

RIMBUNAN SAWIT BERHAD (“RSB” OR “COMPANY”)

PROPOSED CAPITAL REDUCTION

1. INTRODUCTION

On behalf of the Board of Directors of Rimbunan Sawit Berhad (“**Board**”), Maybank Investment Bank Berhad (“**Maybank IB**”) wishes to announce that the Company proposes to undertake a reduction of its issued share capital pursuant to Section 117 of the Companies Act, 2016 (“**Act**”) (“**Proposed Capital Reduction**”).

2. DETAILS OF THE PROPOSED CAPITAL REDUCTION

The Proposed Capital Reduction entails the reduction of the issued share capital of the Company via the cancellation of the paid-up share capital which is lost or unrepresented by available assets of RM192,528,933 pursuant to Section 117 of the Act. The corresponding credit of RM192,528,933 arising from the Proposed Capital Reduction will be used to set-off against the accumulated losses of the Company and the remaining balance, if any, will be credited to the retained earnings of the Company which shall be used in a manner to be determined by the Board at a later date and in the best interest of the Company as permitted by the relevant and applicable laws as well as the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

As at 31 July 2020, being the latest practicable date prior to this Announcement (“**LPD**”), the issued share capital of the Company is RM807,129,190 comprising 1,418,487,551 ordinary shares in RSB (“**RSB Shares**”) and 164,876,929 irredeemable convertible preference shares (“**ICPS**”) expiring on 30 September 2020.

For avoidance of doubt, the Proposed Capital Reduction will not:

- (i) result in any adjustment to the share price of the RSB Shares or the number of the RSB Shares in issue held by the shareholders of the Company; and
- (ii) give rise to any change in the total number of RSB Shares in issued.

For illustrative purposes only, the effects of the Proposed Capital Reduction on the accumulated losses of the Company as well as RSB and its subsidiaries (collectively, “**Group**”) based on the latest audited consolidated statement of financial position as at 31 December 2019 and the latest available unaudited consolidated statement of financial position as at 30 June 2020 are as follows:

		Company level		Group level	
		Unaudited as at 30 June 2020	Audited as at 31 December 2019	Unaudited as at 30 June 2020	Audited as at 31 December 2019
		RM'000	RM'000	RM'000	RM'000
Accumulated losses		(189,683)	(192,529)	(326,048)	(320,347)
Add:	Credit arising from the Proposed Capital Reduction	192,529	192,529	192,529	192,529
Less:	Estimated expenses relating to the Proposed Capital Reduction	(85)	(85)	(85)	(85)
Resultant (accumulated losses) / retained earnings		2,761	(85)	(133,604)	(127,903)

Subject to and subsequent to the approval of the shareholders of the Company for the Proposed Capital Reduction to be sought at an extraordinary general meeting (“EGM”) of the Company to be convened, the Proposed Capital Reduction will be effective when the Registrar of Companies has recorded the information lodged in the appropriate register in accordance with Section 119 of the Act.

3. RATIONALE FOR THE PROPOSED CAPITAL REDUCTION

The Proposed Capital Reduction will enable the Company to eliminate its accumulated losses to reflect more accurately the value of the underlying assets and financial position of the Company. The Proposed Capital Reduction will also enhance the Company’s ability to pay dividends out of its retained earnings in the future.

4. EFFECTS OF THE PROPOSED CAPITAL REDUCTION

Minimum Scenario	:	Based on the total number of issued RSB Shares of the Company as at the LPD of 1,418,487,551 and assuming no issuance of new RSB Shares prior to the Proposed Capital Reduction
Maximum Scenario	:	Based on the total number of issued RSB Shares of the Company as at the LPD of 1,418,487,551 and assuming full conversion of all ICPS into 623,234,792 new RSB Shares prior to the Proposed Capital Reduction, resulting in the total number of issued share of the company of 2,041,722,343.

4.1 Group structure and substantial shareholders’ shareholding

The Proposed Capital Reduction will not have any effect on the group structure and substantial shareholders’ shareholding in the Company.

4.2 Share capital

The pro forma effect of the Proposed Capital Reduction on the share capital of RSB are as follows:

	Minimum Scenario		Maximum Scenario	
	No. of shares	(RM)	No. of shares	(RM)
As at the LPD:		807,129,190		807,129,190
- RSB Shares	1,418,487,551	-	1,418,487,551	-
- ICPS	164,876,929	-	-	-
New RSB Shares to be issued assuming full conversion of all outstanding ICPS	-	-	623,234,792	-
To be cancelled pursuant to the Proposed Capital Reduction	-	(192,528,933)	-	(192,528,933)
After the Proposed Capital Reduction	-	614,600,257	-	614,600,257

4.3 Net assets (“NA”) and gearing

The proforma effect of the Proposed Capital Reduction on the NA and gearing of RSB and its subsidiaries (“**Group**”) based on the audited consolidated statement of financial position of the Company as at 31 December 2019 on the assumption that the Proposed Capital Reduction had been effected on that date are as follows:-

Minimum Scenario	Audited as at 31 December 2019 (RM'000)	After the Proposed Capital Reduction (RM'000)
Share capital	807,129	614,600
Reserves		
- Merger reserve	(53,066)	(53,066)
- Accumulated losses	(320,347)	(127,903) ⁽¹⁾
NA	433,716	433,631
Non-controlling interests	(11,215)	(11,215)
Total equity	422,501	422,416
No. of shares in issue ⁽²⁾	1,583,364,480	1,583,364,480
Total borrowings (RM'000)	506,947	506,947
NA per share ⁽³⁾ (RM)	0.27	0.27
Gearing ⁽⁴⁾ (times)	1.17	1.17

Notes:

- (1) After deducting the estimated expenses relating to the Proposed Capital Reduction of RM85,000.
- (2) Comprising 1,418,487,551 RSB Shares and 164,876,929 ICPS
- (3) Calculated as NA divided by the total number of RSB Shares and ICPS in issue.
- (4) Calculated as total borrowings divided by NA.

Maximum Scenario		(I)	(II)
	Audited as at 31 December 2019	Assuming fully conversion of all outstanding ICPS	After (I) and the Proposed Capital Reduction
	(RM '000)	(RM '000)	(RM '000)
Share capital	807,129	807,129	614,600
Reserves			
- Merger reserve	(53,066)	(53,066)	(53,066)
- Accumulated losses	(320,347)	(320,347)	(127,903) ⁽¹⁾
NA	433,716	433,716	433,631
Non-controlling interests	(11,215)	(11,215)	(11,215)
Total equity	422,501	422,501	422,416
No. of shares in issue ⁽²⁾	1,583,364,480	2,041,722,343	2,041,722,343
Total borrowings (RM'000)	506,947	506,947	506,947
NA per share ⁽³⁾ (RM)	0.27	0.21	0.21
Gearing ⁽⁴⁾ (times)	1.17	1.17	1.17

Notes:

- (1) After deducting the estimated expenses relating to the Proposed Capital Reduction of RM85,000.
- (2) Comprising 1,418,487,551 RSB Shares and 623,234,792 new RSB Shares to be issued upon full conversion of ICPS.
- (3) Calculated as NA divided by the total number of RSB Shares and ICPS in issue.
- (3) Calculated as total borrowings divided by NA.

4.4 Earnings and earnings per RSB Share (“EPS”)

The Proposed Capital Reduction will not have any material effect on the consolidated earnings and EPS of the Company for the financial year ending 31 December 2020.

5. APPROVALS REQUIRED AND CONDITIONALITY

The Proposed Capital Reduction is subject the following approvals being obtained:

- (i) shareholders of the Company at an EGM to be convened; and
- (ii) any other relevant parties / authorities, if required.

For avoidance of doubt, the approval of the ICPS holders is not required for the Proposed Capital Reduction as the ICPS will mature on 30 September 2020 while the EGM of the Company is expected to be convened in the fourth (4th) quarter of 2020.

The Proposed Capital Reduction is not conditional upon any other corporate exercise/scheme of the Company.

6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the Directors, major shareholders and/or person connected to them has any interest, direct and indirect, in the Proposed Capital Reduction.

7. DIRECTORS' STATEMENT

The Board, after having considered all aspects of the Proposed Capital Reduction including but not limited to the rationale and effects of the Proposed Capital Reduction, is of opinion that the Proposed Capital Reduction is in the best interest of the Company.

8. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Capital Reduction is expected to be completed in the fourth (4th) quarter of 2020.

9. ADVISER

Maybank IB has been appointed as Principal Adviser to the Company for the Proposed Capital reduction.

This Announcement is dated 25 August 2020.

APPENDIX I - HISTORICAL FINANCIAL INFORMATION OF THE RSB GROUP

The summary historical financial information of the RSB Group is as follows:-

	Audited			Unaudited	
	31 Dec 2017 (RM)	31 Dec 2018 (RM)	31 Dec 2019 (RM)	30 June 2020 (RM)	30 June 2019 (RM)
Revenue	324,391,931	338,688,464	284,713,553	162,773,911	117,693,955
Cost of sales	(301,050,603)	(345,253,378)	(280,687,046)	(146,276,669)	(127,003,997)
(Loss) after tax ("LAT")	(155,766,214)	(148,697,053)	(62,843,358)	(10,472,462)	(35,551,526)
(LAT) attributable to owners of the Company	(130,196,827)	(133,532,291)	(51,567,681)	(5,701,314)	(28,056,368)
NA	617,503,800	485,284,558	433,716,877	428,016,063	457,228,189
Share capital	807,129,190	807,129,190	807,129,190	807,129,190	807,129,190
No. of shares in issue ⁽¹⁾	1,583,364,480	1,583,364,480	1,583,364,480	1,583,364,480	1,583,364,480
NA per share ⁽²⁾ (RM)	RM0.39	RM0.31	RM0.27	RM0.27	RM0.29
(Loss) per RSB Share (sen)	(6.47)	(6.54)	(2.53)	(0.28)	(0.29)
Total borrowings (RM)	584,853,482	537,571,290	506,946,711	479,856,491	535,158,608

Notes:

(1) *Comprising RSB Shares and ICPS*

(2) *Calculated as NA divided by the total number of RSB Shares and ICPS in issue.*

APPENDIX I - HISTORICAL FINANCIAL INFORMATION OF THE RSB GROUP (Cont'd)

(i) 6-month financial period ended ("FPE") 30 June 2020 vs 6-month FPE 30 June 2019

For 6-month FPE 30 June 2020, the RSB Group recorded revenue of RM163 million, representing an increase of approximately 38.14% from RM118 million in 6-month FPE 30 June 2019. The increase was mainly due to the following:

- a) higher selling price of crude palm oil ("CPO"), palm kernel ("PK"), and fresh fruit bunch ("FFB") by 31.5%, 25.3% and 31.7% respectively where the average price for CPO, PK and FFB was at RM2,505, RM1,398 and RM436 for the 6-month FPE 30 June 2020 respectively; and
- b) increase in volume of production of CPO and PK by 2,508 metric tonnes ("MT") and 477 MT representing an increase of 5.3% and 4.7% respectively.

In line with the increase in revenue, the RSB Group recorded a lower LAT of RM10 million in 6-month FPE 30 June 2020 as compared to RM36 million in 6-month FPE 30 June 2019, representing a decrease of approximately 72%. The lower LAT is mainly due to the following:

- a) the RSB Group recorded higher gross profit of RM16 million for the FPE 30 June 2020 as compared to a gross loss of RM9.3 million in the corresponding FPE 30 June 2019 mainly due to higher CPO, FFB and PK price as well as more FFB processed;
- b) the administrative and other expenses decreased by approximately 25% or RM2.93 million, in line with the decrease in staff costs, sundry expenses, rental expenses and reversal of gain of disposal of fixed asset from Nescaya Palma Sdn Bhd, one of RSB's subsidiaries; and
- c) the finance cost decreased by approximately 13% or RM1.5million mainly due to decrease in interest rate of among others, term loan and revolving credit of 1.25% which was announced by Bank Negara Malaysia.

(ii) Financial year ended ("FYE") 31 December 2019 vs FYE 31 December 2018

The RSB Group recorded revenue of RM285 million in FYE 31 December 2019, representing a decrease of approximately 16% from RM339 million in FYE 31 December 2018. The decrease was mainly due to the following:

- a) decrease in average selling price for CPO and PK to RM2,016 and RM1,128 representing 5% and 31% respectively; and
- b) decrease in volume of production of CPO, PK and FFB by 7,175 MT 1,966MT and 30,577MT representing 6%, 8% and 9% respectively.

The RSB Group recorded a lower LAT of RM63 million in FYE 31 December 2019 as compared to RM149 million in FYE 31 December 2018, representing a decrease of approximately 58%. The lower LAT is mainly due to the following:

- a) cost of sales for the FYE 31 December 2019 has decreased by 19% to RM280.7 million as compared to RM345.3 million in FYE 31 December 2018 mainly due to reduction in FFB purchase price by RM46.2 million and lower palm oil manuring activities by RM16.4 million. As a result, the RSB Group achieved gross profit of RM4.0 million in FYE 31 December 2019 as compared to a gross loss of RM6.6million in FYE 31 December 2018;

APPENDIX I - HISTORICAL FINANCIAL INFORMATION OF THE RSB GROUP (Cont'd)

- b) other income has reduced by RM3.2 million, representing 23%, mainly due to one-time gain of RM6.2 million arising from the disposal of Simunjan estate which was recorded only in the FYE 31 December 2018. The administrative and other expenses decreased by RM99.4 million on the back of the lower impairment provision for property, plant and equipment as compared to FYE 31 December 2018; and
- c) the finance cost has reduced by RM1.5 million, representing 6%, arising from the settlement of term loans facilities. Overall, the RSB Group recorded lower loss before taxation of RM68.8 million as compared to FYE 31 December 2018 of RM181.1 million. Similarly, our LAT was reduced by 58% or RM85.9 million on the back of lower impairment provisions.

(iii) FYE 31 December 2018 vs FYE 31 December 2017

For FYE 31 December 2018, the RSB Group recorded revenue of RM339 million, an increase of approximately 4.63% from RM324 million in FYE 31 December 2017. The increase was mainly due to the following:

- a) higher CPO and PK sales of RM74.8 million and RM8.4 million, representing an increase of 42.25% and 24.29% respectively;
- b) higher CPO and PK sales volume of 118,362 MT and 25,684 MT representing an increase of 80% and 72% respectively; and
- c) additional contribution from Lundu Oil Mill which RSB Group acquired in 2017.

In line with the increase in revenue, the RSB Group recorded a lower LAT of RM149 million in FYE 31 December 2018 as compared to RM158 million in FYE 31 December 2017 representing a decrease of approximately 6%. The lower LAT is mainly due to the following:

- a) cost of sales increased by RM44.2 million or 15% to RM345.3 million mainly due to additional RM61.4 million FFB procured by our mills, which is in line with the higher CPO and PK produced. However, the operating costs of our oil palm estates have reduced by RM11.6 million as the RSB Group continued to rationalise its operating costs while constrict any further wastage or leakages. The amortisation and depreciation costs have also been scaled down by RM9.4 million as a result of the impairment provision provided in 2017. With minimal operating margin, the Group managed to limit its gross loss to RM6.6 million as compared to 2017's gross profit of RM23.3 million.
- b) other income increased by RM12.1 million mainly attributable to the gain of RM6.2 million arising from the disposal of Simunjan estate. The administrative and other expenses decreased by RM8 million on the back of lower impairment provision for property, plant and equipment as compared to FYE 31 December 2017. The impairment losses are provided based on the recoverable amount measured on respective asset's value in use, which is mainly hinge on the projected CPO price, FFB yield per hectare, remaining useful life of the asset, and discount rate used to estimate the future cash flow to be expected from the asset.