

MIRACH ENERGY LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No.: 200305397E)

1. **ANNOUNCEMENT PURSUANT TO RULE 704(5) OF THE LISTING MANUAL -
DISCLAIMER BY THE INDEPENDENT AUDITOR AND MATERIAL UNCERTAINTY
RELATED TO THE GOING CONCERN ON THE FINANCIAL STATEMENTS FOR
FINANCIAL YEAR ENDED 31 DECEMBER 2019**
 2. **APPOINTMENT OF INDEPENDENT ACCOUNTING FIRM**
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1. DISCLAIMER OPINION BY THE AUDITOR

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), the Board of Directors (the “**Board**”) of Mirach Energy Limited (the “**Company**”) wishes to announce that the Company’s independent auditor, BDO LLP (the “**Auditor**”), has included a disclaimer of opinion (“**Disclaimer of Opinion**”) in their Independent Auditor’s Report dated 28 August 2020 (the “**Independent Auditor’s Report**”) in relation to the consolidated financial statements of the Group and the statement of financial position of the Company for the financial year ended 31 December 2019 (“**FY2019**”) (the “**Financial Statements**”).

A copy of the Independent Auditor’s Report is attached to this announcement for information.

The Independent Auditor’s Report and a complete set of the audited Financial Statements will also be found in the Company’s Annual Report for FY2019 (“**FY2019 Annual Report**”), which will be released on SGXNET in due course.

The Disclaimer of Opinion largely arose out of the issues surrounding:

- (i) Revenue recognition for the agricultural project in Malaysia
- (ii) Adequacy of expected credit loss allowance of the trade receivables related to the agriculture project
- (iii) Going concern assumption
- (iv) Adequacy of expected credit loss allowance of amounts due from subsidiaries
- (v) Equity accounting of an associate in China
- (vi) Trade and other payables of a subsidiary in Indonesia
- (vii) Opening balances

2. OPINION OF BOARD ON DISCLAIMERS

Before going into the individual points from the Disclaimer of Opinion, the Board wishes to inform the shareholders that the Disclaimer of Opinion does not amount to a conclusion that the FY2019 Financial Statements contain any material misstatements. The Disclaimer of Opinion was issued due to the Auditor being unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the FY2019 Financial Statements.

- (i) The Auditor’s disclaimer on “Revenue recognition for the agricultural project in Malaysia”

As disclosed in Note 21 to the Financial Statements, the Group recognised US\$1,024,000 (2018: US\$220,000) from the sale of reports and US\$1,652,000 (2018: US\$2,657,000) from provision of management and advisory services, via its subsidiary, RCL Kelstar Sdn. Bhd. (“**RCL**”), in relation to the agriculture segment.

The Board wishes to note that there was no material change in RCL's business model and operating environment between FY2019 and the financial year ended 31 December 2018 ("FY2018").

In relation to the revenue recognition method, RCL considered both SFRS(I) 15 Revenue from Contracts with Customers and SFRS(I) 1-17 Leases in the course of the FY2018 audit. RCL had also engaged a consultant in FY2018 to review the revenue recognition method and it was agreed that the cooperation agreement (which contains a lease arrangement and will be accounted for as a lease revenue under SFRS(I) 16 when the lease commences) was a separate contract from the purchase orders that were entered into with the customers for the provision of management and advisory services and sale of reports, with separately identifiable performance obligations and standalone prices. Based on the consultant advice, management recognized the revenue to be earned from the provision of management and advisory services and sale of reports when RCL's performance obligations had been fulfilled in 2018.

Ernst & Young LLP (the "Previous Auditor") completed their independent audit and expressed an unqualified opinion on the financial statements for the year ended 31 December 2018.

In this aspect, the Board wishes to inform the shareholders that an independent accounting firm has been engaged by the Audit Committee to provide an independent third party opinion on the appropriateness of the accounting positions and judgment applied by the management to recognize revenue by RCL and the Group for the financial year ended 31 December 2018 and 2019 based on the requirements of SFRS(I).

- (ii) The Auditor's disclaimer on "Adequacy of expected credit loss allowance of the trade receivables related to the agriculture project"

As disclosed in Note 5 to the Financial Statements, the Group provided for US\$184,000 of expected credit loss on trade and other receivables in FY2019, of which US\$74,000 relates to expected credit loss on the trade receivables related to the agriculture project.

The Board wishes to note that RCL had provided the Auditor with the relevant background information of its customers and assessment of their credit worthiness, as part of management's credit risk assessment, as well as the rationale for the credit terms extended to the customers. The determination of credit terms being extended to the customers is a commercial decision based on business judgement. Further, RCL had received some subsequent settlements from 3 customers in February and March 2020 amounting to approximately US\$720,000. As such, notwithstanding the longer than usual credit terms, management and the Board is of the opinion that the trade receivable from RCL's customers are collectible and sufficient expected credit loss has been provided on these receivables.

- (iii) The Auditor's disclaimer on "Going concern assumption"

As disclosed in Note 2.1 to the Financial Statements, the financial statements have been prepared on a going concern basis, the validity of which is premised on one of the key assumptions that the operations of the agricultural business is expected to be profitable in 2020 and generate positive cash flows based on the current work plan and progress. Management also expects to collect the outstanding trade receivables from customers of RCL highlighted in paragraph 2 (ii) above.

The management is of the opinion that the use of the above going concern assumption in the preparation of the Financial Statements is appropriate having regard to the following:

- As disclosed in Note 34 (b) to the Financial Statements, RCL has completed the logging activities and successfully obtained the Use Permit on 19 July 2020, for the first block of concession land in relation to the agriculture project in Malaysia. This reinforces the Board's view that RCL will be able to successfully obtain the Use Permits for future blocks.
- As disclosed in Note 8 to the Financial Statements, RCL has reported positive net cash flows from operating activities of US\$213,000 in FY2019 and US\$122,000 in FY2018. RCL has also reported profit after tax of US\$1,456,000 in FY2019 and US\$1,761,000 in FY2018. As such, management expects that the operations from the agriculture business to be profitable in 2020 and generate positive operating cash flows, based on the current work plan and progress.
- RCL had received some subsequent settlements from 3 customers in February and March 2020 amounting to approximately US\$720,000. Based on this, notwithstanding the longer than usual credit terms, management and the Board is of the opinion that the trade receivable from RCL's customers are collectible.
- As of 31 December 2019, the Group is in a net current asset position and net asset position of US\$2,056,000 and US\$7,490,000 respectively and the Company is in a net current asset position and net asset position of US\$8,838,000 and US\$7,317,000 respectively.

Therefore, taking into consideration the information provided by the management, the Board is of the opinion that above assumption that was based on RCL's operations is valid, and that the Group and the Company is able to continue operating as a going concern and accordingly the Financial Statements have been prepared on that basis.

- (iv) The Auditor's disclaimer on "Adequacy of expected credit loss allowance of amounts due from subsidiaries"

As disclosed in Note 5 to the Financial Statements, the Company recorded amounts due from subsidiaries of US\$8,713,000, net of an estimated credit loss allowance of US\$1,668,000 which accounted for approximately 95.2% of the Company's total current assets as at 31 December 2019. Included in the amounts due from subsidiaries are amounts of approximately US\$7,958,000 due from CPHL (HK) Limited ("CPHL") and approximately US\$557,000 due from RCL. As CPHL is the immediate holding company of RCL, one of the key assumptions used by management in assessing the recoverability of the amounts due from CPHL and RCL are significantly dependent on the timely collection of the outstanding trade receivables from RCL.

The Board wishes to note that based on the rationales stated in paragraphs (ii) and (iii), it is of the opinion that the trade receivable from RCL's customers are collectible and sufficient expected credit loss has been provided on these receivables.

- (v) The Auditor's disclaimer on "Equity accounting of an associate in China"

As disclosed in Note 9 to the Financial Statements, on 11 November 2019, the Group acquired 30% equity interest of the share capital of Hu Bei ZeGang Supply-Chain Limited ("Hu Bei ZeGang"). The Group accounted for the investment in the associate using the equity method and recorded the share of the associate's profits of US\$294,000 in the Group's consolidated statement of comprehensive income for FY2019.

The financial information of Hu Bei ZeGang was prepared in accordance with generally accepted accounting policies in China and audited by another firm of auditors in China (“**Local Auditor**”). Management is of the view that no adjustment is necessary to comply with SFRS(I) as the measurement and recognition of Hu Bei ZeGang’s balances in their audited financial statements were in line with SFRS(I) requirements.

Management has provided the Auditor with the audited financial statements of Hu Bei ZeGang but the Local Auditor was not able to accommodate the Auditor’s request to review the Local Auditor’s work papers due to regulatory restrictions as well as the short notice given of the Auditor’s request. Management also requested that the Auditor consider other alternative procedures to verify Hu Bei ZeGang’s financial information, however, the Auditor was unable to come up with any alternative.

(vi) The Auditor’s disclaimer on “Trade and other payables of a subsidiary in Indonesia”

The trade and other payables of BUT KSO PT Pertamina EP-Prisma Kampung Minyak Ltd (“BUT KSO”), the Group’s subsidiary in Indonesia, included in the consolidated statement of financial position of the Group amounted to US\$1,692,000 as at 31 December 2019. These trade and other payables accounted for approximately 20.6% of the Group’s current liabilities as of 31 December 2019.

The Board wishes to note the following facts:

- BUT KSO has ceased operations in the second half of 2016, and returned the concession to PT Pertamina in early 2017.
- All accounting records were returned to PT Pertamina along with the return of the concession.
- No additional further costs are expected to be incurred in relation to BUT KSO. As such, the provisions in the accounts should not increase or decrease materially.
- As the statute of limitation has not expired, management did not feel that a reversal of the provisions was appropriate.
- There has been no movement in the accounts of BUT KSO since the return of the concession, except for the US\$3,957,000 writeback to payables and provisions made in FY2019. The Group had also recognised additional provisions of US\$223,000 arising from the termination of the KSO contract for the oil field operations and written back provision for decommissioning of wells of US\$633,000 in FY2018 based on independent legal opinions received.

As such, the Board is of the opinion that the balances relating to BUT KSO that have been included in FY2019 Financial Statements remains reasonable as there is no trigger event that would lead to a material movement in the trade and other payables arising from BUT KSO.

(vii) The Auditor’s disclaimer on “Opening balances”

Arising from the matters described in the above paragraphs (i), (ii), (iv) and (vi), the Auditor was unable to obtain sufficient appropriate audit evidence to satisfy themselves if any adjustments were necessary to the accumulated losses in the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 1 January 2019.

The Board wishes to note that based on the rationale explained, they are of the opinion that the balances included in the 2018 audited financial statements give a true and fair view of the consolidated financial position of the Group and the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date. Accordingly, no adjustments were necessary to the accumulated losses in the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 1 January 2019.

The Previous Auditor expressed an unqualified opinion on the financial statements for the financial year ended 31 December 2018 with a Material Uncertainty Related to Going Concern section which draw attention to the material uncertainty with regards to the Group's ability to continue as going concern.

3. APPOINTMENT OF INDEPENDENT ACCOUNTING FIRM

As stated in paragraph 2 (i) above, the Audit Committee on behalf of the Company has appointed an independent accounting firm to provide an independent third party opinion on the appropriateness of the accounting positions and judgment applied by the management to recognize revenue by RCL and the Group for the financial year ended 31 December 2018 and 2019.

4. CAUTIONARY STATEMENT

Shareholders of the Company are advised to read this announcement in conjunction with the FY2019 Annual Report carefully. Shareholders of the Company are advised to exercise caution when dealing in the shares of the Company. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

By Order of the Board

Mr Chan Shut Li, William
Executive Chairman
30 August 2020