



## **KENCANA AGRI LIMITED**

(Registration No: 200717793E)

**RESPONSE TO SGX REGCO'S QUERIES IN RELATION TO THE GROUP'S UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2023**

The board of directors (the "Board") of Kencana Agri Limited (the "Company", and together with its subsidiaries, the "Group") would like to announce the following in response to the queries raised by Singapore Exchange Regulation ("SGX Regco") in relation to the Group's announcement of its unaudited condensed interim financial statements for the six months ended 30 June 2023 on 14 August 2023 (the "Announcement"). Unless otherwise defined, all capitalized terms used herein shall bear the same meanings as ascribed to them in the Announcement.

## 1. Query 1

The Group disclosed that Cost of Sales ("COS") increased 13.1% to US\$51.9 million from US\$45.8 million on the back of a 10.4% fall in revenue to US\$61.8 million as "mainly due to more aggressive (i) upkeep and maintenance activity, and (ii) fertilizer application in mature planted areas which are necessary to increase production yield in the upcoming harvesting period".

Please provide a breakdown of the major costs in comparison to 1H2022 and also to provide a breakdown of details of the plantations where the significant upkeep and maintenance costs were incurred and which were the mature plantations where the significant increased costs were expanded to increase yield.

Company's Response :

The following tables show the breakdown of major components of cost incurred in respective plantation locations:

*All figures are in US\$' 000*

| 1H 2022  | Sumatra      | Kalimantan    | Sulawesi     | Group         |
|--|--------------|---------------|--------------|---------------|
| Upkeep and maintenance   | 303          | 3,201         | 814          | 4,318         |
| Manuring and fertilizer  | 546          | 1,977         | 37           | 2,560         |
| Harvesting and FFB transport to mill   | 747          | 4,864         | 1,195        | 6,806         |
| Other overhead (mainly staff salaries and depreciation of bearer plants and PPE directly attributable to plantation) | 880          | 9,464         | 3,068        | 13,412        |
| <b>Total plantation cost</b>   | <b>2,476</b> | <b>19,506</b> | <b>5,114</b> | <b>27,096</b> |

| 1H 2023  | Sumatra      | Kalimantan    | Sulawesi     | Group         |
|--|--------------|---------------|--------------|---------------|
| Upkeep and maintenance   | 354          | 3,824         | 1,924        | 6,103         |
| Manuring and fertilizer  | 202          | 4,131         | 633          | 4,967         |
| Harvesting and FFB transport to mill   | 691          | 5,209         | 1,662        | 7,561         |
| Other overhead (mainly staff salaries and depreciation of bearer plants and PPE directly attributable to plantation) | 881          | 9,714         | 3,927        | 14,522        |
| <b>Total plantation cost</b>   | <b>2,129</b> | <b>22,878</b> | <b>8,147</b> | <b>33,154</b> |

The following table summarises the movement of costs incurred over the period as mentioned above. Save for our plantation in Sumatra, which is currently under progressive replanting programme, our upkeep and maintenance costs, manuring and fertilizer increased in Kalimantan dan Sulawesi.

|  | Sumatra | Kalimantan | Sulawesi | Group |
|--|---------|------------|----------|-------|
| Upkeep and maintenance   | 17.0%   | 19.5%      | 136.4%   | 41.3% |
| Manuring and fertilizer  | -62.9%  | 109.0%     | 1604.1%  | 94.0% |
| Harvesting and FFB transport to mill   | -7.5%   | 7.1%       | 39.1%    | 11.1% |
| Other overhead (mainly staff salaries and depreciation of bearer plants and PPE directly attributable to plantation) | 0.1%    | 2.6%       | 28.0%    | 8.3%  |

## 2. Query 2

We note that the Group recorded Other losses of US\$872k for the 6 months ended 30 June 2023, including US\$532k in "Miscellaneous items". Please provide a breakdown and explanation of the miscellaneous items leading to the other losses of US\$532k.

Company's Response :

The breakdown of the miscellaneous items is as follows:

|  | US\$ ' 000   |
|--|--------------|
| Loss on disposal of assets held for sale which completed on 17 February 2023 | (686)        |
| Discounts earned from purchase of supplies and consumables                   | 158          |
| Others   | (3)          |
| <b>Total miscellaneous expense</b>   | <b>(532)</b> |

3. **Query 3**

**We note that the Group recorded a 42% increase to US\$4.468 million in "Other non-financial assets" under its current assets from 6M 2022 to 6M 2023. Please provide a breakdown and further details of these "other non-financial assets".**

Company's Response :

The breakdown of the other non-financial assets as at 31 December 2022 and 30 June 2023 are as follows:

| in US\$ '000  | 31-Dec-22    | 30-Jun-23    |
|---|--------------|--------------|
| Advance payments to building and infrastructure contractors           | 1,058        | 932          |
| Advance payments for acquisition of PPE                               | 958          | 1,684        |
| Advance payments for purchase of fertilizer, supplies and consumables | 333          | 1,117        |
| Balance of unamortised bank loan origination fee                      | 513          | 463          |
| Prepaid insurance   | 280          | 272          |
| <b>Total other non-financial assets</b>                               | <b>3,142</b> | <b>4,468</b> |

The increase in advance payments for property, plant and equipment was mainly due to the construction of new palm oil mill in Sulawesi. The increase in advance payments for the purchase of fertilizer, supplies and consumables was in line with the increase in the fertilizer application programme.

4. **Query 4**

**Please provide a breakdown and the details of the PPE acquired, which amounted to an aggregate of US\$10.0 million and is significant when compared to the Group's NAV of US\$ 33.6 million. To elaborate on the increase in capacity as a result of these acquisitions.**

Company's Response:

As disclosed in note 13 to the Announcement, excluding the foreign exchange impact and the capitalisation of interests, our PPE acquired during the period ended 30 June 2023 was approximately US\$6.0 million. The breakdown of this acquisition and its relevant explanation are summaries below:

|                               | in US\$ '000 | Remarks  |
|-------------------------------|--------------|--|
| Mill                          | 2,379        | Construction of new mill located in Gorontalo, Sulawesi.<br><br>Total cost incurred since the commencement of construction in 2022 was US\$4.6 million<br><br>The mill has FFB processing capacity of 30 MT / hour, increasing the total processing capacity of all Group's mills from 305 MT/hour to 335 MT/hour. |
| Building and labour housing   | 998          | Capital expenditure to support operation of the Group's various plantations  |
| Plant, fixtures and equipment | 2,604        |  |
| <b>Total</b>                  | <b>5,981</b> |  |

5. **Query 5**

**Please disclose the reasons for and the underlying transactions or items that caused the foreign exchange translation loss of US\$2.4 million in 1H2022 to turn into a foreign exchange gain of US\$4.5 million in 1H2023. To quantify the movements in the underlying currencies and the nature of these foreign exchange items.**

Company's Response :

The functional currency of the Group is Indonesian Rupiah ("IDR"). The functional currency reflects the primary economic environment in which the Group operates. Transactions in foreign currencies are recorded in the functional currency at the exchange rates ruling at the dates of the transactions. At each end of the reporting period, recorded monetary balances that are denominated in non-functional currencies are reported in the functional currency at the exchange rates ruling at the end of the reporting period. Any movements of the exchange rates between these dates will result in foreign exchange translation gain or loss.

Specifically for the Group, the foreign exchange translation gain or loss derived mainly from its USD denominated bank loans. During the period ended 30 June 2023, IDR appreciates IDR 705 as compared to USD (for the same period ended 30 June 2022, IDR depreciates by IDR 579). The appreciation IDR during the period has resulted in the translation gain as shown in the table below:

*All figures are stated in US\$' 000 except for exchange rate*

|                   | USD Denominated Bank Loan<br>(a) | USD/ IDR               |                     | Appreciation<br>(Depreciation) of IDR<br>(d) = (b) - (c) | Unrealised Gain (Loss)<br>(e) = (d) * (a) / (c) | Realised Gain (Loss)<br>from Loan Repayment<br>(f) | Total Forex<br>Gain (Loss)<br>(e) + (f) |
|-------------------|----------------------------------|------------------------|---------------------|--|---|--|---|
|                   |                                  | Opening<br>Rate<br>(b) | Closing Rate<br>(c) |  |   |  |   |
| As at 30 Jun 2023 | 51,946                           | 15,731                 | 15,026              | 705  | 2,437   | 2,046 <sup>*</sup>                                 | 4,483                                   |

<sup>\*</sup>) Mainly due to conversion of the USD denominated bank loan to IDR denominated bank loan

**6. Query 6**

**Please explain the reason(s) for the decision not to declare dividends, as required in paragraph 12 of Appendix 7.2.**

Company's Response :

In view of the uncertainty in the global economy and the capital commitments needed for the replanting programme in our Sumatra plantation, no dividend has been declared or recommended for the financial period ended 30 June 2023.

**BY ORDER OF THE BOARD OF KENCANA AGRI LIMITED**

Ratna Maknawi  
Vice Chairman and Executive Director  
31 August 2023