

RIMBUNAN SAWIT BERHAD

Type	Announcement
Subject	AUDIT REPORT – MODIFIED OPINION / MATERIAL UNCERTAINTY RELATED TO GOING CONCERN MATERIAL UNCERTAINTY RELATED TO GOING CONCERN
Description	RIMBUNAN SAWIT BERHAD ("RSAWIT" or "THE COMPANY") - ISSUANCE OF UNMODIFIED AUDIT OPINION WITH STATEMENT OF MATERIAL UNCERTAINTY RELATING TO GOING CONCERN IN RESPECT OF RSAWIT'S AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Pursuant to paragraph 9.19(37) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of RSAWIT wishes to announce that the Company's external auditors, Messrs Crowe Malaysia PLT, has included a statement of material uncertainty relating to going concern in its independent Auditors' Report dated 28 May 2020, in respect of the Group's financial statements for the financial year ended 31 December 2019.

Kindly find below the extract of the abovesaid Independent Auditors' Report:-

Opinion

We have audited the financial statements of Rimbunan Sawit Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and the statements of profit or loss and other 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 58 to 146.

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 December 2019, and of their financial performance and their cash flows for the financial year then ended in accordance with 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 4 in the financial statements, which indicates that the Group incurred a net loss of RM62.8 million for the financial year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by RM319.4 million. These conditions

indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern.

In assessing the appropriateness of the use of going concern assumption, management has considered the Group’s cash flows forecast for the financial year ending 31 December 2020. Management believes that the debt service obligations of the Group could be met out of operating cash flows and the proceeds arising from the sale of property, plant and equipment as disclosed in Note 18 to the financial statements. In addition, management is contemplating the sale of other non-profitable oil palm plantation estates as part of the Group’s rationalisation plan, so as to further streamline and better manage its portfolio of oil palm plantations, thereby improving the liquidity position of the Group. The Group is also implementing cost optimisation measures whilst improving efficiencies and productivity of the plantation development and operations.

Despite the loss suffered, the Group recorded a positive net cash flow of RM50.6 million from its operating activities for the financial year ended 31 December 2019, with earnings before interest, tax, depreciation and amortization (“EBITDA”) of RM25.8 million.

Management recognises that the COVID-19 outbreak is expected to have a negative impact on the Group’s operating performance for the coming reporting period(s); but the outbreak is not expected to have a significant impact on the Group’s plan to sell some of its non-profitable oil palm plantation estates, which forms the major source of funds for the financial year ending 31 December 2020.

In view of the above, barring any other unforeseen circumstances, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements of the Group have been prepared on the going concern basis.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

Impairment of Goodwill	
Refer to Note 12 in the financial statements	
Key Audit Matter	How our audit addressed the key audit matter
The Group has goodwill with a carrying amount of RM12.5 million as at 31 December 2019, which relates to the Group’s oil palm plantation cash-generating unit (“CGU”). Following a review of the business and the Group’s operating plans, management assessed the carrying amount of the goodwill. An impairment loss of RM3.9 million (2018: RM32.5 million) was recognised for the financial year.	Our procedures included, amongst others:- <ul style="list-style-type: none"> evaluating and challenging the appropriateness and reasonableness of the assumptions applied to key inputs such as prices of crude palm oil, oil palm yield rates, operating costs and discount rate applied, which included comparing these inputs with externally derived data as well as our own

<p>CGUs containing goodwill shall be tested for impairment on an annual basis. It is considered to be a key audit matter due to the significant judgement required in determining the assumptions used to estimate the recoverable amount.</p> <p>The recoverable amount of each CGU, being the higher of value-in-use and fair value less costs to sell, has been derived from discounted cash flows model. This model uses several key assumptions, including assumptions about future commodity prices and the appropriate discount rate as well as internal assumptions related to estimated gross profit margin, oil palm yield rates and future capital and operating expenditure.</p>	<p>assessments based on our knowledge of the client and the industry.</p> <ul style="list-style-type: none"> performing sensitivity analysis, which included assessing the effect of reasonably possible reductions in key drivers (e.g. commodity prices, discount rate) of cash flows forecast to evaluate the impact on the currently estimated headroom. evaluating the adequacy of the disclosures in the financial statements, including disclosures of key assumptions and judgements.
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Impairment of Property, Plant and Equipment Refer to Note 8 in the financial statements	
Key Audit Matter	How our audit addressed the key audit matter
<p>The Group has oil palm plantation assets with a carrying amount of RM837.3 million as at 31 December 2019. An impairment allowance totalling RM25.9 million (2018: RM80.1 million) was recognised during the financial year in respect of these plantation assets.</p> <p>The Group shall assess at the end of each reporting period whether there is any indication that the plantation assets may be impaired. If any such indication exists, the Group shall estimate the recoverable amounts of these assets.</p> <p>Certain oil palm plantations of the Group have a history of losses mainly due to the low oil palm yield. This was identified by management as an impairment indicator. Two methods are used by management to determine the recoverable amounts of the plantation assets, i.e. valuation reports and discounted cash flows.</p> <p>We gave audit focus on the impairment of these plantation assets because the estimation of their recoverable amounts involves significant management judgement.</p>	<p>Our procedures included, amongst others:-</p> <ul style="list-style-type: none"> for recoverable amounts determined by using professional valuers, assessing the competence, capabilities and objectivity of management’s valuation experts; and evaluating the valuation methodologies and the appropriateness of the assumptions used by the valuation experts. for recoverable amounts determined by using discounted cash flows method, evaluating and challenging the appropriateness and reasonableness of the assumptions applied to key inputs such as prices of crude palm oil, oil palm yield rates, operating costs and discount rate applied, which included comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the client and the industry. testing the sensitivity of the impairment calculations to changes in key assumptions used (e.g. commodity prices, discount rate) to evaluate the impact on the currently estimated headroom.

	<ul style="list-style-type: none"> evaluating the adequacy of the disclosures in the financial statements, including disclosures of key assumptions and judgements.
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Fair Values of Biological Assets	
Refer to Note 9 in the financial statements	
Key Audit Matter	How our audit addressed the key audit matter
<p>As at 31 December 2019, the Group's biological assets carried a fair value in an aggregate of RM14.1 million. The biological assets of the Group comprise fresh fruit bunches ("FFBs") and gaharu trees prior to harvest.</p> <p>Management uses the income approach to estimate the fair values of FFBs and gaharu trees by discounting the net cash flows expected to be generated from the sale of FFBs and gaharu. This approach uses several key assumptions, including assumptions about future prices of FFBs and gaharu, as well as yields of oil palm and gaharu trees.</p> <p>Due to the degree of management judgement involved in estimating the fair values of biological assets, we considered this to be an area of audit focus.</p>	<p>Our procedures included, amongst others:-</p> <ul style="list-style-type: none"> evaluating the valuation methodologies and the appropriateness of assumptions used by management. performing sensitivity analysis to evaluate the impact on the currently estimated headroom. evaluating the adequacy of the disclosures in the financial statements, including disclosures of key assumptions and judgements.

STEPS TAKEN OR PROPOSED TO BE TAKEN AND TIMELINE TO ADDRESS THOSE KEY AUDIT MATTERS THAT RELATE TO THE MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

The Material Uncertainty Related to Going Concern highlighted in the Independent Auditors' Report was mainly due to the unfavourable financial results and deteriorated financial position arising from the impairments of goodwill, and property, plant and equipment over the past few years.

- (a) On 22 January 2020, Lumiera Enterprise Sdn. Bhd. ("Lumiera"), a wholly-owned subsidiary of RSAWIT entered into a Sale and Purchase Agreement with Biogreen Success Sdn. Bhd. ("Biogreen") to dispose all that parcel of land situated at Along Batang Baram, Baram containing an area of 4,698.2 hectares, more or less and described as Lot 2, Block 11, Teraja Land District together with the oil palm plantation, its facilities, infrastructures, improvements, immovable assets but excluding the movable assets thereon for a total cash consideration of RM85,000,000.

The above disposal is expected to be completed in the third (3rd) quarter of 2020.

- (b) On 4 June 2020, Woodijaya Sdn. Bhd. (“Woodijaya”), a wholly-owned subsidiary of RSAWIT entered into a Sale and Purchase Agreement with Muzana Plantation JV Sdn. Bhd. (“Muzana”) to dispose one parcel of land situated at between Sungai Bakong and Sungai Baram, Baram containing an area of 2,819 hectares, more or less and described as Lot 1200 Puyut Land District together with the oil palm plantation, its facilities, infrastructures, improvements, immovable assets but excluding the movable assets thereon for a total cash consideration of RM53,000,000.

The above disposal is expected to be completed in the fourth (4th) quarter of 2020.

This announcement is dated 17 July 2020.