

RIMBUNAN SAWIT BERHAD: PROPOSED ACQUISITION

DEFINITIONS

The following definitions shall apply throughout this announcement:-

Act	:	Companies Act, 1965
Board	:	The Board of Directors of RSB
Bursa Securities	:	Bursa Malaysia Securities Berhad
EGM	:	Extraordinary general meeting
EPS	:	Earnings per share
FFB	:	Fresh fruit bunches
FIC	:	The Foreign Investment Committee
FYE	:	Financial year ended/ending
Ha.	:	Hectare(s)
HB Miri or Valuer	:	Henry Butcher Malaysia (Miri) Sdn Bhd, an independent registered valuer appointed by RSB in relation to the Proposed Acquisition
Memorandum	:	Memorandum dated 11 February 2011, entered into between RHP, the Vendor and the Vendor Directors, pursuant to the Proposed Acquisition
MIMB	:	MIMB Investment Bank Berhad
MMLR	:	Main Market Listing Requirements of Bursa Securities
Mn T	:	Million tonnes
MOF	:	The Ministry of Finance
MT	:	Metric Tonne
NA	:	Net assets
NBV	:	Net book value
Original Financier	:	The financial institution, which has granted the Outstanding Loan to Sheba Resources
Outstanding Loan	:	The existing loan facility granted by the Original Financier with an outstanding amount of RM95,888,431.24 as at 31 January 2011
Proposed Acquisition	:	Proposed acquisition by RHP from Sheba Resources of the Sawai Land together with the plantation, facilities, infrastructures, improvements and movable and immovable assets thereon for a total cash consideration of RM118,000,000
Purchase Price	:	The total cash consideration of RM118,000,000 for the Sawai Land
RHP	:	R.H. Plantation Sendirian Berhad, a wholly-owned subsidiary of RSB
RSB or Company	:	Rimbunan Sawit Berhad

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RSB Group	:	RSB and its subsidiary companies
Sawai Land	:	The parcel of land with oil palm plantation (known as Selangor Plantation Estate) situated at Sungai Luai and Sungai Bawah, Niah, Sarawak measuring 4,857 hectares and held under Lot 56, Sawai Land district
Selangor Plantation Estate	:	The plantation estate situated within the Sawai Land
Sheba Resources or Vendor	:	Sheba Resources Sendirian Berhad
SPA	:	The conditional sale and purchase agreement dated 3 June 2011 entered into between RHP, the Vendor and the Vendor Directors, pursuant to the Proposed Acquisition
Valuation Report	:	The valuation report prepared by HB Miri for the Sawai Land with a material date of valuation of 28 February 2011
Vendor Directors or Guarantors	:	The directors of Sheba Resources, namely, Shah Headan Bin Ayoob Hussain Shah, Melati Binti Shamsuri and Samsury @ Shamsuri Bin Muhamad Saleh
YOP	:	Year of planting

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1. DETAILS OF THE PROPOSED ACQUISITION

1.1 Background

On 11 February 2011, the Company announced that RHP, a wholly-owned subsidiary of RSB, had on even date entered into the Memorandum with Sheba Resources and the Vendor Directors with the intention to acquire the Sawai Land from Sheba Resources for a total cash consideration of RM118,000,000. Further to the Memorandum, RHP and Sheba Resources had agreed in writing to extend up to 3 June 2011 for the parties to enter into a sale and purchase agreement for the Proposed Acquisition.

On 3 June 2011, RHP entered into the SPA with Sheba Resources and the Vendor Directors for the Proposed Acquisition.

1.2 Basis and Justification of the Purchase Price

The total cash consideration for the Proposed Acquisition of RM118,000,000 was arrived at on a “willing-buyer willing-seller” basis after taking into consideration, inter-alia, the market value of the Sawai Land of RM118,600,000, as appraised by HB Miri as at the material date of valuation of 28 February 2011 and based on the comparison and discounted cash flow methods of valuation.

1.3 Mode of Payment

The Purchase Price shall be paid in the following manner:-

- (i) a deposit of RM3,000,000 has been duly paid to the Vendor on 11 February 2011;
- (ii) a further deposit of RM7,000,000 has been released to the Vendor prior to the execution of the SPA;
- (iii) a further sum of RM5,000,000 shall be released to the Vendor upon fulfilment of all the conditions precedent as given in Section 2.1 below or on 15 June 2011, whichever is later, out of which a sum of RM3,000,000 shall be retained by the solicitors of RHP until the settlement of all claims under the litigation as detailed in Section 2.2 below; and
- (iv) the remaining balance of RM103,000,000 shall be applied in the following manner within three (3) months from the date of fulfilment of all the conditions precedent to the SPA and upon the terms of the SPA:-
 - RM95,888,431.24 shall be utilised to set-off against the Outstanding Loan in accordance with the terms of the SPA; and
 - RM7,111,568.76 shall be released to the Vendor after deducting liabilities not limited to the unsettled litigation detailed in Section 2.2 below, unsettled bills, invoices and real property gains tax paid by RHP on behalf of the Vendor to secure the good ownership of the Sawai Land.

1.4 Interest in Title

The Sawai Land shall be acquired by RHP with vacant possession on an “as is where is” basis and free from all encumbrances whatsoever including charges, liens, subleases, caveats, lis pendens, court orders and/or prohibitory order, subject to the restrictions and conditions endorsed on the land register and the title document of the Sawai Land.

1.5 Source of Funding

The Purchase Price shall be satisfied via a combination of internally generated funds and bank borrowings with detailed terms to be finalised. In determining the quantum of bank borrowings to be taken up vis-à-vis internal funds, RSB shall endeavour to achieve an optimum funding mix after taking into consideration, amongst others, the gearing level, interest costs as well as internal cash requirements of the RSB Group.

1.6 Assumption of Liabilities

Save for the following, RSB will not assume any other liabilities, including contingent liabilities and guarantees pursuant to the Proposed Acquisition:-

- (i) the Outstanding Loan, which shall be redeemed by RHP on behalf of the Vendor as part settlement of the Purchase Price in accordance with the terms of the SPA; and
- (ii) the interest accrued on the Outstanding Loan commencing from 1 February 2011 up to the redemption date shall be assumed and settled by RHP.

Based on the prevailing interest rate of the Outstanding Loan of approximately 7.75% p.a. and an assumed redemption at the end of September 2011, the estimated accrued interest to be assumed and settled by RHP will be approximately RM4.95 million.

1.7. Future Financial Commitments

The Selangor Plantation Estate is mainly planted with matured oil palm trees aged between 14 and 16 years. However, due to the lack of proper up-keep and maintenance being carried out on the estate during the past few years, RHP would have to rehabilitate the estate upon completion of the Proposed Acquisition. This rehabilitation programme is anticipated to cost the RSB Group approximately RM5.5 million over the next two (2) years and HB Miri has taken this into consideration in arriving at the market valuation of the Sawai Land. Save for the above, no other financial commitment is anticipated to put the plantation operations of the Selangor Plantation Estate on-stream.

Kindly refer to Section 4 below for further information on the Sawai Land.

1.8 Highest applicable percentage ratio

The highest percentage ratio applicable to the Proposed Acquisition is 28.8% as prescribed under section (iii) of paragraph 10.02 (g) of the MMLR, namely the purchase consideration (including the assumption of liabilities) compared with the audited net assets of the RSB Group as at 31 December 2010.

2. SALIENT TERMS OF THE SPA

2.1 Conditions Precedent

The sale and purchase of the Sawai Land shall be conditional upon obtaining the following within three (3) months from the date of the SPA:-

- (a) the consent from the Land and Survey Department of Sarawak;
- (b) the consent from the FIC;
- (c) the consent from the Original Financier to assign or transfer the Outstanding Loan to RHP on terms and conditions acceptable to RHP or alternatively, to allow RHP to redeem the said facility with no adverse conditions to be imposed;
- (d) the consent from the MOF, pursuant to item (c) above, if required;
- (e) the letter of confirmation from the solicitors of RHP's financier that the new loan facility to be taken by RHP can be released to the Original Financier;
- (f) the clearance from Bursa Securities for the Valuation Report and the circular to RSB's shareholders; and
- (g) the approval from the shareholders of RSB for the Proposed Acquisition at an EGM to be convened.

2.2 Litigation

There is currently an on-going legal suit taken against the Vendor as the defendant under Miri High Court Suit No. 22-64-2008 (MR) by Selangor Oil Palm Industries Corporation Sdn. Bhd claiming for inter alia, unpaid rental on the Sawai Land. Pursuant to the SPA, RHP and the Vendor agreed for a sum of RM3,000,000 (as mentioned in Section 1.3(iii) above), which forms part of the Purchase Price, to be retained by the solicitors of RHP and to be released to the Vendor upon settlement by the Vendor of all claims under the aforesaid legal suit.

3. INFORMATION OF THE VENDOR

Sheba Resources was incorporated in Malaysia under the Act on 21 June 1994. As at 23 May 2011, its authorised share capital stood at RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each, of which 19,000,000 ordinary shares of RM1.00 each have been issued and fully paid-up.

Sheba Resources is principally a construction company. The Directors and substantial shareholders together with their respective shareholdings in Sheba Resources as at 23 May 2011 were as follows:-

Name	Age	Nationality	Designation	No. of shares	(%)
Shah Headan Bin Ayoob	46	Malaysian	Director	18,987,500	99.93
Melati Binti Shamsuri	45	Malaysian	Director	12,500	0.07
Shamsury @ Shamsuri Bin Muhamad Saleh	74	Malaysian	Director	-	-

4. INFORMATION ON THE SAWAI LAND**4.1 Brief description of the Sawai Land**

Title	: Lot 56 Sawai Land District
Location	: Sungai Luai and Sungai Bawah, Niah
Title area	: 4,857.00 Ha.
Planted Area	: 3,433.12 Ha.
Age of oil palm	: Between 14 years and 16 years
Land usage	: Mixed Zone Land / Country Land
Tenure	: Leasehold 60 years expiring on 21 February 2054, with an unexpired term of about 43 years
Encumbrances	: Charged to the Original Financier for the Outstanding Loan
Market Value (RM)	: RM118,600,000, as appraised by HB Miri
NBV as at 31 December 2009	RM106,652,693

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4.2 Plantation profile

Category	Ha.
Matured Area	
YOP 1995	859.26
YOP 1996	856.49
YOP 1997	1,717.37
Total planted area	3,433.12
Unplanted area	300.00
Unplantable area	941.11
Buildings and roads	182.77
Total land area	4,857.00

4.3 FFB Production

As stated in the Valuation Report, the yield record of the Sawai Land based on the total weighted average i.e. total FFB production divided by total matured area, is as follows: -

	2006	2007	2008	2009	2010
MT	23,999	11,650	12,445	8,026	5,963
Total weighted average (MT/Ha.)	6.99	3.39	3.62	2.34	1.74

5. RATIONALE FOR THE PROPOSED ACQUISITION

The Proposed Acquisition is consistent with RSB's plans to continue to expand its oil palm cultivation business by acquiring new land bank in Malaysia. The Proposed Acquisition represents a strategic investment by RSB and is expected to contribute positively to the earnings as well as the shareholders' value of the RSB Group in the medium to long term.

Currently, the FFB harvested from the Selangor Plantation Estate is sent for processing at a third party palm oil mill. Upon completion of the Proposed Acquisition, all FFB produced by the Selangor Plantation Estate is expected to be sent for processing at the RH Palm Oil Mill, which is currently owned and operated by the RSB Group. As such, the RH Palm Oil Mill would have an assured supply of FFB from the Selangor Plantation Estate, which in turn would enable the mill to operate at a more optimal capacity.

6. RISK FACTORS

The Board does not foresee any material risks pursuant to the Proposed Acquisition except for the inherent risk factors associated with the plantation industry in which the RSB Group is already involved. Nonetheless, any risk arise from the Proposed Acquisition will be addressed as part of the RSB Group's ordinary course of business.

7. PROSPECTS**7.1 Industry Outlook**

World vegetable oil production had increased by 7.8% to 45.52 Mn T in the fourth quarter 2010 from 42.25 million tonne in the previous quarter. Production growth was mainly driven by higher production of the major oils i.e sunflower oil, soybean oil, rapeseed oil and palm oil by 43.2% to 3.5 Mn T, by 2.4% to 10.49 Mn T, by 1.9% to 5.94 Mn T and by 0.8% to 12.41 Mn T respectively.

Palm oil production experienced slower growth this quarter due to interrupted harvesting because of unfavorable weather in particular in Malaysia. Compared to the same period last year, production of major oils had increased by 3.3% from 44.07 Mn T. Among edible oils that had increased include soybean oil, palm oil and rapeseed oil had grown by 14.4%, 0.1%, and 0.3% respectively. On the other hand, sunflower oil and palm kernel oil had declined in production by 5.5% and 2.9% respectively compared to the fourth quarter 2009.

(Source: Quarterly Report on Oils and Fats, 4th Quarter 2010, Malaysian Palm Oil Board)

The Malaysian oil palm industry recorded mixed performance in 2010. Lower crude palm oil (CPO) production and higher exports pushed palm oil stocks down to 1.62 Mn T. Tight vegetable oil supplies and high crude oil prices during the year pushed palm oil price from a comfortable level of RM2,500 in the first half of the year to more than RM3,000 towards the end of the year. Export earnings from oil palm products reached RM59.77 billion, an increase of 20.4% from RM49.66 billion recorded the previous year.

The total oil palm planted area increased by 3.4% to 4.85 million hectares in 2010 with the largest expansion in Sarawak, an increase of 79,670 hectares or 9.5% and Sabah with an increase of 48,078 hectares or 3.5%. Peninsular Malaysia recorded an increase of 34,858 hectares or 1.4%. Sabah is still the largest oil palm planted state, accounting for 1.4 million hectares or 29% of the total planted area in the country, followed by Sarawak with 0.9 million hectares or 19%.

CPO production dropped by 3.3% to 16.99 Mn T from 17.56 Mn T in 2009. Average FFB yield fell 6.1% to 18.03 tonnes per hectare while Oil Extraction Rate (OER) was 20.45%, lower by 0.2% compared to 20.45% in 2009. Unusual weather patterns of hot and dry conditions from El Nino phenomena in the first half of the year and excessive rainfalls from La Nina phenomena in the second half had affected the FFB yield and OER which in turn contributed to the lower CPO production. Heavy rainfall and floods especially towards end of the year had affected harvesting activity.

Total exports of oil palm products, consisting of palm oil, palm kernel oil, palm kernel cake, oleochemicals, biodiesel and finished products increased by 2.8% or 0.63 Mn T to 23.06 Mn T in 2010 from 22.43 Mn T recorded in 2009. Total export earnings also rose by 20.4% or RM10.13 billion to RM59.77 billion compared to the RM49.66 billion achieved in 2009 because of higher export prices. Most of the oil palm products registered increases in exports, except for finished products and biodiesel.

Palm oil stocks in 2010 closed at 1.62 Mn T, down by 27.9% as compared to the previous year's closing level of 2.24 Mn T. The decline was mainly due to lower CPO production by 3.3% coupled with increase in export demand by 4.9%.

CPO prices traded at RM2,549.50 per tonne during the first half of the year, supported by positive sentiments related to supply tightness of vegetable oils in the world market and low domestic palm oil stocks. Subsequently, during the second-half of the year, bullish market sentiments supported by firmer crude oil price, coupled with world vegetable oils supply tightness, especially that of palm oil and soyabean oil supported positive price sentiments. This resulted in the increase of second half of the year average CPO price to RM2,837.50 per tonne level.

The average CPO price in 2010 increased by 20.8% or RM464.50 to RM2,701.00 against RM2,236.50 in the previous year.

(Source: Overview of the Malaysian Oil Palm Industry 2010, Malaysian Palm Oil Board)

7.2 Prospects

The Proposed Acquisition is expected to contribute positively to the earnings of the RSB Group. Furthermore, coupled with the rehabilitation and new planting/replanting programmes to be carried out in the near future, the Board is positive that the profit contribution from the Selangor Plantation Estate will grow in line with the higher anticipated FFB yield per Ha. The Board believes that with the increase in the size of the land bank pursuant to the Proposed Acquisition, it will put the RSB Group on a strong footing to become one of the major players in the oil palm cultivation business in Malaysia.

8. EFFECTS OF THE PROPOSED ACQUISITION

8.1 Share Capital and Substantial Shareholding

The Proposed Acquisition is not expected to have any effect on the issued and paid-up share capital as well as the substantial shareholders' shareholdings of RSB as it does not involve any issue of new shares.

8.2 NA, NA per Share and EPS

The Proposed Acquisition is not expected to have any material effect on the NA, NA per share and EPS of the RSB Group for the FYE 31 December 2011 as it is only expected to be completed by the fourth quarter of 2011. However, the Proposed Acquisition is expected to contribute positively to the future earnings and NA of RSB Group.

8.3 Gearing

The effect of the Proposed Acquisition on the gearing level of RSB Group cannot be determined at this juncture as the requisite bank borrowings for the financing can only be finalised at a later stage.

9. APPROVALS REQUIRED

The Proposed Acquisition is subject to the consents/approvals being obtained from the following authorities/parties:-

- (i) the Land and Survey Department of Sarawak;
- (ii) the FIC;
- (iii) the shareholders of RSB at an EGM to be convened for the Proposed Acquisition; and
- (iv) any other relevant authorities/parties (if required).

10. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and/or major shareholders of the Company or any persons connected with them have any interest, whether direct or indirect, in the Proposed Acquisition.

11. DIRECTORS' STATEMENT

After taking into consideration all aspects of the Proposed Acquisition, the Board is of the opinion that the Proposed Acquisition is fair and reasonable and in the best interest of the RSB Group.

12. PRINCIPAL ADVISER

MIMB has been appointed as the Principal Adviser to RSB for the Proposed Acquisition.

13. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to receipt of all relevant consents/approvals, the Proposed Acquisition is expected to be completed by the fourth (4th) quarter of 2011.

14. SUBMISSION TO AUTHORITIES

The submission of applications to the relevant authorities in respect of the Proposed Acquisition is expected to be made within two (2) months from the date of this announcement.

15. EGM

The notice to convene the EGM together with the circular setting out the details of the Proposed Acquisition will be despatched to the shareholders of the Company in due course.

16. DOCUMENTS AVAILABLE FOR INSPECTION

The SPA and the Valuation Report in relation to the Proposed Acquisition are available for inspection at the registered office of RSB at No. 85-86, Pusat Suria Permata, Jalan Upper Lanang 12A, 96000 Sibul, Sarawak, during normal office hours from Monday to Friday (except for public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 3 June 2011.