



KENCANA AGRI LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200717793E)
(the “Company”)

RESPONSES TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE ANNUAL REPORT 2019

The Board of Directors (the “Board”) of Kencana Agri Limited (the “Company”) refers to the queries received from the Singapore Exchange Securities Trading Limited on 9 June 2020 with regard to the Company’s Annual Report for the financial year ended 31 December 2019 (“Annual Report”), and wishes to respond to the queries as follows:

Query 1

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “**Code**”), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 2.4 of the Code as you have not disclosed your board diversity policy and progress made towards implementing the board diversity policy, including objectives, and there were no explanations provided for in your FY2019 annual report on how it is consistent with the intent of Principle 2 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.

Company’s Response

The Company refers to page 20 of the Annual Report. The Board recognizes that a diverse Board is an important element which will better support the Company’s achievement of its strategic objectives for sustainable development by enhancing the decision-making process of the Board through the perspectives derived from the various skills, knowledge, business experience, industry discipline, gender and age. To this end, the Company endeavours to ensure that the Board and its Board Committees comprise individuals with diverse experience and expertise who, as a group, will provide for diversity and allow for informed and constructive discussion and effective decision making at meetings of the Board and its Board Committees.

Whilst the Company has not adopted a formal board diversity policy, in practice the Board observes and applies the key tenets of diversity. The Nominating Committee (“NC”) reviews board independence and diversity as part of its annual evaluation of the Board’s performance and effectiveness. The Board, supported by the NC, considers factors such as skills, experience, independence, knowledge, age and gender when reviewing the Board composition to ensure an appropriate level of diversity is maintained at the Board.

The abovementioned practices ensure that collectively, the Board has an appropriate level of diversity of thought and background in its composition to enable it to make decisions in the best interests of the Company.

Query 2

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the “**Code**”), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 8.1 of the Code with regards to the disclosure of remuneration, and there were no explanations were provided for in your FY2019 annual report on how it is consistent with the intent of Principle 8 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company’s remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

Company’s Response

Provision 8.1 of the Code of Corporate Governance 2018 (“2018 Code”) requires the Company to disclose in its Annual Report the policy and criteria for setting remuneration, as well as names, amount and breakdown of remuneration of:

- (a) each individual director and the CEO; and
- (b) at least the top 5 key management personnel in bands no wider than S\$250,000 and in aggregate the total remuneration paid to these key management personnel.

With reference to page 26 of the Annual Report, the Company has disclosed the policies and mechanics of the remuneration packages for its directors, CEO and key management personnel, and their linkages to the performance of the Company and individuals.

The remuneration framework of the executive directors, CEO and key management personnel comprises mainly a fixed component and a variable component. The fixed component is paid in the form of a base salary. The variable component is paid in the form of a bonus, which is linked to Company and individual performance. This is designed to align remuneration with the interests of shareholders and link rewards to corporate and individual performance so as to promote the long-term sustainability of the Group.

Remuneration is fixed in accordance with the individual performance and the duties and responsibilities required of the position. Remuneration of the executive directors, CEO and key management is subjected to the review of the Remuneration Committee (“RC”). This is to ensure that the remuneration of the executive directors, CEO and key management personnel commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group. Remuneration packages of the executive directors, CEO and key management personnel are also structured to focus on achieving sustainable performance and create value in the short, medium and long term, taking into account the strategic objectives and business model of the Group.

As part of its review, the RC ensures that the executive directors, CEO and key management personnel are adequately but not excessively remunerated as compared to industry benchmarks and other comparable companies. The RC also ensures that the independent and non-executive directors are not overly-compensated to the extent that their independence may be compromised.

Whilst the Company currently does not have a share-based compensation scheme in place, it will consider the establishment of other forms of long term incentive schemes, as and when appropriate.

The information disclosed in the Annual Report provides shareholders with insights as to the remuneration policies, procedure of setting remuneration and the relationships between remuneration, performance and value creation.

The Company has disclosed in page 27 of the Annual Report the breakdown of the remuneration of each director, the CEO and key management personnel into types of compensation in percentage terms and in bands of \$250,000. While this practice varies from Provision 8.1 of the Code which requires companies to disclose the specific remuneration of each director, CEO and key management personnel, as disclosed in the Annual Report, the Board is of the view that full disclosure of the specific remuneration of each director, the CEO, including the key management personnel on a named basis, is not in the best interest of the Company as this disclosure may hamper its ability to retain and nurture the Group’s talent pool,

given the sensitive nature of the matter and the competition in the industry for key talent. The Company believes that shareholders' interest will not be prejudiced as a result of such non-disclosure of the specific remuneration of each director, CEO and key management personnel of the Company. With the Company's disclosure of their remuneration in bands of not wider than S\$250,000, shareholders are provided an insight into the level of remuneration paid to the directors, CEO and key management personnel.

Notwithstanding the deviation, the Company is of the view that the practices the Company had adopted are consistent with the intent of Principle 8 of the Code.

Query 3

Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. Please also provide information on whether the head of the internal audit function team has the relevant experience and qualifications. Where the internal audit function is outsourced, please provide information on the relevant experience of accounting firm and the engagement team.

Company's Response

The Company refers to page 30 of the Annual Report. The Company stated, inter alia, that the Internal Audit department is an independent function that reports directly to the Audit and Risk Committee ("ARC"). The ARC reviews and approves the internal audit scope and plan to ensure that there is sufficient coverage of the Group's activities.

The Internal Audit team employs suitably qualified and experienced independent personnel to provide audit and consulting services. They have the requisite experience, possess a recognised degree in accountancy or an equivalent professional qualification such as Qualified Internal Auditor certification. The Head of the Internal Audit team has 19 years of audit experience across operational, financial and IT domains. Training and development programme is in place to ensure that the internal auditors are equipped with technical knowledge and skill sets that are appropriate and relevant. To further enhance the effectiveness of its internal audit function, the Group had also engaged PT Deloitte Konsultan Indonesia in 2018 to conduct an audit review of certain aspects of its annual audit programme.

The ARC has assessed the adequacy, effectiveness and independence of the Internal Audit department and is satisfied that the Internal Audit department is independent, effective and adequately resourced.

BY ORDER OF THE BOARD

Ratna Maknawi
Executive Vice Chairman

Singapore, 12 June 2020