MERGE ENERGY BHD

(420099-X)

ANNUAL REPORT

2018

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CORPORATE **PROFILE**

Merge Energy Bhd ("MEB") is a strategic investment holding company listed on the Main Market of Bursa Malaysia Securities Berhad on 17 November 1998.

The Group was established as a construction group 37 years ago via Mewah Kota Sdn Bhd, which was involved in small and medium sized contracts for building of schools, houses, water treatment plants, pipe laying, security fencing and piling works. From then on, the Group gradually progressed to establish itself as a reliable contractor capable of undertaking bigger and more complex engineering and infrastructure projects nationwide. It has achieved good records in terms of quality and timely completion of works undertaken, all of which attributed to its recognition as a reputable contractor and project manager.

MEB's core activities and expertise are in the construction, project management, trading and maintenance works in the following areas:

- Water treatment plants
- Sewage and sludge treatment plants and facilities
- Pipe laying and reservoirs construction
- Buildings
- Refurbishment and maintenance works
- Earthworks, roads and drainage

Over the years, MEB expanded its business by acquiring several companies to develop new potential market.

In 2013, MEB acquired Iris Synergy Sdn Bhd, a company providing support to the oil and gas industries. Its core business is to provide solution to all industrial water needs in the said industries including for petrochemical plant and rigs.

Through its other subsidiaries, MEB is also involved in valve supply, installation, maintenance and exercise; property development and property investment; landscaping and integrated facilities management contract works including pest control services; auto services and maintenance workshop.

MEB through its subsidiaries is accredited with the following licences, which include:

- Construction Industry Development Board Malaysia ("CIDB") Grade G7
- Bahagian Pembangunan Kontraktor dan Usahawan (previously known as Pusat Khidmat Kontraktor) Taraf Bumiputra Grade G7
- Kementerian Kewangan Malaysia - Sijil Akaun Pendaftaran Syarikat and Sijil Akuan Pendaftaran Syarikat Bumiputera
- Suruhanjaya Perkhidmatan Air Negara ("SPAN")
- ISO 9001:2015 quality management system certification
- Felda Holdings Bhd
- Petronas License to supply product/service

Leveraging on its expertise and strong track record, MEB's roadmap for the future lies in expanding its presence in both the public and private sectors.

CORPORATE **INFORMATION**

BOARD OF DIRECTORS

Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun
Independent Non-Executive Chairman

Dato' Abdul Jalil bin Abdul Karim
Executive Director/ Chief Executive Officer

Raizita binti Ahmad @ Harun
Executive Director

Dato' Sheah Kok Fah
Senior Independent Non-Executive Director

Dato' Kamarulzaman bin Jamil
Independent Non-Executive Director

Dr Badrul Hisham bin Mohd Yusoff
Independent Non-Executive Director

AUDIT COMMITTEE

Chairman:
Dato' Sheah Kok Fah

Members:
Dato' Kamarulzaman bin Jamil
Dr Badrul Hisham bin Mohd Yusoff

NOMINATION COMMITTEE

Chairman:
Dato' Sheah Kok Fah

Members:
Dato' Kamarulzaman bin Jamil
Dr Badrul Hisham bin Mohd Yusoff

REMUNERATION COMMITTEE

Chairman:
Dato' Sheah Kok Fah

Members:
Dato' Abdul Jalil bin Abdul Karim
Dato' Kamarulzaman bin Jamil

RISK MANAGEMENT COMMITTEE

Chairman:
Dato' Kamarulzaman bin Jamil

Members:
Dato' Abdul Jalil bin Abdul Karim
Raizita binti Ahmad @ Harun
Dr Badrul Hisham bin Mohd Yusoff

EXECUTIVE COMMITTEE

Chairman:
Dato' Abdul Jalil bin Abdul Karim

Member:
Raizita binti Ahmad @ Harun
Shahrizad bin Akashah

COMPANY SECRETARY
Yew @ Yeoh Siew Yen
(MAICSA 7048094)

REGISTERED OFFICE AND BUSINESS ADDRESS
No. 2 Jalan Apollo U5/190
Bandar Pinggiran Subang, Seksyen U5
40150 Shah Alam
Selangor Darul Ehsan
Tel: 603-7847 2900
Fax: 603-7845 3900
E-mail: meb@merge-energy.com.my
Website: www.merge-energy.com.my

SHARE REGISTRAR
Symphony Share Registrars Sdn Bhd
(378993-D)
Level 6 Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
Tel: 603-7849 0777
Fax: 603-7841 8151

AUDITORS
Baker Tilly Monteiro Heng
Chartered Accountants
Baker Tilly MH Tower
Level 10, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur
Tel: 603-2297 1000
Fax: 603-2282 9980

BANKERS
Malayan Banking Berhad
Maybank Islamic Berhad
AmBank (M) Berhad

STOCK EXCHANGE LISTING
Bursa Malaysia Securities Berhad
- Construction Sector, Main Market

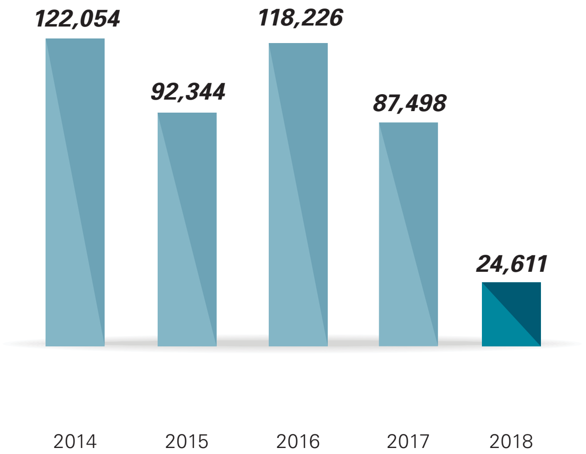
CORPORATE **STRUCTURE**

MERGE ENERGY BHD
(420099-X)

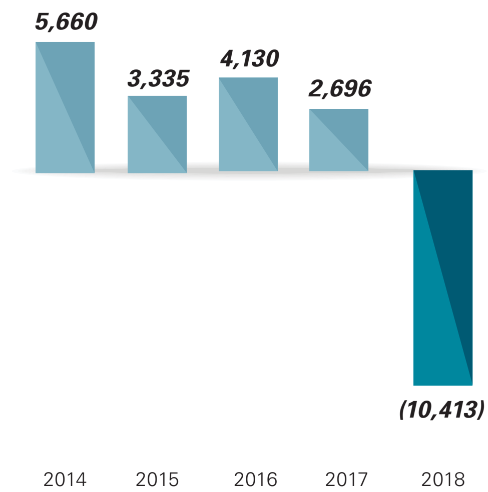
- 100% **Mewah Kota Sdn Bhd** (76368-X)
  - 100% **Innovasi Hebat Sdn Bhd** (546017-D)
- 100% **Semarak Niaga Lanskap Sdn Bhd** (416698-W)
  - 100% **Yakin Rantau Sdn Bhd** (549750-H)
- 100% **Paramount Ventures Sdn Bhd** (284451-V)
- 100% **Merge Highway Engineering Sdn Bhd** (397911-X)
- 100% **MEB Realty Sdn Bhd** (231283-A)
- 100% **Merge Properties Sdn Bhd** (29422-T)
- 100% **MEB Development Sdn Bhd** (419445-D)
- 100% **Merge Readymix Sdn Bhd** (397672-V)
- 100% **Merge Energy O & G Sdn Bhd** (403304-X)
- 100% **Arena Terbaik Sdn Bhd** (1033618-D)
  - 100% **Gerimis Sejagat Sdn Bhd** (397039-V)
  - 100% **Syor Bernas Sdn Bhd** (559610-V)
  - 100% **Pimpinan Terbaik Sdn Bhd** (1102470-D)
- 60% **Iris Synergy Sdn Bhd** (742199-P)

FINANCIAL **HIGHLIGHTS**

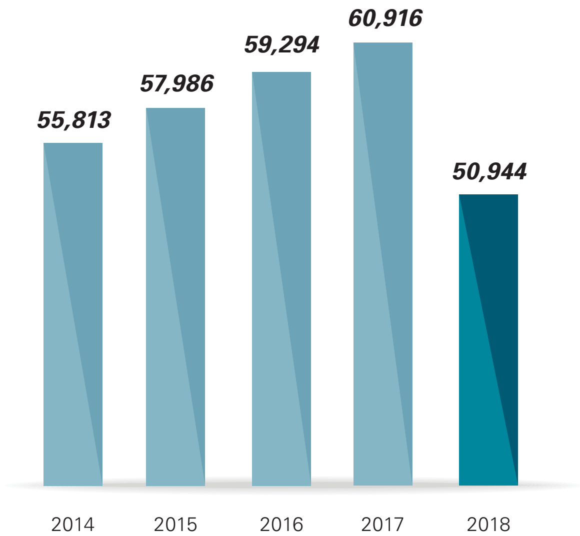
	Audited				
	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000
Revenue	122,054	92,344	118,226	87,498	**24,611**
Operating Profit/(Loss)	12,940	3,483	4,361	2,099	**(6,571)**
Profit/(Loss) before taxation & zakat	5,660	3,335	4,130	2,696	**(10,413)**
Accumulated losses	(18,899)	(16,727)	(15,419)	(13,796)	**(23,769)**
Shareholders fund	55,813	57,986	59,294	60,916	**50,944**
Cash & Bank Balances	10,188	16,279	18,804	17,967	**9,301**



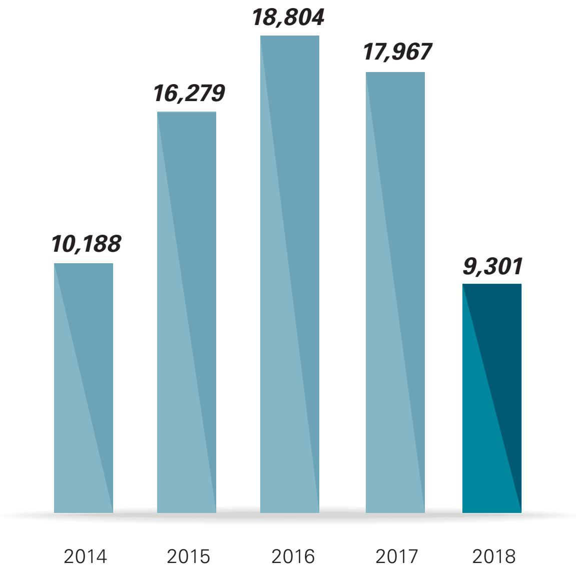
Revenue
(RM'000)



Profit/(Loss) Before Taxation & Zakat
(RM'000)



Shareholders Fund
(RM'000)



Cash & Bank Balances
(RM'000)

MANAGEMENT **DISCUSSION AND ANALYSIS**

GENERAL DESCRIPTION OF THE GROUP'S BUSINESS

Merge Energy Bhd and its subsidiaries ("Group") are principally involved as a contractor and sub-contractor for various kinds of building, structural and civil engineering works as well as a specialist in contracts for infrastructure and water treatment works.

Construction

Mewah Kota Sdn Bhd ("Mewah Kota") is the primary subsidiary of the Group. Mewah Kota is a reputable contractor in building, structural and civil engineering work and has accumulated extensive experience and achieved good record in terms of quality and timely completion of works undertaken. Mewah Kota has established itself as a reliable contractor capable of undertaking bigger and more complex projects as well as turnkey contracts nationwide.

As a result of its good track record, Mewah Kota has been awarded a new project "Cadangan Membina Loji Rawatan Air Pagoh, Johor: Pakej 1 – Membina dan Menyiapkan Loji Rawatan Air dan Paip Air" by Pengurusan Aset Air Berhad in February 2018 worth RM105.55 million. Pagoh Water Treatment Plant Project consists of 3 main works mainly the construction water treatment plant on 20.1 acres hillside complex, the construction of water intake plant on 3.72 acres riverside and total of 12 kilometre pipe laying works in 3 sections. Completed water treatment plant facility with 40 million litres per day capacity will be able to cater for water supply demand to Bandar University Pagoh and surrounding Pagoh and Muar district. This project is expected to be completed by August 2019.

Oil and Gas

Iris Synergy Sdn Bhd ("Iris Synergy") is the Group's oil and gas arm. Its primary objective is to provide support to the industries primarily in energy sectors covering oil & gas, petrochemical and refineries. The corporate core business is to provide solution to all water related systems in the industries. Iris Synergy is an expert in industrial pure and ultrapure water treatment. They offer solution expertise and process technology in industrial water, waste water and municipal water.

Landscape and Pest Control

Semarak Niaga Lanskap Sdn Bhd's ("Semarak Niaga") business activities are provision of nursery and landscaping, garden design, maintenance and beautification. Furthermore, Semarak Niaga has also expanded its business to include pest control services due to its synergy with its current business model.

Automotive

On the Group's effort to achieve stable income, the Group acquired Arena Terbaik Sdn Bhd ("Arena Terbaik") in 2017. Arena Terbaik is principally engaged in the business of providing repairing and maintenance services and trading of parts and equipment specialised for motor vehicles.

REVIEW OF FINANCIAL RESULTS AND PERFORMANCE

For the financial year ended 31 March 2018 ("FYE 2018"), the Group registered a 71.87% decrease in revenue to RM24.61 million compared to RM87.50 million in the previous year. The decrease was due to the structural pressure on the industry such as aggressive competition from the competitor which create business and financial difficulties for construction industry and no major contract secured within the first ten months of the calendar year.

The Group's loss before tax for FYE 2018 of RM10.41 million as compared to profit before tax of RM2.70 million in the previous year due to lower revenue in the construction industry. Loss after tax for FYE 2018 decline to RM10.14 million compared to a Profit of RM1.69 million in the previous financial year.

The Group's basic loss per share was 14.88 sen as compared to basic earnings per share of 2.42 sen in the previous financial year. The decrease was mainly due to current financial year losses.

In FYE 2018, the Group's total assets decreased by 17.04% to RM78.38 million while total liabilities also decreased by 18.88% to RM25.63 million as compared to financial year ended 31 March 2017.

As at 31 March 2018, the shareholders' funds decreased by 16.37% to RM50.94 million in comparison to the previous financial year and the Net Assets per Share ("NA") stood at RM0.79.

Capital Structure and Capital Resources

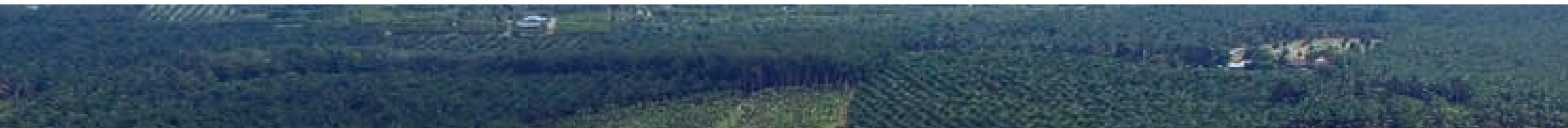
The bank borrowings decrease by 45.76% to RM5.38 million in FYE 2018. The Group's gearing as at 31 March 2018 increased to 0.30 times from 0.21 in the previous financial year.

The Group's remains prudent in maintaining a sound financial position that enables the execution of the Group strategic objectives in creating value over the coming years.

TREND AND OUTLOOK

The construction industry makes up an important part of the Malaysia economy due to the amount of industry linked to it and the number of people it employs. This year will be more challenging year for the industry player and the competition will be intense translating into lower margins and expected more competition from the foreign contractors.

However, the Group will continue to focus on its effort to tender for the new upcoming projects as a measure to improve the financial position of the Group while ensuring sustainability of its businesses during this challenging period. Emphasis will be put to reduce costs and become more competitive in its existing business.



Pagoh Water Treatment Plant - Under Construction (Completion Date: 25 August 2019)

PROFILE OF **DIRECTORS**

Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun

Independent Non-Executive Chairman

Age 48, Female,

Dato' Tengku Rozanna was appointed as the Independent Non-Executive Chairman of MEB on 18 September 2017. She graduated with a degree of Bachelor of Business Administration (Major: Management) from The American College in London, England in 1993. In 1994, she obtained her Postgraduate Diploma in Human Resource from Middlesex University, London, England.

Dato' Tengku Rozanna has extensive experience in managing a full spectrum of human resource programmes and functions. She has sound knowledge of Labour Laws, compliance issues, benefits structure and unionised and non-unionised working environments.

She started her career with Tradewinds Corporation Berhad from 1995 to 2005 in which she was involved in a broad range of human resource and health and safety functions. Subsequent to that, she joined Boustead Curve Sdn Bhd as the Head of Human Resource and was with the company for more than 10 years.

Dato' Tengku Rozanna is also a director and shareholder of few other private limited companies.

She is not related to any director of the Company and does not have any conflict of interest with the Company. She attended all two (2) Board meetings held after her appointment to the MEB Board.

Dato' Abdul Jalil bin Abdul Karim

Executive Director/Chief Executive Officer

Age 54, Male,

Dato' Abdul Jalil was appointed to the MEB Board on 14 February 2011. He graduated with a Bachelor of Science in Mechanical Engineering from University of Alabama, United States of America.

He has over 30 years of extensive experience in the water related industry at various levels including senior and board level of reputable companies locally and abroad. His expertise also includes areas in project consultancy and management and construction.

Dato' Abdul Jalil was involved in various water supply projects including the Sungai Selangor (Phase 1), Sungai Johor WTP Privatisation, Sungai Semangar WTP (Phase 1), Non Revenue Water Reduction for SYABAS Phase 2 and Phase 3, Panching WTP, Kuantan (Package 2), 160 MLD Ganchong WTP (Package 1) at Pekan and other small scale water supply projects.

As Chief Executive Officer, Dato' Abdul Jalil is responsible for implementation of MEB Group's board operational strategies and policies. In addition, he also manages and oversees the daily conduct of the business to ensure its smooth operation.

Dato' Abdul Jalil is also director and shareholder of few other private limited companies.

He is the Chairman of the Executive Committee and member of Risk Management Committee and Remuneration Committee.

Dato' Abdul Jalil is not related to any director of the Company and does not have any conflict of interest with the Company. He has indirect interest in the Company via Desa Binapuri Sdn Bhd, the major shareholder of the Company. He attended four (4) out of six (6) Board meetings held in the financial year ended 31 March 2018.

Raizita binti Ahmad @ Harun

Executive Director

Age 50, Female,

Puan Raizita was appointed as the Executive Director of the Company on 1 September 2015. She graduated with a degree of Bachelor of Science in Business Administration (Accountancy) from California State University, Sacramento in 1990.

Prior to her appointment as Executive Director, Puan Raizita was the Senior General Manager of Finance and Accounts Division of MEB Group, responsible for the overall financial management and affairs of MEB Group including formulation of policies, corporate finance, treasury, risk management, compliances and best practices of accounting policies.

She has more than 27 years working experience and 14 years financial leadership position with MEB Group. Puan Raizita has advised MEB Board on numerous project-financing arrangements, structured debts and schemes of arrangements and represented MEB in several major corporate exercises. Given her strong communication and negotiation skills, she aggressively help the Group to seek new markets and business opportunities that are synergistic to the Group's core competencies.

Puan Raizita is a member of Risk Management Committee and Executive Committee.

She is not related to any director of the Company and does not have any conflict of interest with the Company. She attended all six (6) Board meetings held in the financial year ended 31 March 2018.

Dato' Sheah Kok Fah

Senior Independent Non-Executive Director

Age 54, Male,

Dato' Sheah Kok Fah was appointed to the MEB Board on 16 November 2001. He holds a degree in LLB (Hons) from the University of Malaya and was admitted to the Bar in 1989.

Dato' Sheah has an outstanding career, both as an advocate and solicitor and corporate practitioner. He has vast experience of 29 years in legal practice since 1988. He has been the partner of Messrs Sheah, Tan and Rahman since 1996.

Being a Senior Independent Director, Dato' Sheah plays an important role in ensuring corporate accountability as he is instrumental in providing independent judgment taking into account the interests of MEB Group and all its stakeholders in which the Group conducts its business.

Dato' Sheah is the Chairman of the Audit Committee, Remuneration Committee and Nomination Committee.

He currently sits on the Board of Cuscapi Berhad.

Dato' Sheah is not related to any director and/or major shareholder of the Company and does not have any conflict of interest with the Company. He attended all six (6) Board meetings held in the financial year ended 31 March 2018.

PROFILE OF **DIRECTORS** (cont'd)

Dato' Kamarulzaman bin Jamil

Independent Non-Executive Director
Age 63, Male,

Dato' Kamarulzaman was appointed as the Independent Non-Executive Director of MEB on 1 September 2015. He graduated with a Bachelor Degree in Economics from University Kebangsaan Malaysia.

Dato' Kamarulzaman has extensive experience and knowledge in areas related to public services, human resource management and land administration as he has held various prominent position in his 35 years of services in various government departments/offices, among others in the Ministry of Transport, District and Land Offices, Public Services Department and Selangor Land and Mines Office.

Dato' Kamarulzaman last held position was as the Director of Land and Mines with the Selangor Land and Mines Office where he served until he retired in January 2015.

He is the Chairman of the Risk Management Committee and a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Dato' Kamarulzaman is not related to any director and/or major shareholder of the Company and does not have any conflict of interest with the Company. He attended all six (6) Board meetings held in the financial year ended 31 March 2018.

Dr Badrul Hisham bin Mohd Yusoff

Independent Non-Executive Director
Age 44, Male,

Dr Badrul Hisham was appointed as the Independent Non-Executive Director of MEB on 18 September 2017. He graduated with a degree in Accountancy from University Utara Malaysia. He then pursued his Master Degree and Doctorate both in Business Administration at Charles Stuart University, Australia and University Utara Malaysia respectively.

Dr Badrul Hisham started his career as an auditor with Arthur Andersen & Co. in 1997 where he served the firm for 3 years. He then joined Tradewinds (M) Bhd as an Internal Audit Manager from 2001 to 2003. Subsequently he was appointed as Chief Internal Auditor for various reputable organization such as Affin Investment Bank Berhad, Chemical Company of Malaysia Berhad, Kenanga Investment Bank Berhad, Bursa Malaysia Berhad and Bank Rakyat. He was also the Board member of Internal Audit for Co-opbank Persatuan from 2016 to 2017.

Due to his notable achievement and extensive experience, he has been invited to speak at various platform particularly in the area of risk management, internal audit and fraud investigation. Dr Badrul Hisham was also appointed as the Adjunct Lecturer of Faculty of Accounting in University Utara Malaysia and as Faculty Advisor of Faculty of Management, Multimedia University.

Dr Badrul Hisham is currently the Director of IHB Solutions Sdn Bhd.

He is a member of the Audit Committee, Nomination Committee and Risk Management Committee.

Dr Badrul Hisham is not related to any director and/or major shareholder of the Company and does not have any conflict of interest with the Company. He attended all two (2) Board meetings held after his appointment to the MEB Board.

Note:

Save as disclosed above, none of the Directors:-

i) hold any directorship in other public companies and listed issuers;
ii) have any convictions for offences (other than traffic offences) within the past 5 years; and
iii) have any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

PROFILE OF **KEY SENIOR MANAGEMENT**

Mohd Azali bin Abdul Rahman

Managing Director, Iris Synergy Sdn Bhd ("ISSB"), a subsidiary of MEB
Age 53, Male, Malaysian

Encik Mohd Azali was appointed as Managing Director of Iris Synergy Sdn Bhd on 1 January 2013 and heads ISSB, responsible for the overall operation and management of ISSB. He is also a shareholder of ISSB.

Encik Mohd Azali graduated with a Bachelor of Science in Chemistry from University of Alabama in 1987.

He started his career with Malaysia Mining Corporation ("MMC") as Project Engineer developing hydrometallurgical testing in a copper mining development. After 3 years with MMC, he joined Nalco Chemicals and GE Water in providing chemical solution for water treatment in Oil & Gas industries. After 10 years, Encik Mohd Azali started his own private company concentrating into Oil & Gas industries. The company grows into a one stop centre for all water related requirement for Oil & Gas industries. Currently, ISSB is working with reputable manufacturer and technology provider in offering the solution to the water related needs in Malaysia Oil & Gas industries.

Encik Mohd Azali is not related to any director and/or major shareholder of the Company and does not have any conflict of interest with the Company.

Ab. Kadir bin Ab. Majid

Chief Operating Officer / Director, Semarak Niaga Lanskap Sdn Bhd ("SNLSB"), a wholly owned subsidiary of MEB
Age 53, Male, Malaysian

Encik Ab. Kadir joined SNLSB as a Senior Project Manager in August 2013 and was subsequently promoted to Chief Operating Officer on 1 March 2016. He was appointed as Director of SNLSB on 30 September 2016 to head and oversees the operation and management of SNLSB.

Encik Ab. Kadir attended the Entrepreneurship Development Programme from University Technology MARA in 2000.

He started his career as an officer with Employees Provident Fund from 1987 to 1993. He then joined the Ministry of Rural Development as a special assistant from 1993 to 1995. From 1995 to 2012, he was attached to a few private companies in which he was involved in planning, controlling and monitoring of project operations.

Encik Ab. Kadir is not related to any director and/or major shareholder of the Company and does not have any conflict of interest with the Company.

Shahrizad bin Akashah

General Manager, Technical Services, Property & Business Development
Age 52, Male, Malaysian

Encik Shahrizad was appointed as the General Manager of Mewah Kota Sdn Bhd, a wholly owned subsidiary of MEB on 16 July 2012. He currently manages, plans and oversees the operation, technical services, property and business development of MEB and its subsidiaries.

He graduated with a Bachelor of Science in Civil Engineering from University of Miami, Florida, United States of America in 1988.

Prior to joining MEB, he was the Senior Manager of OPUS Group and was involved in the project development and engineering for highways projects. And subsequent to that, he was also attached to few others construction and engineering companies. His experience covers matter related to highways, infrastructure and properties.

Encik Shahrizad is not related to any director and/or major shareholder of the Company and does not have any conflict of interest with the Company.

Roslizar bin Mahmood
General Manager, Project and Operation
Age 51, Male, Malaysian

Encik Roslizar was appointed as the General Manager of Mewah Kota Sdn Bhd, a wholly-owned subsidiary of MEB on 1 January 2018. He currently manages and oversees the project and operation department, and also matters relating to tender and procurement.

He graduated with a Bachelor of Environmental Designs from Texas A&M University in 1990.

Prior to joining MEB, he was the Construction Manager of Sime Darby Property Selatan Sdn Bhd from September 2013 to December 2017 and was involved in the design and construction of 500 acres Pagoh Education Hub project in Johor. Before that Encik Roslizar had also hold posts at several other consultancy and construction firms with a short project stints in the Middle East. His experience covers matters related to Construction Project Management, Architectural Planning and Design, and Green Technologies. He is a corporate member of Malaysian Green Building Confederation.

Encik Roslizar is not related to any director and/or major shareholder of the Company and does not have any conflict of interest with the Company.

Mohd Azrul Fitri bin Abu Bakar
Head, Business Operation, Arena Terbaik Sdn Bhd & Gerimis Sejagat Sdn Bhd, wholly owned subsidiaries of MEB
Age 39, Male, Malaysian

Encik Mohd Azrul Fitri was appointed as the Head of Business Operation of Arena Terbaik Sdn Bhd and Gerimis Sejagat Sdn Bhd on 1 March 2018 to lead and oversee the operations of both the subsidiaries.

Prior to that, he was with Innovasi Hebat Sdn Bhd, also a wholly owned subsidiary of MEB, and was responsible for the overall operation and management of Innovasi Hebat Sdn Bhd.

He graduated with a Bachelor of Engineering (Mechatronics – Honors) from International Islamic University Malaysia in 2004.

His experience covers matter related to contract and project management, strategic planning, operation and maintenance of water supply system, infrastructure and properties.

Encik Mohd Azrul Fitri is not related to any director and/or major shareholder of the Company and does not have any conflict of interest with the Company.

Note:

Save as disclosed above, none of the Key Senior Management:-

i) hold any directorship in other public companies and listed issuers;
ii) have any convictions for offences (other than traffic offences) within the past 5 years; and
iii) have any public sanction or penalty imposed by the relevant regulatory bodies during the financial year.

SUSTAINABILITY **STATEMENT**

At MEB, we are focus on undertaking sustainable and responsible business practices in order to deliver a positive impact to our economic, environment and to create values to our communities in which we operate in. By doing so, we aim to achieve and deliver long-term sustainability values to our stakeholders.

As such, the Group remains mindful that its activities should be carried out with high standards of corporate and social responsibility as it strives to align its businesses and engage all stakeholders in its daily operations, minimise environmental impact arising from its business operations and actions and improving the social and economic conditions of its stakeholders, employees and the communities that it operates in.

Economic

Mewah Kota Sdn Bhd, our main construction arm has attained the ISO 9001:2015 certification for Quality Management System where procurement of materials and services are controlled to ensure that purchased materials and services conforms to the specified requirements. This is achieved by maintaining an approved list of suppliers and subcontractors while potential new suppliers and subcontractors are evaluated to ensure their ability to meet the specific requirements.

Our project sites, wherever they are located, seek to employ the local communities to provide employment opportunities to them.

The Group continues to recognise the importance of its human capital and strives to identify and retain the best talents and to groom them to assume bigger roles and responsibilities in meeting the needs of the Group.

The Group always endeavours to achieve high standards in health and safety matters across all aspects of its operations in order to ensure a conducive working environment for all its people.

Our employees are offered competitive salaries, performance incentives and other benefits. Part of the benefits offered by the Group to all its employees include Group Hospitalisation and Surgery Insurance Scheme and outpatient medical treatment which is also extended to their spouse and children. Employees are further covered under a Group Personal Accident and Group Term Life Insurance.

Environment

The Group has always recognized the global environmental challenges faced by our society. We are therefore committed in operating our businesses in a responsible manner in order to protect and enhance the conservation of natural environment as well as to play our part in maintaining a sustainable future.

Due to the nature of our business, we are committed to provide quality treatment water. In 2017, we have successfully completed the major construction of Ganchong Water Treatment Plant (Package 1) at Pekan, Pahang. The said plant has since been in operation to supply clean treated water to the people of Pekan.

Ganchong, Water Treatment Plant.

MEB was also awarded a contract to repair and operate a Leachate Treatment Plant in Jinjang Utara, Kepong using Snowflake technology, which is a Korean technology. The works has been completed and the plant has been in operation to treat leachate output from landfill. We are the first company in Malaysia to introduce such technology to the Ministry of Urban Wellbeing, Housing and Local Government.

Moving forward, we will continue to maintain a high standard of corporate governance and aim to respect and abide by all legislation, regulations and guidelines as part of our efforts to practice and promote ethical business.


Leacheat Treatment Plant

Social

The Group has recognised that its businesses have direct and indirect impact on the communities in which it operates, and is conscious of its responsibility to act as a good corporate citizen and to reach out to the local communities where it operates.

We will continue and increase our efforts to promote and inculcate a caring culture among our employees. Some of the community activities carried out by the Group through its Kelab Sukan dan Kebajikan (MEB) Merge Energy ("KSKMEB") during the year are as follows:-

- During the Ramadhan fasting month, it has always been a tradition for the Group to distribute food which was cooked and prepared by the staff of the Group to the community. At the last Ramadhan, the staff cooked "Nasi Briyani" with "Ayam Masak Merah", "Kuih Buah Melaka" and distributed to the community of Kampung Melayu Subang, including the nearby mosques and orphanages.

- Hari Raya Aidilfitri assistance for poor children at Sekolah Kebangsaan Kg Melayu Subang on 22 June 2017. Distribution of "Duit Raya" and "Baju Kurung/Baju Melayu" for them.

- Blood Donation Campaign organized by Pusat Bekalan Darah Negara and participated by our employees and nearby community on 13 October 2017.

The management of MEB Group also believe that apart from work, a well balanced and healthy lifestyle is essential for the overall well-being of its employees. Some of the activities undertaken by KSKMEB to further strengthen the employees' integration and team spirit during the year are as follows:

1. Sports and Recreational Activities

    - Futsal, 'congkak' and bowling tournament was organised.


The staff cooked and prepared food to be distributed to the community

Donation to poor children.

Bowling

Fruit Fest

Futsal

CPR training

2. Training and Staff Development Programme

   - Cardio Pulmonary Resuscitation (CPR) Briefing
   - Health Screening Package for staff
   - Fire Prevention Awareness
   - Monthly "Tazkirah, Bacaan Yasin and Solat Berjemaah" with the Group employees (conducted every month)

3. Celebration

   - Staff Birthday gatherings
   - Hari Raya open house
   - Chinese New Year lunch treat
   - Fruits Feast

Moving forward, the Group will remain committed in its effort to create a conducive working environment for its employees and will also continue to enhance the knowledge, skills and competencies of its employees by organizing training and teambuilding activities.

CORPORATE GOVERNANCE **OVERVIEW STATEMENT**

The Board of Directors of Merge Energy Bhd ("**MEB**" or "**the Company**") acknowledges the importance of good corporate governance and is committed in ensuring that the Company and its subsidiaries ("**the Group**") practice good corporate governance in line with the Malaysian Code on Corporate Governance 2017 ("**MCCG 2017**") issued by the Securities Commission of Malaysia.

This statement, which is made pursuant to paragraph 15.25 of the Main Market Listing Requirements ("**MMLR**") of Bursa Malaysia Securities Berhad ("**Bursa Malaysia**"), sets out the extent to which the Group has applied the principles and best practices of the MCCG 2017 during the financial year 2018.

The detailed application by MEB Group for each practice as set out in the MCCG 2017 during the financial year 2018 is disclosed in the Corporate Governance Report ("**CG Report**") which is available on the MEB's corporate website at www.merge-energy.com.my. This statement is to be read together with the CG Report.

DIRECTORS

The Board

The Board plays a key role in the governance process through its review and approval of the Group's direction and strategy, monitoring of business performance and review of the adequacy and integrity of the Group's internal control system. The Board believes that commitment to its fiduciary duties and responsibilities is critical to its goal of driving long term shareholders' value.

Board Balance

The size and composition of the Board has been maintained in line with the needs of the Company and in compliance with MMLR of Bursa Malaysia. The Board has a balanced composition of Executive and Non-Executive Directors, with majority Independent Non-Executive Directors.

The Board consists of six (6) members as at the date of this statement, comprising two (2) Executive Directors and four (4) Non-Executive Directors. All the four (4) Non-Executive Directors are Independent Directors which complies with the MMLR of Bursa Malaysia.

Board balance is achieved with the contribution of the independent non-executive directors and the fair representation of the shareholders' interests. The independent non-executive directors are able to exercise their unbiased independent judgment and views freely and do not have any business or other relationships that could interfere with their duties.

The roles of Chairman and Executive Directors are separately held all these while with each having distinct authority and responsibilities.

The Board also has an effective working partnership with the Management in establishing the strategic direction. The Management is responsible for supporting and assisting the Chief Executive Officer and Executive Director in implementing and running the Group's day to day business.

Duties and Responsibilities of the Board

The Board assumes the following principal responsibilities in discharging its fiduciary and leadership functions:-

- Reviewing and adopting the strategic plan for the Group
- Overseeing the conduct of the Group's business to determine whether the business is being properly managed
- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks
- Reviewing the adequacy of the Group's management information and internal control systems
- Ensuring that the Company's financial statements are true and fair and conform with the laws
- Ensuring the Company adheres to high standards of ethics and corporate behavior

The Board is also mindful of the importance of building a sustainable business and therefore, takes into consideration its environmental, social and government impact when developing the corporate strategy of the Group.

CORPORATE GOVERNANCE **OVERVIEW STATEMENT** (cont'd)

The Company Secretary, who is qualified and experience, provide advises to the Board on regulatory requirements and corporate governance matters to ensure that the Boards discharge their duties and responsibilities effectively.

Board Charter, Code of Ethics and Whistleblowing Policy

A copy each of the Board Charter, Code of Ethics for Company Directors and Whistleblowing Policy is made available at the Group's website www.merge-energy.com.my.

Board Meetings

The Board holds at least four (4) regularly scheduled meetings annually with additional meetings convened when necessary. Senior Management staff as well as professional advisers have been invited to attend the Board meetings to provide the Board with their views and clarifications on issues raised by the Directors.

During the financial year ended 31 March 2018, there were six (6) meetings held and the details of attendance of each Director are as follows:

Name of Directors	No. of Meetings Attended
Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun *(appointed on 18 September 2017)*	2/2
Dato' Abdul Jalil bin Abdul Karim	4/6
Raizita binti Ahmad @ Harun	6/6
Dato' Sheah Kok Fah	6/6
Dato' Kamarulzaman bin Jamil	6/6
Dr Badrul Hisham bin Mohd Yusoff *(appointed on 18 September 2017)*	2/2
Dato' Dr Fam Seng Choy *(resigned on 3 July 2017)*	0/1

In between Board meetings, approval on matters requiring the sanction of the Board are sought by way of circular resolutions enclosing all relevant information to enable the Board to make informed decisions. The resolutions passed by way of such circular resolutions were then noted in the next Board meetings.

The Directors are to allocate sufficient time to the Company to perform their duties effectively including being prepare for the meetings and contributing effectively to the business of the Company. They should notify the Board on any new directorships and such notification should include an indication of time that will be spent on the new appointment.

Re-election and Re-appointment

In accordance with the Company's Constitution, all Directors who are appointed by the Board are subject to re-election by shareholders at the Annual General Meeting ("AGM") following their appointment. The Constitution also provide that 1/3 of the Directors shall retire from office at each AGM and all Directors shall retire from office at least once in every three years. All retiring Directors are eligible to offer themselves for re-election at the AGM.

Directors' Training

All the Directors of the Company have attended the Mandatory Accreditation Program ("MAP") prescribed by Bursa Malaysia. The Board members will attend further training programmes, seminars, conferences and/or forums from time to time to keep abreast with current developments in the market place as well as the current changes in laws and regulatory requirements. They are provided with updates from time to time on relevant new laws and regulations affecting their directorships and relevant compliances.

The training programmes and briefings attended by the Directors during the financial year ended 31 March 2018 are as follows:

Name of Directors	Title of training/briefings/workshops
Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun	• Mandatory Accreditation Program • Job Evaluation Workshop • Core Competencies Workshop • Corporate Governance Briefing Session: MCCG Reporting and CG Guide
Dato' Abdul Jalil bin Abdul Karim	• Seminar Towards Excellence in Construction "Beyond Accolades" • One Day Technical Workshop & Utilities Stakeholder Forum on Sludge Treatment Process, Handling and Disposal • One Day Workshop on Design, Construction and Operation of RBF Schemes
Raizita binti Ahmad @ Harun	• Advocacy Session on Corporate Disclosure for Directors and Principal Officers of Listed Issuers • Corporate Governance Briefing Session: MCCG Reporting & CG Guide
Dato' Sheah Kok Fah	• Audit Committee Institute Breakfast Roundtable 2017
Dato' Kamarulzaman bin Jamil	• Effective Internal Audit Function for Audit Committee Workshop
Dr Badrul Hisham bin Mohd Yusoff	• Procurement and Contracts Audit • Fixed Assets Accounting • Advance Financial Accounting & Reporting • Accounting for Inventory Purchases • Property Talk • Financial Crime- Fraud Investigation & Forensic Auditing • Role of Internal Auditors in Whistleblowing Program to Reduce Corporate Fraud • Courses on MPSAS – Malaysia Public Sector Accounting Standard • "Program Perkongsian Ilmu Perakauan Bersama Pelajar Diploma Akauntansi" • "Kursus Laporan Ketua Audit Negara" – Key Audit Matters • Mandatory Accreditation Program

The Board will continuously evaluate and determine the training needs of its members to assist them in the discharge of their duties as Directors.

COMMITTEES

The Board has delegated certain responsibilities and duties to the following Committees to assist the Board in the efficient and effective discharge of its duties. Meetings of the Board Committees provide an avenue for members of the respective Committees to focus on specific issues to enable full and in-depth discussion of business operations of the Group.

The Board Committees exercise transparency and full disclosure in their proceedings. Where applicable, issues are reported to the Board with the appropriate recommendations by the Board Committees.

(a) Audit Committee

As at the date of this statement, the Audit Committee comprises three (3) Independent Directors.

The Audit Committee provides independent oversight of the Group's financial reporting and internal control system and ensures that checks and balances are in place within the Group.

The Audit Committee Report detailing its composition and a summary of activities and works during the financial year is set out in pages 24 and 25 of this annual report.

<u>Assessment of external auditors</u>

The Audit Committee is responsible for the assessment of the suitability and independence of the external auditors. Having assessed their performance, the Audit Committee will tabled the summary of the assessment to the Board for review. All assessment and evaluation carried out were properly documented.

Independence of external auditors

The external auditors are required to declare their independence to the Audit Committee in accordance with the independence criteria set out by the Malaysia Institute of Accountants. The external auditors have provided the declaration in their annual audit plan presented to the Audit Committee of the Company.

(b) Remuneration Committee

As at the date of this statement, the Remuneration Committee comprises of the following three (3) members, of which two (2) are Independent Directors and one (1) is the Executive Director:-

- Dato' Sheah Kok Fah (Chairman)
- Dato' Abdul Jalil bin Abdul Karim
- Dato' Kamarulzaman bin Jamil

The remuneration for the Independent Non-Executive Directors is decided by the Board as a whole. The Board recommends the Directors' fee payable to Independent Non-Executive Directors on a yearly basis to the shareholders for approval at the AGM.

(c) Nomination Committee

As at the date of this statement, the Nomination Committee comprises of the following three (3) members, all being Independent Directors:-

- Dato' Sheah Kok Fah (Chairman)
- Dato' Kamarulzaman bin Jamil
- Dr Badrul Hisham bin Mohd Yusoff

The Nomination Committee had been given the responsibility to recommend new appointments to the Board and Board Committees of MEB. The Nomination Committee assesses the effectiveness and balance of the Board as a whole, the Committees of the Board and the contribution of each individual Director.

Gender Diversity Policy

The Board recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage.

The Board's overriding objective in any new appointment is to select a suitable candidate with a view to achieving a high-performing Board. Appointments to the Board are based on merit, in the context of character, skills, experience and competency the Board as a whole requires to be effective.

The Board aims to have an appropriate level of diversity in the Boardroom to reflect the nature of the Company's operation and to support the achievement of the Company's objectives.

The Board supports the representation of women in the composition of the Board and currently has 30% women Directors on the Board.

Moving forward, the Board will work towards maintaining or achieving the 30% women Directors on the Board.

The Board, through the Nomination Committee, will conduct all Board appointment processes in a manner that promotes diversity.

In identifying, considering and recommending suitable persons for appointment as Directors, other than relying on the recommendation from the existing Board members, management and/or major shareholders, the Board will also explore independent sources to identify suitable qualified candidates.

Summary of Activities of Nomination Committee

The Nomination Committee met twice (2) during the financial year to carry out the following activities:-

- nominated new appointments to the Board;
- proposed the re-election of Directors retiring in accordance with the Company's Constitution;
- reviewed and assessed the mix of skills, experience and size of the Board, contribution of each Director and effectiveness of the Board as a whole and Board Committees;
- reviewed and assessed the independence of the Independent Directors;
- reviewed and recommended the retention of Independent Non-Executive Directors who have served on the Board for more than 9 years; and
- reviewed the performance and effectiveness of the Audit Committee and its members.

All assessments and evaluations carried out by the Nomination Committee were properly documented.

Tenure of Independent Director

The Nomination Committee had conducted an evaluation on the re-appointment of Dato' Sheah Kok Fah who has served as an Independent Non-Executive Director of the Company for more than 9 years, and recommended to the Board to retain him as an Independent Non-Executive Director of the Company.

It was noted that Dato' Sheah Kok Fah is found to remain independent in character and judgment and that the Board is satisfied with the level of independence demonstrated by him throughout the year and his ability to act in the best interest of the Group.

As Dato' Sheah Kok Fah has been an independent director for more than 12 years, the Board would seek shareholders' approval through a two-tier voting process at the forthcoming 21st Annual General Meeting ("AGM") of the Company in accordance with the MCCG 2017.

Based on the recommendation by the Nomination Committee, the Board recommended that Dato' Sheah Kok Fah continue to act as Independent Non-Executive Director of the Company subject to shareholders' approval at the Company's forthcoming 21st AGM as he has fulfilled the criteria under the definition on Independent Director as stated in the MMLR of Bursa Malaysia.

(d) Risk Management Committee

As at the date of this statement, the Risk Management Committee comprises of four (4) members. The Risk Management Committee assist the Board in overseeing the risk management process within the Group.

During the financial year, the Risk Management Committee convened two (2) meetings to review and evaluate the risk exposures of the Group.

(e) Executive Committee

The Executive Committee met four (4) times during the financial year ended 31 March 2018. Minutes of meetings and resolutions passed by the Executive Committee were tabled at the Board Meeting for notation.

DIRECTORS' REMUNERATION

The Group has in place a remuneration policy and procedures which sets out the criteria to be used in recommending the remuneration package for Directors and Chief Executive Officer (CEO) to ensure that the Directors and CEO are adequately remunerated for the services they render.

A copy of the remuneration policy and procedures is available for viewing at the Company's website www.merge-energy.com.my.

Disclosure for Directors

The aggregate Directors' remuneration paid or payable or otherwise made available to the Directors of the Company as at the financial year ended 31 March 2018 is as follows:

	Salaries (RM'000)	Bonus (RM'000)	Fees (RM'000)	Allowances (RM'000)	Benefits in kind (RM'000)
Receivables from subsidiary:-					
Executive Directors					
Dato' Abdul Jalil bin Abdul Karim	539	–	–	–	21
Raizita binti Ahmad @ Harun	300	–	–	36	–
Receivables from Company:-					
Non-Executive Directors					
Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun	–	–	32	97	–
Dato' Sheah Kok Fah	–	–	48	11	–
Dato' Kamarulzaman bin Jamil	–	–	36	11	–
Dr Badrul Hisham bin Mohd Yusoff	–	–	19	4	–
Dato' Dr Fam Seng Choy *(resigned on 3 July 2017)*	–	–	9	–	–

Notes:
1. The Executive Directors only received remuneration from the subsidiary
2. The Non-Executive Directors only received remuneration from the Company

SHAREHOLDERS

Dialogue between the Company and Investors

The Board believes in clear communication with the Company's shareholders. The Group continuously ensures that it maintains a high level of disclosure and communication with its shareholders through various practicable channels. The annual reports and the announcements made quarterly and otherwise, are the primary modes of communication to report on the Group's business, activities and financial performance to all its shareholders. In addition to various announcements made during the year, the timely release of financial results on a quarterly basis provides shareholders with an overview of the Group's performance and operations.

MEB's website at www.merge-energy.com.my also provides an avenue for shareholders and members of the public to assess information pertaining to the Group, which is being updated regularly.

The general meetings are opportunities to meet shareholders, to encourage them to interact and participate in getting to know the Company's and the Group's progress and/or performance better.

The Board has also established corporate disclosure policies and procedures to enable accurate and timely disclosures to the regulators, shareholders and stakeholders.

Annual General Meeting

At least 28 days prior to the AGM, the Annual Report will be sent to the shareholders, to allow shareholders additional time to go through the Annual Report and make the necessary attendance and voting arrangements. Each item of special business included in the notice of the AGM will be accompanied by a full explanation of the effects of a proposed resolution to facilitate full understanding and evaluation of the issues involved.

During the AGM, the Board presents the financial performance of the Group. Shareholders are given the opportunity to seek and clarify any pertinent and relevant issues raised in the meeting in relation to the operations and performance of the Group and to exchange views with the Board. The external auditors are also present at the AGM to provide their professional and independent clarification on issues and concerns raised by the shareholders.

ACCOUNTABILITY AND AUDIT

Financial Reporting

In its financial reporting to shareholders and other interested parties by means of quarterly results announcement and the annual financial statements, the Board aims to present a balanced and understandable assessment of the Group's financial position and prospects.

The Group's performance and prospects in the Annual Report and financial results on a quarterly basis, prepared based on appropriate accounting standards and accounting policies, will be reviewed and deliberated by the Audit Committee prior to recommendation for adoption by the Board. The Audit Committee ensures that information to be disclosed is accurate, adequate and in compliance with the various disclosure requirements imposed by the regulatory authorities.

The Board takes responsibility in ensuring that the financial statements reflect a true and fair view of the state of affairs of the Group and the Company in accordance with the Companies Act 2016, the applicable approved accounting standards in Malaysia and the MMLR of Bursa Malaysia. This also applies to other price-sensitive public announcements and reports to the regulatory authorities.

Statement of Directors' Responsibilities in respect of the Audited Financial Statements

The Board of Directors do hereby state that the preparation of financial statements for the year ended 31 March 2018 is the responsibility of the Directors. They are legally required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company and of their results and cash flow for the financial year then ended. In preparing those financial statements, the Directors have:

- adopted appropriate accounting policies and then applied them consistently;
- made judgements and estimates that are prudent and reasonable;
- ensured applicable accounting standards have been followed and complied with.

The Directors are responsible for ensuring proper accounting records are kept which discloses with reasonable accuracy at any time the financial position of the Company and its subsidiaries and to enable them to ensure that the financial statements comply with the Companies Act 2016.

The Directors also have the overall responsibilities to take all steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

Risk Management and Internal Control

The Board acknowledges its overall responsibility of the Group's system of internal control as well as risk management to safeguard shareholders' investment and the Group's assets. The effectiveness of the Group's internal control is reviewed by the Audit Committee during its quarterly meetings. This review covers the financial, operational and compliance controls as well as the process for the identification, evaluation and management of the significant risks faced by the Group.

The Board has an established Internal Audit Department which assists the Audit Committee in the discharge of its duties and responsibilities.

Relationship with the Auditors

Through the Audit Committee, the Group has established a transparent and appropriate relationship with its external auditors in seeking their professional advice towards ensuring compliance with the applicable accounting standards. The external auditors are invited to attend the Audit Committee Meetings to brief the Audit Committee on audit issues. During the Audit Committee Meetings, they table the audit planning and highlight observations made during the course of audit to the Audit Committee members.

This statement is made in accordance with the resolution of the Board dated 17 July 2018.

OTHER COMPLIANCE INFORMATION

1. **Utilisation of Proceeds**

   There were no proceeds raised by the Company from any corporate proposals during the financial year.

2. **Audit and Non-Audit Fees**

   During the financial year ended 31 March 2018, the amount of audit and non-audit fees paid to Messrs Baker Tilly Monteiro Heng, the external auditors are as follows:

	Company (RM)	Group (RM)
Audit Fees	63,000	159,300
Non-Audit Fees	6,500	6,500

3. **Variation in Results**

   The Group's audited results for the financial year ended 31 March 2018 did not vary by 10% or more from the unaudited results which were announced to Bursa Malaysia Securities Berhad on 22 May 2018.

4. **Material Contracts or Loans**

   There were no material contracts or loans entered into by the Group during the financial year that involve Directors' or major shareholders' interests.

5. **Recurrent Related Party Transactions**

   The Group did not enter into any significant recurrent related party transactions which require shareholders' mandate during the financial year.

6. **Internal Audit Function**

   The Company's internal audit function is performed in-house at RM46,978.15 for the financial year.

7. **Employee Share Option Scheme**

   The Company did not have any Employee Share Option Scheme during the financial year.

AUDIT COMMITTEE REPORT

The report of the Audit Committee of Merge Energy Bhd ("MEB" or "Company") for the financial year ended 31 March 2018 is presented as follows:-

COMPOSITION

The Audit Committee comprised the following Directors during the financial year ended 31 March 2018:-

Chairman

Dato' Sheah Kok Fah - Senior Independent Non-Executive Director

Members

Dato' Kamarulzaman bin Jamil - Independent Non-Executive Director

Dato' Dr Fam Seng Choy *(resigned on 3 July 2017)* - Independent Non-Executive Director

Dr Badrul Hisham bin Mohd Yusoff *(appointed on 18 September 2017)* - Independent Non-Executive Director

The Audit Committee was made up of no fewer than three (3) members, who were all Independent Non-Executive Directors. Dr Badrul Hisham bin Mohd Yusoff is member of the Malaysian Institute of Accountants and Associate member of the Chartered Professional Accountant in Australia.

TERMS OF REFERENCE

In fulfilling its duties and objectives, the Audit Committee is guided by its Terms of Reference which is made available on the Company's website at www.merge-energy.com.my.

MEETINGS AND ATTENDANCE

All Audit Committee members are provided with an agenda together with relevant reports and papers which are issued prior to the Audit Committee Meeting to enable the members to review the reports and papers as well as to obtain further information or explanation.

Minutes of Audit Committee Meetings were tabled during Board Meetings for the Board's notation and endorsement. At the Board Meeting, the Chairman of the Audit Committee reports and highlights to the Board any pertinent issues discussed by the Audit Committee.

The Audit Committee held five (5) meetings during the financial year ended 31 March 2018. Details of attendance of each Audit Committee member are as follows:

Name of Audit Committee Member	No. of Meetings Attended
Dato' Sheah Kok Fah	5/5
Dato' Kamarulzaman bin Jamil	5/5
Dato' Dr Fam Seng Choy *(resigned on 3 July 2017)*	0/1
Dr Badrul Hisham bin Mohd Yusoff *(appointed on 18 September 2017)*	2/2

ACTIVITIES AND WORK OF THE AUDIT COMMITTEE

During the financial year under review, the Audit Committee had discharged its duties and responsibilities by carrying out the following work and activities:-

1. Reviewed the quarterly financial reports before tabling to the Board for approval and release to Bursa Malaysia Securities Berhad and the Securities Commission.

   The above review is to ensure the Company's quarterly financial reporting and disclosures present a true and fair view of the Group's financial position and performance and are in compliance with the applicable accounting standards and the Listing Requirements of Bursa Malaysia Securities Berhad;

2. Reviewed the audited financial statements of the Group and the Company together with the external auditors to ensure that it presented a true and fair view of the Company's financial position and performance for the year and is in compliance with all disclosure and regulatory requirements prior to submission to the Board for their consideration and approval;

3. Met with the external auditors and reviewed the audit plan 2018 on the scope of their audit including independence policies and procedure, consideration of fraud, related party disclosure and procedures, statutory timeline and audit timeframe, risk assessment and audit approach, communication of key audit matters, accounting developments, reading of other information and Companies Act 2016;

4. Held a separate session with the external auditors without the presence of the executive director and management. During the separate session, no critical issues were raised;

5. Reviewed the audit findings by the external auditors arising from the interim audit as well as the final audit;

6. Assessed the performance of the external auditors' for the financial year covering areas such as calibre, performance, audit team, audit scope and planning, independence and objectivity, audit communications as well as audit fees prior to submission to the Board for their approval. The Audit Committee is satisfied with the suitability, performance and independence of the external auditors;

7. Reviewed and approved the internal audit plan for 2018 presented by the internal auditor to ensure there is adequate scope and comprehensive coverage over the activities of the operating subsidiaries of the Company;

8. Reviewed the internal audit reports which highlighted the audit issues, recommendation and the Management's responses and directed actions to be taken by the Management to improve the system of internal control;

9. Followed up on corrective actions taken by the Management on audit issues raised by the external auditors and the internal auditor; and

10. Reviewed the Statement on Risk Management and Internal Control and the Audit Committee Report before tabling to the Board for approval to be published in the Annual Report.

An annual assessment on the performance and effectiveness of the Audit Committee and its members was carried out by the Nomination Committee during the financial year. The Nomination Committee and the Board are satisfied that the Audit Committee and its members had carried out their duties in accordance with the Audit Committee's Terms of Reference.

INTERNAL AUDIT FUNCTION

The Group has established the Internal Audit Department to support the Audit Committee and the Board in reviewing the Group's system of internal control and governance process so as to provide assurance that such systems continue to operate satisfactorily and effectively.

The Internal Audit Department provides an independent assurance on risk management and internal control. It focuses on regular and systematic review of the internal control and management information systems, including compliance with applicable laws, regulations, rules, directives and guidelines.

The Internal Audit Department provides quarterly reports of the audit undertaken to the Audit Committee, reporting on the outcome of its audits. The Audit Committee reviews and evaluates the key issues raised by the Internal Audit Department and ensures that appropriate and prompt remedial actions are taken by the Management.

During the financial year under review, the activities and work of the Internal Audit Department included:

1. Prepared the annual audit plan based on risk approach method for deliberation by the Audit Committee;

2. Presented the internal audit reports to the Audit Committee for review;

3. Carried out audit work and provide recommendations to assist various operating units within the Group in accomplishing its internal control objectives;

4. Ascertained the extent of compliance with the established Group's policies, procedures and statutory requirements;

5. Reviewed and appraised the soundness, adequacy and application of finance and operation controls;

6. Ascertained the adequacy of controls for safeguarding the Group's assets from all kinds of losses;

7. Reviewed and appraised all existing controls to promote effective internal control in the Group; and

8. Carried out ad-hoc audit site visits and follow up on the Group's construction sites.

STATEMENT ON **RISK MANAGEMENT AND INTERNAL CONTROL**

In concurrence with Paragraph 15.26(b) of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad, the Board is pleased to provide the Statement on Risk Management and Internal Control which outlines the nature of risk management and internal control within the Company for the financial period under review.

Merge Energy Bhd. ("the Company") has complied with the requirement stated in the Malaysian Code of Corporate Governance 2017 which requires the Board of Directors ("the Board") of listed companies to establish and maintain a sound risk management framework and internal controls system.

The following statement was put forth in accordance with the "Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers" to ensure the processes adopted in reviewing the adequacy and effectiveness of the risk management and internal control of the Company are adequate.

A. RESPONSIBILITY

The Board acknowledges its responsibility to adopt sound risk management practices to safeguard the Company's business interest from risk events that may impede achievement of business strategy and action plan, enable value creation and enable process improvement.

The Company has in place a continuous, proactive and systematic control structure and process for identifying, evaluating and managing significant risks pertinent to the achievement of the Company's overall corporate objectives. The control structure and process which has been established throughout the Company is updated and reviewed from time to time to suit the changes in business environment.

Sound internal control system is a vital process developed to ensure effective and efficient operation, provide reliable and relevant reporting, and compliance with the applicable laws and regulations.

B. CONTROL ENVIRONMENT AND ACTIVITIES

1. Key Control Structure of the Company

The Company has inculcated that managing risk is everyone's business. The whole Group comes together to manage risks in a successful and cost-efficient manner. Key control lies in the four lines of defence:-

a. Board of Directors

The Board acknowledges its overall responsibility in the establishment and oversight of the Company's risk management and internal control within the Company and is constantly keeping abreast with developments in the areas of risk and governance.

The Board meets at least quarterly, and more frequently when required, to review and evaluate the Company`s operations and performance and to address key policy matters.

Other Board Committees are also established to assist the Board in performing its oversight function namely the Audit Committee, the Nomination Committee and the Risk Management Committee. These Committees have the authority to examine all matters within their scope and report to the Board with their recommendations.

The Board through the Risk Management Committee and Audit Committee maintains overall responsibility for risk and control oversight respectively, within the Company.

While the Board, Risk Management Committee and Audit Committee provide oversight, the responsibility for managing risks and internal control appropriately lies with Senior Management through the following activities:-

- Providing leadership and direction to business units;
- Providing oversight responsibilities of reviewing financial information and assessing the effectiveness of the Company's internal control environment;
- Dissecting risk and internal control issues highlighted at the Risk Management Working Committee Meetings and Management Committee Meetings;
- Understanding the inherent risks in each business platform;

- Implementing Risk Management Framework by understanding the risk measurement, monitoring and mitigation strategy adopted, as well as the impact of on-going action plans to meet objectives; and
- Assessing the performance and state of internal controls of operating companies within the Group.

b. Risk Management Committee

The Board has also delegated the responsibility of reviewing the risk management systems and to ensure the effectiveness of the Company`s Risk Management Framework to the Risk Management Committee.

The Risk Management Committee will assist the Board of Directors in fulfilling its oversight responsibilities with regard to the risk appetite of the Company, the risk management framework and the governance structure that supports it.

The Risk Management Committee undertakes the following responsibilities:

a) Review and recommend risk management policies and procedures for Board's approval;
b) Review the adequacy and effectiveness of risk management process; and
c) Review the consolidated risk register assessed by the Risk Management Working Committee comprising members of the Head of Departments.

c. Audit Committee

The Board is also supported by the Audit Committee with the main responsibility to provide independent assessment on the adequacy and reliability of the risk management processes and internal control, as well as compliance with policies and regulatory requirements.

The Audit Committee have unimpeded access to both the Internal and External Auditors and has the right to convene meetings with the auditors without the presence of the Executive Director and Management.

The Audit Committee reviews the findings and recommendations provided by the Internal Auditor to ensure that it meets the necessary level of assurance with respect to the adequacy of the internal controls.

The Audit Committee meets at least on a quarterly basis and minutes of the Audit Committee meeting are then tabled to the Board. Further deliberation and update on details of the activities undertaken by the Audit Committee during the year are set out in the Audit Committee Report on pages 24 and 25 of this Annual Report.

d. Management Committee

At the forefront, operating units are responsible for the identification and management of risks within its operations. The operating units are also responsible for compliance of all daily activities with the approved framework, policies, guidelines and procedures.

Management Committee is established to ensure that the Company`s interests are adequately protected in arriving at important business/operational decisions. Meetings are held to formulate strategies on an on-going basis and to address issues arising from changes in both external business environment and internal operating conditions.

2. Group's Control Environment

The Board is committed to maintain a strong control structure and environment for the proper conduct of the Company`s business operations. The Company's control environment comprises of the following components which have been in place throughout the financial year:

a. Risk Management Function

The ideology of risk management is built on a culture where risks are mitigated by calibrating risks to acceptable levels whilst achieving the organisation's business plans and goals.

At Merge Energy Bhd, risk management is integrated within the Company's strategy planning process and its ongoing improvement in strengthening the quantification, reviewing and monitoring of all significant risk areas remain a vital focus of the Board in building a successful and sustainable business.

b. Risk Reporting Structure

The Company has a structured risk management reporting line to ensure significant risks are escalated to the appropriate levels. The Risk Management Committee ("RMC") role is to provide oversight and extensive discussion on risk management matters at the Board level. RMC reviews and assesses the adequacy risk management policies and ensures infrastructure, resources and systems are emplaced for risk management.

In discharging their risk management responsibilities, the Board and RMC is supported by the Risk Management Working Committee ("RMWC"). RMWC coordinates the risk review exercise across the Company to identify, manage and report the significant risks faced by the company to the RMC and ultimately to the Board. RMWC is also responsible for ensuring that the risk management framework is effectively implemented and that risk registers are maintained by the respective business platforms.

c. Risk Management Approach & Framework

The Company's risk management framework encapsulates an on-going process of identifying, assessing, controlling, monitoring and reporting material risks affecting the achievement of business objectives.

A structured risk management approach has been formulated to ensure the significant risks are identified and treated accordingly. The exercise encompasses the following activities:-

- Identifying key risks affecting business objectives and strategic plans;
- Defining a common understanding of risk classification tolerance through quantification, whenever possible, and development of criteria matrix that reflect the impact and likelihood of the risk materializing via Risk Profile;
- Evaluating adequacy of existing controls and developing additional plans, if required, to treat these risks;
- Monitoring effectiveness of measures taken to mitigate risks;
- Seizing prospects through evaluation of 'opportunity risks' so that management proactively realise opportunities; and
- Identifying changes to risks or emerging risks and promptly bringing these to the attention of the Board where appropriate.

The outcomes from the risk review exercise and other risk management activities will be documented and presented to the RMC and ultimately to the Board.

To ensure that risk registers are up-to-date and risk controls are enhanced and kept current, all business units are responsible to carry out a risk review on a regular basis, especially in the context of exceptional events.

d. Internal Audit Function

The Internal Audit Department ("IAD") is an in-house Internal Audit function that was established by the Board to provide independent assurance of the adequacy of risk management, internal control and governance systems within the Company and the establishment is in accordance with paragraph 15.27 of Bursa Malaysia Main Market Listing Requirement.

IAD undertakes regular reviews of the Company's operations and its system of internal controls based on an approved audit plan presented to the Audit Committee. The audit plan is developed based on the risk profiles of the respective business entities of the Company identified in accordance with the Company's Risk Management Framework and input from the Senior Management and the Board. This application confirms to the Practice 10.2 of the MCCG 2017.

Internal audit findings are discussed at Management level and the progress of implementation of the agreed actions is being monitored by the IAD through follow up reviews in which implementation status are presented to the Audit Committee on a quarterly basis.

IAD has a clear line of reporting to the Audit Committee and the Audit Committee determines the remit of the Internal Audit function as conforming to the Practice 10.1 of the MCCG 2017. Thus, the department is independent of the activities being audited and is performed with impartiality, proficiency and due professional care.

e. Documented Policies and Procedures

Merge Energy Bhd has documented policies and procedures in place which are structured in a way to promote consistency and governance as well as to assist daily business operations. The following Policies and Procedural Manuals has been approved by the Board to set the tone of control consciousness within the Company:-

- Finance & Accounts;
- Human Resource & Administration;
- Contract Department; and
- Project Management;

f. Quality Management System

Mewah Kota Sdn Bhd, a subsidiary of the Company has attained the ISO 9001/2015 certification for Quality Management System. The system consists of a set of policies, processes and procedures required for planning, execution, production, development and service in the core business area of an organisation to meet customers' requirements.

g. Key Performance Index

The Company has an established and quantifiable Key Performance Index that reflects the critical success factors of an organisation and also to enhance company's performance.

C. ADEQUACY OF RISK MANAGEMENT & INTERNAL CONTROL

The Board confirms that it has reviewed the effectiveness of the risk management and internal control framework and considers the Company's system of internal control as adequate in safeguarding the shareholders' interests and assets of the Company. The Board also confirms that there is an effective ongoing process for identification, evaluation and management of significant risks in the Company and is committed to ongoing review of the entire control, compliance and risk management controls.

The Board believes that the development of the system of internal controls is an on-going process and has taken steps throughout the year to improve its internal control system and will continue to do so.

The Company's Chief Executive Officer and Executive Director assure the Board that the Company's risk management and internal control system is operating adequately and effectively in all material aspects, based on the risk management and internal control system of the Company.

Where weaknesses and shortcomings were noted, management has taken appropriate actions to address them. IAD regularly review the processes to ensure the effectiveness of the existing controls with assistance from other departments and subsidiaries. Notwithstanding, to ensure that the risk treatments continue to be aligned with the Company's strategic objectives, the RMWC steadfastly monitors the control environment and business processes.

The Board is satisfied that the system of risk management and internal control was generally satisfactory. Based on the assessment of the Company's internal control system for the year under review and up to date of approval of this statement, no significant control failures or weaknesses that would result in material loss, contingency or uncertainty requiring disclosure in the Company's annual report were noted.

This statement, prepared for inclusion in the Annual Report of the Company for the year ended 31 March 2018 has been reviewed by the Audit Committee prior to their recommendation to the Board for approval.

D. REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the External Auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Recommended Practice Guide ("RPG") 5 (Revised 2015) issued by the Malaysian Institute of Accountants. RPG 5 (Revised 2015) does not require the external auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Company.

The External Auditors have reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and integrity of risk management and internal controls system of the Company.

This statement is made in accordance with the resolution of the Board dated 17 July 2018.

FINANCIAL STATEMENTS

DIRECTORS' **REPORT**

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are disclosed in Note 8 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Group RM	Company RM
(Loss)/Profit for the financial year	(10,140,529)	19,229,602
Attributable to:		
Owners of the Company	(9,972,653)	19,229,602
Non-controlling interest	(167,876)	–
	(10,140,529)	19,229,602

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

The directors do not recommend the payment of any dividends in respect of the financial year ended 31 March 2018.

RESERVES OR PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and of the Company were prepared, the directors took reasonable steps to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and of the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and

(ii) any contingent liabilities in respect of the Group or of the Company which has arisen since the end of the financial year.

In the opinion of the directors, no contingent or other liability of the Group or of the Company has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

ITEMS OF MATERIAL AND UNUSUAL NATURE

In the opinion of the directors,

(i) the results of the operations of the Group and of the Company for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

ISSUE OF SHARES AND DEBENTURES

During the financial year, no new issue of shares or debentures were made by the Company.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up the unissued shares of the Company during the financial year.

DIRECTORS' **REPORT** (cont'd)

DIRECTORS

The directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

Dato' Abdul Jalil bin Abdul Karim*	
Dato' Kamarulzaman bin Jamil	
Dato' Sheah Kok Fah	
Raizita binti Ahmad @ Harun*	
Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun	(Appointed on 18 September 2017)
Dr. Badrul Hisham bin Mohd Yusoff	(Appointed on 18 September 2017)
Dato' Dr Fam Seng Choy	(Resigned on 3 July 2017)

* Directors of the Company and certain subsidiaries

Other than as stated above, the names of the directors of the subsidiaries of the Company in office during the financial year and during the period from the end of the financial year to the date of the report are:

Ab. Kadir bin Ab. Majid
Mohd Azali bin Abdul Rahman
Mohd Azrul Fitri Bin Abu Bakar
Mohd Rosidi bin Hassan

DIRECTORS' INTERESTS

According to the Register of Directors' shareholdings required to be kept by the Company under Section 59 of the Companies Act 2016 in Malaysia, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

	Number of ordinary shares			
	At 31.3.2017	Bought	Sold	At 31.3.2018
Interest in the Company				
Indirect interest:				
Dato' Abdul Jalil bin Abdul Karim*	20,213,100	–	–	**20,213,100**

* Shares held through company in which the director has substantial financial interests.

By virtue of his interests in the ordinary shares of the Company and pursuant to Section 8 of the Companies Act 2016 in Malaysia, Dato' Abdul Jalil bin Abdul Karim is deemed to have an interest in the ordinary shares of the subsidiaries to the extent that the Company has an interest.

Other than disclosed above, none of the other directors in office at the end of the financial year had any interest in ordinary shares of the Company and its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable, by the directors as disclosed in Note 27 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

DIRECTORS' BENEFITS (cont'd)

Neither during, nor at the end of the financial year, was the Company a party to any arrangements where the object is to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

INDEMNITY TO DIRECTORS AND OFFICERS

During the financial year, there were no indemnity given to any directors and officers of the Company.

SUBSIDIARIES

The details of the Company's subsidiaries are disclosed in Note 8 to the financial statements.

The auditor's reports on the accounts of the subsidiaries did not contain any qualifications.

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Details of significant event during the financial year are disclosed in Note 36 to the financial statement.

AUDITORS' REMUNERATION

The details of the auditors' remuneration are disclosed in Note 26 to the financial statements.

INDEMNITY TO AUDITORS

The Company has agreed to indemnify the auditors of the Company as permitted under Section 289 of the Companies Act 2016 in Malaysia.

AUDITORS

The auditors, Messrs Baker Tilly Monteiro Heng, have expressed their willingness to continue in office.

This report was approved and signed on behalf of the Board of Directors in accordance with a resolution of the directors:

....

DATO' ABDUL JALIL BIN ABDUL KARIM
Director

....

RAIZITA BINTI AHMAD @ HARUN
Director

Date: 17 July 2018

STATEMENTS OF **FINANCIAL POSITION**
as at 31 March 2018

		Group		Company	
		2018	2017	2018	2017
	Note	RM	RM	RM	RM
ASSETS					
Non-current assets					
Property, plant and equipment	5	**22,964,862**	22,795,645	**201,118**	314,813
Investment properties	6	**15,970,000**	15,970,000	**–**	–
Goodwill on consolidation	7	**855,994**	855,994	**–**	–
Investment in subsidiaries	8	**–**	–	**50,479,213**	31,931,051
Investment in an associate	9	**–**	3,429,971	**–**	–
Total non-current assets		**39,790,856**	43,051,610	**50,680,331**	32,245,864
Current assets					
Inventories	10	**281,366**	66,023	**–**	–
Amounts due from customers for contract works	11	**5,733,159**	9,544,222	**–**	–
Trade receivables	12	**20,308,064**	21,780,760	**–**	–
Other receivables, deposits and prepayments	13	**2,458,518**	1,705,166	**29,313**	26,485
Amounts due from subsidiaries	14	**–**	–	**2,552,582**	963,250
Amount due from an associate	15	**–**	141,430	**–**	–
Tax assets		**510,514**	231,144	**–**	–
Deposits placed with licensed banks	16	**3,973,836**	11,963,589	**–**	–
Cash and bank balances	16	**5,327,098**	6,003,579	**1,712**	36,125
Total current assets		**38,592,555**	51,435,913	**2,583,607**	1,025,860
TOTAL ASSETS		**78,383,411**	94,487,523	**53,263,938**	33,271,724

STATEMENTS OF **FINANCIAL POSITION**

as at 31 March 2018 (cont'd)

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM**	**RM**	**RM**	**RM**
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	17	**74,712,508**	74,712,508	**74,712,508**	74,712,508
Share premium	18	**–**	–	**–**	–
Accumulated losses		**(23,768,885)**	(13,796,232)	**(42,589,258)**	(61,818,860)
		50,943,623	60,916,276	**32,123,250**	12,893,648
Non-controlling interest		**1,811,580**	1,979,456	**–**	–
TOTAL EQUITY		**52,755,203**	62,895,732	**32,123,250**	12,893,648
Non-current liabilities					
Loans and borrowings	19	**1,769,868**	2,155,626	**–**	–
Deferred tax liabilities	20	**194,076**	363,756	**–**	–
Total non-current liabilities		**1,963,944**	2,519,382	**–**	–
Current liabilities					
Amounts due to customers for contract works	11	**1,523,760**	1,255,233	**–**	–
Trade payables	21	**11,438,741**	10,815,767	**–**	–
Other payables, accruals and deposits	22	**7,026,126**	9,117,843	**87,405**	66,552
Amounts due to subsidiaries	14	**–**	–	**21,053,283**	20,311,524
Loans and borrowings	19	**3,606,530**	7,757,102	**–**	–
Tax liabilities		**69,107**	126,464	**–**	–
Total current liabilities		**23,664,264**	29,072,409	**21,140,688**	20,378,076
TOTAL LIABILITIES		**25,628,208**	31,591,791	**21,140,688**	20,378,076
TOTAL EQUITY AND LIABILITIES		**78,383,411**	94,487,523	**53,263,938**	33,271,724

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF **COMPREHENSIVE INCOME**

for the financial year ended 31 March 2018

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM**	**RM**	**RM**	**RM**
Revenue	23	**24,610,589**	87,497,545	**–**	–
Cost of sales	24	**(21,749,865)**	(77,551,669)	**–**	–
Gross profit		**2,860,724**	9,945,876	**–**	–
Other income		**2,256,821**	3,060,491	**20,350,092**	–
Administrative expenses		**(11,688,516)**	(10,906,963)	**(1,120,490)**	(1,047,236)
Operating (loss)/profit		**(6,570,971)**	2,099,404	**19,229,602**	(1,047,236)
Finance costs	25	**(412,360)**	(514,291)	**–**	–
Share of results of an associate, net of tax		**(3,429,971)**	1,110,588	**–**	–
(Loss)/Profit before tax and zakat	26	**(10,413,302)**	2,695,701	**19,229,602**	(1,047,236)
Tax credit/(expense)	28	**344,513**	(766,803)	**–**	–
Zakat		**(71,740)**	(243,489)	**–**	–
(Loss)/Profit for the financial year, representing total comprehensive (loss)/ income for the financial year		**(10,140,529)**	1,685,409	**19,229,602**	(1,047,236)
(Loss)/Profit attributable to:					
Owners of the Company		**(9,972,653)**	1,622,397	**19,229,602**	(1,047,236)
Non-controlling interest		**(167,876)**	63,012	**–**	–
		(10,140,529)	1,685,409	**19,229,602**	(1,047,236)
Total comprehensive (loss)/ income attributable to:					
Owners of the Company		**(9,972,653)**	1,622,397	**19,229,602**	(1,047,236)
Non-controlling interest		**(167,876)**	63,012	**–**	–
		(10,140,529)	1,685,409	**19,229,602**	(1,047,236)
(Loss)/Earnings per share (sen):					
Basic/Diluted	29	**(14.88)**	2.42		

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF **CHANGES IN EQUITY**

for the financial year ended 31 March 2018

	Note	← Share capital RM	Share premium RM	Attributable to owners of the Company Accumulated losses RM	Total → RM	Non–controlling interest RM	Total equity RM
Group							
At 1 April 2016		67,000,000	7,712,508	(15,418,629)	59,293,879	1,916,444	61,210,323
Total comprehensive income for the financial year							
Profit for the financial year, representing total comprehensive income		–	–	1,622,397	1,622,397	63,012	1,685,409
		67,000,000	7,712,508	(13,796,232)	60,916,276	1,979,456	62,895,732
Transition to no-par value regime	18	7,712,508	(7,712,508)	–	–	–	–
At 31 March 2017		74,712,508	–	(13,796,232)	60,916,276	1,979,456	62,895,732
Total comprehensive loss for the financial year							
Loss for the financial year, representing total comprehensive loss		–	–	(9,972,653)	(9,972,653)	(167,876)	(10,140,529)
At 31 March 2018		74,712,508	–	(23,768,885)	50,943,623	1,811,580	52,755,203

	Note	Share capital RM	Share premium RM	Accumulated losses RM	Total equity RM
Company					
At 1 April 2016		67,000,000	7,712,508	(60,771,624)	13,940,884
Total comprehensive loss for the financial year					
Loss for the financial year, representing total comprehensive loss		–	–	(1,047,236)	(1,047,236)
		67,000,000	7,712,508	(61,818,860)	12,893,648
Transition to no-par value regime	18	7,712,508	(7,712,508)	–	–
At 31 March 2017		74,712,508	–	(61,818,860)	12,893,648
Total comprehensive income for the financial year					
Profit for the financial year, representing total comprehensive income		–	–	19,229,602	19,229,602
At 31 March 2018		74,712,508	–	(42,589,258)	32,123,250

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF **CASH FLOWS**

for the financial year ended 31 March 2018

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM**	**RM**	**RM**	**RM**
Cash flows from operating activities					
(Loss)/Profit before tax and zakat		**(10,413,302)**	2,695,701	**19,229,602**	(1,047,236)
Adjustments for:					
Bad debts written off		**2,883**	–	**–**	–
Deposits written off		**2,250**	–	**–**	–
Depreciation of property, plant and equipment		**1,241,930**	1,128,104	**113,695**	113,695
Fair value gain on investment properties		**–**	(1,559,280)	**–**	–
(Gain)/Loss on disposal of property, plant and equipment		**(96,743)**	3,912	**–**	–
Gain on bargain purchase arising from acquisition of subsidiaries		**(1,220,956)**	–	**–**	–
Impairment loss on:					
- goodwill on consolidation		**–**	147,907	**–**	–
- investment in subsidiaries		**–**	–	**262,598**	283,138
- trade receivables		**379,786**	170,416	**–**	–
- other receivables		**–**	26,577	**–**	–
- amounts due from subsidiaries		**–**	–	**11,578**	45,588
- amount due from an associate		**141,430**	–	**–**	–
Interest expense		**412,360**	514,291	**–**	–
Interest income		**(163,662)**	(397,280)	**–**	–
Property, plant and equipment written off		**5,606**	70,260	**–**	–
Reversal of impairment loss on:					
- investment in subsidiaries		**–**	–	**(18,760,760)**	–
- amounts due from subsidiaries		**–**	–	**(1,589,332)**	–
Share of results of an associate, net of tax		**3,429,971**	(1,110,588)	**–**	–
Unrealised gain on foreign exchange		**(16)**	(115,220)	**–**	–
Operating (loss)/profit before changes in working capital, carried forward		**(6,278,463)**	1,574,800	**(732,619)**	(604,815)

STATEMENTS OF **CASH FLOWS** (cont'd)

for the financial year ended 31 March 2018

	Note	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
Cash flows from operating activities (continued)					
Operating (loss)/profit before changes in working capital, brought forward		**(6,278,463)**	1,574,800	**(732,619)**	(604,815)
Changes in working capital:					
Inventories		**36,392**	12,171	**–**	–
Receivables		**7,208,371**	29,105,190	**(2,828)**	601
Payables		**(4,671,886)**	(26,622,078)	**20,853**	(1,918,200)
Net cash (used in)/generated from operations		**(3,705,586)**	4,070,083	**(714,594)**	(2,522,414)
Interest paid		**(295,454)**	(397,892)	**–**	–
Tax paid		**(309,729)**	(1,312,372)	**–**	–
Zakat paid		**(71,740)**	(243,489)	**–**	–
Net cash (used in)/generated from operating activities		**(4,382,509)**	2,116,330	**(714,594)**	(2,522,414)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(187,119)**	(3,140,056)	**–**	–
Acquisition of subsidiaries, net of cash acquired	8(a)	**271,722**	–	**(50,000)**	–
Proceeds from disposal of property, plant and equipment		**121,230**	5,905	**–**	–
Change in pledged deposits		**8,126,874**	(511,931)	**–**	–
Interest received		**20,563**	397,280	**–**	–
Net cash generated from/(used in) investing activities		**8,353,270**	(3,248,802)	**(50,000)**	–

STATEMENTS OF **CASH FLOWS** (cont'd)

for the financial year ended 31 March 2018

		Group		Company	
		2018	2017	2018	2017
	Note	RM	RM	RM	RM
Cash flows from financing activities					
Advances from subsidiaries		**–**	–	**730,181**	2,510,981
(Repayment)/Drawdown of trust receipt	(a)	**(1,023,850)**	407,930	**–**	–
Repayment of finance lease liabilities	(a)	**(389,155)**	(429,939)	**–**	–
(Repayment)/Drawdown of term loans	(a)	**(39,391)**	768,503	**–**	–
Interest paid		**(116,906)**	(116,399)	**–**	–
Net cash (used in)/generated from financing activities		**(1,569,302)**	630,095	**730,181**	2,510,981
Net increase/(decrease) in cash and cash equivalents		**2,401,459**	(502,377)	**(34,413)**	(11,433)
Cash and cash equivalents at the beginning of the financial year		**(333,066)**	54,091	**36,125**	47,558
Effects of exchange rate changes on cash and cash equivalents		**16**	115,220	**–**	–
Cash and cash equivalents at the end of the financial year	16	**2,068,409**	(333,066)	**1,712**	36,125

(a) Reconciliation of liabilities arising from financing activities:

	1 April 2017	Cash Flow	31 March 2018
	RM	RM	RM
Group			
Trust receipt	1,023,850	(1,023,850)	**–**
Finance lease liabilities	1,296,638	(389,155)	**907,483**
Term loans	1,249,617	(39,391)	**1,210,226**
	3,570,105	(1,452,396)	**2,117,709**

	1 April 2017	Cash flow	Net reversal of impairment loss	31 March 2018
	RM	RM	RM	RM
Company				
Amounts due to/(from) subsidiaries	19,348,274	730,181	(1,577,754)	**18,500,701**

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Merge Energy Bhd ("the Company") is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office and the principal place of business of the Company is located at No. 2, Jalan Apollo U5/190, Bandar Pinggiran Subang, Seksyen U5, 40150 Shah Alam, Selangor Darul Ehsan.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are disclosed in Note 8 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 17 July 2018.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs"), the International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

2.2 Adoption of amendments/improvements to MFRSs

The Group and the Company have adopted the following amendments/improvements to MFRSs that are mandatory for the current financial year:

Amendments/Improvements to MFRSs	
MFRS 12	Disclosure of Interests in Other Entities
MFRS 107	Statement of Cash Flows
MFRS 112	Income Taxes

The adoption of the above amendments/improvements to MFRSs did not have any significant effect on the financial statements of the Group and of the Company and did not result in significant changes to the Group's and the Company's existing accounting policies except as disclosed below:

Amendments to MFRS 107 Statement of Cash Flows

Amendments to MFRS 107 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The disclosure requirement could be satisfied in various ways, and one method is by providing reconciliation between the opening and closing balances in the statements of financial position for liabilities arising from financing activities.

The Group and the Company have applied the amendments prospectively and accordingly, have disclosed the reconciliation in Statements of Cash Flows.

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective

The Group and the Company have not adopted the following new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int that have been issued, but yet to be effective:

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective (cont'd)

		Effective for financial periods beginning on or after
New MFRSs		
MFRS 9	Financial Instruments	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
MFRS 16	Leases	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021
Amendments/Improvements to MFRSs		
MFRS 1	First-time adoption of MFRSs	1 January 2018
MFRS 2	Share-based Payment	1 January 2018/ 1 January 2020*
MFRS 3	Business Combinations	1 January 2019/ 1 January 2020*
MFRS 4	Insurance Contracts	1 January 2018
MFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2020*
MFRS 9	Financial Instruments	1 January 2019
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 11	Joint Arrangements	1 January 2019
MFRS 14	Regulatory Deferral Accounts	1 January 2020*
MFRS 101	Presentation of Financial Statements	1 January 2020*
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020*
MFRS 112	Income Taxes	1 January 2019
MFRS 119	Employee Benefits	1 January 2019
MFRS 123	Borrowing Costs	1 January 2019
MFRS 128	Investments in Associates and Joint Ventures	1 January 2018/ 1 January 2019/ Deferred
MFRS 134	Interim Financial Reporting	1 January 2020*
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2020*
MFRS 138	Intangible Assets	1 January 2020*
MFRS 140	Investment Property	1 January 2018

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective (cont'd)

		Effective for financial periods beginning on or after
New IC Int		
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IC Int 23	Uncertainty over Income Tax Treatment	1 January 2019
Amendments to IC Int		
IC Int 12	Service Concession Arrangements	1 January 2020*
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 January 2020*
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2020*
IC Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2020*
IC Int 132	Intangible Assets – Web Site Costs	1 January 2020*

* Amendments to References to the Conceptual Framework in MFRS Standards

2.3.1 The Group and the Company plan to adopt the above applicable new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int when they become effective. A brief discussion on the above significant new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int are summarised below.

MFRS 9 Financial Instruments

Key requirements of MFRS 9:

- MFRS 9 introduces an approach for classification of financial assets which is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments.

  In essence, if a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect its contractual cash flows, the financial asset is measured at amortised cost. In contrast, if that asset is held in a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value in the statements of financial position, and amortised cost information is provided through profit or loss. If the business model is neither of these, then fair value information is increasingly important, so it is provided both in the profit or loss and in the statements of financial position.

- MFRS 9 introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, this Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

- MFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective (cont'd)

2.3.1 (cont'd)

MFRS 15 Revenue from Contracts with Customers

The core principle of MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:
(i) identify the contracts with a customer;
(ii) identify the performance obligation in the contract;
(iii) determine the transaction price;
(iv) allocate the transaction price to the performance obligations in the contract;
(v) recognise revenue when (or as) the entity satisfies a performance obligation.

MFRS 15 also includes new disclosures that would result in an entity providing users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The following MFRSs and IC Int will be withdrawn on the application of MFRS 15:

MFRS 111	Construction Contracts
MFRS 118	Revenue
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 15	Agreements for the Construction of Real Estate
IC Interpretation 18	Transfers of Assets from Customers
IC Interpretation 131	Revenue - Barter Transactions Involving Advertising Services

MFRS 16 Leases

Currently under MFRS 117 *Leases*, leases are classified either as finance leases or operating leases. A lessee recognises on its statements of financial position assets and liabilities arising from the finance leases.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. All leases will be brought onto its statements of financial position except for short-term and low value asset leases.

Amendments to MFRS 9 Financial Instruments

Amendments to MFRS 9 allow companies to measure prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if certain conditions are met.

The amendments also clarify that when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognised in profit or loss.

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures

These amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective (cont'd)

2.3.1 (cont'd)

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures (cont'd)

The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business, as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

Amendments to MFRS 112 Income Taxes

Amendments to MFRS 112 clarify that an entity recognises the income tax consequences of dividends in profit or loss because income tax consequences of dividends are linked more directly to past transactions than to distributions to owners, except if the tax arises from a transaction which is a business combination or is recognised in other comprehensive income or directly in equity.

Amendments to MFRS 123 Borrowing Costs

Amendments to MFRS 123 clarify that when a qualifying asset is ready for its intended use or sale, an entity treats any outstanding borrowing made specifically to obtain that qualifying asset as part of general borrowings.

Amendments to MFRS 128 Investments in Associates and Joint Ventures

Amendments to MFRS 128 clarify that an entity, which is a venture capital organisation, or a mutual fund, unit trust or similar entities, has an investment-by-investment choice to measure its investments in associates or joint ventures at fair value through profit or loss.

The amendments also clarify that companies shall apply MFRS 9, including its impairment requirements, to account for long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint to which the equity method is not applied.

Amendments to MFRS 140 Investment Property

Amendments to MFRS 140 clarify that to transfer to, or from, investment properties there must be evidence of a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition of investment property. A change in intention, in isolation, does not provide evidence of a change in use.

The amendments also clarify that the list of circumstances that evidence a change in use is not exhaustive.

IC Int 22 Foreign Currency Transactions and Advance Consideration

IC Int 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

IC Int 23 Uncertainty over Income Tax Treatments

IC Int clarifies that where there is uncertainty over income tax treatments, an entity shall:

(i) assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

(ii) reflect the effect of uncertainty in determining the related tax position (using either the most likely amount or the expected value method) if it concludes it is not probable that the taxation authority will accept an uncertain tax treatment.

2. BASIS OF PREPARATION (cont'd)

2.3 New MFRSs, amendments/improvements to MFRSs, new IC Interpretation ("IC Int") and amendments to IC Int that have been issued, but yet to be effective (cont'd)

2.3.1 (cont'd)

Amendments to References to the Conceptual Framework in MFRS Standards

The Malaysian Accounting Standards Board has issued a revised *Conceptual Framework for Financial Reporting* and amendments to fourteen Standards under the Malaysian Financial Reporting Standards Framework on 30 April 2018.

The revised Conceptual Framework comprises a comprehensive set of concepts of financial reporting. It is built on the previous version of the Conceptual Framework issued in 2011. The changes to the chapters on the objective of financial reporting and qualitative characteristics of useful financial information are limited, but with improved wordings to give more prominence to the importance of providing information need to assess management's stewardship of the entity's economic resources.

Other improvements of the revised Conceptual Framework include a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance – in particular the definition of a liability – and clarifications in important areas, such as the role of prudence and measurement uncertainty in financial reporting.

The amendments to the fourteen Standards are to update the references and quotations in these Standards which include MFRS 2, MFRS 3, MFRS 6, MFRS 14, MFRS 101, MFRS 108, MFRS 134, MFRS 137, MFRS 138, IC Int 12, IC Int 19, IC Int 20, IC Int 22 and IC Int 132.

2.3.2 The Group and the Company are currently performing a detailed analysis to determine the election of the practical expedients and to quantify the financial effects arising from the adoption of the new MFRSs, amendments/improvements to MFRSs, new IC Int and amendments to IC Int.

2.4 Functional and presentation of currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which they operate ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

2.5 Basis of measurement

The financial statements of the Group and of the Company have been prepared on the historical cost basis, except as otherwise disclosed in Note 3.

2.6 Use of estimates and judgement

The preparation of financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates that are significant to the Group's and the Company's financial statements are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently to all the financial years presented in the financial statements of the Group and of the Company.

3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries and an associate used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

(a) Subsidiaries and business combination

Subsidiaries are entities (including structured entities) over which the Group is exposed, or has rights, to variable returns from its involvement with the acquirees and has the ability to affect those returns through its power over the acquirees.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group obtains control of the acquirees until the date the Group loses control of the acquirees.

The Group applies the acquisition method to account for business combinations from the acquisition date.

For a new acquisition, goodwill is initially measured at cost, being the excess of the following:

- the fair value of the consideration transferred, calculated as the sum of the acquisition-date fair value of assets transferred (including contingent consideration), the liabilities incurred to former owners of the acquiree and the equity instruments issued by the Group. Any amounts that relate to pre-existing relationships or other arrangements before or during the negotiations for the business combination, that are not part of the exchange for the acquiree, will be excluded from the business combination accounting and be accounted for separately; plus
- the recognised amount of any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date (the choice of measurement basis is made on an acquisition-by-acquisition basis); plus
- if the business combination is achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; less
- the net fair value of the identifiable assets acquired and the liabilities (including contingent liabilities) assumed at the acquisition date.

The accounting policy for goodwill is set out in Note 3.8.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

If the business combination is achieved in stages, the Group remeasures the previously held equity interest in the acquiree to its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss or transferred directly to retained earnings on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group uses provisional fair value amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including additional assets or liabilities identified in the measurement period. The measurement period for completion of the initial accounting ends as soon as the Group receives the information it was seeking about facts and circumstances or learns that more information is not obtainable, subject to the measurement period not exceeding one year from the acquisition date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

(a) Subsidiaries and business combination (cont'd)

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any gain or loss arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an associate, a joint venture, an available-for-sale financial asset or a held for trading financial asset.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the Group's share of net assets before and after the change, and the fair value of the consideration received or paid, is recognised directly in equity.

(b) Non-controlling interests

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company and are presented separately in the consolidated statement of financial position within equity.

Losses attributable to the non-controlling interests are allocated to the non-controlling interests even if the losses exceed the non-controlling interests.

(c) Associates

Associates are entities over which the Group has significant influence, but not control, to the financial and operating policies.

Investment in associates are accounted for in the consolidated financial statements using the equity method.

Under the equity method, the investment in associates are initially recognised at cost. The cost of investment includes transaction costs. Subsequently, the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

When the Group ceases to have significant influence over an associate, any retained interest in the former associate at the date when significant influence is lost is measured at fair value and this amount is regarded as the initial carrying amount of an available-for-sale financial asset or a held for trading financial asset. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When the Group's interest in an associate decrease but does not result in a loss of significant influence, any retained interest is not remeasured. Any gain or loss arising from the decrease in interest is recognised in profit or loss. Any gains or losses previously recognised in other comprehensive income are also reclassified proportionately to profit or loss if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Basis of consolidation (cont'd)

(d) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted associate are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same ways as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Separate financial statements

In the Company's statements of financial position, investment in subsidiaries and an associate are measured at cost less any accumulated impairment losses, unless the investment is classified as held for sale or distribution. The cost of investment includes transaction costs. The policy for the recognition and measurement of impairment losses shall be applied on the same basis as would be required for impairment of non-financial assets as disclosed in Note 3.12(b).

Contributions to subsidiaries are amount for which the settlement is neither planned nor likely to occur in the foreseeable future is, in substance, considered as part of the Company's investment in the subsidiaries.

3.3 Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of the Group entities at the exchange rates prevailing at the transaction dates.

At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the reporting date.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the historical rates as at the dates of the initial transactions.

Foreign exchange differences arising on settlement or retranslation of monetary items are recognised in profit or loss.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3.4 Financial instruments

Financial instruments are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contract provisions of the financial instrument.

Financial instruments are recognised initially at fair value, except for financial instruments not measured at fair value through profit or loss, they are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instruments (cont'd)

(a) Subsequent measurement

The Group and the Company categorise the financial instruments as follows:

(i) Financial assets

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(a). Gains and losses are recognised in profit or loss through the amortisation process.

(ii) Financial liabilities

Other financial liabilities

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss through the amortisation process.

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

(c) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting (i.e. the date the Group and the Company themselves purchase or sell an asset). Trade date accounting refers to:

(i) the recognition of an asset to be received and the liability to pay for it on the trade date; and
(ii) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Financial instruments (cont'd)

(d) Derecognition

A financial asset or a part of it is derecognised when, and only when, the contractual rights to receive the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3.5 Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(b).

Cost of assets includes expenditure that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(b) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group or the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss as incurred.

(c) Depreciation

Freehold land has an unlimited useful life and therefore is not depreciated.

All other property, plant and equipment are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

	Useful lives (years)
Freehold building	50
Long term leasehold land and buildings	80 – 82
Plant and machinery	5 – 10
Motor vehicles	5 – 10
Furniture, fittings and office equipment	3 – 20
Office renovation	20

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Property, plant and equipment (cont'd)

(c) Depreciation (cont'd)

Long term leasehold land and buildings are depreciated over the lease term as the Group has not been able to segregate the cost of the building from the cost of the related long term leasehold land. The directors are of the opinion that the depreciation of the buildings has no material effect on the financial statements of the Group.

The residual values, useful lives and depreciation methods are reviewed at the end of each reporting period and adjusted as appropriate.

Fully depreciated assets are retained in the accounts until the assets are no longer in use.

(d) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in profit or loss.

3.6 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

(a) Lessee accounting

If an entity in the Group is a lessee in a finance lease, it capitalises the leased asset and recognises the related liability. The amount recognised at the inception date is the fair value of the underlying leased asset or, if lower, the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are charged as expenses in the periods in which they are incurred.

The capitalised leased asset is classified by nature as property, plant and equipment or investment property.

For operating leases, the Group does not capitalise the leased asset or recognise the related liability. Instead lease payments under an operating lease are recognised as an expense on the straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

(b) Lessor accounting

If an entity in the Group is a lessor in a finance lease, it derecognises the underlying asset and recognises a lease receivable at an amount equal to the net investment in the lease. Finance income is recognised in profit or loss based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

If an entity in the Group is a lessor in an operating lease, the underlying asset is not derecognised but is presented in the statements of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Investment properties

Investment properties are properties held to earn rental income or for capital appreciation or both.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair values of investment properties are recognised in profit or loss for the period in which they arise.

Cost includes purchase price and directly attributable costs incurred to bring the property to its present location and condition intended for use as an investment property.

An investment property is derecognised on its disposal or when it is permanently withdrawn from use and no future economic benefit are expected from its disposal. Any gains and losses arising from derecognition of the asset is recognised in profit or loss.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property carried at fair value to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, any difference arising on the date of change in use between the carrying amount of the item immediately prior to the transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment.

3.8 Goodwill

Goodwill arising from business combinations is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.12(b).

In respect of equity-accounted associates, goodwill is included in the carrying amount of the investment and is not tested for impairment individually. Instead, the entire carrying amount of the investment is tested for impairment as a single asset when there is objective evidence of impairment.

3.9 Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs includes the actual cost of purchase and other costs incurred in bringing the inventories to their present location and condition. The costs are assigned on a weighted average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3.10 Construction work-in-progress

Construction work-in-progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on operating capacity.

Construction work-in-progress is presented as part of contract assets as amounts due from customers for contract works in the statements of financial position for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as amounts due to customers for contract works which is part of the contract liabilities in the statements of financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.11 Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash on hand, bank balances and deposits with a maturity of three months or less, that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are presented net of bank overdrafts.

3.12 Impairment of assets

(a) Impairment and uncollectibility of financial assets

At each reporting date, all financial assets are assessed whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

The Group and the Company first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the Group and the Company may include the financial asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Financial assets that are individually assessed for impairment for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases due to an event occurring after the impairment that was recognised, the previously recognised impairment loss is then reversed by adjusting an allowance account to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group and the Company. If a write-off is later recovered, the recovery is credited to profit or loss.

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets (except for inventories, amounts due from customers for contract works and investment properties measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group and the Company make an estimate of the asset's recoverable amount. For goodwill that have indefinite useful life and are not yet available for use, the recoverable amount is estimated at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.12 Impairment of assets (cont'd)

(b) Impairment of non-financial assets (cont'd)

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs"). Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a CGU or a group of CGUs that are expected to benefit from the synergies of business combination.

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Where the carrying amount of an asset exceeds its recoverable amount, the carrying amount of asset is reduced to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss, except for assets that were previously revalued with the revaluation surplus recognised in other comprehensive income. In the latter case, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

Impairment losses in respect of goodwill are not reversed. For other assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. Reversal of impairment loss is restricted by the asset's carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

3.13 Share capital

Ordinary shares are equity instruments. An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

3.14 Provision

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

If the effect of the time value of money is material, provisions that are determined based on the expected future cash flows to settle the obligation are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provisions due to passage of time is recognised as finance costs.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15 Revenue and other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Company and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of discounts, rebates, returns and taxes.

(a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion at the reporting date. Stage of completion is determined by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised to the extent of the expenses recognised that are recoverable.

(c) Construction contracts

Revenue from construction contracts is accounted for by the stage of completion method. The stage of completion method is measured by reference to the proportion of contract costs incurred for work performed to date to the estimated total contract costs.

(d) Interest income

Interest income is recognised using the effective interest method.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

(f) Rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease.

3.16 Employee benefits

(a) Short-term employee benefits

Short-term employee benefit obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to the Group.

(b) Defined contribution plans

As required by law, the Group and the Company contribute to the Employees Provident Fund ("EPF"), the national defined contribution plan. Such contributions are recognised as an expense in profit or loss in the period in which the employees render their services.

3.17 Borrowing costs

Borrowing costs are interests and other costs that the Group and the Company incur in connection with borrowing of funds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Borrowing costs (cont'd)

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The Group and the Company begin capitalising borrowing costs when the Group and the Company have incurred the expenditures for the asset, incurred related borrowing costs and undertaken activities that are necessary to prepare the asset for its intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

3.18 Income tax

Income tax expense in profit or loss comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

(a) Current Tax

Current tax is the expected taxes payable or receivable on the taxable income or loss for the financial year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

(b) Deferred Tax

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unutilised tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures, except where the Group is able to control the reversal timing of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Income tax (cont'd)

(b) Deferred Tax (cont'd)

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Where investment properties are carried at fair value in accordance with the accounting policy as disclosed in Note 3.7, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within the business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle their income tax recoverable and income tax payable on a net basis or their tax assets and liabilities will be realised simultaneously.

(c) Goods and service tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST") except:
- where the GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

3.19 Earning per share

The Group presents basic and diluted earnings per share ("EPS") date for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.20 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Chief Executive Officer of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker that makes strategic decisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.21 Fair value measurements

Fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group and the Company use observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group and the Company can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Group and the Company recognise transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3.22 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group and of the Company.

Contingent liability is also referred as a present obligation that arises from past events but is not recognised because:

(a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(b) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities and assets are not recognised in the statements of financial position.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect in determining the amount recognised in the financial year include the following:

(a) Impairment of goodwill

Goodwill is tested for impairment annually and at other times when such indicators exist. This requires an estimation of the value-in-use of the cash generating units to which goodwill is allocated. When value-in-use calculations are undertaken, the Group uses its judgement to decide the discount rates to be applied in the recoverable amount calculation and assumptions supporting the underlying cash flow projections, including forecast growth rates, inflation rates and gross profit margin. Cash flows that are projected based on those inputs or assumptions may have a significant effect on the Group's financial position and results if the actual cash flows are less than the expected.

The carrying amount of the Group's goodwill and key assumptions used to determine the recoverable amount for the cash-generating unit are disclosed in Note 7.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

(b) Construction revenue and expenses

The Group recognised construction revenue and expenses in profit or loss by using the stage of completion method. The stage of completion is determined by the proportion that construction costs incurred for work performed to date bear to the estimated total construction costs.

Significant judgement is required in determining the stage of completion, the extent of the construction costs incurred, the estimated total construction revenue and expenses, as well as the recoverability of the construction projects. In making the judgement, the Group evaluates based on past experience and by relying on the work of specialists.

The carrying amounts of contract assets and contract liabilities are disclosed in Note 11.

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and building	Long term leasehold land and buildings	Plant and machinery	Motor vehicles	Furniture, fittings and office equipment	Office renovation	Total
	RM	RM	RM	RM	RM	RM	RM
Group							
2018							
Cost							
At 1 April 2017	1,000,000	20,916,240	93,217	3,927,499	1,584,746	1,800,461	29,322,163
Acquisition of subsidiaries	–	–	17,605	108,649	241,993	885,874	1,254,121
Additions	–	–	5,405	89,766	71,443	20,505	187,119
Disposals	–	–	–	(302,509)	(3,219)	–	(305,728)
Written off	–	–	–	(412,355)	–	–	(412,355)
At 31 March 2018	1,000,000	20,916,240	116,227	3,411,050	1,894,963	2,706,840	30,045,320
Accumulated depreciation							
At 1 April 2017	18,333	1,458,030	42,593	2,623,877	1,018,122	1,365,563	6,526,518
Depreciation charge for the financial year	20,000	274,121	25,929	508,494	207,058	206,328	1,241,930
Disposals	–	–	–	(279,370)	(1,871)	–	(281,241)
Written off	–	–	–	(406,749)	–	–	(406,749)
At 31 March 2018	38,333	1,732,151	68,522	2,446,252	1,223,309	1,571,891	7,080,458
Carrying amount							
At 31 March 2018	961,667	19,184,089	47,705	964,798	671,654	1,134,949	22,964,862

5. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Note	Freehold land and building RM	Long term leasehold land and buildings RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and office equipment RM	Office renovation RM	Total RM
Group								
2017								
Cost								
At 1 April 2016		–	20,076,904	74,838	3,735,489	1,443,171	1,952,393	27,282,795
Additions		1,000,000	1,600,000	22,740	219,376	269,756	188,184	3,300,056
Disposals		–	–	–	–	(34,321)	–	(34,321)
Written off		–	–	(4,361)	(27,366)	(93,860)	(340,116)	(465,703)
Transfer to investment property	6	–	(760,664)	–	–	–	–	(760,664)
At 31 March 2017		1,000,000	20,916,240	93,217	3,927,499	1,584,746	1,800,461	29,322,163
Accumulated depreciation								
At 1 April 2016		–	1,297,679	25,865	2,100,826	926,073	1,567,862	5,918,305
Depreciation charge for the financial year		18,333	260,295	19,249	542,703	198,542	88,982	1,128,104
Disposals		–	–	–	–	(24,504)	–	(24,504)
Written off		–	–	(2,521)	(19,652)	(81,989)	(291,281)	(395,443)
Transfer to investment property	6	–	(99,944)	–	–	–	–	(99,944)
At 31 March 2017		18,333	1,458,030	42,593	2,623,877	1,018,122	1,365,563	6,526,518
Carrying amount								
At 31 March 2017		981,667	19,458,210	50,624	1,303,622	566,624	434,898	22,795,645

5. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Furniture, fittings and office equipment RM	Office renovation RM	Total RM
Company			
2018			
Cost			
At 1 April 2017/31 March 2018	**34,164**	**2,273,906**	**2,308,070**
Accumulated depreciation			
At 1 April 2017	**34,160**	**1,959,097**	**1,993,257**
Depreciation charge for the financial year	**–**	**113,695**	**113,695**
At 31 March 2018	**34,160**	**2,072,792**	**2,106,952**
Carrying amount			
At 31 March 2018	**4**	**201,114**	**201,118**
2017			
Cost			
At 1 April 2016/31 March 2017	34,164	2,273,906	2,308,070
Accumulated depreciation			
At 1 April 2016	34,160	1,845,402	1,879,562
Depreciation charge for the financial year	–	113,695	113,695
At 31 March 2017	34,160	1,959,097	1,993,257
Carrying amount			
At 31 March 2017	4	314,809	314,813

(a) During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM187,119 (2017: RM3,300,056) which are satisfied by the following:

	Group	
	2018 RM	**2017 RM**
Financed by way of finance lease arrangement	**–**	160,000
Cash payments on purchase of property, plant and equipment	**187,119**	3,140,056
	187,119	3,300,056

(b) The carrying amount of assets under finance lease arrangements as at the end of the financial year are as follows:

	Group	
	2018 RM	**2017 RM**
Motor vehicle	**776,290**	1,273,605

(c) Freehold land and building and leasehold land with carrying amount of RM961,667 (2017: RM981,667) and RM11,083,735 (2017: RM 11,235,984) respectively have been pledged as security to secure banking facilities of the Group as disclosed in Note 19.

6. INVESTMENT PROPERTIES

		Group	
		2018	**2017**
At fair value	**Note**	**RM**	**RM**
Freehold land and buildings			
At opening/closing of financial year		**2,050,000**	2,050,000
Leasehold land and buildings			
At 1 April 2017/2016		**13,920,000**	11,700,000
Trasfer from property, plant and equipment	5	**–**	660,720
Gain arising from fair value adjustment		**–**	1,559,280
At 31 March		**13,920,000**	13,920,000
		15,970,000	15,970,000

Included in freehold land and buildings is a property with carrying value of RM850,000 (2017: RM850,000) pledged as security to secure term loan of the Group as disclosed in Note 19(a).

The following are recognised in profit or loss in respect of the investment properties:

	Group	
	2018	**2017**
	RM	**RM**
Rental income	**376,951**	366,786
Direct operating expenses		
- income generating investment properties	**(35,832)**	(34,411)

Fair value information

Fair value of investment properties of the Group are categorised as Level 2. There are no Level 1 and Level 3 investment properties or transfer between the levels during the financial year ended 31 March 2018 or 31 March 2017.

Level 2 fair value

Level 2 fair values of investment properties have been derived using sales comparison approach. Sales price of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant inputs into this valuation approach is price per square foot of comparable properties.

7. GOODWILL ON CONSOLIDATION

	Group	
	2018	**2017**
	RM	**RM**
At 1 April 2017/2016	**855,994**	1,003,901
Less: Impairment loss	**-**	(147,907)
At 31 March	**855,994**	855,994

7. GOODWILL ON CONSOLIDATION (cont'd)

Impairment of goodwill

Management reviews the business performance based on the type of products and services of the strategic business units which represent its reportable operating segments. For the purpose of impairment testing, goodwill acquired through business combinations is allocated to the following Group's oil and gas solution segment, which is also a reportable operating segment, which represent the lowest level of cash generating unit ("CGU") within the Group at which the goodwill is monitored for internal management purposes.

Key assumption used in value-in-use calculations

Goodwill is tested for impairment on annual basis by comparing the carrying amount with the recoverable amount of the CGU based on value-in-use. Value in use is determined by discounting the future cash flows based on financial budgets approved by management covering three financial years and no growth rate is projected from the fourth financial year onwards. The same method has also been used in the previous financial year. The key assumptions used for value-in-use calculation are:

(a) Sales growth rate

The sales growth rate is based on the expected projection of the related segments.

The sales growth rate used in value-in-use calculations ranging from 3% - 16% (2017: 10%)

(b) Gross profit margin

Gross profit margin is based on management's past experience, adjusted for market and economic conditions and internal resource efficiency.

The gross profit margin used in value-in-use calculations is 28% (2017: 25%).

(c) Discount rate

Discount rate is estimated based on the industry weighted average cost of capital. The discount rate applied to the cash flow projection is pre-tax and reflects management's estimate of the risks specific to the CGU at the date of assessment.

The discount rate used in value-in-use calculations is 15.66% (2017: 12%).

The values assigned to the above key assumptions represent management's assessment of future trends in the industry and are based on both external and internal sources of information.

Based on the sensitivity analysis performed, management believes that there is no reasonable possible change in any of the above key assumptions that would cause the carrying amount of the CGU to be materially higher than its recoverable amount.

8. INVESTMENT IN SUBSIDIARIES

	Company	
	2018	**2017**
	RM	**RM**
Unquoted shares, at cost	**64,803,231**	64,753,231
Less: Impairment losses	**(14,324,018)**	(32,822,180)
	50,479,213	31,931,051

8. INVESTMENT IN SUBSIDIARIES (cont'd)

The reconciliation of movement in the impairment of investment in subsidiaries is as follows:

	Company	
	2018	**2017**
	RM	**RM**
At 1 April 2017/2016	**32,822,180**	32,539,042
Impairment for the financial year	**262,598**	283,138
Reversal of impairment losses	**(18,760,760)**	–
At 31 March	**14,324,018**	32,822,180

Details of the subsidiaries, all of which have principal place of business and are incorporated in Malaysia, are as follows:

	Ownership interest		
Name of company	**2018**	**2017**	**Principal activities**
Mewah Kota Sdn. Bhd. ("MKSB")	100%	100%	Contractor for various kinds of civil and structural, mechanical and electrical works and maintenance works.
Paramount Ventures Sdn. Bhd. ("PVSB")	100%	100%	General civil and structural, mechanical and electrical works and project management.
Merge Properties Sdn. Bhd. ("MPSB")	100%	100%	Property investment.
MEB Realty Sdn. Bhd. ("MEBR")	100%	100%	Property investment.
MEB Development Sdn. Bhd. ("MEBD")	100%	100%	Inactive.
Merge Readymix Sdn. Bhd. ("MRSB")	100%	100%	Inactive.
Merge Energy O&G Sdn. Bhd. ("MEOG")	100%	100%	Inactive.
Merge Highway Engineering Sdn. Bhd. ("MHE")	100%	100%	Inactive.

8. INVESTMENT IN SUBSIDIARIES (cont'd)

Details of the subsidiaries, all of which have principal place of business and are incorporated in Malaysia, are as follows: (cont'd)

Name of company	Ownership interest 2018	2017	Principal activities
Iris Synergy Sdn. Bhd. ("ISSB")	60%	60%	Supply engineering equipment, spare parts and the provision of value added services and information technology solutions to the gas and petroleum industry.
Semarak Niaga Lanskap Sdn. Bhd. ("SNLSB")	100%	100%	Nursery and landscaping, garden design, maintenance and beautification.
Arena Terbaik Sdn. Bhd. ("ATSB")	100%	–	Repairing and maintenance services and trading of parts and equipment specialised for motor vehicles.
Subsidiary of MKSB			
Innovasi Hebat Sdn. Bhd. ("IHSB")	100%	100%	Supply of valves, spare parts and provision of related maintenance and replacement services.
Subsidiary of SNLSB			
Yakin Rantau Sdn. Bhd. ("YRSB")	100%	100%	Housekeeping.
Subsidiaries of ATSB			
Pimpinan Terbaik Sdn. Bhd. ("PTSB")	100%	–	General merchants, commission agents and retail dealers of articles and products of all kinds.
Gerimis Sejagat Sdn. Bhd. ("GSSB")	100%	–	Dealing of motor vehicles
Syor Bernas Sdn. Bhd. ("SBSB")	100%	–	Operating an auto service and maintenance workshop.

(a) Acquisition of subsidiaries

On 1 August 2017, the Company has entered into a Share Purchase Agreement ("SPA") to acquire the entire equity interests in ATSB and its subsidiaries ("Arena Group") for a total cash consideration of RM50,000. The acquisition was completed on 7 September 2017 and Arena Group became wholly-owned subsidiaries of the Company.

8. INVESTMENT IN SUBSIDIARIES (cont'd)

(a) Acquisition of subsidiaries (cont'd)

(i) Fair value of the identifiable assets acquired and liabilities recognised:

	Note	Arena Group RM
Assets		
Property, plant and equipment	5	1,254,121
Inventories		251,735
Trade receivables		2,283,135
Other receivables, deposits and prepayments		435,384
Cash and bank balances		321,722
Total assets		4,546,097
Liabilities		
Trade payables		(648,580)
Other payables, deposits and accruals		(2,571,161)
Tax liabilities		(45,869)
Deferred tax liabilities	20	(9,531)
Total liabilities		(3,275,141)
Total identifiable net assets acquired		1,270,956
Bargain purchase arising on acquisition	26	(1,220,956)
Fair value of consideration transferred		50,000

(ii) Effects of acquisition on cash flows:

	RM
Fair value of consideration transferred	50,000
Less: Cash and bank balances of subsidiaries acquired	(321,722)
Net cash outflows on acquisition	(271,722)

(iii) Effects of acquisition in statements of comprehensive income:

From the date of acquisition, the subsidiaries contributed revenue and loss for the financial year are as follows:

	RM
Revenue	1,438,064
Loss for the financial year	(831,798)

8. INVESTMENT IN SUBSIDIARIES (cont'd)

(b) Non-controlling interest in a subsidiary

The financial information of the Group's subsidiary that has non-controlling interest ("NCI") are as follow:

	2018 RM	2017 RM
Iris Synergy Sdn. Bhd.		
NCI percentage of ownership interest and voting interest	**40%**	40%
Carrying amount of NCI	**1,811,580**	1,979,456
(Loss)/Profit allocated to NCI	**(167,876)**	63,012

The summarised financial information (before intra-group elimination) of the Group's subsidiary that has non-controlling interest are as follows:

	2018 RM	2017 RM
Summarised statement of financial position		
Non-current assets	**2,108,071**	2,255,539
Current assets	**4,973,657**	4,853,648
Non-current liabilities	**(1,292,499)**	(1,439,236)
Current liabilities	**(1,260,280)**	(934,944)
Net assets	**4,528,949**	4,735,007
Summarised statement of comprehensive income		
Revenue	**3,600,432**	5,243,341
(Loss)/Profit for the financial year, representing total comprehensive (loss)/ income	**(206,057)**	157,529
Summarised cash flows information		
Cash flows from operating activities	**(1,358,645)**	(210,369)
Cash flows from investing activities	**(1,789)**	(1,174,858)
Cash flows from financing activities	**(106,982)**	851,153
Net decrease in cash and cash equivalents	**(1,467,416)**	(534,074)

9. INVESTMENT IN AN ASSOCIATE

	Group	
	2018 RM	2017 RM
Unquoted shares, at cost	**2,530,489**	2,530,489
Share of post-acquisition reserves		
At 1 April 2017/2016	**899,482**	(211,106)
Additions	**(3,429,971)**	1,110,588
At 31 March	**(2,530,489)**	899,482
	–	3,429,971

9. INVESTMENT IN AN ASSOCIATE (cont'd)

The associate is accounted for using the equity method in the consolidated financial statements.

Details of the associate, which is incorporated in Malaysia, are as follows:

Name of company	Ownership interest		Principal activity
	2018	2017	
IJMP-MK Joint Venture	30%	30%	Property development.

The following table illustrates the summarised financial information of the associate:

	Group	
	2018 RM	2017 RM
Assets and liabilities		
Current assets	**80,925,703**	81,915,829
Current liabilities	**(94,162,163)**	(70,011,159)
Net (liabilities)/assets	**(13,236,460)**	11,904,670
Results		
Revenue	**(7,368,211)**	2,451,935
Loss for the financial year, representing total comprehensive loss for the financial year	**(25,141,131)**	(614,359)

The Group has not recognised its share of loss of IJMP – MK Joint Venture amounting to RM4,112,368 (2017: RM Nil) because the Group's cumulative share of losses has exceeded its interest in that associate and the Group has no obligation in respect of these losses.

10. INVENTORIES

	Group	
	2018 RM	2017 RM
At cost		
Finished goods	**281,366**	66,023

The cost of inventories of the Group recognised as an expense in cost of sales during the financial year was RM1,316,073 (2017: RM621,641).

11. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS

	Group	
	2018	2017
	RM	RM
Aggregate costs incurred to date	**311,818,374**	362,714,348
Add: Attributable profits	**29,980,738**	41,003,478
	341,799,112	403,717,826
Less: Progress billings	**(337,589,713)**	(395,428,837)
	4,209,399	8,288,989
Presented as:		
Amounts due from customers for contract works	**5,733,159**	9,544,222
Amounts due to customers for contract works	**(1,523,760)**	(1,255,233)
	4,209,399	8,288,989

12. TRADE RECEIVABLES

	Group	
	2018	2017
	RM	RM
Trade receivables	**21,048,351**	22,286,495
Less: Impairment losses	**(740,287)**	(505,735)
	20,308,064	21,780,760

(a) Trade receivables are non-interest bearing and normal credit terms offered by the Group range from 30 to 90 days (2017: 30 to 90 days). Other credit terms are assessed and approved on a case by case basis.

(b) Included in trade receivables of the Group are retention sums of RM10,692,018 (2017: RM11,511,547) relating to construction work-in-progress. Retention sums are unsecured, interest free and are expected to be collected within the period of normal operating cycle.

(c) The Group maintains an ageing analysis in respect of trade receivables only. The ageing analysis of the Group's trade receivables is as follows:

	Group	
	2018	2017
	RM	RM
Neither past due nor impaired	**13,768,180**	13,099,641
1 to 30 days past due not impaired	**623,709**	674,317
31 to 60 days past due not impaired	**252,332**	74,567
61 to 90 days past due not impaired	**306,876**	1,056,040
91 to 120 days past due not impaired	**138,867**	284,141
More than 121 days past due not impaired	**5,218,100**	6,592,054
	6,539,884	8,681,119
Impaired - individually	**740,287**	505,735
	21,048,351	22,286,495

12. TRADE RECEIVABLES (cont'd)

(d) The Group's trade receivables that are impaired at the reporting date and the reconciliation of movement in the impairment of trade receivables is as follows:

	Group	
	2018	**2017**
	RM	**RM**
At 1 April 2017/2016	**505,735**	335,319
Change for the financial year		
- individual impairment loss	**379,786**	170,416
Written off	**(145,234)**	–
At 31 March	**740,287**	505,735

Trade receivables that are individually determined to be impaired at the reporting date relate to receivables that are in significant financial difficulties and have defaulted on payments.

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Other receivables	**461,593**	138,187	**–**	–
GST refundable	**10,550**	53,647	**–**	–
Deposits	**655,116**	1,100,390	**10,586**	10,586
Prepayments	**224,765**	186,416	**18,727**	15,899
Advances to sub-contractors	**1,106,494**	226,526	**–**	–
	2,458,518	1,705,166	**29,313**	26,485

Advances to sub-contractors are made for on-going construction project purposes.

14. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

	Company	
	2018	**2017**
	RM	**RM**
Amounts due from subsidiaries	**14,745,476**	14,733,898
Less: Impairment losses	**(12,192,894)**	(13,770,648)
	2,552,582	963,250
Amounts due to subsidiaries	**21,053,283**	20,311,524

The amounts due from/(to) subsidiaries are non-trade in nature, unsecured, non-interest bearing, repayable upon demand and is expected to be settled in cash.

14. AMOUNTS DUE FROM/(TO) SUBSIDIARIES (cont'd)

The reconciliation of movement in the impairment of amounts due from subsidiaries is as follows:

	Company	
	2018	**2017**
	RM	**RM**
At 1 April 2017/2016	**13,770,648**	13,725,060
Change for the financial year		
- Individual impairment loss	**11,578**	45,588
Reversal on impairment losses	**(1,589,332)**	–
At 31 March	**12,192,894**	13,770,648

15. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate of the Group is non-trade in nature, unsecured, non-interest bearing, repayable upon demand and is expected to be settled in cash.

16. DEPOSITS PLACED WITH LICENSED BANKS AND CASH AND BANK BALANCES

For the purpose of the statements of cash flows, cash and cash equivalents comprise of the following:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Short-term deposits	**3,973,836**	11,963,589	**–**	–
Less: Pledge deposits	**(3,973,836)**	(11,957,611)	**–**	–
	–	5,978	**–**	–
Cash and bank balances	**5,327,098**	6,003,579	**1,712**	36,125
Bank overdrafts	**(3,258,689)**	(6,342,623)	**–**	–
	2,068,409	(333,066)	**1,712**	36,125

Included in deposits placed with licensed banks of the Group are:

(a) an amount of RM3,664,099 (2017: RM11,649,085) has been pledged to banks as security for banking facilities granted to subsidiaries.

(b) an amount of RM309,737 (2017: RM308,526) has been pledged to a bank as security for bank guarantee in favour of third party for project purposes.

16. DEPOSITS PLACED WITH LICENSED BANKS AND CASH AND BANK BALANCES (cont'd)

The foreign currency exposure profile of cash and cash equivalents is as follows:

	Group	
	2018	**2017**
	RM	**RM**
United States Dollar	**464**	892,525
Japanese Yen	**8,066**	–
	8,530	892,525

17. SHARE CAPITAL

	Group/Company			
	Number of ordinary shares		Amount	
	2018	**2017**	**2018**	**2017**
	Units	**Units**	**RM**	**RM**
Issued and fully paid up:				
At 1 April 2017/02016	**67,000,000**	67,000,000	**74,712,508**	67,000,000
Transition to no-par value regime	**–**	–	**–**	7,712,508
At 31 March	**67,000,000**	67,000,000	**74,712,508**	74,712,508

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

18. SHARE PREMIUM

	Group/Company	
	2018	**2017**
	RM	**RM**
At 1 April 2017/2016	**–**	7,712,508
Transition to no-par value regime	**–**	(7,712,508)
At 31 March	**–**	–

Share premium comprises the premium paid on subscription of shares in the Company over and above the par value of the shares. In the previous financial year, pursuant to Section 618(2) of the Companies Act 2016, the sum of RM7,712,508 standing to the credit of the Company's share premium account has been transferred and became part of the Company's share capital as disclosed in Note 17.

19. LOANS AND BORROWINGS

	Note	Group 2018 RM	Group 2017 RM
Non-current:			
Secured			
Term loans	(a)	**1,170,617**	1,211,864
Finance lease liabilities	(b)	**599,251**	943,762
		1,769,868	2,155,626
Current:			
Secured			
Term loans	(a)	**39,609**	37,753
Finance lease liabilities	(b)	**308,232**	352,876
Trust receipt	(c)	**–**	1,023,850
Bank overdrafts	(d)	**3,258,689**	6,342,623
		3,606,530	7,757,102
		5,376,398	9,912,728
Total loans and borrowings:			
Term loans	(a)	**1,210,226**	1,249,617
Finance lease liabilities	(b)	**907,483**	1,296,638
Trust receipt	(c)	**–**	1,023,850
Bank overdrafts	(d)	**3,258,689**	6,342,623
		5,376,398	9,912,728

(a) Term loans

	Group 2018 RM	Group 2017 RM
Current		
Not later than one year	**39,609**	37,753
Non-current		
Later than one year and not later than five years	**185,807**	170,509
Later than five years	**984,810**	1,041,355
	1,170,617	1,211,864
Total term loans	**1,210,226**	1,249,617

The term loans bear interest at rates ranging from 4.65% to 5.05% (2017: 4.35% to 5.05%) per annum and are secured and supported as follows:

(i) legal charge over freehold land and buildings of a subsidiary as disclosed in Note 5 and 6; and

(ii) corporate guarantee by the Company.

19. LOANS AND BORROWINGS (cont'd)

(b) Finance lease liabilities

Future minimum lease payments under finance leases together with the present value of net minimum lease payments are as follows:

	Group	
	2018	**2017**
	RM	**RM**
Minimum lease payments:		
Not later than one year	**357,049**	408,995
Later than one year and not later than 5 years	**706,458**	1,087,449
Later than 5 years	**–**	16,801
	1,063,507	1,513,245
Less: Future finance charges	**(156,024)**	(216,607)
Present value of minimum lease payments	**907,483**	1,296,638
Present value of minimum lease payments:		
Not later than one year	**308,232**	352,876
Later than one year and not later than 5 years	**599,251**	930,121
Later than 5 years	**–**	13,641
	907,483	1,296,638

The finance lease liabilities bear interest at rates ranging from 2.44% to 3.89% (2017: 2.44% to 3.89%) per annum.

(c) Trust receipt

In the previous financial year, the trust receipt bears interest at a rate of 8.15% per annum and is secured and supported as follows:
(i) fixed deposit or sinking fund to be progressively place via deduction of 3% of each contract proceeds received;
(ii) deed of assignment of contract proceeds between a subsidiary and the bank; and
(iii) corporate guarantee by the Company.

(d) Bank overdrafts

The bank overdrafts bear interest at a rate of 8.45% (2017: 8.15%) per annum and are secured and supported as follows:
(i) legal charge over leasehold land of a subsidiary as disclosed in Note 5;
(ii) fixed deposit or sinking fund to be progressively place via deduction of 3% of each contract proceeds received;
(iii) deed of assignment of contract proceeds between a subsidiary and the bank; and
(iv) corporate guarantee by the Company.

20. DEFERRED TAX LIABILITIES

	Group	
	2018	**2017**
	RM	**RM**
At 1 April	**363,756**	244,492
Acquisition of subsidaries (Note 8(a))	**9,531**	–
Recognised in profit or loss (Note 28)	**(179,211)**	119,264
At 31 March	**194,076**	363,756

20. DEFERRED TAX LIABILITIES (cont'd)

Presented after appropriate offsetting as follows:

	Group	
	2018	**2017**
	RM	**RM**
Deferred tax assets	**(18,300)**	–
Deferred tax liabilities	**212,376**	363,756
	194,076	363,756

This is in respect of estimated deferred tax (assets)/liabilities arising from temporary differences as follows:

	Group	
	2018	**2017**
	RM	**RM**
Deferred tax assets		
Unabsorbed capital allowances	**(8,146)**	–
Unutilised tax losses	**(10,154)**	–
	(18,300)	–
Deferred tax liabilities		
Revaluation of investment properties	**201,190**	363,756
Differences between the carrying amount of property, plant and equipment and their tax base	**11,186**	–
	212,376	363,756
	194,076	363,756

The estimated temporary differences for which no deferred tax assets have been recognised in the financial statements are as follows:

	Group	
	2018	**2017**
	RM	**RM**
Deferred tax assets		
Unabsorbed capital allowances	**253,985**	163,336
Unutilised tax losses	**26,050,932**	22,040,327
Other deductible temporary differences	**72,566**	–
	26,377,483	22,203,663
Potential deferred tax assets at 24% (2017: 24%)	**6,330,596**	5,328,879

21. TRADE PAYABLES

Trade payables are non-interest bearing and the normal credit terms granted to the Group range from 30 to 90 days (2017: 30 to 90 days).

Included in trade payables of the Group are retention sums of RM7,945,640 (2017: RM7,875,630) relating to construction work-in-progress. Retention sums are unsecured, interest free and are expected to be settled within the period of normal operating cycle.

21. TRADE PAYABLES (cont'd)

The foreign currency exposure profile of trade payables is as follows:

	Group	
	2018	**2017**
	RM	**RM**
United States Dollar	**–**	290,210
Japanese Yen	**203,595**	52,040
	203,595	342,250

22. OTHER PAYABLES, ACCRUALS AND DEPOSITS

		Group		Company	
		2018	**2017**	**2018**	**2017**
	Note	**RM**	**RM**	**RM**	**RM**
Other payables	(a)	**2,270,506**	234,262	**12,905**	13,051
GST payable		**90,110**	76,956	**–**	–
Accruals	(b)	**3,627,147**	7,793,024	**74,500**	53,501
Deposits		**199,582**	174,820	**–**	–
Advances from a customer	(c)	**838,781**	838,781	**–**	–
		7,026,126	9,117,843	**87,405**	66,552

(a) Included in other payables of the Group are advances from a former director and a director of a subsidiary amounting to RM1,671,277 (2017: RM Nil) and RM3,000 (2017: RM Nil), respectively. These amount are non-trade in nature, unsecured, non-interest bearing, repayable upon demand and is expected to be settled in cash.

(b) Included in accruals of the Group is an amount of RM2,373,329 (2017: RM7,282,256) which represents project cost accrued for work performed.

(c) Advances from a customer are made for on-going construction project purposes.

23. REVENUE

	Group	
	2018	**2017**
	RM	**RM**
Contract revenue	**15,946,055**	74,500,428
Maintenance services	**4,631,660**	7,697,076
Rental income	**64,800**	56,700
Sales of goods	**3,968,074**	5,243,341
	24,610,589	87,497,545

24. COST OF SALES

	Group	
	2018	2017
	RM	RM
Contract cost	**15,113,734**	69,645,602
Direct cost of services	**3,812,732**	4,418,235
Direct cost of investment properties	**2,742**	3,284
Cost of goods sold	**2,820,657**	3,484,548
	21,749,865	77,551,669

25. FINANCE COSTS

	Group	
	2018	2017
	RM	RM
Interest expense:		
- bank overdrafts	**295,454**	397,892
- finance lease liabilities	**59,482**	66,525
- term loans	**57,424**	49,874
	412,360	514,291

26. (LOSS)/PROFIT BEFORE TAX AND ZAKAT

Other than disclosed elsewhere in the financial statements, the following items have been charged/(credited) in arriving at (loss)/profit before tax and zakat:

		Group		Company	
		2018	2017	2018	2017
	Note	RM	RM	RM	RM
Auditors' remuneration:					
- Statutory audit					
- current year		**186,500**	162,300	**68,000**	47,000
- prior year		**(3,000)**	21,300	**16,000**	6,500
- Non-statutory audit					
- current year		**6,500**	6,500	**6,500**	6,500
Bad debt written off		**2,883**	–	**–**	–
Bargain purchase arising on acquisition		**(1,220,956)**	–	**–**	–
Deposits written off		**2,250**	–	**–**	–
Depreciation of property, plant and equipment		**1,241,930**	1,128,104	**113,695**	113,695
Employee benefits expense	27	**9,080,972**	10,921,700	**471,623**	441,278
Fair value gain on investment properties		**–**	(1,559,280)	**–**	–

26. (LOSS)/PROFIT BEFORE TAX AND ZAKAT (cont'd)

	Note	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
(Gain)/Loss on disposal of property, plant and equipment		**(96,743)**	3,912	**–**	–
(Gain)/Loss on foreign exchange:					
- realised		**(6,806)**	81,434	**–**	–
- unrealised		**(16)**	(115,220)	**–**	–
Impairment loss on:					
- goodwill on consolidation		**–**	147,907	**–**	–
- investment in subsidiaries		**–**	–	**262,598**	283,138
- trade receivables		**379,786**	170,416	**–**	–
- other receivables		**–**	26,577	**–**	–
- amounts due from subsidiaries		**–**	–	**11,578**	45,588
- amount due from an associate		**141,430**	–	**–**	–
Interest income		**(163,662)**	(397,280)	**–**	–
Property, plant and equipment written off		**5,606**	70,260	**–**	–
Rental expenses:					
- equipment		**–**	6,845	**–**	–
- premises		**5,400**	44,755	**–**	–
- staff accomodations		**15,360**	10,813	**–**	–
Rental income from premises		**(476,151)**	(449,586)	**–**	–
Reversal of impairment loss on:					
- investment in subsidiaries		**–**	–	**(18,760,760)**	–
- amounts due from subsidiaries		**–**	–	**(1,589,332)**	–

27. EMPLOYEE BENEFITS EXPENSE

	Group 2018 RM	Group 2017 RM	Company 2018 RM	Company 2017 RM
Wages and salaries	**8,161,277**	9,778,362	**451,603**	419,435
Defined contribution plan	**919,695**	1,143,338	**20,020**	21,843
	9,080,972	10,921,700	**471,623**	441,278
Included in employee benefits expense are:				
Directors' fees	**144,467**	173,750	**144,467**	173,750
Directors' other emoluments	**1,760,050**	1,824,220	**122,500**	35,000
	1,904,517	1,997,970	**266,967**	208,750

28. TAX (CREDIT)/EXPENSE

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Statements of comprehensive income				
Current income tax				
Based on results for the current financial year	**15,658**	561,512	**–**	–
(Over)/Under provision in prior financial years	**(180,960)**	86,027	**–**	–
	(165,302)	647,539	**–**	–
Deferred tax (Note 20)				
(Reversal)/Origination of temporary differences	**(302,725)**	42,432	**–**	–
Under provision in prior financial years	**123,514**	76,832	**–**	–
	(179,211)	119,264	**–**	–
Tax (credit)/expense recognised in profit or loss	**(344,513)**	766,803	**–**	–

Domestic income tax is calculated at the Malaysian statutory income tax rate of 24% (2017: 24%) of the estimated assessable profit for the financial year.

The reconciliations from the tax amount at the statutory income tax rate to the Group's and the Company's tax expense are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
(Loss)/Profit before tax and zakat	**(10,413,302)**	2,695,701	**19,229,602**	(1,047,236)
Tax at the applicable rate of 24% (2017: 24%)	**(2,499,192)**	646,968	**4,615,104**	(251,337)
Share of results of an associate	**823,193**	(266,541)	**–**	–
Tax effect arising from:				
- non-deductible expenses	**958,072**	676,178	**268,918**	251,337
- non-taxable income	**(570,856)**	(589,276)	**(4,884,022)**	–
- Deferred tax assets not recognised during the financial year	**1,061,710**	58,651	**–**	–
- Utilisation of deferred tax assets not recognised	**(59,993)**	–	**–**	–
- Deferred tax liabilities recognised at different tax rate	**–**	77,964	**–**	–
(Over)/Under provision in prior financial years:				
- current tax	**(180,961)**	86,027	**–**	–
- deferred tax	**123,514**	76,832	**–**	–
Tax (credit)/expense	**(344,513)**	766,803	**–**	–

29. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share are based on the (loss)/profit for the financial year attributable to owners of the Company and the weighted average number of ordinary shares in issue during the financial year, calculated as follows:

	Group	
	2018	**2017**
(Loss)/Profit attributable to owners of the Company (RM)	**(9,972,653)**	1,622,397
Weighted average number of shares in issue (number)	**67,000,000**	67,000,000
Basic (loss)/earnings per share (sen)	**(14.88)**	2.42

(b) The diluted (loss)/earnings per share of the Group for the financial years ended 31 March 2018 and 31 March 2017 are same as the basic (loss)/earnings per share as the Company does not have any dilutive potential ordinary shares.

30. FINANCIAL GUARANTEES

	Company	
	2018	**2017**
	RM	**RM**
Financial guarantees given to licensed banks for banking facilities granted to subsidiaries	**4,468,915**	8,616,090

31. RELATED PARTIES

(a) Identity of related parties

Parties are considered to be related to the Group and the Company if the Group and the Company have the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties of the Company include:
(i) Subsidiaries as disclosed in Note 8;
(ii) An associate as disclosed in Note 9;
(iii) Entities in which directors have substantial financial interests;
(iv) Close members of the family of the directors; and
(v) Key management personnel of the Group and of the Company, comprises persons (including directors) having the authority and responsibility for planning, directing and controlling the activities directly or indirectly.

(b) Significant related party transactions

The Group and the Company do not have any significant transactions with related parties during the financial year.

31. RELATED PARTIES (cont'd)

(c) Compensation of key management personnel

	Group		Company	
	2018	2017	2018	2017
	RM	RM	RM	RM
Executive directors and Non-executive directors				
Directors' fee	**144,467**	173,750	**144,467**	173,750
Short term employee benefits	**1,560,398**	1,612,660	**122,500**	35,000
Post-employment employee benefits	**199,652**	211,560	**–**	–
	1,904,517	1,997,970	**266,967**	208,750
Other key management personnel				
Short term employee benefits	**212,416**	165,982	**–**	–
Post-employment employee benefits	**26,958**	29,520	**–**	–
	239,374	195,502	**–**	–
	2,143,891	2,193,472	**266,967**	208,750

32. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned:

(i) Loans and receivables
(ii) Other financial liabilities

	Group	
	2018	2017
	RM	RM
Financial assets		
Loans and receivables		
Trade receivables	**20,308,064**	21,780,760
Other receivables and deposits, excluding GST refundable, prepayments and advances to sub-contractors	**1,116,709**	1,238,577
Amount due from an associate	**–**	141,430
Deposits placed with licensed banks	**3,973,836**	11,963,589
Cash and bank balances	**5,327,098**	6,003,579
Total financial assets	**30,725,707**	41,127,935
Financial liabilities		
Other financial liabilities		
Trade payables	**11,438,741**	10,815,767
Other payables, accruals and deposits, excluding GST payable and advances from a customer	**6,097,235**	8,202,106
Loans and borrowings	**5,376,398**	9,912,728
Total financial liabilities	**22,912,374**	28,930,601

32. FINANCIAL INSTRUMENTS (cont'd)

(a) Classification of financial instruments (cont'd)

	Company	
	2018	**2017**
Financial assets		
Loans and receivables		
Deposits, excluding prepayments	**10,586**	10,586
Amounts due from subsidiaries	**2,552,582**	963,250
Cash and bank balances	**1,712**	36,125
Total financial assets	**2,564,880**	1,009,961
Financial liabilities		
Other financial liabilities		
Other payables and accruals	**87,405**	66,552
Amounts due to subsidiaries	**21,053,283**	20,311,524
Total financial liabilities	**21,140,688**	20,378,076

(b) Fair value of financial instruments

The carrying amounts of cash and bank balances and deposits placed with licensed banks, short term receivables and payables and short-term borrowings reasonably approximate to their fair values due to the relatively short-term nature of these financial instruments.

The carrying amounts of floating rate term loans are reasonable approximation of fair value as the loans will be re-priced to market interest rate on or near reporting date.

There have been no transfer between the levels during the current and previous financial years.

The following table provides the fair value measurement hierarchy of the Group's financial instruments, other than those with carrying amounts reasonably approximate to their fair values:

	Carrying amount RM	Fair value of financial instruments not carried at fair value Level 2 RM
Group		
2018		
Financial liabilities		
Finance lease liabilities	**907,483**	**973,008**
2017		
Financial liabilities		
Finance lease liabilities	1,296,638	1,248,448

Level 2 fair value

<u>Fair value of financial instruments not carried at fair value</u>
The fair value of the finance lease liabilities is determined using the discounted cash flows method based on discount rates that reflects the market borrowing rate as at the end of the reporting period.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Company's financial risk management objective is to optimise value for their shareholders whilst minimising the potential adverse impact arising from interest rates and the unpredictability of the financial markets. The Group's and the Company's policy is not to engage in speculative transactions.

The Group and the Company operate within an established risk management framework and clearly defined guidelines that are regularly reviewed by the Board of Directors and does not trade in derivative financial instruments. Financial risk management is carried through internal control systems and adherence to the Group's and the Company's financial risk management policies. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Group and the Company that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from their receivables.

The Group's and the Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Head of Credit Control.

The Group uses aging analysis to monitor the credit quality of the trade receivables. The aging of trade receivables as at the end of the financial year is disclosed in Note 12. Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. A significant portion of these trade receivables are regular customers that have been transacting with the Group. Management has taken reasonable steps to ensure that trade receivables that are neither past due nor impaired are stated at their realisable values. Impairment are made on specific receivables when there is objective evidence that the Group will not be able to collect all amounts due.

The Company monitors the results of the subsidiaries in determining the recoverability of these intercompany balances.

For other financial assets (including cash and bank balances and deposits placed with licensed banks), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

<u>Exposure to credit risk</u>

As at the end of the reporting period, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

<u>Credit risk concentration profile</u>

As at the end of the reporting period, approximately 50% (2017: 49%) of the Group's trade receivables were due from 2 major customer (2017: 2 major customers).

<u>Financial guarantee</u>

The Company is exposed to credit risk in relation to financial guarantees given to banks in respect of loans granted to certain subsidiaries. The Company monitors the results of the subsidiaries and their repayment on an on-going basis. The maximum exposure to credit risks amounts to RM4,468,915 (2017: RM8,616,090) representing the maximum amount the Company could pay if the guarantee is called on as disclosed in Note 33(b). As at the reporting date, there was no indication that the subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet their financial obligation when they fall due. The Group's and the Company's exposure to liquidity risk arise principally from payables and loans and borrowings.

The Group and the Company maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meets their liabilities when they fall due.

Maturity analysis

The maturity analysis of the Group's financial liabilities by their relevant maturity at the reporting date are based on contractual undiscounted repayment obligations are as follows:

		<------Contractual undiscounted cash flows------>			
	Carrying amount	On demand or within 1 year	Between 1 and 5 years	More than 5 years	Total
	RM	RM	RM	RM	RM
2018					
Group					
Trade payables	11,438,741	11,438,741	–	–	11,438,741
Other payables, accruals and deposits, excluding GST payable and advances from a customer	6,097,235	6,097,235	–	–	6,097,235
Term loans	1,210,226	96,813	387,253	1,398,797	1,882,863
Finance lease liabilities	907,483	357,049	706,458	–	1,063,507
Bank overdrafts	3,258,689	3,258,689	–	–	3,258,689
	22,912,374	21,248,527	1,093,711	1,398,797	23,741,035
Company					
Other payables and accruals	87,405	87,405	–	–	87,405
Amounts due to subsidiaries	21,053,283	21,053,283	–	–	21,053,283
Financial guarantees	–	4,468,915	–	–	4,468,915
	21,140,688	25,609,603	–	–	25,609,603

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(b) Liquidity risk (cont'd)

Maturity analysis (cont'd)

		<------ Contractual undiscounted cash flows			------>
	Carrying amount RM	On demand or within 1 year RM	Between 1 and 5 years RM	More than 5 years RM	Total RM
2017					
Group					
Trade payables	10,815,767	10,815,767	–	–	10,815,767
Other payables, accruals and deposits, net of GST payable and advances from a customer	8,202,106	8,202,106	–	–	8,202,106
Term loans	1,249,617	97,038	484,066	1,421,769	2,002,874
Finance lease liabilities	1,296,638	408,995	1,087,449	16,801	1,513,245
Trust receipt	1,023,850	1,023,850	–	–	1,023,850
Bank overdrafts	6,342,623	6,342,623	–	–	6,342,623
	28,930,601	26,890,379	1,571,515	1,438,570	29,900,465
Company					
Other payables and accruals	66,552	66,552	–	–	66,552
Amounts due to subsidiaries	20,311,524	20,311,524	–	–	20,311,524
Financial guarantees	–	8,616,090	–	–	8,616,090
	20,378,076	28,994,166	–	–	28,994,166

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from bank overdrafts, trust receipt and term loans.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 50 basis points lower/higher, with all other variables held constant, the Group's loss for the financial year would have been RM16,982 (2017: RM32,741) lower/higher, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the current observable market environment.

(d) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposures arising from purchases that are denominated in a currency other than functional currency of Group entities, primarily United States Dollar ("USD") and Japanese Yen ("JPY").

The Group also holds bank balances denominated in foreign currencies for working capital purposes.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the USD and JPY, with all other variables held constant on the Group's (loss)/profit for the financial year:

	Group Effect on (loss)/profit for the financial year	
	2018 **RM**	**2017** **RM**
USD		
- Strengthened 10% (2017: 10%)	**35**	45,776
- Weakened 10% (2017: 10%)	**(35)**	(45,776)
JPY		
- Strengthened 10% (2017: 10%)	**(14,860)**	(3,955)
- Weakened 10% (2017: 10%)	**14,860**	3,955

34. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products and services, and has seven reportable operating segments as follows:

Investment holding	:	Investment holding.
Construction	:	Construction of civil and structural, mechanical and electrical works and project management.
Property investment	:	Property investment.
Maintenance, facility management and services	:	Supply of valves, spare parts and landscaping, garden management and provision of related maintenance.
Oil and gas	:	Supply engineering equipment, spare parts and the provision of value added services and information technology solutions to the gas and petroleum industry.
Auto service and maintenance workshop	:	Repairing and maintenance services and trading of parts and equipment specialised for motor vehicles.
Others	:	Inactive companies.

Inter-segment transactions are entered in the ordinary course of business based on terms mutually agreed upon by the parties concerned.

Segment results

Segment performance is used to measure performance as the Group's Chief Executive Officer believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Performance is evaluated based on operating profit or loss which is measured differently from operating profit or loss in the consolidated financial statements.

Segment assets

The total of segments asset is measured based on all assets of a segment other than goodwill on consolidation, investment in an associate and tax assets, as included in the internal reports that are reviewed by the Group's Chief Executive Officer.

Segment liabilities

The total of segment liability is measured based on all liabilities of a segment other than deferred tax liabilities and tax liabilities as included in the internal reports that are reviewed by the Group's Chief Executive Officer.

34. SEGMENT INFORMATION (cont'd)

2018	Note	Investment holding RM	Construction RM	Property investment RM	Maintenance, facility management and services RM	Oil and gas RM	Auto service and maintenance workshop RM	Others RM	Elimination RM	Consolidation RM
Revenue										
External sales		–	16,434,007	64,800	3,284,786	3,600,432	1,226,564	–	–	24,610,589
Inter-segment sales	a	–	–	174,000	242,221	–	211,499	–	(627,720)	–
Total		–	16,434,007	238,800	3,527,007	3,600,432	1,438,063	–	(627,720)	24,610,589
Results										
Segment results	b	19,229,603	(4,591,261)	(54,745)	(638,352)	(284,515)	(815,080)	(10,139)	(19,406,482)	(6,570,971)
Finance costs		–	(329,924)	–	(14,977)	(67,459)	–	–	–	(412,360)
Share of results of an associate		–	(3,429,971)	–	–	–	–	–	–	(3,429,971)
Profit/(Loss) before tax and zakat		19,229,603	(8,351,156)	(54,745)	(653,329)	(351,974)	(815,080)	(10,139)	(19,406,482)	(10,413,302)
Tax expense		–	193,386	(141,541)	148,469	155,917	(11,718)	–	–	344,513
Zakat		–	(2,381)	–	(54,359)	(10,000)	(5,000)	–	–	(71,740)
Profit/(Loss) for the financial year		19,229,603	(8,160,151)	(196,286)	(559,219)	(206,057)	(831,798)	(10,139)	(19,406,482)	(10,140,529)

34. SEGMENT INFORMATION (cont'd)

2018	Note	Investment holding RM	Construction RM	Property investment RM	Maintenance, facility management and services RM	Oil and gas RM	Auto service and maintenance workshop RM	Others RM	Elimination RM	Consolidation RM
Assets										
Segment assets	c	34,553,179	79,298,629	14,830,602	8,125,885	6,905,828	3,901,493	2	(70,598,715)	77,016,903
Goodwill on consolidation		–	–	–	–	855,994	–	–	–	855,994
Tax assets		–	249,345	14,475	69,215	175,901	1,578	–	–	510,514
Total assets										78,383,411
Liabilities										
Segment liabilities	d	21,140,689	49,953,860	9,579,824	494,960	2,547,142	3,397,460	1,272,321	(63,021,231)	25,365,025
Deferred tax liabilities		–	–	493,440	–	5,636	–	–	(305,000)	194,076
Tax liabilities		–	–	2,654	–	–	66,453	–	–	69,107
Total liabilities										25,628,208

34. SEGMENT INFORMATION (cont'd)

2018	Note	Investment holding RM	Construction RM	Property investment RM	Maintenance, facility management and services RM	Oil and gas RM	Auto service and maintenance workshop RM	Others RM	Elimination RM	Consolidation RM
Other segment information										
Purchase of property, plant and equipment		–	67,550	–	99,540	2,190	17,839	–	–	187,119
Bad debt written off		–	–	–	2,883	–	–	–	–	2,883
Bargain purchase arising on acquisition		–	–	–	–	–	(1,220,956)	–	–	(1,220,956)
Deposits written off		–	2,250	–	–	–	–	–	–	2,250
Depreciation of property, plant and equipment	e	113,695	597,666	–	202,658	148,739	187,179	–	(8,007)	1,241,930
Impairment loss on:										
- investment in subsidiaries	g	262,598	–	–	–	–	100,000	–	(362,598)	–
- trade receivables		–	300,000	–	–	–	79,786	–	–	379,786
- amounts due from subsidiaries	g	11,578	–	–	–	–	–	–	(11,578)	–
- amount due from an associate		–	141,430	–	–	–	–	–	–	141,430

34. SEGMENT INFORMATION (cont'd)

2018	Note	Investment holding RM	Construction RM	Property investment RM	Maintenance, facility management and services RM	Oil and gas RM	Auto service and maintenance workshop RM	Others RM	Elimination RM	Consolidation RM
Other segment information (cont'd)										
(Gain)/Loss on disposal of property, plant and equipment		**–**	**(78,473)**	**–**	**(18,867)**	**517**	**80**	**–**	**–**	**(96,743)**
Property, plant and equipment written off		**–**	**–**	**–**	**7**	**–**	**5,599**	**–**	**–**	**5,606**
Reversal of impairment loss on:										
- investment in subsidiaries	g	**(18,760,760)**							**18,760,760**	**–**
- amounts due from subsidiaries	g	**(1,589,332)**	**–**	**–**	**–**	**–**	**–**	**–**	**1,589,332**	**–**
Unrealised gain on foreign exchange		**–**	**–**	**–**	**–**	**(16)**	**–**	**–**	**–**	**(16)**

2017	Note	Investment holding RM	Construction RM	Property investment RM	Maintenance, facility management and services RM	Oil and gas RM	Others RM	Elimination RM	Consolidation RM
Revenue									
External sales		–	74,500,428	56,700	7,697,077	5,243,340	–	–	87,497,545
Inter-segment sales	a	–	–	214,000	152,384	–	–	(366,384)	–
Total		–	74,500,428	270,700	7,849,461	5,243,340	–	(366,384)	87,497,545
Results									
Segment results	b	(1,047,236)	1,560,393	792,156	1,590,644	411,753	(9,766)	(1,198,540)	2,099,404
Finance costs		–	(441,406)	–	(12,976)	(59,909)	–	–	(514,291)
Share of results of an associate		–	1,110,588	–	–	–	–	–	1,110,588
(Loss)/Profit before tax and zakat		(1,047,236)	2,229,575	792,156	1,577,668	351,844	(9,766)	(1,198,540)	2,695,701
Tax expense	a	–	(186,892)	(60,339)	(433,733)	(125,839)	–	40,000	(766,803)
Zakat		–	(28,152)	(9,632)	(137,230)	(68,475)	–	–	(243,489)
(Loss)/Profit for the financial year		(1,047,236)	2,014,531	722,185	1,006,705	157,530	(9,766)	(1,158,540)	1,685,409

34. SEGMENT INFORMATION (cont'd)

2017	Note	Investment holding RM	Construction RM	Property investment RM	Maintenance, facility management and services RM	Oil and gas RM	Others RM	Elimination RM	Consolidation RM
Assets									
Segment assets	c	33,271,724	89,488,522	14,861,302	9,143,653	7,109,187	2	(63,903,976)	89,970,414
Goodwill on consolidation		–	–	–	–	855,994	–	–	855,994
Investment in an associate		–	3,429,971	–	–	–	–	–	3,429,971
Tax assets		–	167,944	12,343	50,857	–	–	–	231,144
Total assets									94,487,523
Liabilities									
Segment liabilities	d	20,378,075	57,649,162	9,541,450	764,140	2,330,222	1,262,180	(60,823,658)	31,101,571
Deferred tax liabilities		–	213,500	366,750	46,429	42,077	–	(305,000)	363,756
Tax liabillities		–	–	–	124,583	1,881	–	–	126,464
Total liabilities									31,591,791

34. SEGMENT INFORMATION (cont'd)

2017	Note	Investment holding RM	Construction RM	Property investment RM	Maintenance, facility management and services RM	Oil and gas RM	Others RM	Elimination RM	Consolidation RM
Other segment information									
Purchase of property, plant and equipment		–	55,429	–	2,067,279	1,177,348	–	–	3,300,056
Depreciation of property, plant and equipment	e	113,695	710,419	–	165,213	146,784	–	(8,007)	1,128,104
Fair value gain on investment properties	f	–	(800,000)	(800,000)	(759,280)	–	–	800,000	(1,559,280)
(Gain)/Loss on disposal of property, plant and equipment		–	(128)	–	1,487	2,553	–	–	3,912
Impairment loss on:									
- goodwill on consolidation		–	–	–	147,907	–	–	–	147,907
- investment in subsidiaries	g	283,138	–	–	–	–	–	(283,138)	–
- trade receivables		–	–	–	25,182	145,234	–	–	170,416
- other receivables		–	–	–	26,577	–	–	–	26,577
- amounts due from subsidiaries	g	45,588	–	–	–	–	–	(45,588)	–
Property, plant and equipment written off		–	–	–	12,994	57,266	–	–	70,260
Unrealised gain on foreign exchange		–	–	–	–	(115,220)	–	–	(115,220)

34. SEGMENT INFORMATION (cont'd)

(a) Inter-segment transactions are eliminated on consolidation.

(b) Profit/(Loss) from other segment transactions are eliminated on consolidation.

(c) The following items are deducted from segments assets to arrive at total assets reported in the consolidated statement of financial position:

	2018 RM	2017 RM
Intra group transactions	**(9,162,523)**	(9,141,462)
Investment in subsidiaries	**(32,098,414)**	(32,261,011)
Amount due from holding company	**(21,914,479)**	(20,847,661)
Amounts due from subsidiaries	**(2,552,582)**	(963,250)
Amounts due from related companies	**(4,870,717)**	(690,592)
	(70,598,715)	(63,903,976)

(d) The following items are deducted from segment liabilities to arrive at total liabilities reported in consolidated statement of financial position:

	2018 RM	2017 RM
Amount due to holding company	**(14,745,475)**	(14,733,898)
Amounts due to subsidiaries	**(21,914,478)**	(20,847,661)
Amounts due to related companies	**(26,361,278)**	(25,242,099)
	(63,021,231)	(60,823,658)

(e) The depreciation of property, plant and equipment is eliminated.

(f) Fair value gain on owner occupied properties is eliminated.

(g) Impairment loss and reversal of impairment loss on investment in subsidiaries and amounts due from subsidiaries are eliminated.

Geographical information

The Group operates predominantly in Malaysia and hence, no geographical segment is presented.

Information about major customers

Major customers' information is revenue from transactions with a single external customer amount to ten percent or more of the Group's revenue. A group of entities known to a reporting entity to be under common control shall be considered a single customer, and a government and entities known to the reporting entity to be under the control of that government shall be considered a single customer.

For construction segment, revenue from one customer (2017: one customer) represented RM10,046,655 (2017: RM68,046,368) for the Group's total revenue.

35. CAPITAL MANAGEMENT

The primary objective of the Group's and the Company's capital management is to ensure that they maintain a strong capital base and safeguard the Group's and the Company's ability to continue as going concerns, so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and the Company manage their capital structure by monitoring the capital and net debt on an ongoing basis. No changes were made in the objectives, policies or processes during the financial year ended 31 March 2018 and 31 March 2017.

35. CAPITAL MANAGEMENT (cont'd)

The Group and the Company monitor capital using net debts-to-equity ratio, which is net debts divided by total equity. Net debts comprise loans and borrowings and payables, less deposits placed with licensed banks and cash and bank balances whereas total equity represents the equity attributable to owners of the Company.

	Group		Group	
	2018	**2017**	**2018**	**2017**
	RM	**RM**	**RM**	**RM**
Loans and borrowings	**5,376,398**	9,912,728	**–**	–
Payables	**19,988,627**	21,188,843	**21,140,688**	20,378,076
	25,365,025	31,101,571	**21,140,688**	20,378,076
Less: Deposits placed with licensed banks and cash and bank balances	**(9,300,934)**	(17,967,168)	**(1,712)**	(36,125)
Net debts	**16,064,091**	13,134,403	**21,138,976**	20,341,951
Total equity	**52,755,203**	62,895,732	**32,123,250**	12,893,648
Net debts-to-equity ratio	**0.30**	0.21	**0.66**	1.58

36. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Acquisition of subsidiaries

On 1 August 2017, the Company has entered into a Share Purchase Agreement ("SPA") to acquire the entire equity interests in Arena Terbaik Sdn. Bhd. and its subsidiaries ("Arena Group") for a total cash consideration of RM50,000. The acquisition was completed on 7 September 2017 and Arena Group became wholly-owned subsidiaries of the Company.

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act 2016

We, **DATO' ABDUL JALIL BIN ABDUL KARIM** and **RAIZITA BINTI AHMAD @ HARUN**, being two of the directors of Merge Energy Bhd, do hereby state that in the opinion of the directors, the accompanying financial statements set out on pages 35 to 96 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2018 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the directors:

....

DATO' ABDUL JALIL BIN ABDUL KARIM
Director

....

RAIZITA BINTI AHMAD @ HARUN
Director

Kuala Lumpur

Date: 17 July 2018

STATUTORY DECLARATION

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, **RAIZITA BINTI AHMAD @ HARUN**, being the director primarily responsible for the financial management of Merge Energy Bhd, do solemnly and sincerely declare that to the best of my knowledge and belief, the accompanying financial statements set out on pages 35 to 96 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

....

RAIZITA BINTI AHMAD @ HARUN

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur in the Federal Territory on 17 July 2018.

Before me,

....

TAN KIM CHOOI
W661
Commissioner for Oaths

INDEPENDENT **AUDITORS' REPORT**

to the members of Merge Energy Bhd
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Merge Energy Bhd, which comprise the statements of financial position as at 31 March 2018 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 35 to 96.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 March 2018, and of their financial performance and their cash flows for the financial year then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group

Revenue and expenses recognition for construction business (Note 23 and Note 24 to the financial statements)

We focused on this area because the amounts of revenue and its related expenses recognised in the construction business require the Group to apply significant judgement. The revenue and related expenses are recognised based on the estimated total revenue and expenses and the stage of completion method. The stage of completion method is determined by reference to costs incurred for work performed to date to the estimated total costs for each project. The estimated total revenue and costs are affected by a variety of uncertainties that depend on the outcome of future events.

Our response:
Our audit procedures on a sample of major projects included, among others:

- understanding the design and implementation of controls over the Group's process in recording project costs, preparing project budgets and calculating the stage of completion;
- review samples of project budgets and assess the reasonableness of the project budgets selected by comparing to contractual terms, historical margins and major assumptions made by management;
- discussing the progress of the projects and expected outcome with the management to obtain an understanding of the basis on which the estimates are made;
- assessing the reasonableness of the computed stage of completion for identified projects against progress reports ; and
- testing the mathematical computation of the recognised revenue and expenses during the financial year.

Key Audit Matters (cont'd)

Group (cont's)

Investment in an Associate (Note 9 to the financial statements)

The Group owns 30% of the equity of IJMP – MK Joint Venture, which is accounted for under the equity method.

The share of profit or loss of the investment in an associate, if material, will have a significant effect on the financial result of the Group and the carrying amount of investment in an associate in the Consolidated Statement of Financial Position.

Our response:
Our audit procedures included, among others,
- engaging with the component auditors of the associate throughout the audit and send out group audit instructions to satisfy our audit requirements in accordance with *International Standard on Auditing 600 Special Consideration – Audits of Group Financial Statements (including the work of component auditors)*;
- developing an understanding of the associate's business developments and updates by discussing with the management;
- reviewing relevant sections of the component auditors' audit documentation; and
- performing our own audit procedures on the financial information of the associate.

Goodwill (Note 7 to the financial statements)

The Group has significant goodwill mainly arising from acquisition of an operating segment. The goodwill is tested for impairment annually. In performing the impairment assessment, the Group has identified the oil and gas solution segment as the cash generating units to which the goodwill is allocated. We focused on this area because the impairment assessment requires the exercise of significant judgement by the Group on the discount rate applied in the recoverable amount calculation and assumptions supporting the underlying cash flow projection which include future sales, gross profit margin and operating expenses.

Our response:
Our audit procedures focused on evaluating the cash flow projection and the Group's forecasting procedures which included, among others:
- assessing the appropriateness of the valuation methodology adopted by the Group in accordance with the requirements of MFRS 136 Impairment of assets;
- comparing the actual results with previous budget to assess the performance of the business and reliability of the forecasting process;
- comparing the Group's assumptions to externally derived data as well as our assessments in relation to key assumptions to assess their reasonableness and achievability of the projection;
- testing the mathematical accuracy of the impairment assessment; and
- performing a sensitivity analysis around the key assumptions that are expected to be more sensitive to the recoverable amount.

Company

We have determined that there are no key audit matters to communicate in our report which arose from the audit of the financial statements of the Company.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Information Other than the Financial Statements and Auditors' Report Thereon (cont'd)

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT **AUDITORS' REPORT**

to the members of Merge Energy Bhd (cont'd)
(Incorporated in Malaysia)

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (cont'd)

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the contents of this report.

Baker Tilly Monteiro Heng	Kenny Yeoh Khi Khen
No. AF 0117	No. 03229/09/2018 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur

Date: 17 July 2018

LIST OF **PROPERTIES**
as at 31 March 2018

Location	Description (Existing Use)	Tenure (Age of Building)	Land Area (Built-Up Area) sq. ft.	Net Book Value as at 31.03.2018 RM	Date of Valuation/ Acquisition
Lots 727, 728 and 729 No. 230, 231 and 232 Jalan Kota Kenari 2 Taman Kota Kenari, 09000 Kulim Kedah Darul Aman	3 units of 2-storey shop house (rented)	Freehold (21 years)	5,769 (6,492)	1,200,000	07.03.2018
No A3-31-3A, Soho Suite @ KLCC No 20, Jalan Perak 50450 Kuala Lumpur	Soho Suite (vacant)	Freehold (4 years)	(601)	850,000	28.02.2018
E-11-3 Megan Avenue 1 189 Jalan Tun Razak 50400 Kuala Lumpur	Office Lot (office)	Freehold (20 years)	(1,500)	961,667	23.03.2016
Lot 444 No. 1 Jalan Apollo U5/190 Seksyen U5, Bandar Pinggiran Subang 40150 Shah Alam Selangor Darul Ehsan	2½-storey semi-detached factory (office)	Leasehold Expiring on 7.12.2093 (23 years)	18,238 (5,400)	568,266	01.03.2018
Lot 449 No. 2 Jalan Apollo U5/190 Seksyen U5, Bandar Pinggiran Subang 40150 Shah Alam Selangor Darul Ehsan	2½-storey semi-detached factory (office)	Leasehold Expiring on 7.12.2093 (22 years)	17,668 (5,400)	655,275	01.03.2018
Lot 416 No. 25 Jalan Apollo U5/194 Seksyen U5, Bandar Pinggiran Subang 40150 Shah Alam Selangor Darul Ehsan	3-storey detached factory (rented)	Leasehold Expiring on 7.12.2093 (24 years)	23,153 (10,240)	5,800,000	01.03.2018
Lot 097(C) No. 1 Jalan Suria X U5/X Seksyen U5, Bandar Pinggiran Subang 40150 Shah Alam Selangor Darul Ehsan	2-storey shop office (rented)	Leasehold Expiring on 16.07.2099 (18 years)	7,280 (3,610)	1,200,000	02.03.2018
Lot 043(E) No. 30 Jalan Matahari AA U5/AA Seksyen U5, Bandar Pinggiran Subang 40150 Shah Alam Selangor Darul Ehsan	3-storey shop office (vacant)	Leasehold Expiring on 25.01.2095 (17 years)	2,516 (8,916)	1,100,000	07.03.2018
Lot 071(E) No. 29 Jalan Matahari AA U5/AA Seksyen U5, Bandar Pinggiran Subang 40150 Shah Alam Selangor Darul Ehsan	3-storey shop office (vacant)	Leasehold Expiring on 25.01.2095 (17 years)	2,516 (8,916)	1,100,000	07.03.2018

LIST OF **PROPERTIES** (cont'd)
as at 31 March 2018

Location	Description (Existing Use)	Tenure (Age of Building)	Land Area (Built-Up Area) sq. ft.	Net Book Value as at 31.03.2018 RM	Date of Valuation/ Acquisition
Lot 080 No. 16 Jalan Dinar D U3/D Seksyen U3, Taman Subang Perdana 40150 Shah Alam Selangor Darul Ehsan	4-storey shop office (ground floor is rented)	Leasehold Expiring on 25.09.2095 (15 years)	1,760 (7,040)	1,650,000	07.03.2018
Lot 081 No. 14 Jalan Dinar D U3/D Seksyen U3 , Taman Subang Perdana 40150 Shah Alam Selangor Darul Ehsan	4-storey shop office (ground floor is rented)	Leasehold Expiring on 25.09.2095 (15 years)	1,760 (7,040)	1,650,000	07.03.2018
Lot PT8833 No. 2, Lorong Naluri Sukma 8/2 42300 Bandar Puncak Alam Selangor Darul Ehsan	Double Storey Terrace House (rented)	Leasehold Expiring on 08.07.2109 (15 years)	3,387	550,000	20.11.2017
Lot PT8610 No 80, Lorong Naluri Sukma 8/11, Seksyen 8, 42300 Bandar Puncak Alam Selangor Darul Ehsan	Double Storey Terrace House (rented)	Leasehold Expiring on 08.07.2109 (15 years)	3,340	550,000	20.11.2017
Lot PT8648 No 65, Lorong Naluri Sukma 8/10 42300 Bandar Puncak Alam Selangor Darul Ehsan	Double Storey Terrace House (rented)	Leasehold Expiring on 08.07.2109 (15 years)	1,400	320,000	20.11.2017
Lot 0034 No 18, Jalan Uranus AH/U5/AH, Taman Subang Impian Seksyen U5, 40150 Shah Alam Selangor Darul Ehsan	3 Storey Shop Office (office)	Leasehold Expiring on 03.04.2099 (18 years)	1,760 (5,280)	1,580,181	03.08.2015
PN 31967, Lot 1487, Seksyen 20 Bandar Serendah, Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	26,372	285,668	14.02.2017
PN 31968, Lot 1488 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	26,361	258,070	14.02.2017
PN 31969, Lot 1489 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	30,699	277,651	14.02.2017
PN 31971, Lot 1490 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	39,428	344,782	14.02.2017

LIST OF **PROPERTIES** (cont'd)

as at 31 March 2018

Location	Description (Existing Use)	Tenure (Age of Building)	Land Area (Built-Up Area) sq. ft.	Net Book Value as at 31.03.2018 RM	Date of Valuation/ Acquisition
PN 31972, Lot 1491 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	35,058	325,182	14.02.2017
PN 31973, Lot 1492 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	30,774	361,628	14.02.2017
PN 31974, Lot 1494 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	219,368	2,564,994	14.02.2017
PN 31975, Lot 1495 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	51,010	609,884	14.02.2017
PN 31976, Lot 1496 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	46,995	561,947	14.02.2017
PN 31978, Lot 1499 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	44,552	533,184	14.02.2017
PN 31979, Lot 1500 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	39,504	466,073	14.02.2017
PN 31980, Lot 1501 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	40,462	485,248	14.02.2017
PN 31981, Lot 1502 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	38,621	456,577	14.02.2017
PN 31982, Lot 1503 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (rented)	Leasehold Expiring on 10.09.2096	42,948	514,010	14.02.2017

LIST OF **PROPERTIES** (cont'd)
as at 31 March 2018

Location	Description (Existing Use)	Tenure (Age of Building)	Land Area (Built-Up Area) sq. ft.	Net Book Value as at 31.03.2018 RM	Date of Valuation/ Acquisition
PN 31983, Lot 1504 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (rented)	Leasehold Expiring on 10.09.2096	44,982	533,184	14.02.2017
PN 31984, Lot 1506 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (rented)	Leasehold Expiring on 10.09.2096	76,521	916,681	14.02.2017
PN 31985, Lot 1507 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (rented)	Leasehold Land Expiring on 10.09.2096	79,018	945,443	14.02.2017
PN 31986, Lot 1508 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant	Leasehold Expiring on 10.09.2096	84,873	1,013,421	14.02.2017
PN 31987, Lot 1509 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	96,122	1,147,507	14.02.2017
PN 31989, Lot 1510 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	47,544	561,947	14.02.2017
PN 31990, Lot 1511 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	80,202	955,955	14.02.2017
PN 31991, Lot 1512 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	80,600	965,532	14.02.2017
PN 31992, Lot 1513 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Industrial Land (vacant)	Leasehold Expiring on 10.09.2096	78,996	945,443	14.02.2017
PN 31993- PN32003 Lot 1469 –Lot 1479 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Shophouse Lot (vacant)	Leasehold Expiring on 10.09.2096	19,415	322,012	14.02.2017
PN 32004, Lot 1480 Seksyen 20, Bandar Serendah Daerah Ulu Selangor Negeri Selangor Darul Ehsan	Shophouse Lot (vacant)	Leasehold Expiring on 10.09.2096	3,477	57,708	14.02.2017

SHAREHOLDERS' INFORMATION
as at 29 June 2018

Issued shares capital : 67,000,000 ordinary shares
Class of shares : Ordinary Shares
Voting rights : One (1) vote per one (1) ordinary share held

Distribution of Shareholdings

Size of Holdings	No. of Holders	%	No. of Shares	%
1 – 99	12	1.09	303	0.00
100 – 1,000	354	32.27	327,833	0.49
1,001 – 10,000	434	39.56	2,089,367	3.12
10,001 – 100,000	247	22.52	8,507,398	12.69
100,001 – 3,349,999 (less than 5% of issued shares)	47	4.29	17,646,999	26.34
3,350,000 and above (5% and above of issued shares)	3	0.27	38,428,100	57.36
Total	**1,097**	**100**	**67,000,000**	**100.00**

Thirty Largest Shareholders

No.	Name of Shareholder	No. of Shares	%
1	Desa Binapuri Sdn Bhd	20,213,100	30.17
2	Sempena Juara Sdn Bhd	10,015,000	14.95
3	Ratus Harapan Sdn Bhd	8,200,000	12.24
4	Sasaran Abadi Sdn Bhd	3,032,000	4.53
5	Nusmakmur Development Sdn Bhd	2,500,000	3.73
6	Affin Hwang Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chooi Chin	835,300	1.25
7	Chong Wei Binajaya Sdn Bhd	755,400	1.13
8	Lee Lai Ming	684,000	1.02
9	Yap Yee Ping	622,600	0.93
10	Hiap Huat Realty Sdn Bhd	605,497	0.90
11	SSF Venture Sdn Bhd	451,400	0.67
12	AllianceGroup Nominees (Tempatan) Sdn Bhd - Pledged securities account for Sak Kam Wah	374,000	0.56
13	AllianceGroup Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lee Heng Haw	365,200	0.55
14	Maybank Nominees (Tempatan) Sdn Bhd - Pledged securities account for Wong Wing Kheong	365,000	0.54
15	HLIB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Chee Phooi Phooi	348,300	0.52
16	Lee Yee Long	340,000	0.51
17	Maybank Securities Nominees (Tempatan) Sdn Bhd - Pledged securities account for Lee Chong Hoon	335,500	0.50
18	Solarcom Sdn Bhd	329,800	0.49
19	Goh Beng Ee	300,000	0.45
20	Lim Ah Gek @ Lim Chor Kheng	291,382	0.43

No.	Name of Shareholder	No. of Shares	%
21	TA Nominees (Tempatan) Sdn Bhd - Pledged securities account for SSF Home Builder Sdn Bhd	277,000	0.41
22	Chenderoh Jaya Sdn Bhd	256,900	0.38
23	Wong Wing Kheong	244,100	0.36
24	Ang Swee Pian @ Ang Swee Yong	237,423	0.35
25	Yuen Ching Eng	220,000	0.33
26	Tan Hoi Chon	215,839	0.32
27	HLIB Nominees (Tempatan) Sdn Bhd - Pledged securities account for Tan Suan Wen	211,200	0.32
28	Tan Huat Sheng	208,558	0.31
29	Tan Chee Hong	204,300	0.30
30	Hew Choy Yin	200,000	0.30
	Total	53,238,799	79.45

Substantial Shareholders

Name of Shareholder	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
Desa Binapuri Sdn Bhd	20,213,100	30.17	-	-
Dato' Abdul Jalil bin Abdul Karim	-	-	20,213,100[(1)]	30.17
Rusdi bin Mohamad Noor	-	-	20,213,100[(1)]	30.17
Sempena Juara Sdn Bhd	10,015,000	14.95	-	-
Mohamad Azmi bin Mohamad Khannas	-	-	10,015,000[(2)]	14.95
Fatimah Soliha binti Nawawi @ Hassan	-	-	10,015,000[(2)]	14.95
Ratus Harapan Sdn Bhd	8,200,000	12.24	-	-
Dato' Mohd Said bin Mat Saman	-	-	8,200,000[(3)]	12.24
Abd Rahim bin Aw. Kechik	-	-	8,200,000[(3)]	12.24

Directors' Shareholdings

Name of Director	Direct Interest		Indirect Interest	
	No. of Shares	%	No. of Shares	%
Dato' Abdul Jalil bin Abdul Karim	-	-	20,213,100[(1)]	30.17
Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun	-	-	-	-
Raizita binti Ahmad @ Harun	-	-	-	-
Dato' Sheah Kok Fah	-	-	-	-
Dato' Kamarulzaman bin Jamil	-	-	-	-
Dr Badrul Hisham bin Mohd Yusoff	-	-	-	-

Notes:
(1) Deemed interested by virtue of his interest in Desa Binapuri Sdn Bhd pursuant to Section 8 of the Companies Act, 2016.
(2) Deemed interested by virtue of his/her interest in Sempena Juara Sdn Bhd pursuant to Section 8 of the Companies Act, 2016.
(3) Deemed interested by virtue of his interest in Ratus Harapan Sdn Bhd pursuant to Section 8 of the Companies Act, 2016.

NOTICE OF **ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN THAT the Twenty-First Annual General Meeting of Merge Energy Bhd will be held at Board Room of the Company, No. 2 Jalan Apollo U5/190, Bandar Pinggiran Subang, Seksyen U5, 40150 Shah Alam, Selangor Darul Ehsan on Thursday, 6 September 2018 at 10.00 a.m. for the following purposes:

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 March 2018 together with the Reports of the Directors and Auditors thereon. **Please see Note on Agenda 1**

2. To approve the payment of Directors' fees for the financial year ended 31 March 2018 and benefits from 31 January 2017 to 31 March 2018. **Resolution 1**

3. To approve the payment of Directors' fees and benefits from 1 April 2018 until the conclusion of the next Annual General Meeting of the Company. **Resolution 2**

4. To re-elect Raizita binti Ahmad @ Harun, retiring pursuant to Article 105 of the Company's Constitution. **Resolution 3**

5. To re-elect the following Directors retiring pursuant to Article 112 of the Company's Constitution:

   (i) Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun **Resolution 4**

   (ii) Dr Badrul Hisham bin Mohd Yusoff **Resolution 5**

6. To re-appoint Messrs Baker Tilly Monteiro Heng as Auditors and to authorise the Directors to fix their remuneration. **Resolution 6**

7. **As Special Business**

   To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:

   (a) Authority to Allot and Issue Shares Pursuant to Sections 75 and 76 of the Companies Act 2016

   "**THAT**, subject to the Companies Act 2016, the Company's Constitution and approval from Bursa Malaysia Securities Berhad and other Governmental or regulatory bodies, full authority be and is hereby given to the Board of Directors pursuant to Sections 75 and 76 of the Companies Act 2016 to allot and issue shares in the Company at any time upon such terms and conditions and for such purposes as the Board of Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed ten percent (10%) of the total number of issued shares of the Company for the time being **AND THAT** such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company." **Resolution 7**

   (b) Authority for Dato' Sheah Kok Fah to Continue in Office as Independent Non-Executive Director

   "**THAT** authority be and is hereby given to Dato' Sheah Kok Fah who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next Annual General Meeting." **Resolution 8**

8. To transact any other business of which due notice shall have been given.

By Order of the Board

Yew @ Yeoh Siew Yen
MAICSA 7048094
Company Secretary

Selangor Darul Ehsan
27 July 2018

Notes:

Proxy

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. A proxy may but need not be a member of the Company.

2. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.

3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if such appointer is a corporation, either under its Common Seal or the hand of a duly authorised officer or attorney of the corporation.

4. The instrument appointing a proxy must be deposited at the registered office of the Company at No. 2 Jalan Apollo U5/190, Bandar Pinggiran Subang, Seksyen U5, 40150 Shah Alam, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

Record of Depositors

5. For purpose of determining members' eligibility to attend the meeting, only members whose names appear in the Record of Depositors as at 30 August 2018 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on his behalf.

Agenda 1 – To receive the Audited Financial Statements

6. Agenda item no. 1 is meant for discussion only as the provision of Section 340(1) of the Companies Act 2016 does not require a formal approval of shareholders for the Audited Financial Statements. Hence, this item on the Agenda is not put forward for voting.

Agenda 2 & 3 – To approve the payment of Directors' fees and benefits

7. The proposed Ordinary Resolution 1 is to seek shareholders' approval for the payment of Directors' fees of RM144,467 for the financial year ended 31 March 2018 and benefits of RM126,500 from 31 January 2017 to 31 March 2018.

   The proposed Ordinary Resolution 2 is to seek shareholders' approval for the payment of Directors' fees of up to RM260,000 and benefits of up to RM310,000 from 1 April 2018 until the conclusion of the next Annual General Meeting of the Company.

EXPLANATORY NOTES ON SPECIAL BUSINESS

8. **Authority to Allot and Issue Shares**

   The existing general mandate for the authority to issue shares was approved by the shareholders of the Company at the 20th Annual General Meeting held on 14 September 2017. The Company did not issue any new shares pursuant to the general mandate obtained at the 20th Annual General Meeting.

   The proposed Ordinary Resolution 7 is to renew the authority granted by the shareholders of the Company at the 20th Annual General Meeting. The proposed mandate, if passed, will give the Directors, authority to issue shares of not more than 10% of the total number of issued shares for such purposes as the Directors consider would be in the best interests of the Company. This is to avoid any delay and cost involved in convening a general meeting to approve such an issue of shares. This authority will, unless revoked or varied by the Company in a general meeting, expire at the conclusion of the next Annual General Meeting or will subsist until the expiration of the period within which the next Annual General Meeting is required by law to be held, whichever is earlier.

   The proceeds raised from the mandate will provide flexibility to the Company for any possible fund raising activities for purpose of funding current/or future investment project(s), working capital and/or acquisition(s).

9. **Authority for Dato' Sheah Kok Fah to Continue in Office as Independent Non-Executive Director**

In respect of Ordinary Resolution 8, the Board of Directors has via the Nomination Committee conducted an evaluation on the re-appointment of Dato' Sheah Kok Fah who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine years, and recommended him to continue to act as Independent Non-Executive Director of the Company based on the following justifications:-

(i) Dato' Sheah Kok Fah has fulfilled the criteria under the definition of Independent Director as stated in the Listing Requirements of Bursa Malaysia Securities Berhad, and therefore is able to bring independent and objective judgment to the Board.
(ii) He is an advocate and solicitor and corporate practitioner with vast experience in legal practice. Hence, he would be able to provide the Board with a diverse set of experience, expertise, skill and competence.
(iii) The length of his service on the Board does not in any way interfere with his exercise of independent judgment and ability to act in the best interest of the Company.
(iv) He, having been with the Company for many years, is familiar with the Company's business operations which enable him to participate actively and contribute during deliberations or discussions at Board and committee meetings without compromising his independence and objective judgment.
(v) He has contributed sufficient time and effort to attend all the Board and committee meetings.

As Dato' Sheah Kok Fah has been an independent director for more than 12 years, the Board would seek shareholders' approval through a two-tier voting process in accordance with the Malaysian Code on Corporate Governance 2017.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

Details of persons who are standing for election as Directors

No individual is seeking election as a Director at the 21st Annual General Meeting of the Company.

MERGE ENERGY BHD (420099-X)
(Incorporated in Malaysia)

PROXY FORM

I/We (full name in block capitals) ....

NRIC No./Company No .... CDS Account No. ....

of (full address) ....

being a *member/members of MERGE ENERGY BHD., hereby appoint (full name in block capitals) ....

.... NRIC No. ....

of (full address) ....

and/or failing him/her .... NRIC No. ....

of (full address) ....

and/or failing him/her, the Chairman of the meeting as *my/our proxy to vote for *me/us on *my/our behalf at the Twenty-First Annual General Meeting of the Company to be held at the Board Room of the Company, No. 2 Jalan Apollo U5/190, Bandar Pinggiran Subang, Seksyen U5, 40150 Shah Alam, Selangor Darul Ehsan on Thursday, 6 September 2018 at 10.00 a.m., and at any adjournment thereof.

No.	Resolution	For	Against
1.	Payment of Directors' fees for the financial year ended 31 March 2018 and benefits from 31 January 2017 to 31 March 2018.		
2.	Payment of Directors' fees and benefits from 1 April 2018 until the conclusion of the next Annual General Meeting of the Company.		
3.	Re-election of Raizita binti Ahmad @ Harun as Director of the Company.		
4.	Re-election of Dato' Tengku Rozanna Petri binti Tengku Mohamed Nasrun as Director of the Company.		
5.	Re-election of Dr Badrul Hisham bin Mohd Yusoff as Director of the Company.		
6.	To re-appoint Messrs Baker Tilly Monteiro Heng as Auditors and to authorise the Directors to fix their remuneration.		
7.	Authority to Directors to allot and issue shares pursuant to Sections 75 and 76 of the Companies Act 2016.		
8.	Authority for Dato' Sheah Kok Fah to continue in office as Independent Non-Executive Director		

[Please indicate with an "X", in the space provided whether you wish your vote to be casted for or against the resolution. Unless otherwise instructed, the proxy may vote as he or she shall think fit in respect of the resolution.]

**Delete if not applicable.*

Signed this .... day of 2018

No. of shares held

....

Signature/Seal of Shareholder

Notes:

1. *A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his stead. Where a member appoints more than one proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy. A proxy may but need not be a member of the Company.*

2. *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.*

3. *The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or if such appointer is a corporation, either under its Common Seal or the hand of a duly authorised officer or attorney of the corporation.*

4. *The instrument appointing a proxy must be deposited at the registered office of the Company at No. 2 Jalan Apollo U5/190, Bandar Pinggiran Subang, Seksyen U5, 40150 Shah Alam, Selangor Darul Ehsan not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.*

5. *For purpose of determining members' eligibility to attend the meeting, only members whose names appear in the Record of Depositors as at 30 August 2018 shall be entitled to attend this meeting or appoint proxy(ies) to attend and vote on his behalf.*

Fold this flap sealing

AFFIX STAMP

The Company Secretary
MERGE ENERGY BHD. (420099-X)
No. 2 Jalan Apollo U5/190
Bandar Pinggiran Subang
Seksyen U5
40150 Shah Alam
Selangor Darul Ehsan

1st fold here

2nd fold here

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40150 Shah Alam, Selangor Darul Ehsan

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