



KENCANA AGRI LIMITED

(Registration No: 200717793E)

RESPONSE TO SGX REGCO'S QUERIES IN RELATION TO THE GROUP'S UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the "Board") of Kencana Agri Limited (the "Company", and together with its subsidiaries, the "Group") would like to announce the following in response to the queries raised by Singapore Exchange Regulation ("SGX Regco") on 3 March 2023 in relation to the Group's announcement of its unaudited condensed financial statements for the year ended 31 December 2022 on 27 February 2023 (the "Announcement"). *Unless otherwise defined, all capitalized terms used herein shall bear the same meanings as ascribed to them in the Announcement.*

1. **Query 1**

The Company indicated that the 19% increase in revenue from US\$128.454 million in FY2021 to US\$152.541 million in FY2022 was due to increases in sales volume and selling prices. Please reconcile this with the decline in gross profit margin from 32% in FY2021 to 28.6% in FY2022.

Company's Response :

The Group's revenue increased by 18.8% while the gross margin decreased from 32.0% to 28.6% in FY 2022. The gross margin was mainly affected by the increase in the production cost of 17.6% from US\$367/MT to US\$432/MT. This has more than offset the increase in the average selling price of CPO of 7.3% over the same period. The increase in the production cost was driven mainly by general inflationary pressure, higher energy cost and disruptions in supply chain. Besides the production cost pressure, the gross margin was also affected by the increase in the purchase of costlier third party FFB for processing of CPO.

2. **Query 2**

Please clarify why the Company received an advance amounting to US\$20.163 million from its customers, as well as the identities of such customers, the advances received from each, and whether the receipt of such advances is typical for the Company and / or its industry.

Company's Response :

In the agriculture commodity industry, it is common practice to enter into forward contracts on the future supply and pricing of commodity in order to ensure supplies and manage price fluctuations. It has been the Group's practice to enter into such supply contracts and receive advance payments in exchange for the commitment to supply to its customers. During the financial year ended 31 December 2022, the Group has entered into such contract with a customer, PT. Karyaindah Alam Sejahtera, and as at the balance sheet date, the amount of outstanding advances that was received was US\$27.620 million, of which US\$20.163 million was a supply commitment to be fulfilled by the Group over a period of more than 12 months.

3. **Query 3**

It is noted that the Company wrote off long overdue payables amounting to US\$1.73 million during the year. Please disclose the reasons why the Company was not able to / did not settle such payables to its supplier resulting in the write-off.

Company's Response :

The long overdue payables were mainly related to trade payables left unclaimed by the creditors for more than 5 years. The billings and invoices of the creditors are generally settled based on the terms and the payment cycle of the Group. Creditors would normally follow up on the settlement of their billings and invoices from time to time. On occasions, where the scope of works, billings and invoices may be disputed, payments will be held back until the matter is resolved. This write off represented mainly the cumulative long overdue payables for which these creditors had not claimed for more than 5 years, and given the passage of time, management is of the view that, it is more likely than not that an outflow of resources will not be required to settle the obligation.

4. **Query 4**

Referring to Note 5 to the condensed consolidated financial statements, where the Company disclosed that a gain of US\$1.7 million from reversal of an impairment of investment in joint venture recorded in 1H2022 was again reversed in 2H2022, please provide more details on what led to such reversal / oversight.

Company's Response :

An accounting entry error was made in the 1H 2022 Group's consolidated financial statements concerning an impairment made in the investment in a joint venture. This inadvertent error was subsequently corrected by the newly appointed accountant when preparing the Group's consolidated financial statements for the financial year ended 31 December 2022.

BY ORDER OF THE BOARD OF KENCANA AGRI LIMITED

Ratna Maknawi
Vice Chairman and Executive Director
8 March 2023