

**CIRCULAR DATED 11 APRIL 2019**

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.**

**If you are in any doubt about this Circular or the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.**

If you have sold or transferred all your shares in Kencana Agri Limited (the “**Company**”) held through The Central Depository (Pte) Limited (“**CDP**”), you need not forward this Circular to the purchaser or transferee as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your shares represented by physical share certificate(s), you should at once hand this Circular to the purchaser or transferee or to the bank, stockbroker or agent through whom you effected the sale or transfer, for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Circular.



**KENCANA AGRI LIMITED**

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

**CIRCULAR TO SHAREHOLDERS**

**In relation to**

**THE PROPOSED INTERESTED PERSON TRANSACTIONS**

***Independent Financial Adviser to the Independent Directors of the Company***



**3 P E A K S**

**3 Peaks Capital Private Limited**

(Incorporated in the Republic of Singapore)  
(Company Registration Number: 201712269D)

**IMPORTANT DATES AND TIMES:-**

Last date and time for lodgment of Proxy Form	:	27 April 2019 at 2.30 p.m.
Date and time of Extraordinary General Meeting	:	29 April 2019 at 2.30 p.m. or immediately after the conclusion of the Annual General Meeting to be held at 2.00 p.m. on the same day and at the same place (or the adjournment thereof)
Place of Extraordinary General Meeting	:	Hotel Fort Canning 11 Canning Walk Singapore 178881 Room Legends 1

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## DEFINITIONS

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## DEFINITIONS

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Except where the context otherwise requires, the following definitions apply throughout this Circular:

### General

<i>“Associate”</i>	:	Has the meaning ascribed to it in the Listing Manual and elaborated in Section 4.1.1 of this Circular
<i>“Associated companies”</i>	:	Companies in which at least 20.0% but not more than 50.0% of its shares are held by the Company or the Group
<i>“Audit and Risk Committee”</i>	:	The audit and risk committee of the Board for the time being
<i>“Board” or “Board of Directors”</i>	:	The board of directors of the Company for the time being
<i>“Circular”</i>	:	This circular to Shareholders dated 11 April 2019
<i>“Companies Act”</i>	:	The Companies Act, Chapter 50 of Singapore, and any regulations made pursuant thereto
<i>“Contracting Party(ies)”</i>	:	PT Sawit Permai Lestari and/or PT Wira Palm Mandiri (as the case may be)
<i>“Contracts”</i>	:	The FFB, EFB, Kernel and Oil transportation services contracts, collectively.
<i>“CPKO”</i>	:	Crude palm kernel oil
<i>“CPO”</i>	:	Crude palm oil
<i>“DBP”</i>	:	Means diesel base price referred to in Section 5.2.3 of this Circular
<i>“Director(s)”</i>	:	A director or directors of the Company as at the date of this Circular
<i>“EFB”</i>	:	Empty fruit bunch
<i>“EFB Transportation Contracts”</i>	:	Contracts for the provision of EFB Transportation Services referred to in Section 1.1.1(a) of this Circular
<i>“EFB Transportation Services”</i>	:	Services for the logistics and transport of EFB, as further elaborated in Section 5.1 of this Circular
<i>“EGM”</i>	:	Extraordinary general meeting to be convened and held on 29 April 2019
<i>“FFB”</i>	:	Fresh fruit bunch
<i>“FFB Transportation Contracts”</i>	:	Contracts for the provision of FFB Transportation Services referred in Section 1.1.1(b) of this Circular
<i>“FFB Transportation Services”</i>	:	Services for the logistics and transport of FFB as further elaborated in Section 5.2 of this Circular
<i>“Group”</i>	:	means the Company and its subsidiaries and associated companies

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## DEFINITIONS

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<i>“FY”</i>	:	Financial year ended or ending 31 December, as the case may be
<i>“IFA Letter”</i>	:	The letter from the IFA to the Independent Directors, as set out in Section 7 of this Circular
<i>“Kernel”</i>	:	Means palm oil kernel
<i>“Kernel Transportation Contracts”</i>	:	Contracts for the provision of Kernel Transportation Services referred to in Section 1.1.1(c) of this Circular
<i>“Kernel Transportation Services”</i>	:	Services for the logistics and transport of Kernel as further elaborated in Section 5.3 of this Circular
<i>“Independent Directors”</i>	:	The Directors who are independent and unconflicted for the purposes of considering the Contracts, being Tengku Alwin Aziz, Mr Soh Yew Hock, Mr Sim Idrus Munandar and Mr Darwin Indigo
<i>“Independent Shareholders”</i>	:	Shareholders other than members of the Maknawi Family and their respective associates and Shareholders who are also interested in BWS
<i>“Independent Financial Adviser”</i>	:	3 Peaks Capital Private Limited
<i>“Interested Person(s)”</i>	:	BWS
<i>“Latest Practicable Date”</i>	:	1 April 2019
<i>“Listing Manual”</i>	:	The Listing Manual of the SGX-ST, as may be amended, varied or supplemented from time to time
<i>“Maknawi Family”</i>	:	Mr Henry Maknawi and his immediate family, as elaborated in Section 4.1.1 of this Circular
<i>“Oil Transportation Contracts”</i>	:	Contracts for the provision of Oil Transportation Services referred to in Section 1.1.1 (d) of this Circular
<i>“Oil Transportation Services”</i>	:	Services for the logistics and transport of CPKO and CPO as further elaborated in Section 5.4 of this Circular
<i>“Shareholder(s)”</i>	:	Registered holders of Shares, except that where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the Depositors whose Securities Account are credited with Shares.
<i>“Shares”</i>	:	Ordinary shares in the share capital of the Company
<i>“Subsidiary”</i>	:	Shall have the meaning ascribed to it in the Companies Act as amended from time to time
<i>“Substantial Shareholder”</i>	:	A person who holds directly or indirectly 5.0% or more of the total voting shares of the Company

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## DEFINITIONS

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### Other Corporations or Agencies

“BWS”	:	PT Berkat Wahana Sukses
“CDP”	:	The Central Depository (Pte) Limited
“PT Pertamina”	:	PT Pertamina (Persero)
“SGX-ST”	:	Singapore Exchange Securities Trading Limited

### Currencies, Units and Others

“km”	:	Kilometre
“MT”	:	Metric tonnes
“Rp”	:	Indonesian Rupiah, the legal currency of Indonesia
“S\$”	:	Singapore dollars, the legal currency of the Republic of Singapore
“US\$”	:	United States dollars, the legal currency of the United States of America
“%”	:	Per centum or percentage

The terms “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the meanings ascribed to them respectively in Section 130A of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa*, and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall, where applicable, include corporations.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined in the Companies Act, the Listing Manual or any statutory modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act, the Listing Manual or such statutory modification, as the case may be, unless the context otherwise requires.

Any reference to a time of day in this Circular shall be a reference to Singapore time, unless otherwise stated.

The figures in Rp which are expressed in US\$ (and *vice-versa*) are expressed based on the exchange rate of Rp 14,267: US\$1.00, being the average exchange rate between Rp and US\$ for the year ended 31 December 2018. Such conversions are provided solely for the purposes of presentation.

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## LETTER TO SHAREHOLDERS

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### KENCANA AGRI LIMITED

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

**Directors:-**

**Mr Henry Maknawi**, *Executive Chairman*  
**Mr Tengku Alwin Aziz**, *Vice-Chairman and Independent Director*  
**Ms Ratna Maknawi**, *Executive Vice-Chairman*  
**Mr Soh Yew Hock**, *Lead Independent Director*  
**Mr Sim Idrus Munandar**, *Independent Director*  
**Mr Darwin Indigo**, *Non-Executive and Non-Independent Director*

**Registered Office:-**

36 Armenian Street  
#03-02 Singapore  
179934

11 April 2019

To: Shareholders of Kencana Agri Limited

Dear Sir / Madam

### PROPOSED INTERESTED PERSON TRANSACTIONS

#### 1. INTRODUCTION

1.1. The Company is proposing that PT Sawit Permai Lestari and PT Wira Palm Mandiri, both subsidiaries of the Company will, subject to shareholder approval, enter into agreements with:

1.1.1. PT Berkas Wahana Sukses ("**BWS**"), pursuant to which:

- (a) BWS shall provide EFB transportation and logistics services to the Contracting Parties and their subsidiaries (the "**EFB Transportation Contracts**");
- (b) BWS shall provide FFB transportation and logistics services to the Contracting Parties and their subsidiaries (the "**FFB Transportation Contracts**");
- (c) BWS shall provide Kernel transportation and logistics services to the Contracting Parties and their subsidiaries (the "**Kernel Transportation Contracts**"); and
- (d) BWS shall provide CPO and CPKO transportation and logistics services to the Contracting Parties and their subsidiaries (the "**Oil Transportation Contracts**").

(collectively, the "**Contracts**").

The Group has contracted the services of BWS since 2001. On 26 April 2012, the Group had approved and entered a 5 year service contract with BWS which was approved by the independent shareholders at an EGM. The 5 year 2012 service contracts with BWS that ended on 25 April 2017 focused only on FFB and the Oil transportation services.

In the past, the values of EFB and Kernel transported were low and did not exceed the relevant thresholds set out in Rule 906 of the Listing Manual. The new 5 years Contracts were expanded to include the provision of the EFB Transportation Services and also Kernel Transportation Services as the volume of such services are expected to increase.

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## LETTER TO SHAREHOLDERS

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- 1.2. However, as BWS is an associate of Mr Henry Maknawi (the Chairman and Chief Executive Officer and a controlling shareholder of the Company) and the total value of the transactions to be carried out pursuant to the Contracts (i.e. including the EFB Transportation Contracts and the Kernel Transportation Contracts) could exceed 5% of the Group's latest audited net tangible assets and constitute "interested person transactions" within the meaning of Chapter 9 of the Listing Manual, in the interests of transparency and good corporate governance, the Company is seeking the approval of Independent Shareholders in respect of the Contracts at an EGM to be convened. The purpose of this Circular is therefore to provide Shareholders with information relating to the Contracts and to seek approval for the same at the EGM.

### 2. INFORMATION ON THE CONTRACTING PARTIES

The Contracting Parties are both subsidiaries of the Company. They are principally investment holding companies that hold the Group's operating plantation subsidiaries. They are also engaged in the wholesale trading of plantation related products.

### 3. INFORMATION ON BWS

BWS is a private company incorporated under the laws of Indonesia and domiciled in West Jakarta, with its registered address at Taman Surya Blok CC/11 RT. 017/02, Kel. Wiljaya Kusama, Kec. Grogol Petamburan, Jakarta Barat, Jakarta, Indonesia. BWS provides land-based transportation and logistics services to the Group on an exclusive basis.

As disclosed in the Company's prospectus dated 17 July 2008 prior to the listing of the Company, the Group had entered into an informal arrangement with Mr Henry Maknawi, Ms Ratna Maknawi and certain employees of the Group ("the **Service Providers**") for the provision of transportation services to the Group. The arrangement was formalised when the Service Providers incorporated BWS to provide the transportation services to the Group. As the Group continues to expand, the Group intends to continue engaging the services of BWS due to their competitiveness, reliability, flexibility and ability to adapt to the Group's operating environment.

As disclosed in the circular to Shareholders dated 10 April 2012, the Group continued to engage the services of BWS for the same reasons given above. A mandate was obtained for that interested person transaction in the EGM held on 26 April 2012.

As at the Latest Practicable Date, the shareholders of BWS are as follows:

	BWS Shareholdings
Mr Henry Maknawi	47.15%
Ms Ratna Maknawi	47.15%
Mr Eddy Maknawi	5.70%

Mr Henry Maknawi is the Executive Chairman and Ms Ratna Maknawi, his sister, is the Executive Vice-Chairman of the Company. Mr Eddy Maknawi is their brother, who is also the Head of Procurement of the Group.

For the financial year ended 31 December 2018, the aggregate value of the transactions entered into between the Group and BWS amounted to approximately US\$1.84 million (excluding transactions below S\$100,000), representing approximately 3.78% of the Group's latest audited net tangible assets of US\$48,570,000 as at 31 December 2017. The aggregate value of transactions below S\$100,000 add up to a total of US\$203,377. This represents approximately 0.4% of US\$48,570,000.

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## LETTER TO SHAREHOLDERS

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### 4. INTERESTED PERSON TRANSACTIONS UNDER CHAPTER 9 OF THE LISTING MANUAL

#### 4.1. Chapter 9 of the Listing Manual

##### 4.1.1. Background

Chapter 9 of the Listing Manual governs transactions in which a listed company or any of its subsidiaries or associated companies (known as an “**entity at risk**”) enters into or proposes to enter into with a party who is an interested person of the listed company. The purpose is to guard against the risk that interested persons could influence the listed company, its subsidiaries or associated companies to enter into transactions with it that may adversely affect the interests of the listed company or its shareholders.

For the purposes of Chapter 9 of the Listing Manual:-

- (a) an “**entity at risk**” means:-
  - (i) the listed company;
  - (ii) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or
  - (iii) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed company and/or its subsidiaries (the “**listed group**”), or the listed group and its interested person(s), has control over the associated company;
- (b) in the case of a company, an “**interested person**” means a director, chief executive officer or controlling shareholder of the listed company or an associate of such director, chief executive officer or controlling shareholder;
- (c) in the case of a company, an “**associate**”:-
  - (i) in relation to any director, chief executive officer, substantial shareholder or controlling shareholder (being an individual) includes an “**immediate family**” member (that is, the spouse, child, adopted-child, step-child, sibling or parent) of such director, chief executive officer, substantial shareholder or controlling shareholder, the trustees of any trust of which the director/his immediate family, the chief executive officer/ his immediate family, the substantial shareholder/his immediate family or controlling shareholder/his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object, and any company in which the director/his immediate family, the chief executive officer/his immediate family, the substantial shareholder/ his immediate family or controlling shareholder/his immediate family has or have an aggregate interest (directly or indirectly) of 30.0% or more; and
  - (ii) in relation to a substantial shareholder or a controlling shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30.0% or more;



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## LETTER TO SHAREHOLDERS

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- (d) an “**approved exchange**” means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9 of the Listing Manual; and
- (e) an “**interested person transaction**” means a transaction between an entity at risk and an interested person, and includes the provision or receipt of financial assistance, the acquisition, disposal or leasing of assets, the provision or receipt of services, the issuance or subscription of securities, the granting of or being granted options, and the establishment of joint ventures or joint investments, whether or not in the ordinary course of business, and whether or not entered into directly or indirectly.

### 4.1.2. Financial Thresholds

An immediate announcement and/or shareholders’ approval would be required in respect of transactions with interested persons if the value of the transaction is equal to or exceeds certain financial thresholds.

In particular, an immediate announcement is required where:-

- (a) the value of a proposed transaction is equal to or exceeds 3.0% of the listed group’s latest audited consolidated net tangible assets (“**Threshold 1**”); or
- (b) the aggregate value of all transactions entered into with the same interested person during the same financial year, is equal to or more than Threshold 1. In this instance, an announcement will have to be made immediately of the latest transaction and all future transactions entered into with that same interested person during the financial year.

Shareholders’ approval is required where:-

- (a) the value of a proposed transaction is equal to or exceeds 5.0% of the listed group’s latest audited consolidated net tangible assets (“**Threshold 2**”); or
- (b) the aggregate value of all transactions entered into with the same interested person during the same financial year, is equal to or more than Threshold 2. The aggregation will exclude any transaction that has been approved by shareholders previously, or is the subject of aggregation with another transaction that has been previously approved by shareholders.

Pursuant to Rule 909 of the Listing Manual, the value of a transaction is the amount at risk to the issuer. This is illustrated by the following examples:-

- (a) in the case of a partly-owned subsidiary or associate company, the value of the transaction is the issuer’s effective interest in that transaction;
- (b) in the case of a joint venture, the value of the transaction includes the equity participation, shareholders’ loans and guarantees given by the entity at risk; and
- (c) in the case of borrowing of funds from an interested person, the value of the transaction is the interest payable on the borrowing. In the case of lending of funds to an interested person, the value of the transaction is the interest payable on the loan and the value of the loan.

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## LETTER TO SHAREHOLDERS

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### 5. INFORMATION ON THE CONTRACTS

#### 5.1. The EFB Transportation Contracts

Under the EFB Transportation Contracts, the Contracting Parties and BWS agreed to a framework pursuant to which the Contracting Parties and/or any of their subsidiaries may contract the services of BWS for the purposes of transporting EFB from the palm oil mill to designated oil palm plantations owned and/or controlled by the Contracting Parties and their subsidiaries (the “**EFB Transportation Services**”). The Group has been contracting the EFB Transportation Services of BWS on a continuing basis for over 5 years.

The proposed EFB Transportation Services is specifically for transporting EFB that are loaded by conveyor system at the oil mills. Although, this requires the truck driver to wait longer for the truck to be loaded, it avoids the use of heavy equipment loaders.

##### 5.1.1. Agreed locations

The EFB Transportation Services shall be undertaken at the following estates owned and/or controlled by the Contracting Parties as follows:-

- (a) Bangka, Bangka Belitung, Indonesia;
- (b) Kotabaru, South Kalimantan, Indonesia;
- (c) Paser, East Kalimantan, Indonesia; and
- (d) Kutai, East Kalimantan, Indonesia.

##### 5.1.2. Term of contract

The EFB Transportation Contracts are proposed to be for a term of five (5) years.

##### 5.1.3. Pricing

The EFB Transportation Contracts set out an agreed list of prices for the transportation of EFB between designated blocks within the Group's oil palm plantations from its CPO mills. The price include the cost of diesel, and were arrived at on a willing buyer willing seller basis, with reference to independent third party quotes obtained by the Group, and taking into account internal cost analysis, and other relevant factors as contained in Section 5.2 of the IFA Letter set out in Appendix A of this Circular.

Distance of Designated Block from Mill	Price Per Truck (Rp)
0-5 km	195,000
>5-10 km	230,000
>10-15 km	268,000
>15-20 km	330,000
>20-25 km	361,500
>25-30 km	379,500
>30-35 km	401,500

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## LETTER TO SHAREHOLDERS

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### 5.1.4. Adjustment to prices

*Annual price review:* The Contracting Parties and BWS may request for a review of the price, on an annual basis to take into account factors such as the effects of inflation, increase in wages and adjustments to market prices for similar work. Any upward or downward adjustment to the price pursuant to the annual price review shall not in any case exceed 10% of the prices for the preceding year and shall be subject to the review and prior approval of the Audit and Risk Committee.

For clarity, the EFB Transportation Contract does not have a separate provision for diesel price adjustment. Other than the above annual price review, the EFB Transportation price will not be adjusted due to change in the diesel price.

### 5.1.5. Contract Basis

The EFB Transportation Contracts provide the framework under which the Contracting Parties or their subsidiaries may engage the services of BWS for the provision of the EFB Transportation Services from the palm oil mills to the Group's designated oil palm plantations.

The Contracting Parties or any of their subsidiaries may engage the services of BWS under the EFB Transportation Contract on a contract basis by executing a confirmation letter, which will set out the specific terms of each job order, such as the precise locations of the plantations to be serviced, the estimated volume of EFB to be transported over a monthly basis and other material information required to make an assessment of the scope of the work requested by the Group. Acceptance by BWS of the terms set out in the confirmation letter will formalise and confirm the job order.

### 5.1.6. (a) Contractor's Reimbursement

If the Contracting Party finds that the EFB Transportation Services carried out by BWS is unsatisfactory, the Contracting Party may engage independent third party contractors to perform the services, and BWS shall be liable on demand to compensate the Contracting Party the difference between the amount actually incurred by the Contracting Party and amount payable to BWS.

### (b) Service Provider Reimbursement

The Contracting Party shall pay compensation to BWS, the amount of which shall be fixed by consultation to reach accord subject to the following conditions:-

- (i) if during performance of the works, any access infrastructure suffers from severe damage and the Contracting Party insist upon using such damaged infrastructure; or
- (ii) if during the performance of the services the damaged infrastructure causes BWS' vehicle to break down.

### 5.1.7. Termination

The Group may in its absolute discretion choose to terminate the EFB Transportation Contracts upon the occurrence of certain agreed events, such as a material change in economic conditions, breach of contract or negligence on the part of BWS. The EFB Transportation Contracts do not provide for termination at the discretion of BWS.

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## LETTER TO SHAREHOLDERS

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### 5.2. The FFB Transportation Contracts

Under the FFB Transportation Contracts, the Contracting Parties and BWS agreed to a framework pursuant to which the Contracting Parties and/or any of their subsidiaries may contract the services of BWS for the purposes of transporting FFB from the oil palm plantations owned and/or controlled by the Contracting Parties and their subsidiaries (the “**FFB Transportation Services**”) to the CPO mills. The Group has been contracting the FFB Transportation Services of BWS on a continuing basis for over 10 years.

#### 5.2.1. Agreed locations

The FFB Transportation Services shall be undertaken at the following estates owned and/or controlled by the Contracting Parties or their subsidiaries:-

- (a) Bangka, Bangka Belitung, Indonesia;
- (b) Kotabaru, South Kalimantan, Indonesia;
- (c) Paser, East Kalimantan, Indonesia; and
- (d) Kutai, East Kalimantan, Indonesia.

#### 5.2.2. Term of contract

The FFB Transportation Contracts are proposed to be for a term of five (5) years.

#### 5.2.3. Pricing

The fees payable for the FFB Transportation Services shall be determined in accordance with the following formula:

$(\text{base price} + \text{DBP adjustment (if any)}) \times \text{weight of FFB delivered (MT)}$

##### (a) *Base prices*

The FFB Transportation Contracts set out an agreed list of base prices for the transportation of FFB between designated blocks within the Group's oil palm plantations to its CPO mills. The base prices include the cost of diesel, and were arrived at on a willing buyer willing seller basis, with reference to independent third party quotes obtained by the Group, and taking into account internal cost analysis and all relevant factors as contained in Section 5.3 of the IFA Letter set out in Appendix A of this Circular. There are 2 systems for FFB collection which are the conventional system and the bin system. Currently, the bin system has been implemented in some areas in Bangka but it is expected to be brought to the other areas in the near future.

##### Conventional system

Distance of Designated Block from Mill	Base Price (Rp/MT)
0-5 km	39,538
>5-10 km	45,474
>10-15 km	51,940
>15-20 km	62,752
>20-25 km	75,578
>25-30 km	94,870
>30-35 km	119,038

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## LETTER TO SHAREHOLDERS

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Bin system

Distance of Designated Block from Mill	Base Price (Rp/MT)
0-5 km	33,390
>5-10 km	36,146
>10-15 km	38,902
>15-20 km	42,824
>20-25 km	46,640
>25-30 km	51,410
>30-35 km	55,862

(b) *DBP Adjustment*

The base prices were determined based on a DBP of Rp 9,500 per litre. Due to the volatility in the price of diesel and the fact that the cost of diesel represents an important factor in the operating cost of performing the FFB Transportation Services, the parties have agreed to allow for agreed fixed adjustments to the base prices of the FFB Transportation Services for every fluctuation in the DBP of Rp 250 per litre (whether higher or lower than Rp 9,500 per litre). The applicable DBP will be determined by the Contracting Parties or their subsidiaries at the beginning of each month with reference to the price of diesel as announced by PT Pertamina. The agreed adjustments are set out below:

Distance of Designated Block from Mill	Adjustment for every fluctuation of Rp 250 of DBP (Rp/MT)
0-5 km	136
>5-10 km	272
>10-15 km	408
>15-20 km	544
>20-25 km	679
>25-30 km	815
>30-35 km	951

### 5.2.4. Adjustment to prices

*Annual base price review:* The Contracting Parties and BWS may request for a review of the base prices on an annual basis to take into account factors such as the effects of inflation, increase in wages and adjustments to market prices for similar work. Any upward or downward adjustment to the base price pursuant to the annual base price review shall not in any case exceed 10% of the base prices and/or loading fees for the preceding year and shall be subject to the review and prior approval of the Audit and Risk Committee.

For the avoidance of doubt, adjustments made due to fluctuations in DBP are separate from and do not count towards the 10% maximum permissible adjustment to the base prices.

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## LETTER TO SHAREHOLDERS

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On 12 November 2013, the Audit and Risk Committee approved up to 9% increase in the base price of the FFB Transportation Contracts.

### 5.2.5. Contract basis

The FFB Transportation Contracts provide the framework under which the Contracting Parties or their subsidiaries may engage the services of BWS for the provision of the FFB Transportation Services at the Group's oil palm plantations.

The Contracting Parties or any of their subsidiaries may engage the services of BWS under the FFB Transportation Contract on a contract basis by executing a confirmation letter, which will set out the specific terms of each job order, such as the precise locations of the plantations to be serviced, the estimated weight of FFB to be transported over the duration of each job order and other material information required to make an assessment of the scope of the work requested by the Group. Acceptance by BWS of the terms set out in the confirmation letter will formalise and confirm the job order.

### 5.2.6. (a) Contractor's Reimbursement

If the Contracting Party finds any of the FFB Transportation Services performed by BWS unsatisfactory, the Contracting Party may engage independent third party contractors to complete the work done by BWS. BWS shall compensate the Contracting Party in full for the difference between the total amount incurred by the Contracting Party in respect of the jobs required under a particular job order (including the fees paid to BWS and the independent third party contractor) and the amount it would have paid to BWS under the FFB Transportation Contracts for those works.

For the completed 5 year FFB transportation contract dated 26 April 2012, the Group has found the overall level of the FFB transportation services performed by BWS to be satisfactory.

### (b) Service Provider Reimbursement

The Contracting Party shall pay compensation to BWS, the amount of which shall be fixed by consultation to reach accord subject to the following conditions:-

- (i) if the plant of the Contracting Party breaks down after BWS' trucks have loaded the FFB and headed towards the plant;
- (ii) if during performance of the works, any access infrastructure suffers from severe damage and the Contracting Party insist upon using such damaged infrastructure; or
- (iii) if during the performance of the services the damaged infrastructure causes BWS' vehicle to break down.

### 5.2.7. Termination

The Group may in its absolute discretion choose to terminate the FFB Transportation Contracts upon the occurrence of certain agreed events, such as a material change in economic conditions, breach of contract or negligence on the part of BWS. The FFB Transportation Contracts do not provide for termination at the discretion of BWS.

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## LETTER TO SHAREHOLDERS

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### 5.3. The Kernel Transportation Contracts

Under the Kernel Transportation Contracts, the Contracting Parties and BWS agreed to a framework pursuant to which the Contracting Parties and/or any of their subsidiaries may contract the services of BWS for the purposes of transporting palm kernel from the palm oil mill to designated storage/factory/jetty/ship (the “**Kernel Transportation Services**”). The Group has been contracting the Kernel Transportation Services of BWS on a continuing basis for over 5 years.

#### 5.3.1. Agreed locations

The Kernel Transportation Services shall be undertaken at the following estates owned and/or controlled by the Contracting Parties as follows:-

- (a) Kotabaru, South Kalimantan, Indonesia;
- (b) Paser, East Kalimantan, Indonesia; and
- (c) Kutai, East Kalimantan, Indonesia.

#### 5.3.2. Term of contract

The Kernel Transportation Contracts are proposed to be for a term of five (5) years.

#### 5.3.3. Pricing

The Kernel Transportation Contracts set out an agreed list of base prices for the transportation of Kernel between designated blocks within the Group’s oil palm plantations from its CPO mills. The prices include the cost of diesel, and were arrived at on a willing buyer willing seller basis, with reference to independent third party quotes obtained by the Group, and taking into account internal cost analysis, and other relevant factors as contained in Section 5.4 of the IFA Letter set out in Appendix A of this Circular.

Distance from mill to destination	Base Price (Rp/MT)
AIK Mill to Riwang	49,892
SKL Mill to Palaran	281,700
AEK Mill to Palaran	302,016
AKM Mill to Rantau	71,500
AKM Mill to Tarjun	221,660

#### 5.3.4. Adjustment to prices

*Annual price review:* The Contracting Parties and BWS may request for a review of the price, on an annual basis to take into account factors such as the effects of inflation, increase in wages and adjustments to market prices for similar work. Any upward or downward adjustment to the base price and/or loading fees pursuant to the annual price review shall not in any case exceed 10% of the prices for the preceding year and shall be subject to the review and prior approval of the Audit and Risk Committee.

For clarity, the Kernel Transportation Contracts do not have a separate provision for diesel price adjustment. Other than the above annual price review, the Kernel Transportation price will not be adjusted due to change in the diesel price.

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## LETTER TO SHAREHOLDERS

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### 5.3.5. Contract basis

The Kernel Transportation Contracts provide the framework under which the Contracting Parties or their subsidiaries may engage the services of BWS for the provision of the Kernel Transportation Services from the palm oil mills to the Group's designated storage/factory/jetty/ship.

The Contracting Parties or any of their subsidiaries may engage the services of BWS under the Kernel Transportation Contract on a contract basis by executing a confirmation letter, which will set out the specific terms of each job order, such as the location of the palm oil mill and the designated storage/factory/jetty/ship and other material information required to make an assessment of the scope of the work requested by the Group. Acceptance by BWS of the terms set out in the confirmation letter will formalise and confirm the job order.

### 5.3.6. (a) Contractor's Reimbursement

If the Group finds any of the Kernel Transportation Services performed by BWS unsatisfactory, the Group may engage independent third party contractors to complete the work done by BWS. BWS shall compensate the Group in full for the difference between the total amount incurred by the Group in respect of the jobs required under a particular job order (including the fees paid to BWS and the independent third party contractor) and the amount it would have paid to BWS under the Kernel Transportation Contracts for those works.

Other provisions for protection of the Group are included. For instance, if the Kernels are not collected at the designated mill, the Group is entitled to engage independent third party contractors to collect the Kernels at the expense of BWS, and BWS shall be liable on demand to compensate the Group the costs incurred by the Group in hiring such third party services.

### (b) Service Provider Reimbursement

The Contracting Party shall pay compensation to BWS, the amount of which shall be fixed by consultation to reach accord subject to the following conditions:-

- (i) if during performance of the works, any access infrastructure suffers from severe damage and the Contracting Party insist upon using such damaged infrastructure; or
- (ii) if during the performance of the services the damaged infrastructure causes BWS' vehicle to break down.

### 5.3.7. Termination

The Group may in its absolute discretion choose to terminate the Kernel Transportation Contracts upon the occurrence of certain agreed events, such as a material change in economic conditions, breach of contract or negligence on the part of BWS. The Kernel Transportation Contracts do not provide for termination at the discretion of BWS.



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## LETTER TO SHAREHOLDERS

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### 5.4. The Oil Transportation Contracts

Under the Oil Transportation Contracts, the Contracting Parties and BWS agreed to a framework pursuant to which the Contracting Parties and/or any of their subsidiaries may contract the services of BWS for the purpose of transporting CPO/CPKO from mills to storage facilities, ports or end customers (the “**Oil Transportation Services**”). The Group has been contracting the Oil Transportation Services of BWS for more than 10 years.

#### 5.4.1. Agreed locations

The Oil Transportation Services shall be undertaken at the following estates owned and/or controlled by the Contracting Parties as follows:-

- (a) Bangka, Bangka Belitung, Indonesia;
- (b) Kotabaru, South Kalimantan, Indonesia; and
- (c) Kutai, East Kalimantan, Indonesia.

#### 5.4.2. Term of contract

The Oil Transportation Contracts are proposed for a term of five (5) years.

#### 5.4.3. Pricing

The Oil Transportation Contracts set out an agreed list of prices for the transportation of the CPO/CPKO. The prices include the cost of diesel, and were arrived at on a willing buyer willing seller basis, with reference to independent third party quotes obtained by the Group, and taking into account internal cost analysis, and other relevant factors as contained in Section 5.5 of the IFA Letter set out in Appendix A of this Circular.

No	Adjustment in Diesel Price (Rp / Litre)	Price (Rp / MT)			
		SWK	AKM	AEK	SKL
1.	8,000	171,200	106,540	148,900	60,560
2.	8,250	172,910	107,188	149,800	60,902
3.	8,500	174,620	107,836	150,700	61,244
4.	8,750	176,330	108,484	151,600	61,586
5.	9,000	178,040	109,132	152,500	61,928
6.	9,250	179,750	109,780	153,400	62,270
7.	9,500	181,460	110,428	154,300	62,612
8.	9,750	183,170	111,076	155,200	62,954
9.	10,000	184,880	111,724	156,100	63,296
10.	10,250	186,590	112,372	157,000	63,638
11.	10,500	188,300	113,020	157,900	63,980
12.	10,750	190,010	113,668	158,800	64,322
13.	11,000	191,720	114,316	159,700	64,664

If the DBP (as announced by PT Pertamina at the beginning of the month) is either lower than or equal to Rp 8,000 or higher than or equal to Rp 11,000 per litre, a party may propose a new set of prices to the other party. Any upward or downward price adjustment shall be subject to review and prior approval of the Audit and Risk Committee who shall ensure that it is on normal commercial terms and not prejudicial to the interest of the Company and Independent Shareholders.

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## LETTER TO SHAREHOLDERS

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### 5.4.4. Adjustment to prices

*Annual price review:* The Contracting Parties and BWS may request for a review of the prices on an annual basis to take into account factors such as the effects of inflation, increase in wages and adjustments to market prices for similar work. Any upward or downward adjustment to the base price pursuant to the annual base price review shall not in any case exceed 10% of the base prices for the preceding year and shall be subject to the review and prior approval of the Audit Committee.

For the avoidance of doubt, adjustments made due to fluctuations in DBP are separate from and do not count towards the 10% maximum permissible adjustment to the base prices.

On 12 November 2013, the Audit and Risk Committee approved an increase of up to 9% in the base prices of the Oil Transportation Contracts.

### 5.4.5. Contract basis

The Oil Transportation Contracts provide the framework under which the Contracting Parties or their subsidiaries may engage the services of BWS for the provision of the Oil Transportation Services.

The Contracting Parties or any of their subsidiaries may engage the services of BWS under the Oil Transportation Contracts on a contract basis by executing a confirmation letter, which will set out the specific terms of each job order, such as where the CPO/CPKO should be collected and delivered, the estimated weight of CPO/CPKO to be transported over the duration of each job order and other material information required to make an assessment of the scope of the work requested by the Group. Acceptance by BWS of the terms set out in the confirmation letter will formalise and confirm the job order.

### 5.4.6. (a) Contractor's Reimbursement

If the Group finds any of the Oil Transportation Services performed by BWS unsatisfactory, the Group may engage independent third party contractors to complete the work done by BWS. BWS shall compensate the Group in full for the difference between the total amount incurred by the Group in respect of the jobs required under a particular job order (including the fees paid to BWS and the independent third party contractor) and the amount it would have paid to BWS under the Oil Transportation Contracts for those works.

For the completed 5 year oil transportation contract dated 26 April 2012, the Group has found the overall level of the oil transportation services performed by BWS to be satisfactory.

### (b) Service Provider Reimbursement

The Contracting Party shall pay compensation to BWS, the amount of which shall be fixed by consultation to reach accord subject to the following conditions:-

- (i) if the Contracting Party's plant breaks down and/or no oil to be transported;
- (ii) if during performance of the works, any access infrastructure suffers from severe damage and the Contracting Party insist upon using such damaged infrastructure; or

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## LETTER TO SHAREHOLDERS

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- (iii) if during the performance of the services the damaged infrastructure causes BWS' vehicle to break down.

### 5.4.7. Termination

The Group may in its absolute discretion choose to terminate the Oil Transportation Contracts upon the occurrence of certain agreed events, such as a material change in economic conditions, breach of contract or negligence on the part of BWS. The Oil Transportation Contracts do not provide for termination at the discretion of BWS.

### 5.5. **Rationale for entering into the Contracts**

The Group's strategy is to focus its resources on its core businesses, being the management and expansion of its oil palm plantation business, production of oil palm products, and improving its distribution of its products. In view of this strategy, the Group outsources certain non-core functions to third party contractors.

The Group is of the view that the five (5) year fixed contracts are necessary and beneficial to the Group, as it expects to scale up its CPO production from the larger FFB productions from plantations under its control and also FFB purchase from plasma and third parties. The higher CPO production can thus increase the efficiency of the oil mills owned by the Group.

#### The Contracts

BWS has provided dedicated transportation services to the Group for more than 10 years. Over this period, BWS has demonstrated its reliability and dedication in performing the services required by the Group at competitive prices. BWS does not service other customers, and all its resources are devoted to meeting the needs of the Group.

The Group believes that entering into these contracts with BWS will be beneficial to the Group as a whole. The quality of the transportation of FFB is an important factor for the efficient production of one of the Group's primary products, CPO. FFB are perishable products; freshly picked FFB must be processed within 24 hours in order to maximise CPO yield and quality.

The Group's CPO and CPKO must similarly be delivered in a timely manner in order to meet the Group's sale orders. The tanks must also be kept clean to prevent contamination of the CPO and CPKO transported.

Palm kernel is a product of our oil mills and are delivered to designated storage/factory/jetty/ship for sale to customers. EFB is a by-product of our mill. It can be burnt as a fuel at the oil mill or can be used as a fertilizer. If used as a fertilizer, it will be loaded on the trucks and transported to the required location. EFB are voluminous but weigh less than FFB, thus a full load of EFB will be lighter than a full load of FFB.

Over the years, BWS has consistently met the needs of the Group and has proven to be a reliable provider of transportation services with a good track record. The Group thus believes that it will be in the interests of the Group to secure the services of BWS under a long term contract. BWS is also familiar with the operations of the Group, thus reducing operational risks and ensuring integration between the Group's operations and BWS' transportation services.

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## LETTER TO SHAREHOLDERS

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### 6. REVIEW PROCEDURES

#### 6.1. Register of Interested Person Transactions

The Group will maintain a register of all transactions (including transactions below S\$100,000) carried out pursuant to the Contracts and shall include all information pertinent to these transactions such as, but not limited to the value of the transactions, the basis for determining the applicable DBP, the transaction prices and supporting evidence and quotations obtained to support such basis.

The register shall be prepared, maintained and monitored by personnel of the Group (who shall not be interested in any of the Contracts) who are duly delegated to do so by the Audit and Risk Committee and reviewed by internal auditors on a quarterly basis.

#### 6.2. Review by Audit and Risk Committee

The Audit and Risk Committee shall review the quarterly internal audit reports on the transactions entered into under the Contracts to ascertain that the terms of the Contracts have been complied with. If any member of the Audit and Risk Committee has an interest in a transaction, he shall abstain from participating in the review and approval process in relation to that transaction.

#### 6.3. Annual Price Review

The Group shall review the base prices under the Contracts under the EFB, FFB, Kernel and Oil Transportation Contracts on an annual basis. Following the annual review, the Group will propose adjustments in the prices to BWS (as the case may be), if required. In addition, as part of the Group's internal control procedures, the Audit and Risk Committee shall review and give its prior approval to any price adjustments made pursuant to the annual reviews.

On 12 November 2013, the Audit and Risk Committee approved an increase of up to 9% in the base price of the FFB Transportation Contracts and Oil Transportation Contracts. This was the only increase during the 5 years' service contract that was approved by shareholders on 26 April 2012.

#### 6.4. Results of Past Reviews

The Audit and Risk Committee has relied on similar review procedures for the 5 year FFB and Oil transportation and services contracts approved in 26 April 2012. During the 5 year review period, no irregularities were detected. The Audit and Risk Committee has also implemented all recommendations made by the internal audit team to enhance the review process.

### 7. INDEPENDENT FINANCIAL ADVISER'S OPINION

3 Peaks Capital Private Limited has been appointed as the IFA to advise the Independent Directors on whether the financial terms of the Contracts are on normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.

A copy of the letter dated 11 April 2019 from the IFA (the "IFA Letter"), containing its opinion in full, is set out in Appendix A of this Circular. Shareholders are advised to read the letter in its entirety.

**Taking into consideration the factors set out in the IFA Letter and subject to the assumptions and qualifications contained therein and the information available to the IFA as at the Latest Practicable Date, the IFA is of the opinion that the financial terms of the Contracts are on normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.**

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## LETTER TO SHAREHOLDERS

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### 8. VIEWS OF THE AUDIT AND RISK COMMITTEE AND DIRECTORS' RECOMMENDATION

#### 8.1. Views of the Audit and Risk Committee

Having reviewed, *inter alia*, the terms and rationale for and the benefits of the Contracts, as well as the opinion and advice of the IFA, the Audit and Risk Committee concurs with the opinion of the IFA and is of the view that the Contracts are on normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.

#### 8.2. Directors' Recommendation

Having considered, *inter alia*, the terms, the rationale for and the benefits of the Contracts, as well as the opinion and advice of the IFA, the Independent Directors are of the view that the Contracts are in the interests of the Company and accordingly recommend that Shareholders vote in favour of the resolution approving the entry by the Group into the Contracts as set out in the notice of EGM.

Mr Henry Maknawi and Ms Ratna Maknawi, being interested in the Contracts, have abstained from making any recommendation on the Contracts.

### 9. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

#### 9.1. Interest of Directors and Controlling Shareholders

Mr Henry Maknawi, Ms Ratna Maknawi and Mr Eddy Maknawi are interested in aggregate, 100% of the share capital of BWS.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Controlling Shareholders of the Company have any direct or indirect interests in the Contracts.

#### 9.2. Abstention from Voting

Mr Henry Maknawi, Ms Ratna Maknawi and Mr Eddy Maknawi have undertaken to abstain, and ensure that their associates (including Kencana Holdings Pte. Ltd.) abstain, from voting in respect of the Contracts at the EGM.

Mr Henry Maknawi, Ms Ratna Maknawi and Mr Eddy Maknawi will also decline to accept appointment as proxy from any shareholders to vote in respect of the ordinary resolution to approve entry into the Contracts by the Company, unless the shareholder concerned has given specific instructions as to the manner in which his votes are to be cast.

#### 9.3. Directors' and Substantial Shareholders' Interests in the Company

As at the Latest Practicable Date, save as disclosed below, none of the Directors has any interest in the Shares of the Company. The interests of the Directors and Substantial Shareholders in the Shares as at the Latest Practicable Date are set out below:

	As at Latest Practicable Date			
	Direct Interest (No. of Shares)	%	Deemed Interest (No. of Shares)	%
<b>Directors</b>				
Henry Maknawi <sup>(1)</sup>	1,774,970	0.62	152,555,224	53.15
Ratna Maknawi	-	-	1,416,530	0.50
Tengku Alwin Aziz	418,970	0.15	-	-
Soh Yew Hock	50,000	0.02	-	-
Sim Idrus Munandar	-	-	-	-
Darwin Indigo	-	-	-	-

## LETTER TO SHAREHOLDERS

	As at Latest Practicable Date			
	Direct Interest (No. of Shares)	%	Deemed Interest (No. of Shares)	%
<b>Substantial Shareholders</b>				
Kencana Holdings Pte. Ltd.	152,555,224	53.15	-	-
Newbloom Pte. Ltd.	57,402,236	20.00	-	-
Wilmar International Limited <sup>(1)</sup>	-	-	57,402,236	20.00
Henry Maknawi <sup>(2)</sup>	1,774,970	0.62	152,555,224	53.15

**Notes:**

- (1) Wilmar International Limited is deemed to be interested in the shares held by Newbloom Pte. Ltd., its wholly-owned subsidiary.
- (2) Mr Henry Maknawi is deemed to be interested in the shares held by Kencana Holdings Pte. Ltd. by virtue of his 43.41% shareholding interest in Kencana Holdings Pte. Ltd.

### 10. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on page 37 of this Circular, will be convened at Hotel Fort Canning, 11 Canning Walk, Singapore 178881, Room Legends 1, on 29 April 2019 at 2.30 p.m., or immediately after the conclusion of the Annual General Meeting to be held at 2.00 p.m. on the same day and at the same place (or the adjournment thereof) for the purpose of considering and, if thought fit, passing with or without modifications, the resolutions set out in the Notice of the EGM.

### 11. ACTION TO BE TAKEN BY SHAREHOLDERS

If a Shareholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach registered office of the Company at 36 Armenian Street #03-02 Singapore 179934 not later than 2.30 p.m. on 27 April 2019. The completion and return of the Proxy Form by a Shareholder will not prevent him from attending and voting at the EGM in person if he so wishes.

A Depositor shall not be regarded as a Shareholder entitled to attend the EGM and to speak and vote thereat unless he is shown to have Shares entered against his name in the Depository Register, as certified by the CDP as at 72 hours before the EGM.

### 12. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular (save for the IFA Letter) and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Contracts, the Company and its subsidiaries, and the Directors are not aware of any facts, the omission of which would make any statement in this Circular misleading. Where information in this Circular (save for the IFA Letter) has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this Circular in its proper form and context.

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## LETTER TO SHAREHOLDERS

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With respect to the IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated with respect to the Contracts and the Group are fair and accurate in all material respects.

### 13. CONSENT OF THE IFA

The IFA has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and the IFA Letter (attached to this Circular as Appendix A) and all references thereto, in the form and context in which they appear in this Circular.

### 14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at registered office of the Company at 36 Armenian Street #03-02 Singapore 179934 during normal office hours from the date of this Circular up to and including the date of the EGM:

- 14.1 the Contracts;
- 14.2 the Constitution of the Company; and
- 14.3 the Annual Report of the Company for the financial year ended 31 December 2018.

Yours faithfully  
For and on behalf of the Board of Directors of  
**Kencana Agri Limited**

Henry Maknawi  
Executive Chairman

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## APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS

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### 3 PEAKS CAPITAL PRIVATE LIMITED

(Company Registration Number: 201712269D)  
(Incorporated in the Republic of Singapore)  
27 West Coast Highway #02-22 Singapore 117867

11 April 2019

To: The Directors of Kencana Agri Limited  
(deemed to be independent in respect of the Interested Person Transactions)

Tengku Alwin Aziz	(Vice-Chairman and Independent Director)
Mr Soh Yew Hock	(Lead Independent Director)
Mr Sim Idrus Munandar	(Independent Director)
Mr Darwin Indigo	(Non-Executive and Non-Independent Director)

Dear Sirs,

#### THE PROPOSED CONTRACTS WITH INTERESTED PERSONS

*Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to shareholders of the Company dated 11 April 2019 (the “Circular”).*

#### 1. INTRODUCTION

The Company is proposing that PT Sawit Permai Lestari and PT Wira Palm Mandiri, both subsidiaries of the Company will, subject to shareholder approval, enter into agreements with:

1.1. PT Berkat Wahana Sukses (“**BWS**”), pursuant to which:

- (a) BWS shall provide EFB transportation and logistics services to the Contracting Parties and their subsidiaries (the “**EFB Transportation Contracts**”);
- (b) BWS shall provide FFB transportation and logistics services to the Contracting Parties and their subsidiaries (the “**FFB Transportation Contracts**”);
- (c) BWS shall provide Kernel transportation and logistics services to the Contracting Parties and their subsidiaries (the “**Kernel Transportation Contracts**”); and
- (d) BWS shall provide CPO and CPKO transportation and logistics services to the Contracting Parties and their subsidiaries (the “**Oil Transportation Contracts**”).

(collectively, the “**Contracts**”).



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## APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS

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The Group has contracted the services of BWS since 2001. On 26 April 2012, the Group had approved and entered a 5 year service contract with BWS which was approved by the independent shareholders at an EGM. The 5 year 2012 service contracts with BWS that ended on 25 April 2017 focused only on FFB and the Oil transportation services.

In the past, the values of EFB and Kernel transported were low and did not exceed the relevant thresholds set out in Rule 906 of the Listing Manual. The new 5 years Contracts were expanded to include the provision of the EFB Transportation Services and also Kernel Transportation Services as the volume of such services are expected to increase.

- 1.2. However, as BWS is an associate of Mr Henry Maknawi (the Chairman and Chief Executive Officer and a controlling shareholder of the Company) and the total value of the transactions to be carried out pursuant to the Contracts (i.e. including the EFB Transportation Contracts and the Kernel Transportation Contracts) could exceed 5% of the Group's latest audited net tangible assets and constitute "interested person transactions" within the meaning of Chapter 9 of the Listing Manual. In the interests of transparency and good corporate governance, the Company is seeking the approval of Independent Shareholders in respect of the Contracts at an EGM to be convened. The purpose of this Circular is therefore to provide Shareholders with information relating to the Contracts and to seek approval for the same at the EGM.

As at the Latest Practicable Date, the shareholders of BWS are as follows:

	BWS Shareholdings
Mr Henry Maknawi	47.15%
Ms Ratna Maknawi	47.15%
Mr Eddy Maknawi	5.7%

Mr Henry Maknawi is the Executive Chairman and Ms Ratna Maknawi, his sister, is the Executive Vice-Chairman of the Company. Mr Eddy Maknawi is their brother. Mr Eddy Maknawi is the Head of Procurement of the Group.

For the financial year ended 31 December 2018, the aggregate value of the transactions entered into between the Group and BWS amounted to approximately US\$1.84 million (excluding transactions below S\$100,000), representing approximately 3.78% of the Group's latest audited net tangible assets of US\$48,570,000 as at 31 December 2017. The aggregate value of transactions below S\$100,000 add up to a total of US\$203,377. This represents approximately 0.4% of US\$48,570,000.

3 Peaks Capital Private Limited ("**3 Peaks Capital**") has been appointed as the independent financial adviser ("**IFA**") to advise and render an opinion to the directors of the Company who are considered not conflicted for the purpose of considering the Contracts (the "**Independent Directors**") on whether or not the financial terms of the Contracts are on normal commercial terms and whether or not they are prejudicial to the interests of the Company and the Independent Shareholders.

This letter ("**Letter**") is addressed to the Independent Directors and is to be incorporated into the Circular issued by the Company which provides, *inter alia*, the details of the Contracts and the recommendations of the Independent Directors thereon.

## 2. TERMS OF REFERENCE

3 Peaks Capital Private Limited has been appointed as the IFA as required under Rule 921(4)(a) of the Listing Manual to render an opinion as to whether the Contracts are on normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.

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## APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS

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We have not evaluated the strategic, legal or commercial merits or risks of the Contracts or the future growth prospects of the Group after the completion of the Contracts, and we have also not relied on any financial projections of the future performance of the Group. As we were not and are not involved in any of the negotiations and/or deliberations by the Group in connection with the Contracts, we are not in a position to warrant the commercial merits of the Contracts.

In the course of our evaluation of the Contracts, we have held discussions with the Directors and/or the management of the Group (the “**Management**”) and have examined publicly available information collated by us as well as the information and representations, both written and verbal, provided to us by the Directors and the Management, including the information provided in the Circular. We have not independently verified such information or representations and accordingly cannot and do not warrant or accept responsibility for the accuracy, completeness or adequacy of these information or representations. We have nonetheless made reasonable enquiries and exercised our judgement (as deemed necessary) in assessing the information and representations provided to us and have found no reason to doubt the accuracy or reliability of such information or representations which we have relied on.

The Directors (including those who may have delegated detailed supervision of the Circular) have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief:

- (a) all material information available to them in connection with the Contracts has been disclosed in the Circular and such information is true and accurate in all material respects;
- (b) the facts, opinions and intentions stated by the Directors and/or the Company in the Circular are fair and accurate in all material respects; and
- (c) there is no other information or fact, the omission of which would cause any information disclosed to us or the statements made in the Circular to be inaccurate, incomplete or misleading in any material respect.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group and have not been furnished with any such evaluation or appraisals. Our opinion, as set out in this letter, is based on the market, economic, industry and other applicable conditions prevailing on, and the information made available to us as of, 1 April 2019 (the “**Latest Practicable Date**”). Such conditions may change significantly over a short period of time and we assume no responsibility to update, revise or reaffirm our opinion in the light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein.

In rendering our opinion, we have not had regard to the specific investment objectives, financial situation, tax position, risk profile or particular needs and constraints of any Individual Shareholder. Any individual Shareholder who may require specific advice in the context of his specific investment objectives or portfolio should consult his legal, financial, tax or other professional adviser.

The Company has been separately advised by its own advisers in the preparation of the Circular (other than this letter). As we are not involved in and have not provided any advice in the preparation, review and verification of the Circular (other than this Letter), we do not take any responsibility for the contents of the Circular (other than this Letter).

**Our Opinion in relation to the Contracts should be considered in the context of the entirety of this Letter and Circular.**

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## APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS

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### 3. DETAILS OF THE CONTRACTS

A summary of the salient terms of the Contracts is set out below. The details of the Contracts are set out in Section 5 of the Circular.

#### 3.1 The EFB Transportation Contracts

Under the EFB Transportation Contracts, the Contracting Parties and BWS agreed to a framework pursuant to which the Contracting Parties and/or any of their subsidiaries may contract the services of BWS for the purposes of transporting EFB from the palm oil mill to designated oil palm plantations owned and/or controlled by the Contracting Parties and their subsidiaries (the **"EFB Transportation Services"**). The Group has been contracting the EFB Transportation Services of BWS on a continuing basis for over 5 years.

The proposed EFB Transportation Services is specifically for transporting EFB that are loaded by conveyor system at the oil mills. Although, this requires the truck driver to wait longer for the truck to be loaded, it avoids the requirements for the use of heavy equipment loaders.

The EFB Transportation Contracts shall have a term of five (5) years.

##### 3.1.1 EFB Transportation Fees

The EFB Transportation Contracts set out an agreed list of prices for the transportation of EFB between designated blocks within the Group's oil palm plantations from its CPO mills (the **"EFB Transportation Price"**) as set out in Section 5.1 of the Circular.

The EFB Transportation Price include the cost of diesel, and were arrived at on a willing buyer willing seller basis, with reference to independent third party quotes obtained by the Group, and taking into account internal cost analysis, and all relevant factors.

##### 3.1.2 Adjustment to prices

*Annual price review:* According to the EFB Transportation Contracts, the Contracting Parties and BWS may request for a review of the EFB Transportation Price, on an annual basis to take into account factors such as the effects of inflation, increase in wages and adjustments to market prices for similar work. Any upward or downward adjustment to the EFB Transportation Price pursuant to the annual price review shall not in any case exceed 10% of the EFB Transportation Prices for the preceding year and shall be subject to the review and prior approval of the Audit and Risk Committee.

For clarity, the EFB Transportation Fee does not have a separate diesel price adjustment. Other than the annual price review, the EFB Transportation Fee will not be adjusted due to change in the diesel price set by Pertamina.

##### 3.1.3 Other commercial terms

Other key commercial terms in the EFB Transportation Contracts relating to contractors' reimbursement and termination are set out in Section 5.1.6 and 5.1.7 of the Circular.

#### 3.2 The FFB Transportation Contracts

Under the FFB Transportation Contracts, the Contracting Parties and BWS agreed to a framework pursuant to which the Contracting Parties and/or any of their subsidiaries may contract the services of BWS for the purposes of transporting FFB from the oil palm plantations owned and/or controlled by the Contracting Parties and their subsidiaries (the **"FFB Transportation Services"**) to the CPO mills.

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## APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS

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There are 2 systems for FFB collection which are the conventional system and the bin system. Currently the bin system has been implemented in some areas in Bangka and Kalimantan but it is expected to be introduced to the other areas in the near future.

The Group has been contracting the FFB Transportation Services of BWS on a continuing basis for over 10 years.

The FFB Transportation Contracts shall have a term of 5 years.

### 3.2.1 FFB Transportation Fees

The fees payable for the FFB Transportation Services (the “**FFB Transportation Fees**”) shall be determined in accordance with the following formula:

FFB Transportation Fees = (FFB Transportation Base Price + Diesel Price Adjustment  
(if any)) x weight of FFB delivered (in metric tonnes (“**MT**”))

Details of the components of the FFB Transportation Fees are described below.

#### (a) FFB Transportation Base Prices

The FFB Transportation Contracts set out an agreed list of base prices for the transportation of FFB between designated blocks within the Group’s oil palm plantations to its CPO mills (the “**FFB Transportation Base Prices**”), as reproduced in Section 5.2.3(a) of the Circular.

The FFB Transportation Base Prices include the cost of diesel, and were arrived at on a willing buyer willing seller basis with reference to independent third party quotes obtained by the Group, and taking into account internal cost analysis and all relevant factors.

#### (b) Diesel Price adjustments

The FFB Transportation Base Prices are determined based on the Base Diesel Price of Rp 9,500 per litre. Due to the volatility in the price of diesel and the fact that the cost of diesel represents an important factor in the operating cost of performing the FFB Transportation Services, the parties have agreed to allow for agreed fixed adjustments to the FFB Transportation Base Prices for every fluctuation in the Diesel Price of Rp 250 per litre (whether higher or lower than the Base Diesel Price of Rp 9,500 per litre). The applicable Diesel Price will be determined by the Contracting Parties or their subsidiaries at the beginning of each month with reference to the price of diesel as announced by PT Pertamina.

The agreed adjustments to the FFB Transportation Base Prices are set out in Section 5.2.3(b) of the Circular.

### 3.2.2 Annual review of base prices

In addition to the Diesel Price adjustment as set out in paragraph 3.2.1(b) above, the FFB Transportation Contracts provide for adjustments to be made to the FFB Transportation Fees.

The Contracting Parties and BWS may request for a review of the FFB Transportation Base Prices, on an annual basis to take into account factors such as the effects of inflation, increase in wages and adjustments to market prices for similar work. Any upward or downward adjustments to the FFB Transportation Base Prices pursuant to the annual price review shall not in any case exceed 10% of the preceding year’s FFB Transportation Base Prices, and shall be subject to the review and prior approval of the Audit and Risk Committee.

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For the avoidance of doubt, adjustments made due to fluctuations in Diesel Prices, as set out in paragraph 3.2.1(b) above, are separate from and do not count towards the 10% maximum permissible adjustment to the FFB Transportation Base Prices.

### 3.2.3 Other commercial terms

Other key commercial terms in the FFB Transportation Contracts relating to contractors' reimbursement and termination are set out in Section 5.2.6 and 5.2.7 of the Circular.

### 3.3 **The Kernel Transportation Contracts**

Under the Kernel Transportation Contracts, the Contracting Parties and BWS agreed to a framework pursuant to which the Contracting Parties and/or any of their subsidiaries may contract the services of BWS for the purposes of transporting palm kernel from the palm oil mill to designated storage/factory/jetty/ship (the **"Kernel Transportation Services"**). The Group has been contracting the Kernel Transportation Services of BWS on a continuing basis for over 5 years.

The Kernel Transportation Contracts shall have a term of five (5) years.

#### 3.3.1 Kernel Transportation Fees

The Kernel Transportation Contracts set out an agreed list of prices for the transporting palm kernel from the palm oil mill to designated storage/factory/jetty/ship (the **"Kernel Transportation Price"**) as set out in Section 5.3 of the Circular.

The Kernel Transportation Price include the cost of diesel, and were arrived at on a willing buyer willing seller basis, with reference to independent third party quotes obtained by the Group, and taking into account internal cost analysis and all relevant factors.

#### 3.3.2 Adjustment to prices

*Annual price review:* According to the Kernel Transportation Contracts, the Contracting Parties and BWS may request for a review of the Kernel Transportation Price, on an annual basis to take into account factors such as the effects of inflation, increase in wages and adjustments to market prices for similar work. Any upward or downward adjustment to the Kernel Transportation Price pursuant to the annual price review shall not in any case exceed 10% of the Kernel Transportation Prices for the preceding year and shall be subject to the review and prior approval of the Audit and Risk Committee.

For clarity, the Kernel Transportation Fee does not have a separate diesel price adjustment. Other than the annual price review, the Kernel Transportation Fee will not be adjusted due to change in the diesel price set by Pertamina.

#### 3.3.3 Other key commercial terms

Other key commercial terms in the Kernel Transportation Contracts relating to contractors' reimbursement and termination are set out in Section 5.3.6 and 5.3.7 of the Circular.

### 3.4 **The Oil Transportation Contracts**

Under the Oil Transportation Contracts, the Contracting Parties and BWS agreed to a framework pursuant to which the Contracting Parties and/or any of their subsidiaries may contract the services of BWS for the purposes of transporting CPO and/or CPKO from mills to storage facilities, ports or end customers (the **"Oil Transportation Services"**). The Group has been contracting the Oil Transportation Services of BWS for more than 10 years.

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## APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS

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The Oil Transportation Contracts shall have a term of 5 years.

### 3.4.1 Oil Transportation Fees

The Oil Transportation Contracts set out the agreed price for the transportation of the CPO/CPKO (the “**Oil Transportation Price**”) in Section 5.4 of the Circular. The prices include the cost of diesel, and were arrived at on a willing buyer willing seller basis, with reference to independent third party quotes obtained by the Group, and taking into account internal cost analysis, and other relevant factors.

The applicable diesel price will be determined by the Contracting Parties or their subsidiaries at the beginning of each month with reference to the price of diesel as announced by PT Pertamina.

When the diesel price is either lower than Rp 8,000 or higher than Rp 11,000 per litre, the Contracting Parties will propose a new set of agreed price based on the procedures set out in Section 5.4.3 of the Circular.

### 3.4.2 Annual review of price

The Contracting Parties and BWS may request for a review of the Oil Transportation Price on an annual basis to take into account factors such as the effects of inflation, increase in wages and adjustments to market prices for similar work. Any upward or downward adjustment to the base price pursuant to the annual price review shall not in any case exceed 10% of the Oil Transportation Price for the preceding year and shall be subject to the review and prior approval of the Audit and Risk Committee.

### 3.4.3 Other key commercial terms

Other key commercial terms in the Oil Transportation Contracts relating to contractors' reimbursement and termination are set out in Section 5.4.6 and 5.4.7 of the Circular.

## 4. **INFORMATION ON BWS**

Information on BWS is set out in Sections 3 of the Circular.

## 5. **EVALUATION OF THE CONTRACTS**

In evaluating and assessing the financial terms of the Contracts, we have taken into account the pertinent factors set out below which we consider to have a significant bearing on our assessment:

- (a) rationale for entering into the Contracts;
- (b) comparison with quotations obtained from independent third parties;
- (c) the Group's internal pricing and/or cost analysis; and
- (d) other relevant considerations such as review procedures for the interested person transactions.

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## APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS

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### 5.1 Rationale for entering into the Contracts

It is not within our terms of reference to comment or express an opinion on the merits of the Contracts or the future prospects of the Group after the commencement of the Contracts. Nevertheless, we have reviewed the rationale for entering into the Contracts as set out in Sections 5.5 of the Circular, and reproduced in italics below for your reference.

*“The Group’s strategy is to focus its resources on its core businesses, being the management and expansion of its oil palm plantation business, production of oil palm products, and improving its distribution of its products. In view of this strategy, the Group outsources certain non-core functions to third party contractors.*

*The Group is of the view that the five (5) year fixed contracts are necessary and beneficial to the Group, as it expects to scale up its CPO production from the larger FFB productions from plantations under its control and also FFB purchase from plasma and third parties. The higher CPO production can thus increase the efficiency of the oil mills owned by the Group.*

#### The Contracts

*BWS has provided dedicated transportation services to the Group for more than 10 years. Over this period, BWS has demonstrated its reliability and dedication in performing the services required by the Group at competitive prices. BWS does not service other customers, and all its resources are devoted to meeting the needs of the Group.*

*The Group believes that entering into these contracts with BWS will be beneficial to the Group as a whole. The quality of the transportation of FFB is an important factor for the efficient production of one of the Group’s primary products, CPO. FFB are perishable products; freshly picked FFB must be processed within 24 hours in order to maximise CPO yield and quality.*

*The Group’s CPO and CPKO must similarly be delivered in a timely manner in order to meet the Group’s sale orders. The tanks must also be kept clean to prevent contamination of the CPO and CPKO transported.*

*Palm kernel is a product of our oil mills and are delivered to designated storage/factory/jetty/ship for sale to customers. EFB is a by-product of our mill. It can be burnt as a fuel at the oil mill or can be used as a fertilizer. If used as a fertilizer, it will be loaded on the trucks and transported to the required location. EFB are voluminous but weigh less than FFB, thus a full load of EFB will be lighter than a full load of FFB.*

*Over the years, BWS has consistently met the needs of the Group and has proven to be a reliable provider of transportation services with a good track record. The Group thus believes that it will be in the interests of the Group to secure the services of BWS under a long term contract. BWS is also familiar with the operations of the Group, thus reducing operational risks and ensuring integration between the Group’s operations and BWS’ transportation services.”*

### 5.2 Assessment of the EFB Contracts

#### 5.2.1 EFB Transportation Prices

##### (a) The Group’s internal cost analysis

The EFB Transportation Prices have been determined based on the Group’s internal cost analysis (the “**EFB Cost Analysis**”). The EFB Cost Analysis estimates the costs involved if the Group were to purchase and operate the trucks to transport the EFB on their own, as opposed to engaging the services of BWS.

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The EFB Cost Analysis takes into account estimates of, *inter alia*:

- (i) Capital costs associated with the purchase of a truck equipped with the appropriate equipment for the transportation and unloading of EFB;
- (ii) Fixed costs, being financing, insurance and tax expenses;
- (iii) Variable costs, being maintenance, diesel, driver and operating costs;
- (iv) The number of EFB Transportation trips per day that a truck can make for each designated zone; and
- (v) Administrative and overhead expense if the Company was to operate the transportation service itself.

The EFB Cost Analysis showed that it is cheaper for the Group to engage the EFB transportation services of BWS than to operate such services on their own.

- (b) Comparison with quotation obtained from an independent third party

The Group has obtained 2 fee quotes from independent third parties for the EFB Transportation Services (the “**EFB Independent Quotes**”). The quotes covered the palm oil plantations in Bangka and Kalimantan area.

We have sighted and compared the EFB Independent Quote against the EFB Transportation Prices and we noted that the EFB Independent Quotes are 3.2% to 42.2% higher than the EFB Transportation Prices for journeys up to 35km.

### 5.2.2 Annual review of base prices

The EFB Transportation Price may be adjusted upwards or downwards on an annual basis for a maximum permissible adjustment of 10% of the preceding year's EFB Transportation Price (as the case may be), to take into account factors such as inflation, increase in wages and changes in market prices.

We note that the Group shall review the EFB Transportation Prices on an annual basis. In addition, we note that as part of the Group's internal control procedures, the Audit and Risk Committee shall review and give its prior approval to any price adjustments made pursuant to the annual review.

## 5.3 **Assessment of the FFB Contracts**

### 5.3.1 FFB Transportation Base Prices

- (a) The Group's internal cost analysis

The FFB Transportation Base Prices have been determined based on the Group's internal cost analysis (the “**FFB Cost Analysis**”). The FFB Cost Analysis estimates the costs involved if the Group were to purchase and operate the trucks to transport the FFB on their own, as opposed to engaging the services of BWS.



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## APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS

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The FFB Cost Analysis takes into account estimates of, *inter alia*:

- (i) Capital costs associated with the purchase of a truck equipped with the appropriate equipment for the transportation and unloading of FFB;
- (ii) Fixed costs, being financing, insurance and tax expenses;
- (iii) Variable costs, being maintenance, diesel, driver and operating costs;
- (iv) The number of FFB Transportation trips per day that a truck can make for each designated zone; and
- (v) Administrative and overhead expense if the Company was to operate the transportation service itself.

The FFB Cost Analysis showed that it is cheaper for the Group to engage the FFB transportation services of BWS than to operate such services on their own.

(b) Comparison with quotation obtained from independent third parties

The Group has obtained 2 fee quotes from independent third parties for the FFB Transportation Services (the “**FFB Independent Quotes**”). The quotes covered the palm oil plantations in Bangka and Kalimantan area.

The FFB Independent Quotes are in a tabular format that is similar to the FFB Transportation Base Price table in section 5.2.3. The FFB Independent Quotes catered for every increase or decrease in Rp 250 per litre in the Diesel Price starting from Rp 9,000 per litre.

Both FFB Independent Quotes are for the conventional system as the bin system is still fairly new to third party transport operators. Management was unable to provide any FFB Independent Quotes for the bin system.

The FFB Independent Quotes do not have any separate diesel price adjustment component. Comparing the FFB Independent Quotes against the FFB Transportation Prices, we note for diesel price range between Rp 9,000 to Rp 11,000, the FFB Independent Quotes are still higher than the FFB Transportation Prices.

### 5.3.2 Annual review of base prices

The FFB Transportation Base Prices may be adjusted upwards or downwards on an annual basis for a maximum permissible adjustment of 10% of the preceding year's FFB Transportation Base Prices (as the case may be), to take into account factors such as inflation, increase in wages and changes in market prices.

We note that the Group shall review the FFB Transportation Base Prices on an annual basis. In addition, we note that as part of the Group's internal control procedures, the Audit and Risk Committee shall review and give its prior approval to any price adjustments made pursuant to the annual review.

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### 5.4 Assessment of the Kernel Contracts

#### 5.4.1 Kernel Transportation Prices

(a) The Group's internal cost analysis

The Kernel Transportation Prices have been determined based on the Group's internal cost analysis (the "**Kernel Cost Analysis**"). The Kernel Cost Analysis estimates the costs involved if the Group were to purchase and operate the trucks to transport the Kernel on their own, as opposed to engaging the services of BWS.

The Kernel Cost Analysis takes into account estimates of, *inter alia*:

- (i) Capital costs associated with the purchase of a truck equipped with the appropriate equipment for the transportation and unloading of Kernel;
- (ii) Fixed costs, being financing, insurance and tax expenses;
- (iii) Variable costs, being maintenance, diesel, driver and operating costs;
- (iv) The number of Kernel Transportation trips per day that a truck can make for each designated zone; and
- (v) Administrative and overhead expense if the Company was to operate the transportation service itself.

We have reviewed the internal cost analysis provided by the Company for the following pair of subsidiaries' mill and delivery destinations for the kernel cargos.

- 1. AIK mill to Riwang;
- 2. SKL mill to Palaran;
- 3. AEK mill to Palaran;
- 4. AKM mill to Rantau; and
- 5. AKM mill to Tarjun;

The Kernel Cost Analysis showed that it is cheaper for the Group to engage the Kernel transportation services of BWS than to operate such services on their own.

(b) Comparison with quotation obtained from independent third parties

The Group has obtained 2 fee quotes (the "**Kernel Independent Quotes**") from independent third parties for the Kernel Transportation Services.

We have sighted and compare the Kernel Independent Quote against the Kernel Transportation Prices and we note that the Kernel Independent Quotes are 0.7% to 50.3% higher than the Kernel Transportation Prices for journeys up to 264 km.

#### 5.4.2 Annual review of base prices

The Kernel Transportation Price may be adjusted upwards or downwards on an annual basis for a maximum permissible adjustment of 10% of the preceding year's Kernel Transportation Price (as the case may be), to take into account factors such as inflation, increase in wages and changes in market prices.

We note that the Group shall review the Kernel Transportation Prices on an annual basis. In addition, we note that as part of the Group's internal control procedures, the Audit and Risk

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Committee shall review and give its prior approval to any price adjustments made pursuant to the annual review.

### 5.5 Assessment of the Oil Transportation Contracts

#### 5.5.1 Oil Transportation Prices

(a) The Group's internal cost analysis

The Oil Transportation Prices have been determined based on the Group's internal cost analysis (the "**CPO Cost Analysis**"). The CPO Cost Analysis estimates the costs involved if the Group were to purchase and operate the tankers to transport CPO and/or CPKO on their own, as opposed to engaging the services of BWS.

The CPO Cost Analysis on the Oil Transportation Prices takes into account estimates of, *inter alia*:

- (i) Capital costs associated with the purchase of a truck equipped with the appropriate tank for the transportation of CPO and/or CPKO;
- (ii) Fixed costs, being financing, insurance and tax expenses;
- (iii) Variable costs, being maintenance, driver and operating costs;
- (iv) The number of Oil Transportation trips per day that a tanker can make for each zone of distance travelled; and
- (v) Administrative and overhead expense if the Company was to operate the transportation service itself

The CPO Cost Analysis showed that it is cheaper for the Group to engage the Oil Transportation Services of BWS than to operate such services on their own.

(b) Comparison with quotations obtained from independent third parties

The Group has obtained 2 fee quotations from independent third parties for the Oil Transportation Services (the "Oil Independent Quotes"). Based on a diesel price of Rp 8,000 to Rp 11,000, the Oil Independent Quotes are 0.6% to 6.4% higher than the Oil Transportation Prices for the distances described in Section 5.4.3 of the Circular.

#### 5.5.2 Annual review of prices

The Oil Transportation Prices may be adjusted upwards or downwards on an annual basis for a maximum permissible adjustment of 10% of the preceding year's Oil Transportation Prices, to take into account factors such as inflation, increase in wages and changes in market prices.

We note that the Group shall review the Oil Transportation Prices on an annual basis. In addition, we note that as part of the Group's internal control procedures, the Audit and Risk Committee shall review and give its prior approval to any price adjustments made pursuant to the annual review.

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## **APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS**

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### **5.6 Other considerations**

#### **5.6.1 Register of Interested Person Transactions**

We note that the Group will maintain a register of all transactions (including transactions below S\$100,000) carried out pursuant to the Contracts and shall include all information pertinent to these transactions such as, but not limited to the value of the transactions, the basis for determining the applicable Diesel Price, the transaction prices and supporting evidence and quotations obtained to support such basis.

The register shall be prepared, maintained and monitored by personnel of the Group (who shall not be interested in any of the Contracts) who are duly delegated to do so by the Audit and Risk Committee and reviewed by internal auditors on a quarterly basis.

#### **5.6.2 Review by Audit and Risk Committee**

The Audit and Risk Committee shall review the quarterly internal audit reports on the transactions entered into under the Contracts to ascertain that the terms of the Contracts have been complied with. If any member of the Audit and Risk Committee has an interest in a transaction, he shall abstain from participating in the review and approval process in relation to that transaction.

#### **5.6.3 Annual review of prices**

As set out in Sections 3.1.2, 3.2.2, 3.3.2 and 3.4.2 of this Letter, the Group shall review the prices of all the Contracts on an annual basis. Following the annual review, the Group will propose adjustments in the prices to BWS, if required. In addition, as part of the Group's internal control procedures, the Audit and Risk Committee shall review and give its prior approval to any price adjustments made pursuant to the annual review.

We noted during the 5 year 2012 FFB and oil transportation contracts, the Audit and Risk Committee approved up to 9% increase in the base price of the FFB transportation contracts and oil transportation contracts on 12 November 2013. The approval was in accordance to the agreed procedures and was recorded in the Audit and Risk Committee Minutes.

#### **5.6.4 Results of past reviews**

The Audit and Risk Committee has relied on similar review procedures for the 5 year FFB transportation and services contracts / Oil transportation and services contracts approved in 26 April 2012. During the 5 year review period, no irregularities were detected. The Audit and Risk Committee has also implemented all recommendations made by the internal audit team to enhance the review process.

### **6. OUR OPINION**

In arriving at our opinion, we have taken into account the following key considerations which we consider to be pertinent in our assessment of the Contracts:

- (a) rationale for entering into the Contracts;
- (b) comparison with quotations obtained from independent third parties;
- (c) the Group's internal pricing and/or cost analysis; and
- (d) other relevant considerations such as review procedures for the interested person transactions.

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## **APPENDIX A: LETTER FROM 3 PEAKS CAPITAL PRIVATE LIMITED TO THE INDEPENDENT DIRECTORS OF KENCANA AGRI LIMITED IN RESPECT OF THE INTERESTED PERSON TRANSACTIONS**

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**Having considered all of the above and subject to the assumptions and qualifications contained herein, we are of the view that the financial terms of the Contracts are on normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.**

Our opinion, as disclosed in this Letter, is based solely on publicly available information and information provided by the Directors and the Management and therefore does not reflect any projections of future financial performance of the Company or the Group after entering into the Contracts. In addition, our opinion is based on the economic and market conditions prevailing as at the Latest Practicable Date and is solely confined to our views on the Contracts.

Our opinion is issued pursuant to Rule 920 of the Listing Manual as well as addressed to the Independent Directors for their benefit and for the purpose of their consideration of the Contracts. The recommendation to be made by them to the Independent Shareholders shall remain the sole responsibility of the Independent Directors. Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any other persons may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose other than for the purpose of the EGM and for the purpose of the Contracts, at any time and in any manner without the prior written consent of 3 Peaks Capital in each specific case.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully  
For and on behalf of  
**3 PEAKS CAPITAL PRIVATE LIMITED**

Thomas Lam  
Chief Executive Officer

Tong Din Eu

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### KENCANA AGRI LIMITED

(Registration No. 200717793E)  
(Incorporated in the Republic of Singapore)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Kencana Agri Limited (the "**Company**") will be held at Hotel Fort Canning, 11 Canning Walk, Singapore 178881, Room Legends 1 on 29 April 2019 at 2.30 p.m., or immediately after the conclusion of the Annual General Meeting to be held at 2.00 p.m. on the same day and at the same place (or the adjournment thereof) for the purpose of considering and if thought fit, passing with or without modifications, the following resolution as an Ordinary Resolution:-

#### ORDINARY RESOLUTION

##### The Contracts

That:-

- (1) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual, for:
  - (a) the Contracts (as defined in the Circular dated 11 April 2019) and the transactions contemplated therein; and
  - (b) the Group to engage the services of BWS in accordance with the terms of the Contracts;
- (2) the Directors or any one of them be and are hereby authorised to complete and do all acts and things as they or he may consider necessary or expedient for the purposes of or in connection with and to give effect to the transactions contemplated by the Contracts as they or he shall think fit and in the interests of the Company.

By Order of the Board

Phillip Lim Lian Teng  
Company Secretary  
11 April 2019

##### Notes:-

- (1) Terms and expressions not defined herein have the same meanings ascribed to them in the Circular.
- (2) Every Shareholder entitled to attend and vote at the EGM is entitled to appoint one or two proxies to attend and vote on his behalf. A proxy need not be a Shareholder of the Company.
- (3) The instrument appointing a proxy must be signed by the appointer or his attorney duly authorised in writing or, if the appointer is a body corporate, signed by an attorney duly authorised, or by an officer on behalf of the corporation or the common seal must be affixed thereto.
- (4) The instrument appointing a proxy must be deposited at the registered office of the Company at 36 Armenian Street #03-02 Singapore 179934 at least 48 hours before the time fixed for the holding of the EGM or any postponement or adjournment thereof.
- (5) Investors who have used their CPF account savings to buy shares in the capital of the Company and who wish to attend the EGM as observers are to register with their respective CPF agent banks.

##### Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representatives to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

## PROXY FORM

### KENCANA AGRI LIMITED

(Incorporated in the Republic of Singapore)  
(Company Registration Number. 200717793E)

### EXTRAORDINARY GENERAL MEETING

#### IMPORTANT:

1. For investors who have used their CPF monies to buy shares in Kencana Agri Limited, this Circular is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

\*I/We, \_\_\_\_\_ NRIC/Passport No. \_\_\_\_\_

of \_\_\_\_\_

being a member/members of Kencana Agri Limited (the "Company") hereby appoint Mr/ Mrs/ Ms:

Name	Address	NRIC/Passport No.	Proportion of Shareholding (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport No.	Proportion of Shareholding (%)

or failing him/her/them\*, the Chairman of the Extraordinary General Meeting (the "EGM") as my/our\* proxy/proxies\* to attend and vote for me/us\* on my/our\* behalf at the EGM of the Company, to be held on 29 April 2019 at 2.30 p.m., or immediately after the conclusion of the Annual General Meeting to be held at 2.00 p.m. on the same day and at the same place (or the adjournment thereof) at Hotel Fort Canning, 11 Canning Walk, Singapore 178881, Room Legends 1 and any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the Resolutions as set out in the Notice of EGM. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the EGM.)

		Voting on a poll	
No.	Ordinary Resolution	For**	Against**
1.	To approve the Contracts		

\* Delete accordingly

\*\* If you wish to exercise all your votes "For" or "Against", please indicate with an "X" within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2019.

\_\_\_\_\_

\*Signature(s) of Member(s)/Common Seal

**IMPORTANT: PLEASE READ NOTES OVERLEAF**

Total No. of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

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## PROXY FORM

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### Notes:-

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or two proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company and where there is more than one proxy, the proportion of Shares to be represented by each proxy must be stated.
2. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion (expressed as a percentage of the whole) of his shareholding to be represented by each proxy.
3. This instrument of proxy must be signed by the appointor or his/her duly authorised attorney or, if the appointor is a body corporate, signed by a duly authorised attorney or duly authorised officer or affixed with its common seal thereto.
4. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor or by an attorney, the letter or power of attorney or a certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
5. A body corporate which is a member may also appoint by resolution of its directors or other governing body an authorized representative or representatives in accordance with its Constitution and Section 179 of the Companies Act, Chapter 50 of Singapore to attend and vote for and on behalf of such body corporate.
6. This instrument appointing a proxy or proxies (together with the power of attorney (if any) under which it is signed or a certified copy thereof), must be deposited at the registered office of the Company at 36 Armenian Street #03-02 Singapore 179934, not less than 48 hours before the time fixed for holding the Extraordinary General Meeting, failing which this instrument may be treated as invalid.
7. Please insert the total number of Shares held by you. If you have Shares entered against your name on the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Cap 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members of the Company, you should insert the number of these Shares. If you have Shares entered against your name in the Depository Register and registered in your name of the Register of Members, you should insert the aggregate number of these Shares. If no number is inserted, this instrument of proxy shall be deemed to relate to all the Shares held by you.
8. The Company shall be entitled to reject this instrument of proxy if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in this instrument of proxy. In addition, in the case of members whose Shares are deposited with CDP, the Company may reject any instrument of proxy lodged if such members are not shown to have Shares entered against their names in the Depository Register as at 72 hours before the time appointed for holding the Extraordinary General Meeting as certified by CDP to the Company.
9. Terms and expressions not defined herein have the same meanings ascribed to them in the Circular.

### Personal Data Privacy:

By submitting an instrument appointing proxy or proxies and/or representative(s), a member of the Company accepts and agrees to the personal data privacy terms set out in the Notice of Extraordinary General Meeting dated 11 April 2019.