379)	(102)	9	(848)	35	-	(1)	2	(1,284)
Finance costs	-	(94)	-	(4)	(16)	-	-	-	(114)
Profit / (Loss) before tax	<u>(379)</u>	<u>(196)</u>	<u>9</u>	<u>(852)</u>	<u>19</u>	<u>-</u>	<u>(1)</u>	<u>2</u>	<u>(1,398)</u>
Taxation	-	-	(4)	-	-	-	-	-	(4)
Profit / (Loss) after taxation	<u><u>(379)</u></u>	<u><u>(196)</u></u>	<u><u>5</u></u>	<u><u>(852)</u></u>	<u><u>19</u></u>	<u><u>-</u></u>	<u><u>(1)</u></u>	<u><u>2</u></u>	<u><u>(1,402)</u></u>

A8 Segment Revenue and Segment Result by Business Segments (cont'd)

Business Segments	Investment Holding RM'000	Construction RM'000	Property Investment RM'000	Maintenance, Facility Management and Services RM'000	Oil & Gas RM'000	Auto Service and Maintenance Workshop RM'000	Others RM'000	Elimination RM'000	Group RM'000
3 months ended 30 June 2018									
Revenue									
External sales	-	5,113	16	785	2,676	494	-	-	9,084
Inter-segment sales	-	-	44	57	-	24	-	(125)	-
	<u>-</u>	<u>5,113</u>	<u>60</u>	<u>842</u>	<u>2,676</u>	<u>518</u>	<u>-</u>	<u>(125)</u>	<u>9,084</u>
Segment Profit / (Loss)	(203)	(209)	1	(87)	662	(283)	(1)	31	(89)
Finance costs	-	(85)	-	(4)	(16)	-	-	-	(105)
Profit / (Loss) before tax	<u>(203)</u>	<u>(294)</u>	<u>1</u>	<u>(91)</u>	<u>646</u>	<u>(283)</u>	<u>(1)</u>	<u>31</u>	<u>(194)</u>
Taxation	-	-	(4)	-	(8)	-	-	-	(12)
Profit / (Loss) after taxation	<u>(203)</u>	<u>(294)</u>	<u>(3)</u>	<u>(91)</u>	<u>638</u>	<u>(283)</u>	<u>(1)</u>	<u>31</u>	<u>(206)</u>

A9 Valuation of property, plant and equipment and investment properties

The valuation of property, plant and equipment has been brought forward without amendment from the previous annual financial statements for the year ended 31 March 2019.

A10 Material subsequent events

(i) Disposal of lands by Mewah Kota Sdn Bhd; a wholly-owned subsidiary of Merge Energy Bhd to various parties.

On 24 May 2019, the Company announced that Mewah Kota Sdn Bhd had on even date entered into nine (9) conditional sales and purchase agreements ("SPAs") with various parties, for the disposals of various parcels of lands contiguous to each other, all of which located at Bandar Serendah, Daerah Ulu Selangor, Selangor Darul Ehsan ("Properties") for a total cash consideration of RM7,189,184.

On 31 May 2019, the Company announced that Mewah Kota Sdn Bhd had on even date entered into eight (8) conditional sales and purchase agreements ("SPAs") with Rawang Glass Trading Sdn Bhd ("Purchaser") for the disposals of various parcels of lands contiguous to each other, all located at Bandar Serendah, Daerah Ulu Selangor, Selangor Darul Ehsan for a total cash consideration of RM8,922,984.

On 25 June 2019, the Company announced that Mewah Kota Sdn Bhd had on 24 June 2019 entered into a conditional sales and purchase agreement ("SPA") with Dhaya Maju Infrastructure (Asia) Sdn Bhd ("Purchase") for the disposals of various parcels of lands contiguous to each other, all located at Bandar Serendah, Daerah Ulu Selangor, Selangor Darul Ehsan for a total cash consideration of RM7,727,561.

(ii) Proposed change of name

On 28 May 2019, the Company announced it's proposing to change the Company name from "MERGE ENERGY BHD" to "STELLA HOLDINGS BERHAD" ("Proposed Change of Name").

The use of the proposed name of "STELLA HOLDINGS BERHAD" was approved and reserved by the Companies Commission of Malaysia (CCM) on 18 February 2019 and the reservation of the name is valid for a period of 30 days i.e. from 18 February to 18 March 2019 (Validity Period). Subsequently, the Validity Period was extended by CCM to 18 August 2019. As the validity extended period had expired on 18 August 2019, a fresh application had been made on 19 August 2019 and approved by CCM for another one month. The Company will extend the reservation of name before the expiry date.

The Proposed Change of Name is subject to the approval being obtained from the shareholders of the Company at a general meeting.

(iii) Acceptance of new contract

On 1 July 2019, the Company announced that Mewah Kota Sdn Bhd, a wholly-owned subsidiary of MEB has received and accepted a Letter of Acceptance from Pengurusan Aset Air Berhad ("PAAB") in respect of the "Proposed Development Of Langat 2 Water Treatment Plant And Water Reticulation System In Selangor Darul Ehsan / Wilayah Persekutuan Kuala Lumpur, Pakej 15(5) – Kerja-kerja Penyambungan Ke Sistem Sediada Dan Memasang Paip Jenis Keluli Lembut (Mild Steel) Bergarispusat Nominal" ("the Contract").

The total Contract Sum is Ringgit Malaysia Twenty Six Million Only (RM26,000,000). The Contract is for a period of twelve (12) months and the date for completion shall be 23 July 2020.

(iv) Proposed development

On 4 July 2019, the Company announced its proposed development pursuant to a joint venture agreement dated 4 July 2019 entered into between Paramount Ventures Sdn Bhd ("PVSB"), a wholly owned subsidiary of the Company and Mega 3 Housing Sdn Bhd ("M3H") to develop a mixed development project located at Pasir Panjang, Port Dickson, Negeri Sembilan.

(v) Proposed diversification

On 4 July 2019, the Company announced its proposed diversification of the principal activities of the Company and its subsidiaries to include property development.

(vi) Proposed reduction of the Company's issued share capital

On 4 July 2019, the Company announced its proposed reduction of Company's issued share capital pursuant to Section 117 of the Companies Act 2016 by reducing and cancelling share capital assets of the Company which is lost or unrepresented by available assets, equivalent to the entire accumulated losses of the Company to offset the credit arising against such accumulated losses.

A11 Changes in composition of the Group

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

A12 Contingent liabilities or contingent assets

The Company has given corporate guarantees amounting to RM50.83 million (31/03/2019 : RM50.83 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 utilised by subsidiaries company amounting to RM14.59 million (31/03/2019 : RM14.52 million)

Additional information required by Bursa Malaysia Listing Requirements

B1 Review of performance

	INDIVIDUAL PERIOD (1st quarter)			CUMULATIVE PERIOD		
	CURRENT YEAR QUARTER	PRECEDING YEAR QUARTER	Change %	CURRENT YEAR TO-DATE	PRECEDING YEAR TO-DATE	Change %
	30.06.2019 RM'000	30.06.2018 RM'000		30.06.2019 RM'000	30.06.2018 RM'000	
Revenue	24,111	9,084	165%	24,111	9,084	165%
Operating Loss	(1,284)	(89)	1343%	(1,284)	(89)	1343%
Loss Before Interest and Tax	(1,284)	(89)	1343%	(1,284)	(89)	1343%
Loss Before Tax	(1,398)	(194)	621%	(1,398)	(194)	621%
Loss After Tax	(1,402)	(206)	581%	(1,402)	(206)	581%
Loss Attributable to Owners of the Company	(1,411)	(461)	206%	(1,411)	(461)	206%

Quarterly

For the current quarter under review, the Group recorded revenue of RM24.11 million and loss before tax of RM1.40 million as compared to corresponding preceding year quarter revenue of RM9.08 million and loss before tax of RM0.19 million respectively.

The revenue increased by 165% mainly contributed by new on going project Loji Rawatan Air Pagoh and contribution from Iris Synergy Sdn Bhd. Payment of staff compensation and retrenchment package of RM443,000 lead to increase in administrative cost resulted the loss before tax also increase by 621% as compared to corresponding preceding year quarter.

B2 Comparison of the quarterly results to the results of the immediate preceding quarter

	CURRENT QUARTER ENDED 30.06.2019 RM'000	IMMEDIATE PRECEDING QUARTER ENDED 31.03.2019 RM'000	Change %
Revenue	24,111	16,480	46%
Operating Loss	(1,284)	(2,033)	-37%
Loss Before Interest and Tax	(1,284)	(2,033)	-37%
Loss Before Tax	(1,398)	(2,188)	-36%
Loss After Tax	(1,402)	(2,478)	-43%
Loss Attributable to Owners of the Company	(1,411)	(2,602)	-46%

The Group current quarter recorded higher revenue of RM24.11 million compared to the preceding quarter revenue of RM16.48 million. The loss before tax of RM1.40 million reduced by 43% compare to the immediate preceding quarter of RM2.19 million mainly due to lower gross profit, allowance for impairment loss on receivables of RM1.03 million and loss on fair value land and properties of RM194,000 during the immediate preceding quarter.

B3 Prospects

The Management has undertaken a review and evaluation of the Group's business and operations. Following such review, our Group will be undertaking various corporate exercises to enhance the earnings and strengthen the financial position of our Group, amongst others, our Group will be undertaking the followings : -

- (i) Proposed development pursuant to a joint venture agreement dated 4 July 2019 entered into between Paramount Ventures Sdn Bhd ("PVSB" or Developer") ("JVA"), a wholly owned subsidiary of Merge, and Mega 3 Housing Sdn Bhd to develop a mixed development project located at Pasir Panjang, Port Dickson, Negeri Sembilan ("Proposed Development");

- (ii) Proposed diversification of the principal activities of the Company and its subsidiaries ("Merge Group" or "Group") to include property development ("Proposed Diversification"); and
- (iii) Proposed reduction of Merge's issued share capital pursuant to Section 117 of the Companies Act 2016 by reducing and cancelling share capital assets, equivalent to the entire accumulated losses of the Company to offset the credit arising against such accumulated losses ("Proposed Share Capital Reduction").
- (iv) Proposed disposal of various parcels of lands contiguous to each other, all which located at Bandar Serendah, Daerah Ulu Selangor, Selangor Darul Ehsan for a total cash consideration of RM23,839,729.

In addition, our wholly-owned subsidiary, Mewah Kota Sdn Bhd was awarded the "Proposed Development Of Langat 2 Water Treatment Plant And Water Reticulation System In Selangor Darul Ehsan / Wilayah Persekutuan Kuala Lumpur, Pakej 15(5) – Kerja-kerja Penyambungan Ke Sistem Sediada Dan Memasang Paip Jenis Keluli Lembut (Mild Steel) Bergarispusat Nominal" by Pengurusan Aset Air Berhad ("PAAB") for a period of twelve (12) months for a contract sum of Ringgit Malaysia Twenty Six Million (RM26,000,000).

In view of the foregoing, the Board is positive on the outlook of the Group.

B4 Profit forecast

Not applicable as no profit forecast was published.

B5 Profit Before Tax

Profit before tax is arrived at after charging / (crediting) :-

	Current Quarter 30-Jun-19 RM'000	Preceding Year Quarter 30-Jun-18 RM'000	Current YTD 30-Jun-19 RM'000	Preceding Year YTD 30-Jun-18 RM'000
Interest Income	(29)	(33)	(29)	(33)
Interest Expenses	114	105	114	105
Depreciation Expenses	152	333	152	333
Foreign Exchange (Gain) / Loss	8	(2)	8	(2)

B6 Taxation

	Current Quarter 30-Jun-19 RM'000	Preceding Year Quarter 30-Jun-18 RM'000	Current YTD 30-Jun-19 RM'000	Preceding Year YTD 30-Jun-18 RM'000
- Prior Year Tax	0	0	0	0
- Current Year Tax	4	12	4	12
	4	12	4	12

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.

B7 Unquoted investments and properties

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

B8 Purchase or disposal of quoted investments

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

B9 Borrowing

The Group borrowings are as follows: -

	As at 30-Jun-19 RM'000	As at 31-Mar-19 RM'000
<u>Short Term Borrowings (Secured)</u>		
- Bank Overdraft	6,068	4,261
- Finance Lease	249	268
- Term Loan	64	41
<u>Long Term Borrowings (Secured)</u>		
- Finance Lease	302	350
- Term Loan	1,093	1,127
Total Borrowings	7,776	6,047

B10 Material litigation

There is no material litigation for the financial period as at 30 June 2019.

B11 Dividend

No dividends were proposed or declared for the current quarter and financial year to date. (2019 : Nil).

B12 Earnings per share

The basic losses per share for the financial year has been calculated based on the consolidated losses after taxation attributable to the owner of the parent of RM1.41 million and on the number of ordinary shares issue of 67,000,000.

By Order of the Board
Hani Syamira Abdul Hamid
LS 0009872
Company Secretary
Shah Alam
27 August 2019