

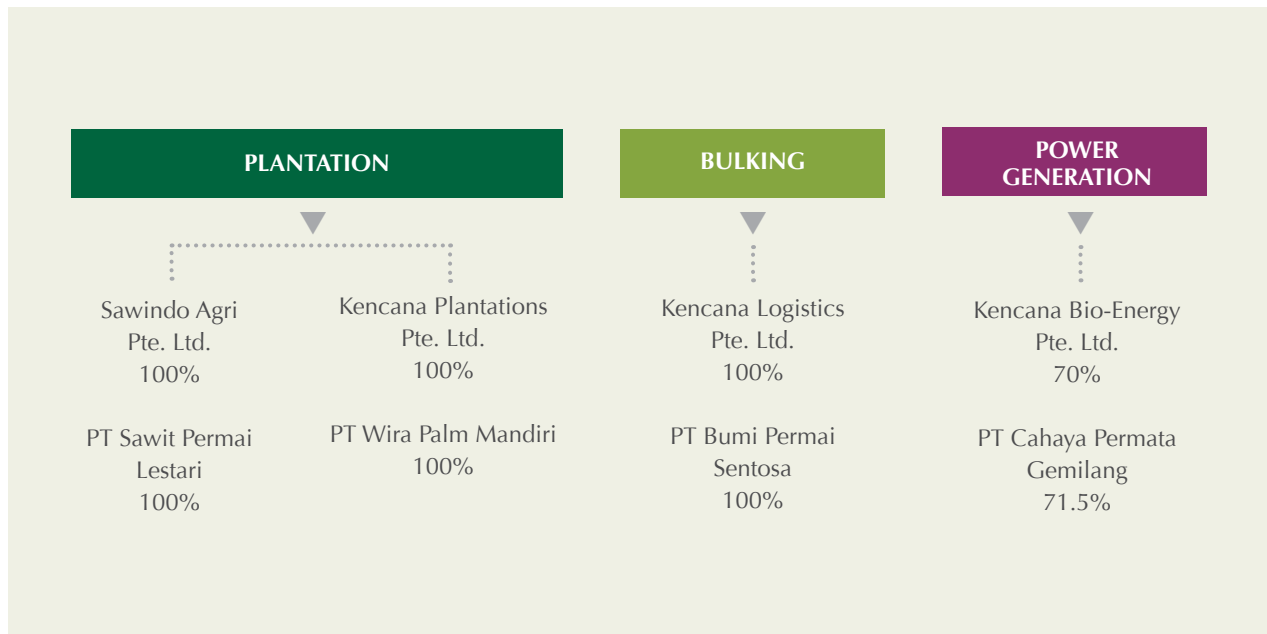


KENCANA AGRI LIMITED

Annual Report 2018



CORPORATE STRUCTURE



CONTENTS

01	Corporate Profile
02	Business and Operations
06	Chairman's Statement
08	Financial and Operational Highlights
13	Key Milestones
14	Sustainability and Corporate Responsibility
18	Board of Directors
20	Key Management Team
21	Corporate Governance
37	Financial Contents



CORPORATE PROFILE



OUR VISION

To be a leading sustainable palm oil producer and supplier of choice for both local and global markets.

OUR MISSION

To expand our plantation business through sustainable and environmentally-friendly best management practices whilst reinforcing our responsibility as a good corporate citizen.

Listed on the Singapore Exchange on 25 July 2008, Kencana Agri Limited ("Kencana" or "the Group") is a plantation company engaged mainly in the cultivation of oil palms; processing of Fresh Fruit Bunches ("FFB") into Crude Palm Oil ("CPO"), Crude Palm Kernel Oil ("CPKO"), Palm Kernel Cake ("PKC") and Palm Kernel ("PK") and provision of bulking services.

Kencana's oil palm plantations are located mainly in Sumatra, Kalimantan and Sulawesi regions of Indonesia. Since its inception in 1996, the Group's planted area has grown to about 67,612 ha in 2018 including plasma. The Group currently has five palm oil mills with total processing capacity of 275 tonnes per hour and two kernel crushing plants with capacity of 435 tonnes per day.

The Group currently has a relatively young palm profile with significant potential for production growth in the coming years as its palms continue to mature and reach peak production.

Of its current land-bank, only 36% is planted. The Group aims to continue to expand its planted area in a sustainable manner over the next few years to ensure steady FFB production growth.

Kencana is committed to growing its plantation business in a sustainable, ecologically and socially acceptable manner. It has adopted environmentally friendly practices in its plantation development such as zero-burning and zero-waste management and is a member of the Roundtable on Sustainable Palm Oil ("RSPO") through its subsidiary PT Sawindo Kencana.

It also sells "green" electricity to the state-owned electricity company PT Perusahaan Listrik Negara ("PLN") from its renewable biomass power plants in Bangka and Belitung islands.

Kencana is also committed to working with and improving the social and economic welfare of the local communities through its plasma and corporate social responsibility programmes.

BUSINESS AND OPERATIONS

Kencana's integrated value chain comprises plantations, palm oil mills, kernel crushing plants, bulking facilities and renewable biomass power plants to support and complement our plantation operations.



PLANTATION

Our oil palm plantations are strategically located in Sumatra, Kalimantan and Sulawesi.

PLANTATION

Total Land Bank	: 186,713 ha
• Nucleus	: 165,479 ha
• Plasma	: 21,234 ha
Total Planted Area	: 67,612 ha
• Nucleus	: 53,301 ha
• Plasma	: 14,311 ha

PROCESSING

We have five palm oil mills and two kernel crushing plants in Sumatra and Kalimantan. One palm oil mill is under construction in Central Sulawesi.

PALM OIL MILLS

No. of Mills	: 5
Processing Capacity	: 275 MT/hour
Mill under construction	: 1
Processing Capacity	: 30 MT/hour

KERNEL CRUSHING PLANTS

No. of Plants	: 2
Processing Capacity	: 435 MT/day

PRODUCTS

Our main products are CPO, CPKO, PKC and PK which are derived from the fresh fruit bunches harvested from our plantations, our plasma farmers, and purchased from third parties.

Our products are typically sold to reputable trading companies, refineries, and oleochemical companies, among others, in Indonesia, Malaysia and other countries.

MAIN PRODUCTS

Crude Palm Oil ("CPO")
Crude Palm Kernel Oil ("CPKO")
Palm Kernel Cake ("PKC")
Palm Kernel ("PK")

RENEWABLE BY-PRODUCTS

Empty Fruit Bunches, Liquid Waste, Kernel Shells, Fibre

SUPPORTING BUSINESS

BIOMASS POWER PLANTS

1st Plant (2005)
Location : Bangka
Capacity : 6.0 MW

2nd Plant (2009)
Location : Belitung
Capacity : 7.5 MW

3rd Plant (2018)
Location : Bangka
Capacity : 6.0 MW

Our bulking facilities complement and support our plantation operations by providing storage facilities for our products.

The "green" electricity generated by our renewable biomass power plants in Bangka and Belitung are mainly sold to the state-owned electricity company PLN. The Bangka power plant has also been approved as a Clean Design Mechanism ("CDM") project, which allows us to sell carbon credits to international markets.

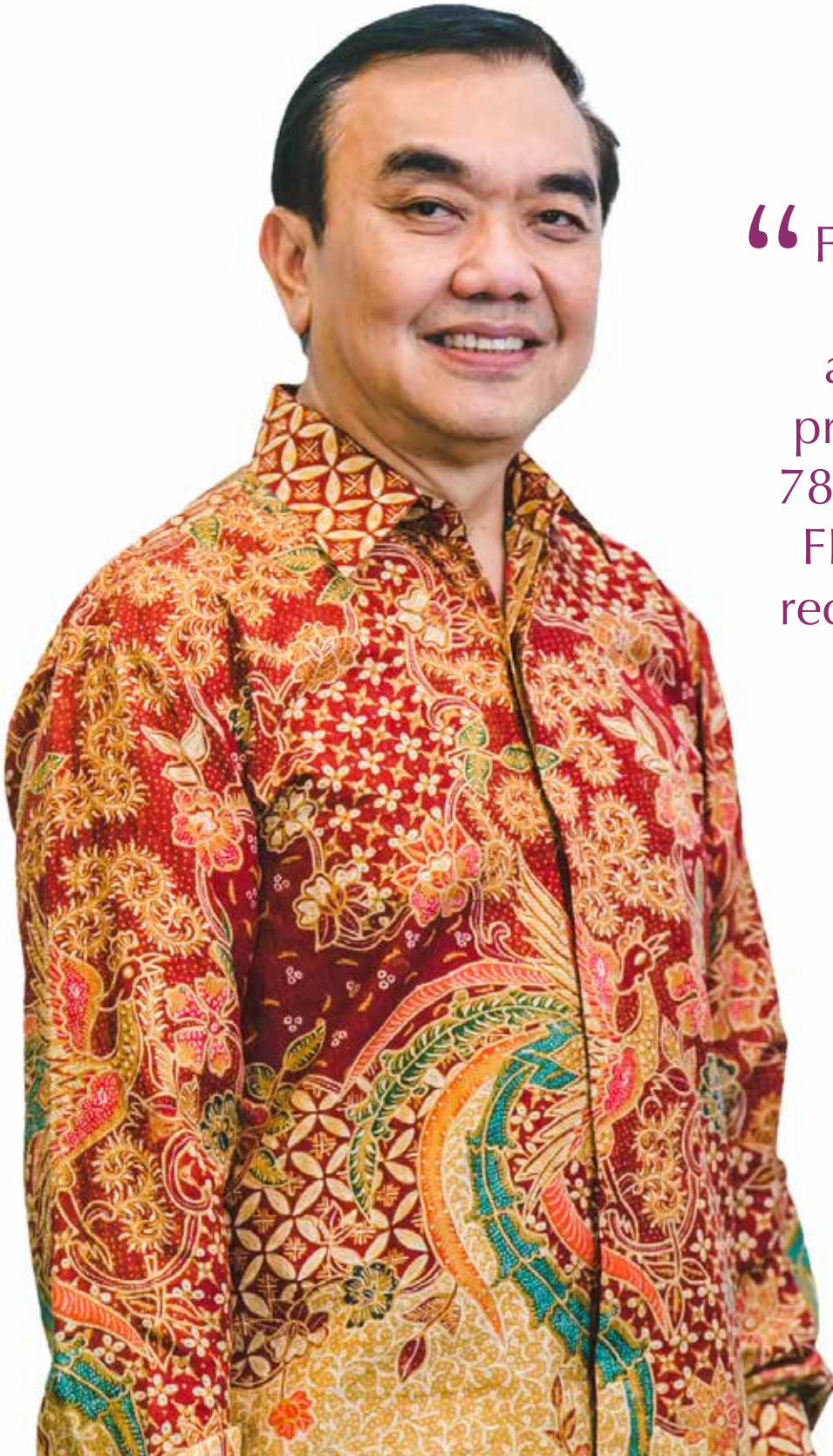


¹ Joint venture with ENCO Sdn. Bhd. in Bangka & Belitung





CHAIRMAN'S STATEMENT



“For the year 2018, we achieved a production of 782,758 MT of FFB. This is a record high for Kencana”

DEAR SHAREHOLDERS

On behalf of the Board of Directors, it is my pleasure to present Kencana's annual report for the year ended 31 December 2018 ("FY2018").

PERFORMANCE

The year 2018 started with weak production in the first quarter but we made a good recovery over the next 3 quarters to achieve a production of 782,758 MT of FFB for the year. This represents a significant 32% increase over last year's production and a record high for Kencana. We expect this uptrend to continue as the maturity profile of our trees continue to improve.

Overall, the Group's revenue decreased by 16% from US\$149.1 million in 2017 to US\$125.0 million in 2018 due to declining CPO prices over the year. Operating Profit ("OP") decreased by 72% from US\$24.4 million in 2017 to US\$6.9 million in 2018 and the Net Profit After Tax ("NPAT") of US\$5.0 million in 2017 reversed to a Net Loss After Tax ("NLAT") of US\$23.8 million in 2018. The performance for the year was affected mainly by the declining CPO prices mentioned above, foreign exchange losses resulting from the depreciation of the IDR against the USD and fair value losses from biological assets. For both these items we have seen a turnaround in the beginning of 2019 and look forward to a better year ahead.

During the year we continued to streamline our operations with the disposal of all the vessels in the logistics arm of our business, leaving only the bulking facilities in strategic locations. We also disposed of the non-strategic plantation in Belitung where we faced challenges in achieving the necessary critical size to operate efficiently. These streamlining processes will release resources in terms of funds and human capital for other core areas that are more productive.

Last year due to the poor CPO prices and weak IDR, we took a conscious effort to rein in capital expenditure and discretionary spending. New planting was slowed down to a minimum. This year, we will monitor the condition closely and concentrate our spending on areas that will have a shorter payback period. One example of such spending would be the construction of our 6th mill in Central Sulawesi which is expected to be commissioned in the first half of 2019. With this new mill in an area where our plantations are fast moving into the mature stage, we can then process the FFB produced and take advantage of the full value chain for CPO production.

SUSTAINABILITY

Kencana strives to develop its plantation business based on best management practices that are sustainable and environmentally friendly, whilst reinforcing our responsibility as a good corporate citizen. We fully embrace the principles and criteria of sustainable palm oil production under the Indonesian Sustainable Palm Oil schemes and are working towards the certification of all our estates and mills.

We recognize that while economic performance is a key driver of business sustainability, other drivers such as environmental, social and governance (ESG) factors also impact business value. Our second Sustainability Report was published in November 2018 and it is available on our website. In the report you will find our commitment towards no deforestation of high carbon stock areas and the preservation of high conservation value areas, no burning and no new planting on peat of any depth as well as no exploitation of human rights. It represents our commitments and progress to becoming a more sustainable palm oil business by balancing our business targets with social and environmental consciousness.

PROSPECTS AND OUTLOOK

With new mature area coming on stream, we have seen a record high production in 2018 and this growth is expected to continue over the next few years. Prices of CPO have been soft recently affected by abundant supply and uncertainties coming from trade tensions between US and China. However, over the long run we are confident that the prospects for palm oil remain positive due to increasing consumption as a result of population growth as well as the limited supply of arable land. The recent development in Indonesia on bio-diesel also auger well for the demand of palm oil as the country's leadership develop their ambitious plan to move in the direction towards B100 and becoming less reliant on imported fuel.

The year 2018 marked our 10th year of listing and the passing of baton to Mr Albert Maknawi who took over as Chief Executive Officer with effect from 1 January 2018. This succession planning has proceeded well and I believe we will soon see the fruits of his leadership in the next few years.

DIVIDEND

In view of the loss for the year and the capital expenditure required in 2019 in order to harness the full potential of our existing assets, the Board is not recommending any dividend to be paid for this financial year. We sincerely appreciate your kind understanding and support to achieve our long term goals.

APPRECIATION

On behalf of the Board of Directors, I would like to thank all our shareholders, customers and creditors for their continued support and all our staff for their commitment, dedication and hard work.

We are confident of meeting future challenges and seizing opportunities which may come our way to take the Group to the next level of growth.

HENRY MAKNAWI
Executive Chairman

FINANCIAL AND OPERATIONAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Summary of Results for FY2018

US\$'000	FY2018	FY2017	% Change
Revenue	124,981	149,060	-16.2%
Gross Profit	24,345	30,492	-20.2%
Operating Profit ("OP")	6,922	24,379	-71.6%
EBITDA	11,964	39,905	-70.0%
(Loss)/Profit Before Tax	(27,074)	10,983	n/m
Net (Loss)/Profit After Tax	(23,848)	4,988	n/m

The Group's revenue decreased by 16% from US\$149.1 million in 2017 to US\$125.0 million in 2018. The decrease was mainly due to lower Average Selling Price ("ASP") of Crude Palm Oil ("CPO") offset by higher sales volume. ASP of CPO decreased 20% from US\$623 in 2017 to US\$498 in 2018 whereas sales volume of CPO increased by approximately 5% from 198,565 MT in 2017 to 208,386 MT in 2018.

The Group recorded an Operating Profit ("OP") of US\$6.9 million in 2018 and a Net Loss for the Year of US\$23.8 million in 2018. The Net Loss for the Year in 2018 was mainly due to lower ASP, fair value loss of biological assets, increase in foreign exchange loss as a result of the IDR weakening against the USD and share of loss from equity accounted joint venture.



Balance Sheet

US\$'000	As at 31 Dec 2018	As at 31 Dec 2017	As at 31 Dec 2016
Current assets	69,215	78,310	68,673
Non-current assets	288,114	312,955	323,512
Total assets	357,329	391,265	392,185
Current liabilities	132,337	97,413	94,881
Non-current liabilities	202,848	245,282	253,697
Total liabilities	335,185	342,695	348,578
Shareholders' equity	22,144	48,570	43,607
Net debt/Equity ratio (%)	1,148.0	563.1	625.4
Net debt/Total assets (%)	71.1	69.9	69.5
Net debt/EBITDA (x)	21.2	7.1	12.9
EBITDA/Interest expense (x)	0.6	2.0	1.1

Total assets decreased by 9.0% from US\$391.3 million as at 31 December 2017 to US\$357.3 million as at 31 December 2018 mainly as a result of:

CURRENT ASSETS:

- increase in inventories amounting to US\$4.5 million due to the purchase of more consumables during the year and higher finished goods awaiting for shipment as at 31 December 2018;
- decrease in biological assets amounting to US\$8.4 million due to lower production forecasted and lower FFB prices;
- decrease in other assets amounting to US\$4.7 million as a result of the reclassification of some advance payments to property, plant and equipment; and
- decrease in assets held for sale amounting to US\$1.3 million due to completion of sale of vessels.

NON-CURRENT ASSETS:

- decrease in other receivables of US\$8.3 million due to receipts from plasma farmers and share of loss from Joint Venture;
- decrease in property, plant and equipment of US\$1.1 million due to depreciation and foreign exchange movements offset by the additions made during the year;
- decrease in bearer plants of US\$15.2 million mainly due to depreciation, disposal from the sale of subsidiary and foreign exchange movements offset by the additions made during the year; and

- increase in deferred tax assets of US\$3.5 million mainly due to additional deferred tax assets recognised in relation to losses for the year.

Total liabilities decreased from US\$342.7 million as at 31 December 2017 to US\$335.2 million as at 31 December 2018, largely due to:

CURRENT LIABILITIES

- increase in short term borrowings of US\$22.1 million due to drawdown of short term loans; and
- increase in trade and other payables of US\$14.2 million due to an increase in customer advances.

NON-CURRENT LIABILITIES

- decrease in long-term borrowings of US\$41.3 million from net repayment of loans.

Shareholders' equity decreased from US\$48.6 million as at 31 December 2017 to US\$22.1 million as at 31 December 2018 mainly due to loss for the year of US\$23.8 million and translation loss of US\$2.5 million for the year.

Net asset value per share for the Group decreased from 16.92 US cents as at 31 December 2017 to 7.72 US cents as at 31 December 2018.

Cash Flow

US\$'000	FY2018	FY2017	FY2016
Cash at the beginning of year	16,692	12,157	8,196
Net cash from operating activities	36,265	13,069	13,009
Net cash (used in)/from investing activities	(10,213)	10,868	(8,567)
Net cash used in financing activities	(24,835)	(19,292)	(713)
Net increase in cash	1,217	4,645	3,729
Net effect of exchange rate changes on cash and cash equivalents	(1,120)	(110)	232
Cash at end of year	16,789	16,692	12,157

The closing cash and cash equivalents (net of bank overdrafts) of the Group increased by US\$0.1 million from US\$16.7 million as at 31 December 2017 to US\$16.8 million as at

31 December 2018. The increase was due to net cash inflow from operating activities offset by net cash outflow from investing and financing activities.

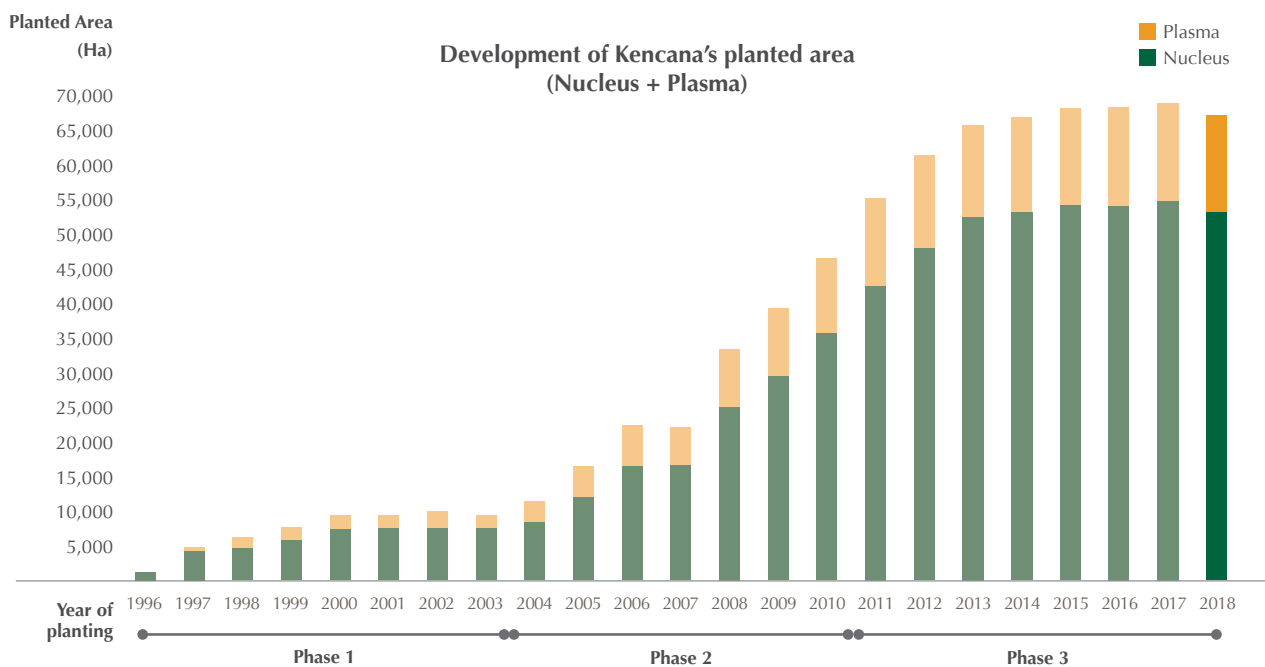
FINANCIAL AND OPERATIONAL HIGHLIGHTS

REVIEW OF OPERATIONAL PERFORMANCE

Decrease in planted area

The Group continued phase 3 of its oil palm cultivation in Sulawesi region after the first two phases in Sumatra and Kalimantan regions. New planted area for the year was 433 ha. This was offset by the disposal of plantations amounting to 1,304 ha. Total planted area for nucleus and plasma was 67,612 ha as at 31 December 2018.

Nucleus planted area decreased by 887 ha to 53,301 ha and plasma planted area increased by 16 ha to 14,311 ha.



Young profile of oil palms drives the potential for strong FFB production growth

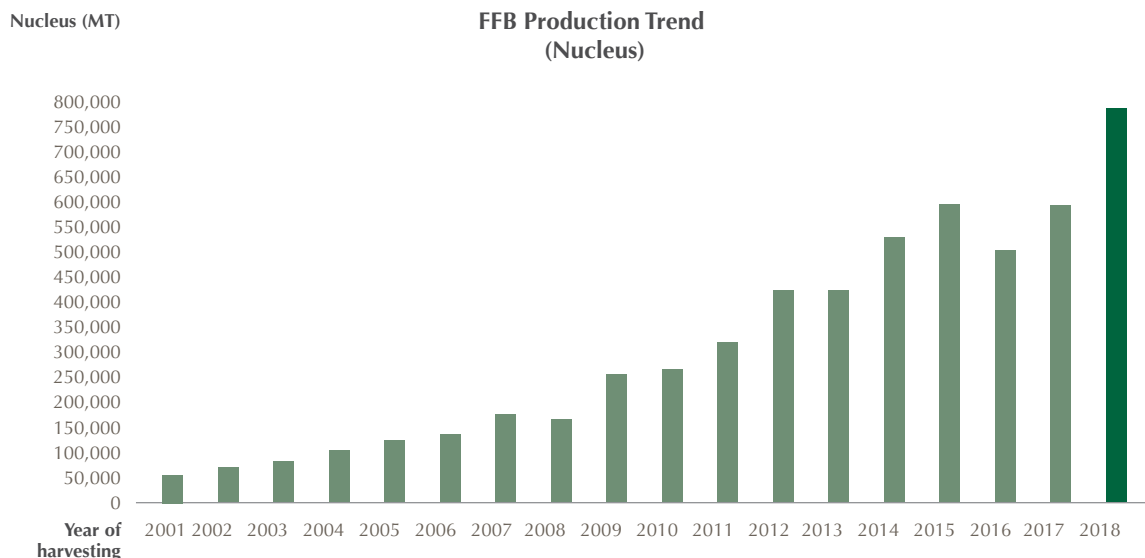
Kencana's growth potential is not fully realised yet because 48% of its nucleus oil palms are in the immature and young mature stage. This shows that Kencana's current profitability is derived mostly from 52% production of its prime mature oil palms.

The young profile of oil palms, with a weighted average age of 10.0 years, will soon enter the prime mature phase. This will drive the potential for strong FFB production growth over the next few years, as the relatively young palms continue to mature and reach peak production stage.

Age Profile	Immature	%	Young Mature	%	Prime Mature	%	Total	%
Nucleus	6,495	12	19,032	36	27,774	52	53,301	100
Plasma	1,173	8	3,616	26	9,522	66	14,311	100
Total	7,668	11	22,648	34	37,297	55	67,612	100

Higher yields from maturing oil palms will lead to increasing production volume

The group's production of Nucleus FFB has increased from 591,471 MT in FY2017 to 782,758 MT in FY2018. Barring unforeseen circumstances, the Group expects its FFB production to continue on an uptrend. With more FFB, CPO production is also expected to ramp up.

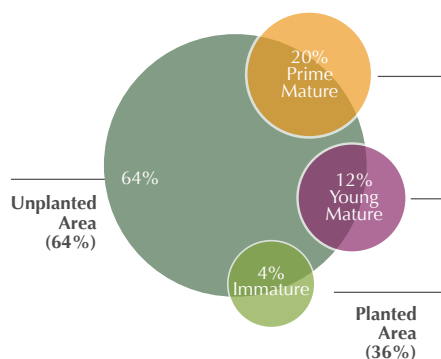


In general, oil palms start to yield FFB after approximately 36 months of age as they enter the young mature phase. After which, their average FFB yields will increase exponentially from the initial 5-6 MT/ha to up to 22-28 MT/ha when they enter their prime years.

FFB Yield Parameters & Assumptions	Immature	Young Mature			Prime Mature
Oil Palm Age (years)	1 - 3	4	5	6	7 - 20
Average FFB yield (MT/ha)	0	5 - 6	10 - 12	16 - 18	22 - 28

Significant unplanted land bank presents immense opportunities for future expansion

As at 31 December 2018, the Group had a total land bank of 186,713 ha (Nucleus and Plasma), with 64% of the area unplanted. There is ample headroom for the Group to pursue its planting programme and gradually achieve a better mix of immature and mature oil palms to deliver sustainable production growth.



Total Land Bank 186,713 ha (Nucleus + Plasma)

Land Bank (ha)	Planted Area (ha)	%	Unplanted Area (ha)	%	Total	%
Nucleus	53,301	32	112,178	68	165,479	100
Plasma	14,311	68	6,923	32	21,234	100
Total	67,612	36	119,101	64	186,713	100

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2018	2017	2016
LAND BANK (HA)	186,713	187,291	185,709
Nucleus	165,479 89%	165,837 89%	164,505 89%
Plasma	21,234 11%	21,454 11%	21,204 11%
PLANTED AREA (HA)	67,612	68,483	68,220
Nucleus	53,301 79%	54,188 79%	54,175 79%
Plasma	14,311 21%	14,295 21%	14,045 21%
PLANTED PROFILE (HA)			
Nucleus	53,301	54,188	54,175
1 - 3 years (Immature)	6,495 12%	11,465 21%	13,236 25%
4 - 6 years (Young mature)	19,032 36%	17,045 32%	18,638 34%
7 - 20 years (Prime mature)	27,774 52%	25,678 47%	22,301 41%
Plasma	14,311	14,295	14,045
1 - 3 years (Immature)	1,173 8%	1,398 10%	1,789 13%
4 - 6 years (Young mature)	3,616 25%	5,043 35%	4,557 32%
7 - 20 years (Prime mature)	9,522 67%	7,854 55%	7,699 55%
PRODUCTION VOLUME (MT)			
FFB Production	992,722	758,893	637,314
Nucleus	782,758 79%	591,471 78%	502,933 79%
Plasma	209,964 21%	167,422 22%	134,381 21%
FFB Processed	979,115	723,966	622,476
Oil Production			
CPO	197,149	147,716	130,003
CPKO	-	3,721	3,349
AVERAGE FFB YIELD (MT/HA)			
Nucleus	16.7	13.8	12.3
Plasma	16.0	13.0	11.0
OIL EXTRACTION RATES			
CPO	20.1%	20.4%	20.9%
CPKO	-	43.3%	43.3%
SALES VOLUME (MT)			
CPO	208,386	198,565	211,508
CPKO	-	5,185	2,800
AVERAGE SELLING PRICE (US\$/MT)			
CPO	498	623	585
CPKO	-	1,155	1,036

KEY MILESTONES 1995-2018

2012 - 2018

- Commenced construction of sixth palm oil mill in Central Sulawesi in 2018
- Completed the sale of joint venture with Louis Dreyfus Company in May 2017
- PT. Sawindo Kencana and PT. Alamraya Kencana Mas received International Sustainability and Carbon Certification (ISCC), allowing our CPO to be used as feedstock in biodiesel production
- PT. Sawindo Kencana, PT. Alamraya Kencana Mas and PT. Sawit Kaltim Lestari received Indonesian Sustainable Palm Oil (ISPO) Certification
- PT. Sawindo Kencana was awarded the Padmamitra Award for Corporate Social Responsibility in December 2016 by the Ministry of Social Affairs (Kementrian Sosial Republik Indonesia)
- Issued first sustainability report in August 2016
- Completed construction of fifth palm oil mill in East Kalimantan; commenced operations in October 2015
- Commenced joint venture operations for bio-energy (JV with Enco) in FY2014
- Acquired 23,000 ha of landbank in Sulawesi region

2009 - 2011

- Built fourth palm oil mill in East Kalimantan, commenced operations in March 2012
- Started phase 3 of palm oil cultivation in Sulawesi, after the first two phases in Sumatra and Kalimantan
- Raised S\$52.5 million when the Wilmar Group became a 20% strategic shareholder in Kencana Agri in 2010
- Signed an Emissions Reduction Purchase Agreement ("ERPA") with the Danish Ministry of Climate and Energy to sell Certified Emission Reduction ("CER") credits from our biomass power plant at Bangka Island in 2010
- Acquired 80,000 hectares of land in Sulawesi, Indonesia in 2009
- Entered into a joint venture with Louis Dreyfus Group to build and operate a deep water port in Balikpapan in 2009

2008

- Listed on the Main Board of the Singapore Exchange in July 2008

2004 - 2007

- Signed a contract to supply green electricity from our biomass power plant at Bangka Island to the state owned electricity firm, PT. Perusahaan Listrik Negara ("PLN") in 2007
- Acquired 46,000 hectares of land in East Kalimantan in 2005
- Built our first biomass power plant on Bangka Island in 2005
- Built and operated our first oil barge in 2004
- Acquired 12,000 hectares of land in East Kalimantan in 2004

1995 - 2003

- Started CPO and CPKO storage operations at our bulking terminal in Belinyu in 2002
- Began CPKO production at our first kernel crushing plant on Bangka Island with a capacity of 100 MT/day in 2002
- Began CPO production at our palm oil mill at Bangka Island with a capacity of 30 MT/hour in 2001
- Commenced planting oil palms in South Kalimantan in 1998
- Acquired 15,000 hectares of land in South Kalimantan in 1997
- Began planting oil palms in Sumatra in 1996
- Began operations by acquiring 9,000 hectares of land on Bangka Island in 1995



SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Kencana Agri strives to develop its plantation business based on best management practices that are sustainable and environmentally friendly, and also seeks, wherever possible, to ensure compliance with applicable government rules and regulations in areas where we operate.

This is realised through continuous balanced assessment and development of its operations while simultaneously conserving and improving the natural environment, and uplifting the socioeconomic conditions of our employees, local communities, and smallholders (plasma farmers). Being a good corporate citizen, we would also seek guidance from the local authorities and local communities whenever there is any inconsistency or conflict between the provisions of this sustainability policy and the prevailing applicable rules and regulations.

ENVIRONMENTAL MANAGEMENT

We are mindful that some aspects of our plantation and mill operations impact the environment. Therefore, prior to expanding any of our plantation and mill operations, we undertake a comprehensive and participatory independent social and environmental impact assessment to identify any potential negative impact and ensure that we comply with the prevailing governmental rules and regulations. The findings from the assessments are taken into account when planning and managing any new plantings.

Our Environmental Management sustainable commitments are as follows:

- No deforestation of high carbon stock ("HCS") forest areas and no further land clearing of potential HCS areas until the results of the proposed HCS study are adopted.
- No deforestation of high conservation value ("HCV") areas.

- Apply a zero burning policy in respect of new planting and replanting.
- Refrain from undertaking new development on peat land of any depth.
- Endeavour to align ourselves with the industry practices and standards generally adopted by the market in relation to sustainable palm oil production.

COMMUNITY DEVELOPMENT AND SOCIAL IMPACT

As part of our commitment to improve the social and economic welfare of the local communities in the areas where we operate, we are fully committed in our Plasma Programme and have implemented a multi-pronged Corporate Social Responsibility ("CSR") programme. We believe that through these community development programmes, we are able to establish good rapport with the local community, which is one of the key factors in ensuring the success of our plantation management.

Through our Plasma Programme, over 8,000 local villagers who were previously plantation workers have now become new plantation owners. As plantation owners, local villagers benefit economically and socially with increased income and better welfare. Additionally, in order to give them better support, these farmers were given training and education in oil palm cultivation. We believe that the improvement in their income will have a multiplier effect on the economy of the entire local community.





Our Community Development and Social Impact sustainable commitment as follows:

- Continually develop our plasma program based on applicable Indonesian laws and regulations.
- Facilitate the inclusion of qualified smallholders into the supply chain.
- Implement corporate social responsibility programs.
- Respect the rights of indigenous and local communities to give or withhold their Free, Prior and Informed Consent (FPIC) on lands to which they hold legal, communal or customary rights in line with applicable government regulations.
- Endeavour to resolve complaints and conflicts through an open, transparent and consultative process.
- Respect land tenure rights.

HUMAN RIGHTS AND WORKPLACE

We respect human rights in all aspect and recognise the rights of all workers of our company. We value the diverse culture of Indonesia, and to further foster cultural values, we sponsor and participate in traditional events and social functions. We also contribute to the social and cultural welfare of the local communities by helping to build and repair places of worship such as mosques, churches and temples. In this way, we are able to maintain strong ties with the local communities.

Our Human Rights and Workplace sustainable commitment as follows:

- Respect and support the Universal Declaration of Human Rights.
- Respect and recognise the rights of all workers, including contract, temporary and migrant workers.
- Comply with minimum wage policies.
- Prohibit child labour and forced labour at every stage of our operations.
- Promote a healthy and safe working environment.







BOARD OF DIRECTORS



MR HENRY MAKNAWI, 64
Executive Chairman

Mr Henry Maknawi is responsible for the overall business strategies and policies of the Group. He has developed his expertise in business operations and development based on his knowledge and experience gained in the plantation industry over 20 years. In November 1994, he was conferred the Primaniyarta award for outstanding export from 1989 to 1993 by the late President Soeharto, the second President of the Republic of Indonesia who held office from 1967 to 1998. The Primaniyarta award is the highest award from the Indonesian Government issued by the Menteri Perdagangan Republik Indonesia (Trade Minister of the Republic of Indonesia) and National Agency for Export Development given to exporters at the national and provincial levels for their achievements in increasing non-oil and gas exports.



TENGKU ALWIN AZIZ, 76
Vice-Chairman and Independent Director

Tengku Alwin Aziz has been appointed as Vice-Chairman since 2008. He is also an Independent Commissioner of PT Baramulti Suksessarana Tbk, an Indonesian listed company in the coal mining business and was an Independent Commissioner of PT. London Sumatra Indonesia Tbk, an Indonesian listed company in the palm oil and rubber plantation business from 2000 to 2015. He was appointed by the Indonesian authorities as an interim President Director of PT. Bank Umum Nasional from 1998 to 1999 to oversee the structuring of the bank. Prior to this, he served as an Executive Director of Bank Dagang Negara from 1992 to 1997 and as President Commissioner of various finance companies (including subsidiaries of Bank Dagang Negara) from 1990 to 1998. He also held the post of Managing Director of Staco International Financial Ltd in Hong Kong from 1990 to 1992. He graduated in 1968 with an Economics degree majoring in Accountancy from Universitas Sumatera Utara, Medan.



MS RATNA MAKNAWI, 49
Executive Vice-Chairman

Ms Ratna Maknawi was appointed as the Group's Executive Vice-Chairman on 1 January 2018. Prior to this, she served as Deputy CEO, managing the Group's overall business operations and development from 2008 until end of 2017.

She started as Finance Manager in 1993 and had played pivotal senior management roles in the growth and development of the Group's diverse businesses before advancing to her present position.

Ms Ratna Maknawi graduated cum laude from the University of Wisconsin-Whitewater, USA with a Bachelor of Business Administration (Accounting major).



MR SOH YEW HOCK, 75
Lead Independent Director

Mr Soh Yew Hock has been appointed as Lead Independent Director and Chairman of the Audit and Risk Committee since 2008. He has extensive experience in commerce and industry and is presently also the Chairman of CK Tang Limited. Mr Soh has previously served as a director of several listed companies in Singapore and Malaysia and was CEO & Managing Director of Wearnes International (1994) Limited. He is a Fellow of the Institute of Singapore Chartered Accountants, Certified Practising Accountants (Australia), Association of Chartered Certified Accountants (UK), Chartered Institute of Marketing (UK) and Singapore Institute of Directors. He holds a Bachelor of Accountancy degree from the University of Singapore (now National University of Singapore) and is a graduate of the Chartered Institute of Marketing (UK) and the Advanced Management Program of Harvard Business School. Mr Soh was a past President of CPA (Australia) Singapore Division.



MR SIM IDRUS MUNANDAR, 65
Independent Director

Mr Sim Idrus Munandar has been appointed as Independent Director since 2010. He is also an Independent Director of Samko Timber Limited since December 2007. From August 2011 to April 2015, he was an Independent Commissioner of PT BCA Finance and prior to 2005 he was the President Director of PT. Bina Danatama Finance Tbk, public listed companies in Indonesia engaged in the financing business. Mr Sim obtained a Bachelor Degree in Economics in 1981 from the University of Indonesia.



MR DARWIN INDIGO, 37
Non-Executive and
Non-Independent Director

Mr Darwin Indigo has been appointed as Non-Executive Director since 2013. He is currently the Country Head – Indonesia of Wilmar International Limited. Mr Darwin graduated from Curtin University with a Bachelor of Commerce (Finance) degree in 2002 and was on the Vice Chancellor's list. He also holds a Master of Business Administration degree from the University of Technology, Sydney.

KEY MANAGEMENT TEAM



MR ALBERT MAKNAWI

Chief Executive Officer /
Chief Operating Officer

Mr Albert Maknawi was appointed as CEO with effect from 2018. He is also the COO and has held that position since 2011. He first joined the Group in 2004, as Technical Manager of PT Sawindo Kencana and was in charge of managing daily operations of mills and purchasing of plant and equipment. Since 2005, he has been a director of PT Listrindo Kencana and is responsible for the development and construction of our renewable biomass power plant operations. He has been a director of PT Belitung Energy since 2006, where he is the founder and project leader responsible for the construction of our Belitung power plant. Mr Albert Maknawi graduated in 2004 from the University of Melbourne, Australia with a Bachelor of Engineering (Honours) and a Bachelor of Commerce.



MR HARTONO JAP

Chief Financial Officer

Mr Hartono Jap is responsible for treasury and cash flow management, finance and accounting, corporate finance, IT, tax compliance and financial reporting at our Group. His career started at American Express Bank (1995-1999), with last position as Manager Corporate Banking. He then moved to ABN AMRO (1999-2006), with last position as VP Chemicals and Healthcare Sector Banker before moving to UBS Singapore (2006-2008) as their Wealth Management Director. Next, he worked at Bank ICB Bumiputera Tbk (2009-2012) as their Business Banking Director before being given an additional role of Consumer Banking Director in 2011. He last worked at Intan Baruprana Finance Tbk (2012-2017) as President Director, where he succeeded to bring the company go public in December 2014 before finally joining our Group. He graduated with High Honors (Magna Cum Laude) with a major in Finance for his BBA from the University of Texas at Austin in 1992 and his MBA in General Management from Boston University in 1995.



MR PHILLIP LIM

Financial Controller

Mr Phillip Lim joined our group in December 2012 as Financial Controller and is responsible for the Group's financial and accounting matters. Prior to joining the group, Mr Lim has been the Financial Controller of various MNCs for more than 10 years during which his tenure included postings to Argentina, Kazakhstan and China covering areas of financial and management reporting, ERP system implementation and setting up of companies overseas. Mr Lim graduated from the National University of Singapore with a Bachelor of Accountancy degree in 1990. He is a Fellow of the Institute of Singapore Chartered Accountants.

CORPORATE GOVERNANCE REPORT

The Board of Kencana Agri Limited (the “Company”) and its Management are committed to ensuring high standards of corporate governance so as to ensure transparency, to protect shareholders’ interests and promote investors’ confidence.

This report describes the Group’s corporate governance structures and practices that were in place throughout the financial year ended 31 December 2018, with specific reference made to the principles of the Code of Corporate Governance 2012 (the “Code”).

The Board is pleased to confirm that for the financial year ended 31 December 2018, the Group has adhered to the principles and guidelines as set out in the Code. In so far as any guideline has not been complied with, the reason has been provided.

On 6 August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (the “2018 Code”) and accompanying Practice Guidance. The 2018 Code supersedes and replaces the Code and will apply to Annual Reports covering financial years commencing from 1 January 2019. The Group will review and set out corporate practices in place to comply with the 2018 Code, where appropriate, in the next Annual Report.

BOARD MATTERS

The Board’s Conduct of Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the Company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and the Management remains accountable to the Board.

The Board currently consists of six members:

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

The Board is entrusted with the responsibility of the overall management of the Company. The principal function of the Board is to protect and enhance long-term value and returns for its shareholders. Besides carrying out its statutory responsibilities, the Board’s role is to:

- a) approve corporate objectives, plans, strategies, policies and financial objectives of the Group and monitoring the performance of Management;
- b) oversee the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- c) approve nominations and appointments of Board directors, committee members and key personnel;
- d) approve proposals with regard to annual budgets, investments, capital expenditures, major acquisitions and divestments;
- e) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation; and
- f) assume responsibility for corporate governance.

Every director is required to objectively discharge his duties and responsibilities at all times as fiduciary and takes decisions in the interests of the Company.

The Board meets regularly to review the Group’s performance, to deliberate on specific issues including major acquisitions and disposals, to approve the annual budget and to approve the release of the quarterly, half-yearly and year-end financial results. There is an objective decision making process, which allows each director to engage in constructive discussion and make decisions in the best interests of the Company.

CORPORATE GOVERNANCE REPORT (cont'd)

A schedule of all Board and Board Committee meetings as well as the Annual General Meeting for the next calendar year is planned in advance. The Board meets at least four times a year. In addition to the scheduled meetings, ad-hoc board briefings, conference calls and physical meetings are held as warranted by particular circumstances or as deemed appropriate by the Board members. The Company's Constitution permits meetings of the directors to be conducted by telephone or other methods of simultaneous communication by electronic means. The Board and Board Committees may also make decisions through circulating resolutions.

A total of five board meetings were held in the year 2018. The details of attendance of the formal meetings by individual directors are as follows:

	Number of meetings held	Number of meetings attended
Henry Maknawi	5	5
Ratna Maknawi	5	5
Tengku Alwin Aziz	5	5
Soh Yew Hock	5	5
Sim Idrus Munandar	5	5
Darwin Indigo	5	4

To assist the Board in the execution of its duties, the Board has established various Board Committees, namely the Nominating Committee ("NC"), the Remuneration Committee ("RC") and the Audit & Risk Management Committee ("ARC"). Each of these committees is empowered to make decisions on matters within its terms of reference.

All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company. Minutes of all Board Committee meetings held are made available to the Board members. The Board acknowledges that while these Board Committees have the authority to examine specific issues and reports back to the Board with their decisions and recommendations, the ultimate responsibility on all matters lies with the Board.

The Group has adopted guidelines setting forth matters that require Board approval. The types of material transactions that require Board approval under such guidelines include:

- Strategies and objectives of the Group;
- Budgets/Forecasts;
- Announcement of quarter, half-year and full year results, and release of annual report;
- Issuance of securities;
- Declaration of interim dividends and proposed final dividends;
- Convening of shareholders' meetings;
- Material acquisition/investment, divestment or capital expenditure; and
- Corporate or financial restructuring.

The Board reviews these internal guidelines to ensure their relevance to the operations of the Group.

Board members are apprised of the business and operations of the Company on a regular basis either through formal or informal meetings and discussions. They are also encouraged to attend seminars and receive training to improve themselves in the discharge of their duties as directors. The Company works closely with professionals to update its directors with changes to relevant laws, regulations and accounting standards.

There were no new directors appointed during the financial year. When a new director is appointed, the Company will conduct a comprehensive orientation program. This is to provide the new director with background information about the Group's structure and core values, its strategic direction and corporate governance practices as well as industry-specific knowledge. The orientation program gives the new director an understanding of the Group's businesses to enable him to assimilate into his new role. It also allows the new director to get acquainted with the Management, thereby facilitating interaction and independent access to the Management. The Company will also provide the newly appointed directors with a formal letter setting out the duties and obligations of a director.

CORPORATE GOVERNANCE REPORT (cont'd)

The directors are provided with continuous briefings and updates in areas such as changes in company law, changes in SGX listing rules, corporate governance practices and changes in financial reporting standards, so as to enable them to make well-informed decisions. Where possible and when opportunity arises, the directors will be invited to locations within the Group's operating businesses to enable them to obtain a better perspective of the business and enhance their understanding of the Group's operations. New releases issued by the Singapore Exchange Securities Trading Limited ("SGX-ST") and Accounting and Corporate Regulatory Authority ("ACRA") which are relevant to the directors are also circulated to the Board.

The Board as a whole is updated regularly on corporate governance, industry specific knowledge and the key changes in the relevant regulatory requirements and financial reporting standards, so as to enable them to properly discharge their duties.

The directors may also attend other appropriate courses, conferences and seminars, at the Company's expense. They can also request for further explanations, briefings or information on any aspect of the Company's operations or business issues from Management.

For FY2018, the external auditors, RSM Chio Lim LLP, briefed the ARC and the Board on the developments in financial reporting and governance standards. The Chief Executive Officer also updated the Board at each meeting on business and strategic developments pertaining to the Group's business.

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Company endeavours to maintain a strong and independent element on the Board. As at the date of this report, half of the Board members are independent directors. Accordingly, the Company is in compliance with the requirement of the Code where independent directors should make up at least half of the Board, where the Chairman of the Board and the Chief Executive Officer ("CEO") are immediate family members.

To strengthen the independence of the Board, Mr Soh Yew Hock is appointed as the Lead Independent Director and he will be the principal liaison in the event that any issues arise between the Independent Directors and the Executive Directors. He is available to address the concerns of shareholders, employees or other persons in the event that interaction with the Chairman or CEO has failed to satisfactorily resolve their concerns or where such channel of communications is considered inappropriate.

The NC determines on an annual basis whether or not a director is independent, taking into account the Code's definition of an "independent" director and guidance on relationships, the existence of which would deem a director not to be independent. A director who has no relationship with the Company, its related corporations, its 10% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of his independent judgement in the best interests of the Company, is considered to be independent.

In line with the guidance in the Code, the Board takes into account the existence of relationships or circumstances that are relevant in its determination as to whether a director is independent, including (i) the employment of a director by the Company or any of its related corporations; (ii) employment of an immediate family member by the Company or any of its related corporations and whose remuneration is determined by the RC; (iii) the acceptance by a director of any significant compensation from the Company or any of its related corporations, other than compensation for board service; (iv) a director being related to any organisation from which the Company or any of its subsidiaries received significant payments or material services; (v) a director who is a 10% shareholder of the Company or is an immediate family member of a 10% shareholder of the Company; (vi) a director who is or has been associated with a 10% shareholder of the Company, for the current or any of the past three financial years.

Each Independent Director is required to complete a Director's Independence Form annually to confirm his independence. For FY2018, the NC carried out a review on the independence of each Independent Non-Executive Director based on the foregoing considerations, the respective Director's Independence Form and their actual performance on the Board and Committees. Having carried out their review, the NC is satisfied that the three directors, who are non-executive, are independent.

CORPORATE GOVERNANCE REPORT (cont'd)

The Board recognises that the Independent Directors may over time develop significant insights in the Group's businesses and operations, and can continue to provide noteworthy and valuable contribution to the Board. The independence of the Independent Directors is based on the substance of their professionalism, integrity, objectivity and not merely based on the number of years which they have served on the Board.

Currently, Mr Soh Yew Hock and Tengku Alwin Aziz have served on the Board for more than nine years from the date of their first appointment. The Board has subjected their independence to a rigorous review before extending their tenure as directors. After due consideration and with the concurrence of the NC, the Board is of the view that Mr Soh Yew Hock and Tengku Alwin Aziz have demonstrated strong independence of character and judgement over the years in discharging their duties and responsibilities as the Independent Directors of the Company with the utmost commitment in upholding the interests of the shareholders. Mr Soh Yew Hock and Tengku Alwin Aziz do not represent any substantial shareholder of the Company and they are not accustomed or under an obligation whether formal or informal, to act in accordance with the directions, instructions or wishes of any shareholder. They have always been objective, frank and candid in expressing their opinions during meetings. They would raise queries, objectively debate and scrutinise issues in meeting discussion. They will also seek clarification as they deemed necessary, including direct access to the Management. In addition, Mr Soh Yew Hock and Tengku Alwin Aziz had declared their independence and confirmed that they had no relationships with the Company or any of its related corporation which would affect or interfere with the exercise of their judgement.

Taking into account the above, and having weighed the need for the Board's refreshment against tenure for relative benefit, the Board is satisfied that Mr Soh Yew Hock and Tengku Alwin Aziz have and will continue to exercise independent business judgement with the view to the best interests of the Company, notwithstanding the length of tenure of their service.

The Board is of the opinion that its current size of six Board members is both effective and efficient. The Board's structure, size and composition is reviewed annually by the NC who is of the view that the current size of the Board is appropriate, taking into account the nature and size of the Group's business and operation, to facilitate effective decision making.

In recommending new appointments to the Board, the NC takes into consideration the balance and diversity of skills, calibre, experience, expertise, attributes, ability and gender, amongst other factors, required to support the Group's business activities or strategies, the current composition and size of the Board, and strives to ensure that the Board has an appropriate balance of Independent Directors.

To facilitate the annual review of the directors' mix of skills and experiences that the Board requires to function competently and efficiently, all directors will provide information of their areas of specialization and expertise to the NC. The NC, having reviewed such information, is satisfied that the Board members possess a balanced field of core competencies such as accounting and finance, business and management experience and the requisite industry knowledge to lead the Company. The Board includes a female director in recognition of the importance and value of gender diversity. Details of the Board members' qualifications and experience are presented in this Annual Report under the heading "Board of Directors" on pages 18 to 19.

Management regularly puts up proposals or reports for the Board's consideration and approval, for instance, proposals relating to specific transactions or general business direction or strategy of the Group. Independent Non-Executive Directors, will then evaluate these proposals or reports and where appropriate, provide guidance to Management. Where required, Independent Non-Executive Directors will meet without the presence of Management to review any matter that may be raised privately.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The Chairman and Chief Executive Officer of the Company are separate individuals but are however, immediate family members. The Chief Executive Officer of the Company, Mr Albert Maknawi, is the son of Mr Henry Maknawi, the Chairman of the Company.

All major proposals and decisions are discussed and reviewed by the Board. The Chairman and CEO's performance and appointment to the Board is reviewed by the NC and their remuneration packages are reviewed by the RC. The ARC and RC consist of all independent directors and the NC consists of a majority of independent directors. Given this, the Board believes that there are sufficient strong and independent elements and safeguards in place against an uneven concentration of power and authority.

CORPORATE GOVERNANCE REPORT (cont'd)

The roles of the Chairman and Chief Executive Officer are separate and their responsibilities are clearly defined to ensure a balance of power and authority within the Company.

The Chief Executive Officer, Mr Albert Maknawi, has full executive responsibilities of the overall business and operational decisions of the Company.

As Chairman of the Board, Mr Henry Maknawi is responsible for leading the Board and facilitating its effectiveness. The Chairman's duties and responsibilities include:-

- a) Leading the Board to ensure it is effective in its role;
- b) Setting directions and agendas for the Company and scheduling of meetings to enable the Board to perform its duties responsibly;
- c) Ensuring the proper conduct of meetings and accurate documentation of the proceedings;
- d) Ensuring the smooth and timely flow of information between the Board and Management;
- e) Ensuring compliance with internal policies and guidelines of the Company and high standards of corporate governance;
- f) Ensuring effective communication with shareholders through investors' relationship channels and timely announcements of Company's development; and
- g) Encouraging constructive relations between the Board and Management as well as between all directors.

In addition to the above duties, the Chairman will assume duties and responsibilities as may be required from time to time.

A Lead Independent Director, Mr Soh Yew Hock, has been appointed, since the listing of the Company, to be an alternative avenue for shareholders and other directors to raise their concerns where raising through the normal channels of the Chairman or CEO has failed to resolve, or where such contact is inappropriate.

The Independent Directors meet on a need-to basis amongst themselves and with the Company's external auditors and internal auditors without the presence of Management to discuss matters such as the Group's financial performance, corporate governance and risk management initiatives, board processes and any internal audit observations.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

The NC is established and it comprises 3 members, the majority of whom, including the Chairman, are non-executive independent directors.

Chairman : Tengku Alwin Aziz
Member : Soh Yew Hock
Member : Henry Maknawi

The NC is established for the purposes of ensuring that there is a formal and transparent process for all Board appointments. It has adopted written terms of reference defining its membership, administration and duties. The NC held one meeting in 2018. The details of the attendance are as follows:

	Number of meetings held	Number of meetings attended
Tengku Alwin Aziz	1	1
Soh Yew Hock	1	1
Henry Maknawi	1	1

CORPORATE GOVERNANCE REPORT (cont'd)

The duties of the NC are as follows:

- (a) To make recommendations to the Board on all Board appointments, including development of a set of criteria for director appointments, which includes qualifications of director; ability to exercise sound business judgements, relevance to the Company and the industry and appropriate personal qualities;
- (b) To re-nominate directors having regard to the director's contribution and performance (e.g. attendance, participation and critical assessment of issues deliberated upon by the Board) including, if applicable, as an independent director;
- (c) To determine annually whether or not a director is independent;
- (d) To decide how the Board's performance may be evaluated and propose objective performance criteria; and
- (e) To assess the effectiveness of the Board as a whole.

The NC regards succession planning as an important part of corporate governance and the Company has an internal process of succession planning for directors and the CEO to ensure the progressive and orderly renewal of Board membership.

The NC is responsible for identifying candidates and reviewing all nominations for the appointment of new directors. The search and nomination process will be through search companies, contacts and recommendations. The NC will review and assess candidates before making recommendation to the Board. In recommending new directors to the Board, the NC takes into consideration the individual's skills, calibre and experience required to support the Group's business activities or strategies, the current composition and size of the Board, and strives to ensure that the Board has an appropriate balance of independent directors as well as directors with the right profile of expertise, skills, attributes and ability.

The role of NC also includes the reviewing of the re-nomination of directors who retire by rotation, taking into consideration the director's integrity, independence, contribution and performance. The Constitution of the Company requires one third of the directors to retire and subject themselves to re-election by the shareholders in every Annual General Meeting ("AGM"). All directors of the Company shall retire from office at least once every three years. The Constitution of the Company also provides that a newly appointed director must retire and submit himself for re-election at the next AGM following his appointment. Thereafter, he is subject to be re-elected at least once every three years. A director who is due for retirement, shall abstain from voting on any resolution in respect of his re-nomination as a director. In this aspect, the NC has recommended and the Board has agreed for Ms Ratna Maknawi and Mr Darwin Indigo to retire and seek re-election at the forthcoming AGM.

The Board recognises the contribution of its independent directors who over time, have developed insight into the Group's businesses and operations and are therefore able to provide invaluable contributions to the Group. As such, the Board has decided not to set a fixed term of office for its independent directors.

Each independent director has completed a Director's Independence Declaration to confirm his independence based on the guidelines as set out in the Code for FY2018. The NC has reviewed and is satisfied with the independence of the independent directors.

All directors are required to declare their board representations. The Board is of the view that the effectiveness of each director is best assessed by a qualitative assessment of the director's contribution and his ability to devote sufficient time and attention to the Company's affairs. Hence, the Board has decided not to set a numerical limit on the number of listed company board representations as it does not wish to omit from its consideration outstanding individuals who, despite the demands on their time, have the capacity to participate and contribute as new members of the Board. The NC has reviewed and is satisfied that notwithstanding his multiple board appointment, Mr Sim Idrus Munandar, who sits on boards of listed companies outside of the Group, has been able to devote sufficient time and attention to the affairs of the Group to adequately discharge his duties as director of the Company. The Company does not have any alternate directors as the Board does not encourage the appointment of alternate directors unless it is in exceptional cases.

CORPORATE GOVERNANCE REPORT (cont'd)

The details of the Board members' directorship including the year of initial appointment and election are disclosed as follows:

Name of directors	Date of initial appointment	Date of last re-election	Present directorships and chairmanships in other listed companies	Past directorships and chairmanships in other listed companies over the preceding three years
Henry Maknawi	30 May 2008	27 Apr 2018	Nil	Nil
Ratna Maknawi	26 Sep 2007	29 Apr 2016	Nil	Nil
Tengku Alwin Aziz	30 May 2008	25 Apr 2017	Nil	Nil
Soh Yew Hock	30 May 2008	25 Apr 2017	Nil	Japan Residential Assets Manager Limited (Manager of Saizen REIT) Lead Independent Director and Chairman of Audit Committee HTL International Holdings Limited Independent Director and Chairman of Audit and Risk Committee
Sim Idrus Munandar	30 Sep 2010	27 Apr 2018	Samko Timber Limited Independent Director, Chairman of Nominating Committee and Chairman of the Board Risk Committee	Nil
Darwin Indigo	26 Apr 2013	29 Apr 2016	Nil	Nil

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The NC has adopted a process for assessing the performance of the Board as a whole instead of individual assessment. The performance appraisal includes qualitative and quantitative factors including Board structure, conduct of meetings, corporate strategy and planning, risk management and internal control, and so on. Although the Code proposes certain financial indicators as performance criteria, such as the Company's share price performance, the Board is of the opinion that the performance criteria should be geared toward evaluating the performance of the Board and the directors in discharging its principal responsibilities, upholding high standards of corporate governance and strategic oversight of the Company's business rather than the specific performance of the Company's share price.

The NC undertakes the Board performance appraisal annually. All directors are requested on an annual basis to complete a Board assessment checklist designed to seek their views on the various performance criteria set by the Board, so as to assess the overall performance and effectiveness of the Board. The checklists are completed and submitted to the company secretary (the "Company Secretary") for collation and the consolidated responses are presented to the NC for review and discussion before making any recommendations to the Board. The performance criteria will not change from year to year unless they are deemed necessary and the Board is able to justify the changes. The key objective of the evaluation exercise is to obtain constructive feedback from each director to continually improve the Board's performance against certain short and long-term financial and non-financial performance indicators and to identify areas for improvement and to implement appropriate action. The responses are reviewed by the NC and discussed with Board members for determining areas of improvement.

CORPORATE GOVERNANCE REPORT (cont'd)

The NC has decided unanimously, that the directors will not be evaluated individually, as each member of the Board contributes in different aspects to the success of the Group, and therefore, it would be more appropriate to assess the Board as a whole. Following its review, the NC is of the view that the Board and its Board Committees operate effectively and despite multiple board representations in certain instances, each director has been adequately contributing to the overall effectiveness and objectives of the Board.

Access to Information

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to Board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

The Board is furnished with Board papers prior to any Board meeting. These papers are issued in sufficient time to enable the directors to obtain additional information or explanations from the Management, if necessary. The Board papers include minutes of the previous meeting, reports relating to investment proposals, budgets, financial results announcements and reports from committees, internal and external auditors. Any additional material or information requested by the directors is promptly furnished.

The directors may communicate directly with the Management team on all matters whenever they deem necessary. All directors have unrestricted access to the Group's records and information. The directors also have separate and independent access to the Company Secretary, the Company's external auditors, internal auditors and other professional advisors, where relevant. The Company Secretary attends Board and committee meetings and is responsible for ensuring that Board procedures are followed and minutes of all meetings are recorded and circulated to the Board and the committees. The Company Secretary also assists the Chairman and CEO, the Chairman of each committee and Management in the development of the agendas for the various Board and committee meetings. The appointment and removal of the Company Secretary are subject to the approval of the Board.

The Company currently does not have a formal procedure for directors to seek independent professional advice for the furtherance of their duties. However, directors may, on a case-to-case basis, propose to the Board for such independent professional advice, the cost of which may be borne by the Company.

The Company has a transparent policy wherein directors are welcomed to request further information or informal discussions and make recommendations on any aspect of the Company's operations or business issues.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC is established and it comprises 3 non-executive and independent directors.

Chairman : Sim Idrus Munandar
Member : Tengku Alwin Aziz
Member : Soh Yew Hock

The RC is established for the purposes of ensuring that there is a formal and transparent procedure for fixing the remuneration packages of individual directors. The overriding principle is that no director should be involved in deciding his own remuneration and the level of remuneration should be appropriate to attract, retain and motivate the executive directors to run the Company successfully and ensure that they are fairly rewarded for their individual contributions to overall performance. The RC will work within the principle that the remuneration should be structured so as to link rewards to corporate and individual performance. It has adopted written terms of reference that defines its membership, roles and functions and administration. The RC held one meeting in 2018. The details of the attendance are as follows:

CORPORATE GOVERNANCE REPORT (cont'd)

	Number of meetings held	Number of meetings attended
Sim Idrus Munandar	1	1
Tengku Alwin Aziz	1	1
Soh Yew Hock	1	1

The duties of the RC are as follows:

- (a) to review and make recommendations to the Board the employment terms and remuneration (including share options and other benefits) of Executive Directors and key management personnel;
- (b) to review the remuneration packages of employees related to any director and/or substantial shareholder of the Group; and
- (c) to oversee the payment of fees to non-executive directors and to ensure, as far as is possible, that the quantum is commensurate with the non-executive directors' contribution to the Board and the Company.

The RC will also review the Company's obligations arising in the event of termination of the executive directors and key management personnel's contracts of service, to ensure that such contract of service contains fair and reasonable termination clauses.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

The annual reviews of the compensation are carried out by the RC to ensure that the remuneration of the Executive Directors and key management personnel commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Company. As part of its review, the RC ensures that the directors and key management personnel are adequately but not excessively remunerated as compared to industry benchmarks and other comparable companies. The RC also ensures that the Independent and Non-Executive directors are not over-compensated to the extent that their independence may be compromised.

The remuneration framework of the Executive Directors and key management personnel comprises mainly a fixed component and a variable component, taking into account factors such as the individual performance and the duties and responsibilities required of the position. The fixed component is paid in the form of a base salary. The variable component is paid in the form of a bonus, which is linked to Company and individual performance.

Non-executive directors will be paid a fee for their board services and appointment to board committees, taking into account factors such as their level of contribution to the Board, the effort and time spent, and responsibilities of these directors. While the remuneration frameworks are not subject to shareholders' approval, the directors' fees for the non-executive directors will be subjected to the approval of shareholders at AGMs.

The Company has no share-based compensation scheme or any long-term scheme involving the offer of shares or options in place. Whilst the Company currently does not have a share-based compensation scheme in place, it will consider the establishment of other forms of long term incentive schemes, as and when appropriate.

CORPORATE GOVERNANCE REPORT (cont'd)

The Company had entered into separate Service Agreements with the two Executive Directors, namely, Mr Henry Maknawi and Ms Ratna Maknawi for an initial term of three years commencing from the Listing Date, which will continue thereafter. The service agreements may be terminated by not less than six months' notice in writing served by either party on the other. The Group is of the view that it is not necessary to incorporate contractual provisions to allow it to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Group. The Executive Directors owe a fiduciary duty to the Company, and the Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties. In addition, the Company has in place alternative corporate governance practices described herein, such as the establishment of whistle-blowing policy, rigorous selection criteria of its directors and key management personnel, private discussions between the Independent Directors with the external auditors and the granting of full access to all employees and documents of the Group to the Independent Directors, as checks and balances to prevent the occurrence of such instances.

Disclosure on Remuneration

Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

Remuneration of Directors and CEO of the Company

A breakdown, showing the level and mix of each individual director's and CEO's remuneration paid for the financial year ended 31 December 2018, is as follows:-

Remuneration band	Fee ⁽¹⁾ (%)	Salary & fixed allowance (%)	Bonus & incentives (%)	Other benefits (%)	Total (%)
<u>S\$500,001 to S\$750,000</u>					
Henry Maknawi		91	6	3	100
<u>S\$250,001 to S\$500,000</u>					
Ratna Maknawi		91	7	2	100
Albert Maknawi		92	7	1	100
<u>S\$250,000 and below</u>					
Tengku Alwin Aziz	100				100
Soh Yew Hock	100				100
Sim Idrus Munandar	100				100
Darwin Indigo ⁽²⁾	100				100

⁽¹⁾ Directors' fees are payable after approval by shareholders in the 2019 AGM.

⁽²⁾ The proposed fee for Mr Darwin Indigo, upon approval by shareholders in the 2019 AGM, will be paid to Wilmar International Limited.

The Board believes that it is for the benefit of the Company that the actual remuneration of the directors and CEO be kept confidential, due to the sensitive nature of such information.

CORPORATE GOVERNANCE REPORT (cont'd)

Remuneration of Key Management personnel of the Group

The remuneration policy for key management personnel takes into consideration the responsibility and performance of individual personnel. The following table below sets out the remuneration of our key management personnel (who are not directors and CEO of the Company) for the financial year ended 31 December 2018.

Remuneration Band	Number of Key Management personnel
S\$250,001 to S\$500,000	3
S\$250,000 and below	1

In considering the disclosure of remuneration of the key management personnel of the Company, the Company has regarded the industry conditions in which the company operates as well as the confidential nature of such remuneration. The Company believes that full detailed disclosure of the remuneration of each key management personnel on a name basis as recommended by the Code would be prejudicial to the Company's interests and hamper its ability to retain and nurture the Company's talent pool. The aggregate remuneration of the top four key management personnel (who are not directors or the CEO) for FY2018 is S\$1,307,000. Save as disclosed above, there are no other key management personnel.

There are two employees who are immediate family members of a director or CEO and whose remunerations exceeded S\$50,000 for the financial year ended 31 December 2018: (i) Mr Eddy Maknawi, who is the brother of both Mr Henry Maknawi and Ms Ratna Maknawi and (ii) Mr Ajis Chandra, who is the spouse of Ms Ratna Maknawi.

The Board is of the opinion that the information as disclosed above would be sufficient for shareholders to have an adequate appreciation of the Company's compensation policies and practices and therefore does not intend to issue a separate remuneration report.

The Company currently does not have any share-based compensation scheme or any long-term incentive scheme involving the offer of shares or options for Executive Directors, CEO and key management personnel. The Company will consider the establishment of other forms of long term incentive schemes, as and when appropriate.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

One of the Board's principal duties is to protect and enhance the long-term value and returns to the shareholders of the Company. The accountability of the Board to the shareholders is demonstrated through the presentation of the periodic financial statements as well as timely announcements and news releases of significant corporate developments and activities so that the shareholders can have a detailed explanation and balanced assessment of the Group's financial position and prospects.

In presenting the annual financial statements and quarterly announcements to shareholders, it is the aim of the Board to provide the shareholders with detailed analysis and a balanced and understandable assessment of the Company's performance, position and prospects. This responsibility is extended to regulators. Financial reports and other price-sensitive information are disseminated to shareholders through announcement via SGXNET, press releases and the Company's website. The Company's Annual Report is accessible on the Company's website.

In line with the Listing Rules of the SGX-ST, the Board provides a negative assurance statement to the shareholders in its quarterly financial statements announcements, confirming to the best of its knowledge that nothing had come to the attention of the Board which might render the financial statements false or misleading in any material aspect. The Company had, pursuant to the Rule 720(1) of the Listing Manual of the SGX-ST, received undertakings from all its directors and executive officers that they each shall, in the exercise of their powers and duties as directors and officers, comply with the best of their abilities with the provisions of the SGX-ST's listing rules, the Securities and Futures Act, the Code on Takeovers and Mergers, and the Companies Act and will also procure the Company to do so.

CORPORATE GOVERNANCE REPORT (cont'd)

The Board ensures that the Management maintains a sound system of internal control to safeguard the shareholders' investment and the Group's assets.

The Management will provide all members of the Board with management reports and financial statements on regular basis. Board papers are given prior to any Board meeting to facilitate effective discussion and decision making.

The Group recognises the importance of providing the Board with accurate and relevant information on a timely basis. On a quarterly basis, directors are provided with management operation reviews and other information on the Group's performance for effective monitoring and decision making. The Management also highlights key business indicators and major issues that are relevant to the Group's performance from time to time in order for the Board to make a balanced and informed assessment of the Group's performance, position and prospects.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard the shareholders' investments and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board acknowledges that it is responsible for the governance of risks and the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board is assisted by the Risk Working Group ("RWG") which was formed in FY2012, as part of the Group's efforts to strengthen its risk management processes and framework. The RWG constitutes representatives from different business units in the Company. The RWG has assessed the Group's risk profile which summarises the key risks faced, the appropriate risk rankings set for the respective risk and the countermeasures in place to manage or mitigate those risks. On an ongoing basis, the RWG will review the key risks identified and monitor changes affecting the risk criteria. The RWG will carry out internal risk management exercise and report the findings and action plans to the ARC on half-yearly basis.

For FY2018, the Board has received assurance from the CEO and the CFO that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's businesses and operations and also that the Group's risk management and internal control system in place is adequate in addressing the key risks in the Group in its current business environment.

Based on the internal control policies and procedures established and maintained by the Group, work performed by the external and internal auditors, as well as reviews performed by the RWG, the Board, with the concurrence of the ARC, is of the view that the internal controls and risk management systems of the Group, addressing the financial, operational, compliance and information technology risks are adequate and effective as at 31 December 2018.

Audit & Risk Management Committee

Principle 12: The Board should establish an Audit & Risk Management Committee ("ARC") with written terms of reference which clearly set out its authority and duties.

The ARC comprises 3 members, all of whom, including the Chairman are non-executive and independent directors.

Chairman : Soh Yew Hock
Member : Tengku Alwin Aziz
Member : Sim Idrus Munandar

The Chairman, Mr Soh Yew Hock, has extensive experience in finance, commerce and industry. The other members of the ARC possess experience in finance and business management. At least two members have the appropriate accounting or related financial management experience or expertise.

The Board is of the opinion that the members of the ARC have sufficient financial management expertise and experience in discharging their duties.

CORPORATE GOVERNANCE REPORT (cont'd)

The role of the ARC is to assist the Board with discharging its responsibility to safeguard the Company's assets, maintain adequate accounting records and develop and maintain an effective system of risk management and internal controls.

In accordance with the terms of reference adopted by the ARC, the ARC shall perform the following main functions:

- (a) Discuss with the external auditors, prior to the commencement of audit, the audit plan which states the nature and scope of the audit;
- (b) Review with external auditors, their evaluation of the system of internal accounting controls, the Management Letter and Management's response thereon;
- (c) Review of the independence and objectivity of the external auditors and nomination of their re-appointment as auditors of the Company;
- (d) Review of the adequacy of the Company's internal controls, and the effectiveness of the Company's internal audit function, the internal audit annual plan and program including the scope and results of the internal audit;
- (e) Review of interested person transactions (as defined in Chapter 9 of the Listing Manual of SGX-ST);
- (f) Review of quarterly, half-yearly and annual financial results, including review of the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- (g) to oversee and advise the Board on the current risk exposures and future risk strategy of the Company;
- (h) to review reports by the Risk Working Group and monitor Management's responsiveness to the findings;
- (i) to review the effectiveness of the Company's internal controls and risk management systems established by Management; and
- (j) Undertake any other functions that are requested by the Board, as may be required by statute or the Listing Manual.

In performing the above functions, the ARC confirms that it has full access to and co-operation from Management and is given full discretion to invite any director to attend its meetings. In addition, the ARC has also been given reasonable resources to enable it to perform its functions properly. The ARC meets with the external auditors, and with the internal auditors, in each case without the presence of Management, at least once a year.

The ARC has undertaken an annual review of the audit and non-audit services provided by the external auditors to satisfy it that the nature and extent of such services will not prejudice the independence and objectivity of the auditors before recommending their re-nomination to the Board. A breakdown of the fees in total for audit and non-audit services is set out on page 69 of this annual report. The ARC is satisfied with their independence and has recommended the re-appointment of the external auditors at the forthcoming Annual General Meeting of the Company.

The Company has implemented a whistle-blowing policy, which serves to encourage and provide a channel to employees to report in good faith and in confidence, concerns about possible improprieties. The objective of such arrangement is to ensure independent investigation of such matters and appropriate follow-up action.

During the year 2018, the ARC met five times and the details of attendance are as follows:

	Number of meetings held	Number of meetings attended
Soh Yew Hock	5	5
Tengku Alwin Aziz	5	5
Sim Idrus Munandar	5	5

The ARC is kept abreast by Management, the external and internal auditors on changes and updates to accounting standards, and other issues which could have a direct impact on the financial statements of the Group, if any.

None of the members of the ARC is a former partner or director of the Company's external or internal auditors.

In FY2018, the ARC has reviewed with the Management and the external auditors, the results of the Group before submitting them to the Board for its approval and announcement of the financial results. The ARC reviewed the Group's financial condition, internal and external audit reports.

CORPORATE GOVERNANCE REPORT (cont'd)

The ARC also considered the key audit matters (KAMs) reported by the external auditors. The KAMs included those relating to (a) valuation of biological assets; (b) deferred tax assets. The ARC and the external auditors discussed these two KAMs and other audit matters, their reasons for justifying them as KAMs and the approach they took in their audit of these account balances.

The ARC considered the analytical and assurance work by Management that supports the significant judgements and estimates in the financial statements.

Valuation of biological assets

The Management made certain judgements on the accounting estimates and assumptions used in the valuation of biological assets as disclosed in Note 21 of the financial statements. These were discussed with the Management and the external auditors so as to be satisfied as to relevance of the assumptions applied in the measurement of the fair value of the biological assets. Management also engaged an independent valuer for assistance in measuring the fair value. The ARC was satisfied with the Management's approach and subsequent recognition of biological assets at fair value.

Deferred tax assets

The Group has significant tax loss carryforwards. Recognition of a deferred tax asset relating to these tax loss carryforwards is only made when it is probable that they will be utilised in the future and it is therefore dependent on the entities expected future taxable profits in Indonesia for five subsequent reporting years. This involves significant judgements and assumptions regarding future performance and the ability to utilise the tax losses. For the plantation subsidiaries that are in the immature and young mature stage such judgement is still required to support the recognition of the deferred tax assets in relation to future taxable profits. This is supported by forecasted results of the relevant subsidiaries, prepared by the Management and reviewed by the Board. The ARC was satisfied with the Management's approach and subsequent recognition of the deferred tax assets in relation to the subsidiaries.

Internal Audit

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The ARC is aware that internal audit function is essential to assist in obtaining the assurance it requires regarding the effectiveness of the system of internal control.

The Company currently has an in-house internal audit department for reviewing and implementing appropriate internal accounting controls, risk management and good corporate governance. The internal auditor ("IA") is guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) issued by the Institute of Internal Auditors. The IA reports directly to the ARC.

The ARC reviews and approves the internal audit scope and plan to ensure that there is sufficient coverage of the Group's activities. The internal control weaknesses identified during the internal audit reviews, the recommended corrective actions and Management's responses are reported to the ARC on a quarterly basis.

The ARC annually reviews the adequacy of the internal audit function to ensure that the internal audits are performed effectively. The ARC also reviews and ensures that the internal audit department is adequately staffed by qualified and experienced personnel.

SHAREHOLDER RIGHTS

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

The Company's corporate governance practices promote fair and equitable treatment of all shareholders. To facilitate shareholders' ownership rights, the Company ensures that all material information is disclosed on a comprehensive and timely basis via SGXNET and the Company's website, especially information pertaining to the Group's business development and financial performance which could have a material impact on the share price of the Company, so as to enable shareholders to make informed decisions in respect of their investments in the Company.

CORPORATE GOVERNANCE REPORT (cont'd)

Shareholders are informed of general meetings through notices published in the newspaper and the Company's announcements and press releases via SGXNET as well as through reports and circulars sent to all shareholders. They are given the opportunity to participate effectively and vote at general meetings of the Company. All shareholders are entitled to vote in accordance with the established voting rules and procedures. The Company conducted poll voting for all resolutions tabled at the general meetings. The rules, including the voting process, were explained by the scrutineers at such general meetings.

The Constitution of the Company allows each shareholder to appoint up to two proxies to attend general meetings. Under the Companies Act, cap. 50, a member who is defined as a "relevant intermediary" may appoint more than 2 proxies to attend and participate in general meetings. Relevant intermediary includes corporations holding licenses in providing nominee and custodial services and CPF Board which purchases shares on behalf of the CPF investors.

COMMUNICATION WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company endeavours to communicate regularly, effectively and fairly with its shareholders.

Results are published via SGXNET and are usually followed by a news release. Price sensitive information is first publicly released, either before the Company meets with any group of investors or analysts or simultaneously with such meetings. Results are announced or issued within the mandatory period and are available on the Company's website. The Company does not practise selective disclosure.

Shareholders are encouraged to attend and raise questions to the directors at the Company's general meetings. At these meetings, shareholders are given the opportunity to express their views and raise issues either formally or informally. These meetings provide opportunities for the Board to engage with shareholders and solicit their feedback.

The Company's website at <http://www.kencanaagri.com> is also another channel to solicit and understand the views of the shareholders.

The Company does not have a fixed dividend policy at present. The frequency and amount of dividends declared each year will take into consideration the Group's profit, cash position, projected capital requirements for business growth and other factors as the Board may deem appropriate. Given the loss incurred for FY2018 and having considered the projected capital expenditure requirements for FY2019, the Board has decided not to recommend a dividend for FY2018.

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

Annual reports and notices of AGM are sent to all shareholders. The notice is also published in the local newspapers and made available on the SGXNET and the Company's website. At the AGM, the shareholders are given the opportunity to vote, express their views and raise any queries regarding the Company. However, as the authentication of shareholder identity information and other related integrity issues still remain a concern, the Company has decided, for the time being, not to implement voting in absentia by mail or electronic means.

Each item of special business included in the notice of meeting will be accompanied by the relevant explanatory notes. This is to enable the shareholders to understand the nature and effect of the proposed resolutions.

To facilitate voting by shareholders, the Company's Constitution allows shareholders to appoint up to two proxies to attend and vote at the same general meeting. The Board of Directors (including the Chairman of the respective Board committees), Management, as well as the external auditors will attend the Company's AGM to address any questions that shareholders may have.

The minutes of general meetings will be made available to shareholders upon written request.

CORPORATE GOVERNANCE REPORT (cont'd)

All resolutions at general meetings of the Company will be put to vote by poll so as to better reflect shareholders' shareholding interest and ensure greater transparency. The results of the poll voting on each resolution tabled will be announced after the general meetings via SGXNET and the Company's website.

DEALING IN SECURITIES

The Company has devised and adopted its own internal Code of Conduct on dealing in the securities of the Company (the "Code"). This code will provide guidance to the Group's directors and employees on their dealings in its securities. The key guidelines are:

- Directors and key officers are prohibited from trading in the Company's securities during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, and one month before the announcement of the Company's full-year financial statements. The prohibition ends on the day of the announcement of such results.
- Directors and key officers should not deal in the Company's securities on short-term consideration.
- Directors and key officers are required to observe the insider trading laws under the Securities and Futures Act (Chapter 289) at all times even when engaging in dealings of securities within the non-prohibitory periods. To enable the Company to monitor such share transactions, directors and key officers are required to report to the Company whenever they deal in the Company's securities.

The Company has complied with the Code for the financial year ended 31 December 2018.

INTERESTED PERSON TRANSACTIONS

The Company has adopted internal guidelines in respect of any transactions with interested persons and has set out the procedures for review and approval of the Company's interested person transactions. The main objective is to ensure that all interested person transactions are conducted on arm's length basis and on normal commercial terms and will not be prejudicial to the interests of our shareholders.

The Company monitors all its interested person transactions closely and all interested person transactions are subject to review by the ARC on a quarterly basis.

The aggregate value of interested person transactions for the financial year ended 31 December 2018 is as follows:-

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
	USD'000	USD'000
Wilmar Group (Sales)	–	10,569
Wilmar Group (Purchases)	–	4,740
PT Berkah Wahana Sukses (Services received)	1,838	–

Save as disclosed, there are no other material contracts of the Group involving the interests of the CEO, each director or controlling shareholder of the Company as at the end of the financial year.

APPOINTMENT OF AUDITORS

The Group has complied with Rules 712, 715 and 716 of the Listing Manual issued by Singapore Exchange Securities Trading Limited in relation to its auditors.

FINANCIAL STATEMENTS CONTENTS

STATEMENT BY DIRECTORS	38
INDEPENDENT AUDITOR'S REPORT	41
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	45
STATEMENTS OF FINANCIAL POSITION	46
STATEMENTS OF CHANGES IN EQUITY	47
CONSOLIDATED STATEMENT OF CASH FLOWS	48
NOTES TO THE FINANCIAL STATEMENTS	49

STATEMENT BY DIRECTORS

The directors of the company are pleased to present the accompanying audited financial statements of the company and of the group for the reporting year ended 31 December 2018.

1. Opinion of the directors

In the opinion of the directors,

- (a) the accompanying financial statements and the consolidated financial statements are drawn up so as to give a true and fair view of the financial position and performance of the company and, of the financial position and performance of the group for the reporting year covered by the financial statements or consolidated financial statements; and
- (b) at the date of the statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

The board of directors approved and authorised these financial statements for issue.

2. Directors

The directors of the company in office at the date of this statement are:

Henry Maknawi
 Tengku Alwin Aziz
 Ratna Maknawi
 Soh Yew Hock
 Sim Idrus Munandar
 Darwin Indigo

3. Directors' interests in shares and debentures

The directors of the company holding office at the end of the reporting year were not interested in shares in or debentures of the company or other related body corporate as recorded in the register of directors' shareholdings kept by the company under section 164 of the Companies Act, Chapter 50 (the "Act") except as follows:

Name of directors and companies in which interests are held	At beginning of the reporting year	At end of the reporting year	At beginning of the reporting year	At end of the reporting year
	Number of shares of no par value			
	Direct interest		Deemed interest	
<u>Kencana Holdings Pte. Ltd.</u>				
(The ultimate parent company)				
Henry Maknawi	31,056,776	31,056,776	–	–
Ratna Maknawi	5,172,551	5,172,551	135,932	135,932
Tengku Alwin Aziz	1,595,406	1,595,406	–	–

STATEMENT BY DIRECTORS (cont'd)

3. Directors' interests in shares and debentures (cont'd)

Name of directors and companies in which interests are held	At beginning of the reporting year	At end of the reporting year	At beginning of the reporting year	At end of the reporting year
	Number of shares of no par value			
	Direct interest		Deemed interest	
<u>Kencana Agri Limited</u>				
(The company)				
Henry Maknawi	1,774,970	1,774,970	152,555,224	152,555,224
Ratna Maknawi	–	–	1,416,530	1,416,530
Tengku Alwin Aziz	418,970	418,970	–	–
Soh Yew Hock	50,000	50,000	–	–

The directors' interests as at 21 January 2019 were the same as those at the end of the reporting year.

4. Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of the reporting year nor at any time during the reporting year did there subsist arrangements to which the company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

5. Options

During the reporting year, no option to take up unissued shares of the company or other body corporate in the group was granted.

During the reporting year, there were no shares issued by virtue of the exercise of an option to take up unissued shares.

At the end of the reporting year, there were no unissued shares under option.

6. Independent auditor

RSM Chio Lim LLP has expressed willingness to accept re-appointment.

7. Report of audit and risk management committee

The members of the audit and risk management committee at the date of this report are as follows:

Soh Yew Hock	(Chairman of audit and risk management committee and Lead Independent Director)
Tengku Alwin Aziz	(Vice Chairman and Independent Director)
Sim Idrus Munandar	(Independent Director)

The audit and risk management committee performs the functions specified by section 201B (5) of the Act. Among other functions, it performed the following:

- Reviewed with the independent external auditor their audit plan.
- Reviewed with the independent external auditor their evaluation of the company's internal accounting controls relevant to their statutory audit, and their report on the financial statements and the assistance given by management to them.
- Reviewed with the internal auditor the scope and results of the internal audit procedures (including those relating to financial, operational and compliance controls and risk management) and the assistance given by the management to the internal auditor.

STATEMENT BY DIRECTORS (cont'd)

7. Report of audit and risk management committee (cont'd)

- Reviewed the financial statements of the group and the company prior to their submission to the directors of the company for adoption.
- Reviewed the interested person transactions (as defined in Chapter 9 of the Singapore Exchange Securities Trading Limited's Listing Manual).

Other functions performed by the audit and risk management committee are described in the report on corporate governance included in the annual report of the company. It also includes an explanation of how independent auditor objectivity and independence is safeguarded where the independent auditor provides non-audit services.

The audit and risk management committee has recommended to the board of directors that the independent auditor, RSM Chio Lim LLP, be nominated for re-appointment as the independent auditor at the next annual general meeting of the company.

8. Directors' opinion on the adequacy of internal controls

Based on the internal controls established and maintained by the company, work performed by the internal and external auditors, and reviews performed by management, other committees of the board and the board, the audit and risk management committee and the board are of the opinion that the company's internal controls, addressing financial, operational and compliance risks, are adequate as at the end of the reporting year 31 December 2018.

9. Subsequent developments

There are no significant developments subsequent to the release of the group's and the company's preliminary financial statements, as announced on 28 February 2019, which would materially affect the group's and the company's operating and financial performance as of the date of this report.

On behalf of the directors

.....
Henry Maknawi

Director

.....
Ratna Maknawi

Director

28 March 2019

INDEPENDENT AUDITOR'S REPORT

to the Members of KENCANA AGRI LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Kencana Agri Limited (the “company”) and its subsidiaries (the “group”), which comprise the consolidated statement of financial position of the group and the statement of financial position of the company as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and notes to the financial statements, including accounting policies.

In our opinion, the accompanying consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards (International) (“SFRS (I)”) so as to give a true and fair view of the consolidated financial position of the group and the financial position of the company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the group and the changes in equity of the company for the reporting year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (“SSAs”). Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the Accounting and Corporate Regulatory Authority (“ACRA”) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters (“KAMs”) are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current reporting year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of biological assets:

Please refer to Note 2A on accounting policies; Note 2C on critical judgements, assumptions and estimation uncertainties; and Note 21 on biological assets and the annual report on the section on the audit and risk management committee’s views and responses to the reported KAMs.

SFRS(I) 1-41 requires the produce growing on bearer plants (fresh fruit bunches or FFB) to be measured at fair value less costs to sell at the point of harvest.

We focused on the valuation of biological assets as the fair value measurement requires the use of significant accounting estimates and assumptions. Significant components of fair value measurement were determined using assumptions and estimates such as the yield of oil palm trees, annual discount rate and projected selling prices of FFB. Any changes in fair values of these biological assets would affect the group’s profit and carrying value of the biological assets significantly.

We tested management’s categorisation of the assets into immature plants and mature plantations. Our audit procedures and the audit procedures of the component auditors on bearer plants included site visits and substantive testing of management’s position against underlying documentation. Management engaged an independent valuer to perform the valuation exercise on the biological assets (the un-harvested FFB). With the assistance of our valuation specialist, we assessed the capabilities, objectivity and competence of the independent valuer. We also considered the assumptions in the input data made by management and the valuer through discussions with management, including with an agronomist, and comparisons to industry peers.

For each significant balance mentioned above, we have understood the nature and assessed the reasonableness of journals generated and performed substantive testing over a sample of these items.

INDEPENDENT AUDITOR'S REPORT (cont'd)

to the Members of KENCANA AGRI LIMITED

Key audit matters *(cont'd)*

Deferred tax assets:

Please refer to Note 2A on accounting policies; Note 2C on critical judgements, assumptions and estimation uncertainties; Note 11 on income tax and the annual report on the section on the audit and risk management committee's views and responses to the reported KAMs.

Substantially all of the group's operations are located in Indonesia. Due to the complexity of the tax legislation in Indonesia in which the significant subsidiaries of the group operate, management is required to exercise a degree of judgement as to the application of corporation tax laws and the recoverability of deferred tax assets. Companies in Indonesia are generally subject to a tax rate of 25%. The amount of deferred tax assets recognised and the amount of unrecognised tax losses are disclosed in Note 11 to the financial statements. For Indonesian companies, the realisation of the future income tax benefits from tax loss carryforwards is available for a period of 5 years subject to the conditions imposed by Indonesian laws. Management makes a number of judgements on the future profitability of the significant subsidiaries of the group when recognising deferred tax assets on tax loss carryforwards and other items. The tax reconciliation is included in Note 11 to the financial statements.

The audit team tested the completeness and accuracy of the above balances including the assessment by the tax authorities for past years. The audit procedures included the assessment of correspondence with the tax authorities, testing the group's process for the continuous re-assessment of amounts recognised, and the involvement of the local component auditors in Indonesia. The audit team evaluated management's forecasts and assessed management's conclusions on the sufficiency and availability of future profits to support the recognition of deferred tax assets and the probability that deferred tax assets recognised in the statement of financial position would be recovered. We also assessed the adequacy of the disclosures included in Note 11 to the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the statement by directors and the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and the financial reporting standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (cont'd)

to the Members of KENCANA AGRI LIMITED

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT (cont'd)

to the Members of KENCANA AGRI LIMITED

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Uthaya Chandrikaa D/O Ponnusamy.

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

28 March 2019

Engagement partner – effective from year ended 31 December 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended 31 December 2018

	Notes	Group 2018 US\$'000	2017 US\$'000 Restated
Revenue	4	124,981	149,060
Cost of sales	5	(100,636)	(118,568)
Gross profit		24,345	30,492
Interest income		3,680	3,414
Other gains	6	2,094	10,357
Fair value changes in biological assets and other receivables	7	(7,009)	4,684
Distribution costs	8	(2,148)	(2,113)
Administrative expenses		(9,745)	(8,648)
Finance costs	9	(19,057)	(20,771)
Other losses	6	(14,737)	(3,898)
Share of results from equity-accounted joint ventures	18	(4,497)	(2,534)
(Loss)/profit before tax from continuing operations		(27,074)	10,983
Income tax benefit/(expense)	11	3,226	(5,995)
(Loss)/profit from continuing operations, net of tax		(23,848)	4,988
<u>Other comprehensive (loss)/income</u>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating group entities' functional currency to US\$ presentation currency, net of tax		(2,494)	(267)
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension plans, net of tax	29	(84)	242
Other comprehensive loss for the year, net of tax		(2,578)	(25)
Total comprehensive (loss)/income		(26,426)	4,963
(Loss)/earnings per share from continuing operations			
(Loss)/earnings per share currency unit		Cents	Cents
Basic	13	(8.31)	1.74
Diluted	13	(8.31)	1.74

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

		Group			Company		
	Notes	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS							
<u>Non-current assets</u>							
Property, plant and equipment	14	82,832	83,923	91,163	–	–	–
Investment property	15	2,350	2,376	2,403	–	–	–
Bearer plants	16	142,685	157,866	160,819	–	–	–
Investments in subsidiaries	17	–	–	–	36,351	39,160	39,455
Investments in joint ventures	18	–	–	–	–	–	–
Land use rights	19	34,749	38,479	38,282	–	–	–
Deferred tax assets	11	11,657	8,172	9,108	–	–	–
Other receivables	23	13,199	21,453	21,000	–	–	–
Other assets	24	642	686	737	–	–	–
Total non-current assets		288,114	312,955	323,512	36,351	39,160	39,455
<u>Current assets</u>							
Assets held for sale	20	–	1,314	8,697	–	–	5,938
Biological assets	21	5,681	14,099	9,965	–	–	–
Inventories	22	12,976	8,463	10,031	–	–	–
Trade and other receivables	23	31,047	30,193	22,490	32,934	38,708	22,002
Other assets	24	2,160	6,850	4,188	1	1	1
Cash and cash equivalents	25	17,351	17,391	13,302	20	33	309
Total current assets		69,215	78,310	68,673	32,955	38,742	28,250
Total assets		357,329	391,265	392,185	69,306	77,902	67,705
EQUITY AND LIABILITIES							
<u>Equity</u>							
Share capital	26	93,860	93,860	93,860	93,860	93,860	93,860
(Accumulated losses)/Retained earnings		(32,042)	(8,110)	(13,340)	2,116	5,652	(5,384)
Other reserve		2,485	2,485	2,485	–	–	–
Translation reserve		(42,159)	(39,665)	(39,398)	(28,439)	(23,550)	(22,881)
Total equity attributable to owners of the parent		22,144	48,570	43,607	67,537	75,962	65,595
<u>Non-current liabilities</u>							
Deferred tax liabilities	11	383	1,564	1,180	–	–	–
Finance leases	27	127	244	81	–	–	–
Other payables	28	–	–	6,815	–	–	–
Other financial liabilities	27	197,890	239,152	241,304	–	–	–
Other liabilities	29	4,448	4,322	4,317	–	–	–
Total non-current liabilities		202,848	245,282	253,697	–	–	–
<u>Current liabilities</u>							
Income tax payable		659	1,940	3,291	–	–	–
Trade and other payables	28	58,131	43,961	46,966	1,769	1,940	2,110
Finance leases	27	216	245	353	–	–	–
Other financial liabilities	27	73,331	51,267	44,271	–	–	–
Total current liabilities		132,337	97,413	94,881	1,769	1,940	2,110
Total liabilities		335,185	342,695	348,578	1,769	1,940	2,110
Total equity and liabilities		357,329	391,265	392,185	69,306	77,902	67,705

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

Year Ended 31 December 2018

	Total equity attributable to owners of the parent	Share capital	Accumulated losses	Other reserve	Reserve on post- employment benefits	Translation reserve
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Group						
Current year:						
Opening balance at 1 January 2018	48,570	93,860	(8,110)	2,485	–	(39,665)
Changes in equity:						
Total comprehensive loss for the year	(26,426)	–	(23,848)	–	(84)	(2,494)
Transferred to retained earnings	–	–	(84)	–	84	–
Closing balance at 31 December 2018	22,144	93,860	(32,042)	2,485	–	(42,159)

Previous year:						
Opening balance at 1 January 2017	43,607	93,860	(13,340)	2,485	–	(39,398)
Changes in equity:						
Total comprehensive income/(loss) for the year	4,963	–	4,988	–	242	(267)
Transferred to retained earnings	–	–	242	–	(242)	–
Closing balance at 31 December 2017	48,570	93,860	(8,110)	2,485	–	(39,665)

	Total equity	Share capital	Retained earnings/ (Accumulated losses)	Translation reserve
	US\$'000	US\$'000	US\$'000	US\$'000
Company				
Current year:				
Opening balance at 1 January 2018	75,962	93,860	5,652	(23,550)
Changes in equity:				
Total comprehensive loss for the year	(8,425)	–	(3,536)	(4,889)
Closing balance at 31 December 2018	67,537	93,860	2,116	(28,439)

Previous year:				
Opening balance at 1 January 2017	65,595	93,860	(5,384)	(22,881)
Changes in equity:				
Total comprehensive income/(loss) for the year	10,367	–	11,036	(669)
Closing balance at 31 December 2017	75,962	93,860	5,652	(23,550)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2018

	Group	
	2018 US\$'000	2017 US\$'000 Restated
<u>Cash flows from operating activities</u>		
(Loss)/profit before tax	(27,074)	10,983
Adjustments for:		
Interest income	(3,680)	(3,414)
Interest expense	19,057	20,771
Amortisation of land use rights	1,212	1,274
Depreciation expense	14,369	14,555
Fair value changes in biological assets	7,430	(4,264)
Fair value changes in other receivables	(421)	(420)
Loss on disposal of assets held for sale	190	–
Gain on transfer of bearer plants to plasma	(18)	–
Gain on disposal of subsidiary (Note 40)	(92)	–
Gain on disposal of joint venture	–	(9,087)
Impairment on other receivables (joint venture)	–	926
Increase in provision for employment pension benefits	350	283
(Gain)/loss on disposal of property, plant and equipment	(40)	108
Share of results of equity-accounted joint ventures	4,497	2,534
Net effect of exchange rate changes in consolidating entities	9,191	1,464
Operating cash flows before changes in working capital	24,971	35,713
Inventories	(5,128)	1,485
Trade and other receivables	832	(5,981)
Other financial liabilities	(287)	(507)
Other assets	1,324	(2,652)
Trade and other payables	17,500	(8,924)
Net cash flows from operations	39,212	19,134
Income taxes paid	(2,947)	(6,065)
Net cash flows from operating activities	36,265	13,069
<u>Cash flows from investing activities</u>		
Disposal of property, plant and equipment	471	576
Disposal of assets held for sale	1,061	–
Disposal of a subsidiary (Note 40)	145	–
Disposal of joint venture	–	14,752
Repayment of loan (joint venture)	–	3,550
Purchase of property, plant and equipment (Note 25B)	(9,909)	(4,351)
Additions to bearer plants	(2,958)	(2,577)
Disposal of bearer plants	842	–
Purchase of land use rights	(433)	(1,793)
Interest received	568	711
Net cash flows (used in)/from investing activities	(10,213)	10,868
<u>Cash flows from financing activities</u>		
Proceeds from borrowings	229,775	180,880
Repayment of borrowings	(234,075)	(176,003)
Finance lease repayments	(242)	(420)
Interest paid	(20,293)	(23,749)
Net cash flows used in financing activities	(24,835)	(19,292)
Net increase in cash and cash equivalents	1,217	4,645
Net effect of exchange rate changes on cash and cash equivalents	(1,120)	(110)
Cash and cash equivalents, consolidated statement of cash flows, beginning balance	16,692	12,157
Cash and cash equivalents, consolidated statement of cash flows, ending balance (Note 25A)	16,789	16,692

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

1. General

The company is incorporated in Singapore with limited liability. The financial statements are presented in United States dollars and they cover the company (referred to as “parent”) and the subsidiaries.

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

The company is an investment holding company. It is listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”).

The principal activities of the subsidiaries are described in the notes to the financial statements below.

The registered office is: 36 Armenian Street, #03-02, Singapore 179934. The company is situated in Singapore.

The group’s current liabilities are more than the current assets. The financial position of the entity, its cash flows, liquidity position and borrowing facilities are described in the notes to the financial statements. In addition, the notes to the financial statements include the objectives, policies and processes for managing capital, the financial risk management objectives, details of its financial instruments, availability of borrowing facilities and its exposures to credit risk and liquidity risk. The group has considerable financial resources in the form of undrawn borrowing facilities (Note 35E) together with some satisfactory arrangements with a number of customers, bankers and suppliers. The financial statements have been prepared on a going concern basis, which assumes that the group will be able to meet its obligations as and when they fall due in the next twelve months. The group also had net operating cash inflows in 2018 and 2017.

If the group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that the assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts stated in the statement of financial position. In addition, the group may have to provide for further liabilities which may arise.

As a consequence and in view of the available financial resources and arrangements, the directors believe that the group is well placed to manage its business risks. After consideration of the above, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Statement of compliance with financial reporting standards

These financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (International) (“SFRS(I)s”) and the related Interpretations to SFRS(I) (“SFRS(I) INT”) as issued by the Singapore Accounting Standards Council. They are in compliance with the provisions of the Companies Act, Chapter 50 and with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”).

Accounting convention

The financial statements are prepared on a going concern basis under the historical cost convention except where a financial reporting standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in the financial reporting standards may not be applied when the effect of applying them is not material. The disclosures required by financial reporting standards may not be provided if the information resulting from that disclosure is not material.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

1. General (cont'd)

Basis of preparation of the financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this footnote, where applicable.

Basis of presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the company and all of its subsidiaries. The consolidated financial statements are the financial statements of the group (the parent and its subsidiaries) presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee.

Changes in the group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the group's interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the group loses control of a subsidiary, it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at fair value at the date when control is lost and is subsequently accounted as financial assets in accordance with the financial reporting standard on financial instruments.

The company's separate financial statements have been prepared on the same basis, and as permitted by the Companies Act, Chapter 50, the company's separate statement of profit or loss and other comprehensive income is not presented.

2. Significant accounting policies and other explanatory information

2A. Significant accounting policies

Revenue recognition

The financial reporting standard on revenue from contracts with customers establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer (which excludes estimates of variable consideration that are subject to constraints, such as right of return exists, trade discounts, quality claim adjustments, volume rebates and changes to the transaction price arising from modifications), net of any related sales taxes and excluding any amounts collected on behalf of third parties. An asset (goods or services) is transferred when or as the customer obtains control of that asset. As a practical expedient, the effects of any significant financing component is not adjusted if the payment for the good or service will be within one year.

Sale of goods - Revenue is recognised at a point in time when the performance obligation is satisfied by transferring a promised good or service to the customer. Control of the goods is transferred to the customer, generally on delivery of the goods (in this respect, incoterms are considered).

Services - Revenue from rendering of services is recognised when the entity satisfies the performance obligation at a point in time generally when the significant acts have been completed and when transfer of control occurs or for services that are not significant transactions revenue is recognised as the services are provided.

Rental income - Rental income is recognised in a time-proportion basis that takes into account the effective yield on the asset on a straight-line basis over the lease term.

Interest income - Interest income is recognised using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Employee benefits

Certain overseas subsidiaries of the group are required to provide for employee service entitlements in order to meet the minimum benefits required to be paid to qualified employees as required under existing manpower regulations in Indonesia. Short-term employee benefits are recognised at an undiscounted amount where employees have rendered their services to the group during the accounting period. Post-employment benefits are recognised at discounted amounts when the employees have rendered their services to the group during the accounting periods. Liabilities and reserves are measured using actuarial techniques which include constructive obligations that arise from the group's common practices. In calculating the liabilities, the benefits are discounted by using the projected unit credit method and changes in fair value recognised through other comprehensive income. Termination benefits are recognised when, and only when, the group is committed to either; (a) terminate the employment of an employee or group of employees before the normal retirement date; or (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

This plan is in addition to the contributions to government managed defined contribution retirement benefit plans such as the Central Provident Fund ("CPF") in Singapore which specifies the employer's obligations. Contributions to defined contribution retirement benefit plans are recorded as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the CPF.

For employee leave entitlement, the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Interest expense is calculated using the effective interest rate method. Borrowing costs are recognised as an expense in the period in which they are incurred except that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Foreign currency transactions

The functional currency of the company and all of its subsidiaries except for Sawindo Agri Pte. Ltd. is the Indonesian Rupiah ("IDR"). The functional currency of Sawindo Agri Pte. Ltd. is the United States dollar ("US\$"). The functional currency reflects the primary economic environment in which these entities operate. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when a gain or loss on a non-monetary item is recognised in other comprehensive income, any foreign exchange component on that gain or loss is recognised in other comprehensive income. The presentation currency is the United States dollar as the financial statements are meant primarily for international users. For the United States dollar financial statements, assets and liabilities are translated at year end rates of exchange and the income and expense items are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity. The translations of IDR amounts into US\$ amounts are included solely for the convenience of readers. The reporting year end rates used are US\$1 to IDR14,481 (2017: US\$1 to IDR13,548) which approximate the rate of exchange at the end of the reporting year. The average rates of exchange for the reporting year were US\$1 to IDR14,267 (2017: US\$1 to IDR13,398). Such translation should not be construed as a representation that the US\$ amounts could be converted into IDR at the above or other rates.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Translation of financial statements of other entities

Each entity in the group determines the appropriate functional currency as it reflects the primary economic environment in which the relevant reporting entity operates. In translating the financial statements of such an entity for incorporation in the consolidated financial statements in the presentation currency, the assets and liabilities denominated in other currencies are translated at end of the reporting year rates of exchange and the income and expense items for each statement presenting profit or loss and other comprehensive income are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that relevant reporting entity.

Income tax

The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss, the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis. The carrying amount of deferred tax assets is reviewed at each end of the reporting year and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised.

A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries and joint arrangements except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Property, plant and equipment

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line basis to allocate the gross carrying amounts of the assets less their residual values over their estimated useful lives of each part of an item of these assets. The annual rates of depreciation are as follows:

Freehold land	–	Depreciation is not provided
Leasehold buildings	–	Over the terms of the lease that are from 1% to 6.25%
Assets under construction	–	Depreciation is not provided until the asset is available for use
Vessels	–	6.25%
Plant, fixtures and equipment	–	12.5% to 25%

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

Investment property

Investment property is property (land or a building or part of a building or both) owned or held under a finance lease to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. It includes an investment property in the course of construction. After initial recognition at cost including transaction costs, the cost model is used to measure the investment property using the treatment for property, plant and equipment, that is, at cost less any accumulated depreciation and any accumulated impairment losses. An investment property that meets the criteria to be classified as held for sale is carried at the lower of carrying amount and fair value less costs to sell. For disclosure purposes only, the fair values are measured periodically on a systematic basis at least once yearly by management.

The annual rate of depreciation is as follows:

Leasehold buildings – Over the terms of the lease that is 1%

Land use rights

Land rights that have a limited useful life are depreciated in a manner that reflects the benefits to be derived from these rights. Costs associated with the legal transfer or renewal for titles of land rights, such as legal fees, land survey and re-measurement fees, taxes and other related expenses, are deferred and amortised using the straight-line method over the legal terms of the related land rights of thirty-five years.

Bearer plants

Bearer plants related to agricultural activity are accounted for using the cost model within the scope of SFRS(I) 1-16. The immature plants are stated at accumulated costs which consist mainly of accumulated costs of land clearing, planting, fertilising, up-keeping and maintaining the plantation, and allocations of indirect overhead costs up to the time the plants become commercially productive and available for harvest. Costs also include capitalised borrowing costs and other charges incurred in connection with the financing of the development of immature plantations. Immature plants are not depreciated, and are subject to impairment reviews. Mature plantations are stated at historical cost less accumulated depreciation and any accumulated impairment losses. The annual rate of depreciation is as follows:

Oil palm trees – 5%

Bearer plants include mature and immature oil palm plantations. Oil palm trees have an average life that ranges from 23 to 25 years, with the first 3 to 4 years as immature and the remaining years as mature. In general, an oil palm plantation takes between 3 and 4 years to reach maturity from the time seedlings are planted.

Biological assets

The biological assets (un-harvested fresh fruit bunches (“FFB”)) are stated at fair value less costs to sell at the point of harvest. The change in fair value less costs to sell of a biological asset is included in profit or loss for the period in which it arises.

The fair value of biological assets is estimated by reference to the projected harvest quantities and publicly available index prices set by the government for FFB, net of maintenance and harvesting costs and estimated costs to sell.

In determining the estimated FFB projected harvest quantities, the group considers the estimated yield of the biological assets which is dependent on the age of the oil palm trees, the location, soil type and infrastructure.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Leases

Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. At the commencement of the lease term, a finance lease is recognised as an asset and as a liability in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each measured at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine, the lessee's incremental borrowing rate is used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The excess of the lease payments over the recorded lease liability are treated as finance charges which are allocated to each reporting year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the reporting years in which they are incurred. The assets are depreciated as owned depreciable assets. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases.

For operating leases, lease payments are recognised as an expense in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Subsidiaries

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the reporting entity and the reporting entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of substantive potential voting rights that the reporting entity has the practical ability to exercise (that is, substantive rights) are considered when assessing whether the reporting entity controls another entity.

In the reporting entity's separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market exchange.

Joint arrangements – joint venture

A joint arrangement (that is, either a joint operation or a joint venture, depending on the rights and obligations of the jointly controlling parties to the arrangement), is one in which the reporting entity is party to an arrangement of which two or more parties have joint control, which is the contractually agreed sharing of control of the arrangement; it exists only when decisions about the relevant activities (that is, activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. In a joint venture, the parties with joint control have rights to the net assets of the arrangement. The reporting interests in joint ventures are recognised using the equity method in accordance with the financial reporting standard on investments in joint ventures.

Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The carrying value and the net book value of the investment in the joint venture are not necessarily indicative of the amounts that would be realised in a current market exchange. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. Losses of a joint venture in excess of the reporting entity's interest in the relevant associate are not recognised except to the extent that the reporting entity has an obligation. Profits and losses resulting from transactions between the reporting entity and a joint venture are recognised in the financial statements only to the extent of unrelated reporting entity's interests in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Joint arrangements – joint venture (cont'd)

Accounting policies of joint ventures are changed where necessary to ensure consistency with the policies adopted by the reporting entity. The reporting entity discontinues the use of the equity method from the date that when its investment ceases to be a joint venture and accounts for the investment in accordance with the financial reporting standard on financial instruments from that date. Any gain or loss is recognised in profit or loss. Any investment retained in the former joint venture is measured at fair value at the date that it ceases to be a joint venture.

In the company's separate financial statements, investment in the joint venture is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a joint venture is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of an investment in the joint venture are not necessarily indicative of the amounts that would be realised in a current market exchange.

Business combinations

There were no acquisitions during the reporting year.

Impairment of non-financial assets

Irrespective of whether there is any indication of impairment, an annual impairment test is performed at about the same time every year on an intangible asset with an indefinite useful life or an intangible asset not yet available for use. The carrying amount of other non-financial assets is reviewed at the end of each reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value-in-use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value-in-use method is adopted, in assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At the end of each reporting year, non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been measured, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are measured at the lower of cost (weighted average method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. A write-down on cost is made where the cost is not recoverable or if the selling prices have declined. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Financial instruments

Recognition and derecognition of financial instruments:

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires. At initial recognition, the financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and measurement of financial assets:

- #1. Financial asset classified as measured at amortised cost: A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"), that is (a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Typically trade and other receivables, bank and cash balances are classified in this category.
- #2. Financial asset that is a debt asset instrument classified as measured at fair value through other comprehensive income ("FVTOCI"): There were no financial assets classified in this category at reporting year end date.
- #3. Financial asset that is an equity investment measured at FVTOCI: There were no financial assets classified in this category at reporting year end date.
- #4. Financial asset classified as measured at FVTPL: All other financial assets are classified as measured at FVTPL. On initial recognition, management may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Classification and measurement of financial liabilities:

Financial liabilities are classified as at FVTPL in either of the following circumstances: (1) the liabilities are managed, evaluated and reported internally on a fair value basis; or (2) the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. All other financial liabilities are carried at amortised cost using the effective interest method. Reclassification of any financial liability is not permitted.

Cash and cash equivalents

Cash and cash equivalents include bank and cash balances, on demand deposits and any highly liquid debt instruments purchased with an original maturity of three months or less. For the statement of cash flows, the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand that form an integral part of cash management. Other financial assets and financial liabilities at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Hedging

The entity is exposed to currency and interest rate risks. The policy is to reduce currency and interest rate exposures through derivatives and other hedging instruments. From time to time, there may be borrowings and foreign exchange arrangements or interest rate swap contracts or similar instruments entered into as hedges against changes in interest rates, cash flows or the fair value of the financial assets and liabilities. The gain or loss from remeasuring these hedging or other arrangement instruments at fair value are recognised in profit or loss. The derivatives and other hedging instruments used are described below in the notes to the financial statements.

Derivative financial instruments

A derivative financial instrument is a financial instrument with all three of the following characteristics (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices, credit ratings or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract; (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) it is settled at a future date. The derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently classified as measured at FVTPL unless the derivative is designated and effective as a hedging instrument.

The group has committed purchase and sales contracts for crude palm oil and palm kernel cake that are entered into as part of its processing and sale activities. The prices and physical delivery of the sales and purchases are fixed in the contracts and these executory contracts are not recognised in the financial statements until physical deliveries take place.

The group enters into non-physical delivery forward contracts to manage the price risk of its physical inventory and to hedge against fluctuations in commodity prices. Prices on commodity exchanges are quoted up to 3 to 5 months forward. The gains or losses arising from matched non-physical delivery forward contracts are recognised immediately in profit or loss.

Outstanding forward contracts are valued at their fair values at the end of the reporting year. Where available, quoted market prices are used as a measure of fair values for the outstanding contracts. Where the quoted market prices are not available, fair values are based on management's best estimate and are arrived at by reference to the market prices of other contracts that are substantially similar. Unrealised losses arising from the valuation are set off against unrealised gains on an aggregate basis.

Plasma receivables

Plasma receivables represent loans to Plasma farmers under various Indonesian Government policies as elaborated in Note 31. Plasma receivables are either immediately claimed to the financing banks, or temporarily self-funded by the group for those awaiting bank's funding, or shall be reimbursed by the Plasma farmers. Plasma receivables will include advances to Plasma farmers for loan instalments paid to banks. This account is presented at net amount after financing costs, received from the banks. Bank financing are soft loans obtained by cooperatives whose agreements were signed by Plasma farmers and the respective banks for which the group acts as guarantors for the loan repayments.

Costs incurred during development of the oil palm plantations and temporary funding to the Plasma farmers for working capital purposes are included in plasma receivables in the consolidated statement of financial position. The funds received from the designated banks on behalf of the Plasma farmers for the development and operations of the plantations are deducted from the plasma receivables. Plasma receivables are classified as financial assets classified as measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Fair value measurement

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, market observable data to the extent possible is used. If the fair value of an asset or a liability is not directly observable, an estimate is made using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value.

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety: Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices). Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

Provisions

A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is made using best estimates of the amount required in settlement and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Changes in estimates are reflected in profit or loss in the reporting year they occur.

Segment reporting

The reporting entity discloses financial and descriptive information about its consolidated reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing the performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2B. Other explanatory information

Assets classified as held for sale

Identifiable assets and liabilities and any disposal groups are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. The sale is expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by the financial reporting standard on non-current assets held for sale and discontinued operations in certain circumstances. It can include a subsidiary acquired exclusively with a view to resale. Assets that meet the criteria to be classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal and are presented separately on the face of the statement of financial position. Once an asset is classified as held for sale or included in a group of assets held for sale, no further depreciation or amortisation is recorded. Impairment losses on initial classification of the balances as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

2C. Critical judgements, assumptions and estimation uncertainties

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities currently or within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Biological assets:

The biological assets (un-harvested FFB) are stated at fair value less costs to sell at the point of harvest. This measurement is significant and the process is highly judgemental and is based on assumptions that are affected by expected future market or economic conditions. As a result, judgement is required in evaluating the assumptions and methodologies used by management, in particular those relating to the forecasted revenue growth and profit margins. The disclosures about measurement of fair values are included in Note 21, which explains that small changes in the key assumptions used could give rise to gains and losses. Actual outcomes could vary from these estimates.

Income tax amounts:

The group has exposure to income taxes in mainly two jurisdictions, Indonesia and Singapore. The entity recognises tax liabilities and tax assets based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual amount arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax amounts in the period when such determination is made. In addition, management judgement is required in determining the amount of current and deferred tax recognised and the extent to which amounts should or can be recognised. A deferred tax asset is recognised for unused tax losses if it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the management making assumptions within its overall tax planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability reflects the manner in which the entity expects to recover the asset's carrying value or settle the liability. As a result, due to their inherent nature, assessments of likelihood are judgemental and not susceptible to precise determination. The income tax amounts are disclosed in the note on income tax.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2C. Critical judgements, assumptions and estimation uncertainties (cont'd)

Property, plant and equipment:

An assessment is made for the reporting year whether there is any indication that the asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. The recoverable amounts of cash-generating units, if applicable, is measured based on the fair value less costs of disposal or value in use calculations. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amounts of property, plant and equipment at the end of the reporting year affected by the assumption are disclosed in the note on property, plant and equipment.

Useful lives of property, plant and equipment:

The estimates for the useful lives and related depreciation charges for property, plant and equipment is based on commercial and other factors which could change significantly as a result of innovations and in response to market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete items or assets that have been abandoned. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amounts of the property, plant and equipment at the end of the reporting year affected by the assumption are US\$72,600,000 (2017: US\$81,386,000).

Land use rights:

The group holds location permits or *Ijin Lokasi* in respect of plantation land in Indonesia allocated by the Indonesian authorities. Upon the completion of the acquisition of such land, the group will be entitled to begin the process of application for Business Usage Rights ("Hak Guna Usaha" or "HGU") certificates over such land. The *Ijin Lokasi* may not be extended by the Indonesian authorities and will automatically expire if the group fails to acquire the land covered in the *Ijin Lokasi* within the stipulated validity period of the said *Ijin Lokasi*. In such an event, the group may lose their rights granted by the Indonesian authorities under the *Ijin Lokasi* in respect of the remaining area covered by the original *Ijin Lokasi*. At the date of this report, the group is in the final process of obtaining HGU certificates for conversion in respect of 4,624 (2017: 8,235) hectares of Kadastral land. Kadastral land is land that is measured to determine the actual land area for the HGU title based on the application submitted by the group. The group is also in the process of acquiring and clearing land held under their land bank prior to the issuance of Kadastral for such land. Prior to the issuance of the HGU certificates, such land is considered as uncertified land. Pending the issue of HGU certificates, the group is permitted to physically occupy and build on the uncertified land and to plant and harvest crops. However, as the administration of land laws and regulations may be subject to a certain degree of discretion by the Indonesian authorities, there is no assurance with certainty that the relevant authorities would not take a different approach or view as regard the uncertified land, its use, registration and future disposal for value. Should the relevant authorities take a different approach or view as regards the same and the group is unable to convert the uncertified land to HGU certified land, the group's interest in the uncertified land as well as the use of such land may be adversely affected. Further details are included in Note 19.

Pension and employee benefits:

The determination of the group's obligations and cost for pension and employee benefits liability is dependent on its selection of certain assumptions used by independent actuaries in calculating such amounts. Those assumptions include among others, discount rates, future annual salary increases, annual employee turnover rates, disability rates, retirement age and mortality rates.

Actual results that differ from the assumptions are recognised immediately in profit or loss as and when they occur. While the group believes that its assumptions are reasonable and appropriate, significant differences in the group's actual experience or significant changes in the assumptions may materially affect its estimated liabilities for pension and employee benefits and net employee benefits expense. The carrying amount of the estimated liabilities for employee benefits as at 31 December 2018 was US\$4,448,000 (2017: US\$4,322,000).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

2. Significant accounting policies and other explanatory information (cont'd)

2C. Critical judgements, assumptions and estimation uncertainties (cont'd)

Measurement of impairment of subsidiary or joint venture:

Where an investee is in net equity deficit and or has suffered losses, a test is made whether the investment in the investee has suffered any impairment loss. This measurement requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amounts. The carrying amounts of the company's investments in subsidiaries and the group's investments in joint ventures are disclosed in Notes 17 and 18 respectively.

Advances/guarantees under the Plasma Programme:

The group has provided guarantees in respect of loans granted by banks to villagers under the Plasma Programme. The villagers will repay the bank loans from the sale proceeds of FFB. In the event the villagers default on their obligations to repay the bank loans, the banks may call upon the guarantees, which have been provided by the group to the banks to secure the loans of the villagers. The entity recognises expected losses, if any, which require significant judgement. Details of the bank guarantees provided are disclosed in Note 31.

Environmental regulations:

The main environmental concerns relate to the discharge of effluent arising from the milling of FFB and clearance of land and forest for developing the group's plantations. The main social concern relates to possible conflicts that may arise with local communities in the areas around the plantations. Any environmental claims or failure to comply with any present or future regulations could result in the imposition of fines, the suspension or a cessation of the group's operations. The group's plantations are subject to both scheduled and unscheduled inspections by various Indonesian government agencies, each of whom may have differing perspectives or standards from the others. These agencies have the power to examine and control the group's compliances with their environmental regulations, including the imposition of fines and revocation of licenses and land rights. However, governmental agencies may adopt additional regulations that would require the group to spend additional funds on environmental matters.

Environmental regulations and social practices in Indonesia tend to be less exact than in developed countries. It is possible that these regulations could become more exact in the future and compliance with them may involve incurring significant costs. This may consequently have an adverse effect on the group's operations. Any failure to comply with the laws and regulations could subject the group to further liabilities. It is impracticable to disclose the extent of the possible effects of the above matters on the consolidated financial statements of the group.

3. Related party relationships and transactions

The financial reporting standard on related party disclosures requires the reporting entity to disclose: (a) transactions with its related parties; and (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. A party is related to a party if the party controls, or is controlled by, or can significantly influence or is significantly influenced by the other party.

The ultimate controlling party is Henry Maknawi, a director.

3A. Members of a group:

Name	Relationship	Country of incorporation
Kencana Holdings Pte. Ltd.	Ultimate parent company	Singapore

Related companies in these financial statements include the members of the above group of companies. Associates also include those that are associates of members of the above group.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

3. Related party relationships and transactions (cont'd)

3B. Related party transactions:

There are transactions and arrangements between the reporting entity and related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The related party balances and financial guarantee, if any, are unsecured without fixed repayment terms and interest or charge unless stated otherwise.

Intragroup transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

In addition to transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following significant related party transactions:

	2018 US\$'000	2017 US\$'000
Group		
Related parties:		
Sales of commodities ^(a)	10,569	585
Purchases of commodities ^(a)	(4,740)	(4,327)
Lease related services ^(b)	(41)	(48)
Receiving of service expense ^(b)	(2,041)	(1,743)
Joint ventures:		
Miscellaneous service income	103	–
Sales of commodities	–	15,043
Interest income	3,112	2,612
Management fee income	76	80

(a) The related party, Wilmar International Limited has 20% interest in and significant influence over the reporting entity.

(b) The related parties, PT Berkah Wahana Sukses, PT Alamindo Sejahtera Persada and PT Graha Meruya are companies in which directors or their immediate family members have a significant or controlling interest.

3C. Key management compensation:

	Group	
	2018 US\$'000	2017 US\$'000
Salaries and other short-term employee benefits	2,181	2,279
Post-employment benefits	20	13

The above amounts are included under employee benefits expense. Included in the above amounts are the following items:

	Group	
	2018 US\$'000	2017 US\$'000
Remuneration of directors of the company	730	1,297
Remuneration of directors of the subsidiaries	1,176	707
Fees to directors of the company	154	151

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

3. Related party relationships and transactions (cont'd)

3C. Key management compensation (cont'd):

Further information about the remuneration of individual directors is provided in the report on corporate governance.

Key management personnel include directors and those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly.

3D. Other receivables from and other payables to related parties:

The trade transactions and the related receivables and payables balances arising from sales and purchases of goods and services are disclosed elsewhere in the notes to the financial statements.

The movements in other receivables from and other payables to related parties are as follows:

	Subsidiaries	
	2018 US\$'000	2017 US\$'000
Company		
<u>Other receivables:</u>		
Balance at beginning of the year, net	38,708	22,002
Amounts paid out and settlement of liabilities on behalf of subsidiaries	–	17,656
Amounts paid in and settlement of liabilities on behalf of the company	(576)	–
Allowance for impairment	(2,412)	–
Foreign exchange alignment	(2,786)	(950)
Balance at end of the year (Note 23)	32,934	38,708

4. Revenue

#A. Revenue classified by type of goods or services:

	Group	
	2018 US\$'000	2017 US\$'000 Restated
Sale of goods	124,292	148,388
Rendering of services	229	330
Rental income	384	262
Management fee income (Note 3)	76	80
	124,981	149,060

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

4. Revenue (cont'd)

#B. Revenue classified by duration of contract:

	Group	
	2018	2017
	US\$'000	US\$'000
Short-term contracts	113,695	113,171
Long-term contracts	11,286	35,889
Total revenue	124,981	149,060

#C. Revenue classified by timing of revenue recognition:

	Group	
	2018	2017
	US\$'000	US\$'000
Point in time	124,981	149,060

The revenue from sale of goods and rendering of services is earned from customers who are mainly wholesalers and producers of oil palm products.

5. Cost of sales

	Group	
	2018	2017
	US\$'000	US\$'000
Cost of goods produced and purchases	99,993	117,064
Cost of services rendered	643	1,029
Net loss on non-physical delivery forward contracts (Note 30)	–	475
	100,636	118,568

6. Other gains and (other losses)

	Group	
	2018	2017
	US\$'000	US\$'000
Foreign exchange transaction losses	(14,409)	(2,359)
Gains on derivative financial instruments (Note 30)	474	693
Loss on disposal of assets held for sale	(190)	–
Gain on disposal of joint venture	–	9,087
Impairment on other receivables (joint venture)	–	(926)
Impairment on other receivables	–	(104)
Gain on disposal of subsidiary (Note 40)	92	–
Inventories written-off	(34)	(349)
Insurance reimbursement	77	511
Gain/(loss) on disposal of property, plant and equipment	40	(108)
Miscellaneous	454	66
Management fee from plasma	787	–
Tax assessment results	(104)	(52)
Tolling fee	170	–
	(12,643)	6,459

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

6. Other gains and (other losses) (cont'd)

	Group	
	2018	2017
	US\$'000	US\$'000
Presented in profit or loss as:		
Other gains	2,094	10,357
Other losses	(14,737)	(3,898)
Net	(12,643)	6,459

7. Fair value changes in biological assets and other receivables

	Group	
	2018	2017
	US\$'000	US\$'000
(Loss)/gain on fair value changes in biological assets (Note 21)	(7,430)	4,264
Gain on fair value changes in other receivables (Note 31)	421	420
	(7,009)	4,684

8. Distribution costs

The major components include the following:

	Group	
	2018	2017
	US\$'000	US\$'000
Freight and storage costs	1,973	1,931

9. Finance costs

	Group	
	2018	2017
	US\$'000	US\$'000 Restated
Gross finance costs	20,699	24,968
Less capitalised in bearer plants (Note 16)	(1,642)	(4,197)
Net finance costs	19,057	20,771

10. Employee benefits expense

	Group	
	2018	2017
	US\$'000	US\$'000
Employee benefits expense	11,790	11,271
Contribution to defined contribution plans	206	139
Other post-employment benefits (Note 29)	350	283
Employee benefits expense included in cost of sales, administrative expenses and distribution costs	12,346	11,693

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

11. Income tax

11A. Components of tax expense recognised in profit or loss include:

	Group	
	2018	2017
	US\$'000	US\$'000
<u>Current tax expense:</u>		
Current tax expense	2,724	3,289
Under provision adjustments to current tax in respect of prior period	–	1,515
Subtotal	2,724	4,804
<u>Deferred tax expense:</u>		
Current deferred tax (benefit)/expense	(6,363)	637
Under provision adjustments to deferred tax in respect of prior period	413	554
Subtotal	(5,950)	1,191
Total income tax (benefit)/expense	(3,226)	5,995

The group's operations are predominantly located in Indonesia. Companies in Indonesia are generally subject to a tax rate of 25% (2017: 25%). Accordingly, the Indonesian statutory tax rate of 25% (2017: 25%) is used in the reconciliation below.

The income tax in profit or loss varied from the amount of income tax determined by applying the Indonesian statutory income tax rate of 25% (2017: 25%) to profit before income tax as a result of the following differences:

	Group	
	2018	2017
	US\$'000	US\$'000
(Loss)/profit before tax	(27,074)	10,983
Less: Share of results from equity-accounted joint ventures	4,497	2,534
	(22,577)	13,517
Income tax (benefit)/expense at the applicable tax rate	(5,644)	3,380
Non allowable items	1,166	1,871
Effect of different tax rates in different countries	355	(811)
Unrecognised deferred tax assets	451	(464)
Under provision adjustments to income tax in respect of prior period	413	2,069
Other items less than 3% each	33	(50)
Total income tax (benefit)/expense	(3,226)	5,995

There are no income tax consequences of dividends to owners of the company.

The under provision adjustments of prior period tax mainly related to finalisation of prior year tax losses for certain subsidiaries whereby the finalised tax losses were reduced from that in the initial tax provision.

The amount of income tax payable outstanding as at the end of the reporting year was US\$659,000 (2017: US\$1,940,000). Such an amount is net of tax advances, which according to the tax rules in Indonesia, were paid before the reporting year end.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

11. Income tax (cont'd)

11B. Deferred tax (benefit)/expense recognised in profit or loss include:

	Group	
	2018	2017
	US\$'000	US\$'000
Fair value changes in biological assets and plasma receivables	(1,748)	1,116
Employee benefits provision	(147)	(87)
Derivatives	206	195
Tax loss carryforwards	(3,950)	402
Others	(762)	29
Deferred tax assets not recognised	451	(464)
Total deferred tax (benefit)/expense recognised in profit or loss	(5,950)	1,191

11C. Tax income recognised in other comprehensive income include:

	Group	
	2018	2017
	US\$'000	US\$'000
Deferred tax:		
Employee benefits provision	50	(73)
Exchange differences on translation to presentation currency	(538)	(57)
Total tax income recognised in other comprehensive income	(488)	(130)

The above amounts are included in the exchange differences on translating IDR functional currency to US\$ presentation currency in other comprehensive income.

11D. Deferred tax balance in the statement of financial position:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
<u>From deferred tax (liabilities) assets recognised in profit or loss:</u>			
Fair value changes in biological assets and plasma receivables	(1,193)	(3,115)	(2,029)
Employee benefits provision	1,239	1,602	1,529
Derivatives	(6)	210	406
Tax loss carryforwards	15,222	12,010	12,519
Others	(1,180)	(1,245)	(1,226)
Unrecognised deferred tax assets	(2,675)	(2,287)	(2,777)
<u>From deferred tax liabilities recognised in other comprehensive income:</u>			
Employee benefits provision	(133)	(567)	(494)
Net balance	11,274	6,608	7,928

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

11. Income tax (cont'd)

11D. Deferred tax balance in the statement of financial position (cont'd):

Presented in the statement of financial position as follows:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Deferred tax liabilities	(383)	(1,564)	(1,180)
Deferred tax assets	11,657	8,172	9,108
Net balance	11,274	6,608	7,928

It is impracticable to estimate the amount expected to be settled or used within one year.

The above deferred tax assets for the tax losses that have not been recognised are in respect of the remaining balance, as the future profit streams are not probable against which the deductible temporary difference can be utilised.

Included in unrecognised tax losses are losses that will expire as follows:

<u>Unrecognised deferred tax assets:</u>	Tax losses		Unrecognised deferred tax assets	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
Expiring in year				
Indonesian companies				
2018	–	2,476	–	619
2019	1,128	288	282	72
2020	1,004	368	251	92
2021	612	356	153	89
2022	600	412	150	103
2023	20	–	5	–
Singapore companies				
Unlimited period	10,788	7,718	1,834	1,312
	14,152	11,618	2,675	2,287

For the Singapore companies, the realisation of the future income tax benefits from tax loss carryforwards and temporary differences from capital allowance is available for an unlimited future period subject to the conditions imposed by law including the retention of majority shareholders as defined. For the Indonesian companies, the realisation of the future income tax benefits from tax loss carryforwards is available for a period of 5 years subject to the conditions imposed by Indonesian laws.

No deferred tax liability of approximately US\$5,498,000 (2017: US\$5,605,000) has been recognised for taxes that would be payable on the undistributed earnings of the group's foreign subsidiaries as the group has determined that these undistributed earnings will not be distributed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

12. Items in the statement of profit or loss and other comprehensive income

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, the profit or loss includes the following charges:

	Group	
	2018	2017
	US\$'000	US\$'000
Audit fees to independent auditors included under administrative expenses:		
- company's auditors	104	97
- other auditors	80	86
Other fees to independent auditors included under administrative expenses:		
- company's auditors	50	47

13. (Loss)/Earnings per share

The following table illustrates the numerators and denominators used to calculate basic and diluted amount per share of no par value:

	Group	
	2018	2017
	US\$'000	US\$'000
(A) Numerators: (Loss)/Earnings attributable to equity holders from continuing operations	(23,848)	4,988
(B) Denominators: weighted average number of equity shares Basic and diluted	287,011	287,011
(Loss)/Earnings per share (US\$ cents)	(8.31)	1.74

The weighted average number of equity shares refers to shares in circulation during the reporting period.

The weighted average number of ordinary shares outstanding during the period and for all periods presented are adjusted for events, if any, that have changed the number of ordinary shares outstanding without a corresponding change in resources.

The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

There is no dilution of (loss)/earnings per share as there are presently no dilutive shares outstanding as at the end of the reporting year. The denominators used are the same as those detailed above for both basic and diluted (loss)/earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

14. Property, plant and equipment

Group	Freehold land US\$'000	Leasehold buildings US\$'000	Assets under construction US\$'000	Vessels US\$'000	Plant, fixtures and equipment US\$'000	Total US\$'000
<u>Cost:</u>						
At 1 January 2017	35	31,759	1,633	6,782	99,073	139,282
Foreign exchange alignment	–	(270)	(23)	(49)	(873)	(1,215)
Additions	–	58	2,524	–	2,248	4,830
Disposals	–	(123)	–	(656)	(1,414)	(2,193)
Reclassifications	–	751	(1,632)	–	881	–
Transfer to held for sale	–	–	–	(2,106)	–	(2,106)
At 31 December 2017	35	32,175	2,502	3,971	99,915	138,598
Foreign exchange alignment	–	(2,098)	(281)	(306)	(6,269)	(8,954)
Additions	–	173	10,547	–	1,739	12,459
Disposals	–	(1)	(141)	(3,665)	(394)	(4,201)
Disposal of a subsidiary (Note 40)	–	(52)	(29)	–	(176)	(257)
Reclassifications	–	1,320	(2,401)	–	1,081	–
At 31 December 2018	35	31,517	10,197	–	95,896	137,645
<u>Accumulated Depreciation and Impairment Losses:</u>						
At 1 January 2017	–	6,178	–	4,737	37,204	48,119
Foreign exchange alignment	–	(76)	–	(36)	(429)	(541)
Depreciation for the year	–	2,322	–	161	6,915	9,398
Disposals	–	(85)	–	(487)	(937)	(1,509)
Transfer to held for sale	–	–	–	(792)	–	(792)
At 31 December 2017	–	8,339	–	3,583	42,753	54,675
Foreign exchange alignment	–	(566)	–	(221)	(2,804)	(3,591)
Depreciation for the year	–	2,039	–	48	5,503	7,590
Disposals	–	(1)	–	(3,410)	(371)	(3,782)
Disposal of a subsidiary (Note 40)	–	(13)	–	–	(66)	(79)
At 31 December 2018	–	9,798	–	–	45,015	54,813
<u>Carrying Value:</u>						
At 1 January 2017	35	25,581	1,633	2,045	61,869	91,163
At 31 December 2017	35	23,836	2,502	388	57,162	83,923
At 31 December 2018	35	21,719	10,197	–	50,881	82,832

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

14. Property, plant and equipment (cont'd)

Assets under construction represent partial payments for the construction of the following assets:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Leasehold buildings	937	1,594	983
Plant and equipment	9,260	908	650
	10,197	2,502	1,633

	2018	2017
	US\$'000	US\$'000
Allocation of the depreciation expense:		
Bearer plants (Note 16)	280	780
Cost of sales	6,979	8,341
Administrative expenses	331	277
Total	7,590	9,398

Certain items of property, plant and equipment at a carrying value of US\$20,187,000 (2017: US\$71,321,000) are pledged as security for the bank facility (see Note 27).

Certain items are under finance lease agreements (see Note 27).

15. Investment property

	Group 2018	2017
	US\$'000	US\$'000
At cost:		
At beginning and end of the year	2,526	2,526
Accumulated depreciation:		
At beginning of the year	150	123
Depreciation for the year	26	27
At end of the year	176	150
Net book value at beginning of the year	2,376	2,403
Net book value at end of the year	2,350	2,376
Fair value for disclosure purposes only:		
Fair value at end of the year	2,501	2,619
Rental and service income from investment property	45	65
Allocation of depreciation expense:		
Administrative expenses	26	27

There are no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

15. Investment property (cont'd)

The investment property was leased out under an operating lease. Also see Note 34 on operating lease income commitments. The management has not entered into contractual obligations for the maintenance or enhancement of the investment property.

The fair value of the investment property was measured in December 2018 based on the highest and best use method to reflect the actual market state and circumstances as of the end of the reporting year. The fair value was based on a valuation made by management, on a systematic basis at least once yearly. There has been no change to the valuation technique during the year. Management determined that the highest and best use of the asset is the current use and that it would provide maximum value to market participants principally through its use in combination with other assets.

For fair value measurements categorised within Level 2 of the fair value hierarchy below, a description of the valuation techniques and the significant other observable inputs used in the fair value measurement are as follows:

Asset:	Leasehold property at 36 Armenian Street #03-03, Singapore 179934.
Gross floor area:	1,527 square foot.
Tenure of land:	99 years from 2007.
Unexpired lease term:	89 years.
Fair value in US\$ and fair value hierarchy – Level:	US\$2,501,000 (2017: US\$2,619,000). Level 2. (2017: Level 2).
Valuation technique for recurring fair value measurements:	Comparison with market evidence on recent offer of sale prices for similar properties.
Significant observable inputs and range (weighted average):	Price per square foot. US\$1,638 (2017: US\$1,715).
Relationship of unobservable inputs to fair value:	NA.
Sensitivity on management's estimates – 10% variation from estimate	Impact – lower/higher by US\$250,100.

The investment property is mortgaged as security for the bank facilities (see Note 27).

16. Bearer plants

	Group	
	2018	2017
	US\$'000	US\$'000
Cost:		
At beginning of the year	186,176	183,466
Additions	2,958	2,577
Disposal of a subsidiary (Note 40)	(2,395)	–
Disposal	(1,371)	–
Transfer to Plasma ^(a)	–	(3,285)
Capitalisation of interest cost (Note 9)	1,642	4,197
Capitalisation of depreciation expense (Note 14)	280	780
Foreign exchange alignment	(12,564)	(1,559)
At end of the year	174,726	186,176

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

16. Bearer plants (cont'd)

	Group	
	2018	2017
	US\$'000	US\$'000
<u>Accumulated Depreciation:</u>		
At beginning of the year	28,310	22,647
Depreciation for the year	7,033	5,910
Disposal of a subsidiary (Note 40)	(379)	–
Disposal	(547)	–
Foreign exchange alignment	(2,376)	(247)
At end of the year	32,041	28,310
<u>Carrying Value:</u>		
At beginning of the year	157,866	160,819
At end of the year	142,685	157,866

- (a) During the year ended 31 December 2017, certain reclassification from bearer plants to plasma receivables were made. The reclassification related to costs incurred for development of plasma plantations previously capitalised under bearer plants, so as to be in line with reference costs published by the Indonesian government's Ministry of Agriculture. The reference costs are for plantation companies to develop plasma plantations for villagers who are members of rural cooperatives.

Depreciation expense of bearer plants is included in cost of sales.

The interest capitalised is the actual interest incurred on the bank borrowings to finance the development of oil palm plantations. The interest rates are disclosed in Note 27.

At the end of the reporting year, bearer plants comprise of oil palm trees as follows:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Planted area amounts:			
- mature (US\$'000)	100,582	90,345	89,621
- immature (US\$'000)	42,103	67,521	71,198
	142,685	157,866	160,819
Planted area size:			
- mature (hectares)	46,806	42,723	40,939
- immature (hectares)	6,495	11,465	13,236
	53,301	54,188	54,175

At the end of reporting year, US\$137,322,000 (2017: US\$ 150,103,000) of bearer plants are pledged for certain bank borrowings (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

17. Investments in subsidiaries

	Company	
	2018	2017
	US\$'000	US\$'000
Movements during the year:		
At the beginning of the year, at cost	39,160	39,455
Provision for impairment loss	(339)	–
Translation exchange adjustments	(2,470)	(295)
At the end of the year, at cost	36,351	39,160

	Company		
	31 December 2018	31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Total cost comprises:			
Unquoted shares, at cost	12,961	12,961	12,961
Quasi-equity loans receivable	34,842	34,842	34,842
Provision for impairment loss	(339)	–	–
Translation exchange adjustment	(11,113)	(8,643)	(8,348)
Total, at cost	36,351	39,160	39,455

	Company	
	2018	2017
	US\$'000	US\$'000
Movements in allowance for impairment:		
At beginning of the year	–	–
Impairment loss charge to profit or loss included in other losses	339	–
At the end of the year, at cost	339	–

The decreasing performance of a subsidiary, Kencana Logistics Pte. Ltd., was considered sufficient evidence to trigger impairment test which resulted in the recognition of a loss. Accordingly, it has been written down to the recoverable amount.

The quasi-equity loans are interest-free loans to subsidiaries for which there are no significant settlements planned or likely to occur in the foreseeable future. They are, in substance, part of the company's net investment in the subsidiaries.

The listing of and information on the subsidiaries are given in Note 40.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

18. Investments in joint ventures

	Group	
	2018	2017
	US\$'000	US\$'000
Movements during the year:		
At beginning of the year	–	–
Loans and advances to joint ventures	4,497	2,534
Share of results from equity-accounted joint ventures	(4,497)	(2,534)
At end of the year	–	–

	31 December 2018	31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Carrying value:			
Unquoted equity shares, at cost	–	–	2,000
Loans and advances to joint ventures	16,307	11,810	13,648
Share of loss from equity-accounted joint ventures	(16,307)	(12,040)	(6,747)
Translation exchange adjustment	–	230	(204)
Transfer to assets held for sale (Note 20)	–	–	(8,697)
At end of the year	–	–	–

	Company	
	2018	2017
	US\$'000	US\$'000
Movement during the year:		
At beginning and end of the year	–	–

	31 December 2018	31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Carrying value:			
Unquoted equity shares, at cost	2,586	2,586	4,586
Loans and advances to joint ventures	–	–	3,944
Allowance for impairment	(2,586)	(2,586)	(2,586)
Translation exchange adjustment	–	–	(6)
Transfer to assets held for sale (Note 20)	–	–	(5,938)
At end of the year	–	–	–

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

18. Investments in joint ventures (cont'd)

The listing of and information on the joint arrangements are given below:

<u>Name of joint arrangements, country of incorporation, place of operations and principal activities</u>	Percentage of equity held by the group	
	2018	2017
	%	%
Joint venture - Kencana LDC Pte. Ltd. #a #g (Note 18A)		
Singapore		
Investment holding	—	—
Joint venture - Kencana Bio-Energy Pte. Ltd. #c #e (Note 18B)		
Singapore		
Investment holding	70	70
Joint venture - LDC Kencana Trading Pte. Ltd. #d (Note 18C)		
Singapore		
Dormant	—	50
<u>Name of subsidiaries owned by joint arrangements, country of incorporation, place of operations and principal activities</u>	Percentage of equity held by the group	
	2018	2017
	%	%
Kencana LDC Pte. Ltd. owns the following subsidiary:		
PT Dermaga Kencana Indonesia ("DKI") #b		
Indonesia		
Trading and refinery company	—	—
Kencana Bio-Energy Pte. Ltd. owns the following subsidiary:		
PT Cahaya Permata Gemilang ("CPG") #f #h		
Indonesia		
Wholesaler of electricity-related products	71.5	71.5

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

18. Investments in joint ventures (cont'd)

<u>Name of subsidiaries owned by joint arrangements, country of incorporation, place of operations and principal activities (and independent auditor)</u>	Percentage of equity held by the group	
	2018	2017
	%	%
<i>Held through PT Cahaya Permata Gemilang</i>		
PT Belitung Energy ("BE") #f #h		
Indonesia		
Power generation	71.5	71.5
PT Listrindo Kencana ("LK") #f #h		
Indonesia		
Power generation	71.5	71.5
PT Energi Cipta Utama ("ECU") #f #h		
Indonesia		
Dormant	71.5	71.5
PT Energi Karya Persada ("EKP") #f #h		
Indonesia		
Power generation	71.5	71.5
#a. Kencana LDC Pte. Ltd. was an investment holding company. Its subsidiary, DKI, owns, builds and operates a refinery and a deep water port on a land parcel located at Balikpapan, East Kalimantan, Indonesia. The joint venture was disposed in 2017. Also see Note 20. #b. Audited by other independent auditors. Audited by firms of accountants other than member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member. The name of the firm is Deloitte Indonesia (Osman Bing Satrio & Eny). The joint venture was disposed in 2017. Also see Note 20. #c. Audited by RSM Chio Lim LLP, a member of RSM International. #d. LDC Kencana Trading Pte. Ltd. was de-registered during the year and is not required to be audited by the laws of the country of incorporation. #e. Kencana Bio-Energy Pte. Ltd. ("KB") is an investment holding company. Its subsidiaries PT Belitung Energy ("BE") and PT Listrindo Kencana ("LK") own and operate power plants at Belitung and Bangka, Indonesia. #f. Audited by a member firm of RSM International of which RSM Chio Lim LLP in Singapore is a member. The name of the member firm is Amir Abadi Jusuf, Aryanto, Mawar dan Rekan ("RSM Indonesia"), Jakarta. #g. Under an agreement between Louis Dreyfus Commodities Asia Pte. Ltd. ("LDCA") joint venture partner of the group in DKI (a wholly owned subsidiary of joint venture Kencana LDC Pte. Ltd.) and the group, LDCA purchased 100% of the volume of palm products originating from DKI. A Joint Book Account was maintained to record the trading of DKI's palm products. The group and LDCA shared the profits or losses arising from this Joint Book Account equally. This agreement, in substance, extended the operation and trading cycle of DKI. Therefore the share of profit or loss from the Joint Book Account was treated as part of the share of profit or loss from the equity accounted joint venture. The net gain on Joint Book Account included in share of profit or loss from this equity accounted joint venture was NIL (2017: net gain of US\$100,000). #h. Included in the percentage equity held by the group is a 5% direct interest in CPG acquired by a wholly owned subsidiary of the company, PT Sawindo Kencana on 31 December 2015. Consequently the company acquired an additional 5% interest in the wholly owned subsidiaries of CPG, which are BE, LK, ECU and EKP.		

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

18. Investments in joint ventures (cont'd)

18A. Joint venture - Kencana LDC Pte. Ltd.

The company and another entity agreed to combine their asset management and services activities by establishing a separate vehicle (Kencana LDC Pte. Ltd.) ("KLDC"). The parties expected the arrangement to benefit them in different ways (trading and refinery business). KLDC's legal form was such that it caused the separate vehicle to be considered in its own right. The parties had 50% interest each. The shareholders' agreement established joint control of the activities of KLDC. The joint arrangement was carried out through a separate vehicle whose legal form conferred separation between the parties and the separate vehicle and the parties had rights to the net assets of KLDC. The parties recognised their rights to the net assets of KLDC as investments and accounted for them using the equity method. The joint venture was disposed in 2017. Also see Note 20.

18B. Joint venture - Kencana Bio-Energy Pte. Ltd.

The company entered into an agreement with Enco Holdings Sdn Bhd, ("Enco") a company in the business of manufacturing and installation of boiler systems. The investment by Enco was completed on 21 March 2014. Under this arrangement, Enco invested MYR15,000,000 (equivalent to US\$4,500,000) in the form of equity and convertible loan into Kencana Bio-Energy Pte. Ltd. ("KB") for a 30% stake in the KB group. The company owns the remaining shares in the KB group (See Note 23A for details of the loan receivable from joint venture).

The shareholders' agreement establishes joint control of the activities of KB. The joint arrangement is carried out through a separate vehicle whose legal form confers separation between the parties and the separate vehicle and the parties have rights to the net assets of KB. The parties recognise their rights to the net assets of KB as investments and account for them using the equity method.

The shareholders' agreement provides that in the event of stipulated events of default by the company, the company grants a put option to Enco that requires the company to purchase all the share capital of KB at a price equivalent to (a) the aggregate initial subscription price of the share capital issued (b) plus the cumulative undistributed profits attributable to the share capital issued to Enco or less the cumulative losses attributable to the share capital issued to Enco. In the event of stipulated events of default by Enco, the company has a call option that requires Enco to sell all the investment shares issued to Enco at the same price as stated in (a) and (b) above.

The accounting recognition of these arrangements (financial liability and the corresponding underlying shares as part of its investment in subsidiary) and including the fair value of the put option and the call option at the end of the reporting year were not recognised as their impact is unlikely to be material. The prices at which the options are exercisable are based on the performance of KB. The fair value of the options cannot be reliably measured because (a) the variability in the range of reasonable fair value measurements is significant and (b) the probabilities of the various estimates within the range cannot be reasonably assessed. It is unlikely to be significant.

In addition, KB has granted Enco an option to subscribe for additional shares such that Enco will hold 49% of the share capital of KB on an enlarged basis. The price of the new shares shall be based on the fair value as determined by an independent valuer at the point of exercise of the option. The fair value of the option to subscribe additional shares at the end of the reporting year was not recognised in the books of KB as it was not significant.

This is a joint venture that is considered material to the reporting entity. The summarised financial information of this material joint venture and the amounts (and not the reporting entity's share of those amounts) based on the financial statements of the joint venture are as follows. These are adjusted to reflect adjustments made by the reporting entity when using the equity method.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

18. Investments in joint ventures (cont'd)

18B. Joint venture - Kencana Bio-Energy Pte. Ltd. (cont'd)

	Group	
	2018	2017
	US\$'000	US\$'000
<u>Joint venture - Kencana Bio-Energy Pte. Ltd.:</u>		
Revenue	1,993	1,699
Loss for the reporting year	(6,197)	(5,841)
Other comprehensive income	–	(4)
Total comprehensive loss	(6,197)	(5,845)
Depreciation and amortisation	(865)	(643)
Interest income	18	25
Interest expense	(3,785)	(3,260)
Income tax expense	(1,021)	(249)
Current assets	2,531	3,564
Cash and cash equivalents	461	611
Non-current assets	13,599	15,517
Current liabilities	(3,045)	(2,756)
Current financial liabilities (excluding trade and other payables and provisions)	(932)	(483)
Non-current liabilities	(36,479)	(34,357)
Non-current financial liabilities (excluding trade and other payables and provisions)	(4,186)	(95)
Non-controlling interests	1,251	988
Reconciliation:		
Net liabilities of the joint venture	(23,394)	(18,032)
Proportion of the reporting entity's interest in the joint venture	71.5%	71.5%
Carrying amount of the interest in the joint venture	(16,727)	(12,893)
Capital commitments for construction of plant, fixtures and equipments	–	120

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

18. Investments in joint ventures (cont'd)

18C. Joint venture - LDC Kencana Trading Pte. Ltd.

This joint venture was de-registered in 2018 and the group's cost of investment amounting to US\$32 was written off. This joint venture was considered not material to the reporting entity. The summarised financial information of the non-material joint venture and the aggregate amounts (and not the reporting entity's share of those amounts) based on the financial statements of the joint venture is as follows. These are adjusted to reflect adjustments made by the reporting entity when using the equity method.

	Company	
	2018	2017
	US\$'000	US\$'000
<u>Joint venture – LDC Kencana Trading Pte. Ltd.:</u>		
Loss for the reporting year	–	(4)
Total comprehensive loss	–	(4)
Current assets	–	3
Cash and cash equivalents	–	3
Current liabilities	–	(41)
Reconciliation:		
Net liabilities of the joint venture	–	(38)
Proportion of the reporting entity's interest in the joint venture	–	50%
Carrying amount of the interest in the joint venture	–	(19)

19. Land use rights

	Group	
	2018	2017
	US\$'000	US\$'000
<u>Cost:</u>		
At beginning of the year	44,327	42,910
Foreign exchange alignment	(2,855)	(376)
Additions	433	1,793
Disposal of a subsidiary (Note 40)	(536)	–
At end of the year	41,369	44,327
<u>Accumulated amortisation:</u>		
At beginning of the year	(5,848)	(4,628)
Foreign exchange alignment	394	54
Amortisation for the year included under cost of sales	(1,212)	(1,274)
Disposal of a subsidiary (Note 40)	46	–
At end of the year	(6,620)	(5,848)
<u>Carrying value:</u>		
At beginning of the year	38,479	38,282
At end of the year	34,749	38,479
<u>Balance to be amortised:</u>		
Not later than one year	1,194	1,260
Later than one year and not later than five years	4,776	5,040
Later than five years	28,779	32,179
	34,749	38,479

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

19. Land use rights (cont'd)

The land rights with a carrying value of US\$31,970,000 (2017: US\$35,138,000) have been pledged as security for the bank facilities (see Note 27).

At the end of the reporting year the group's land rights covering a total land area shown below, represent Business Usage Rights ("Hak Guna Usaha" or "HGU") that have been applied for. Out of these land rights, the certificates for 115,737 hectares were obtained before 31 December 2018 while the land rights certificates covering the remaining area of 4,624 hectares are still in the progress of preparation as at the date of this report. The group has been given a permit to arrange for land clearing for oil palm plantation purposes. The land rights will be amortised once the titles are issued to the group.

The legal terms of the group's existing certified land rights expire in various years. The details are as follows:-

<u>Land rights</u>	<u>Expire in years</u>
23,464 hectares	2028 – 2037
92,273 hectares	2038 – 2040
4,624 hectares	Certificates have yet to be received as of the date of this report
<u>120,361 hectares</u>	

20. Assets held for sale

- The sale of KLDC was completed during the reporting year ended 31 December 2017. The sale consideration plus repayment of loan receivables was US\$18,302,000 and a gain of US\$9,087,000 was recorded upon disposal of KLDC (Note 6). The carrying amount of investment in KLDC and the loan receivables (net of impairment loss) as of disposal date was US\$9,215,000.
- As of 31 December 2017, certain vessels were presented as held for sale following the decision of management in 2017 to sell the vessels. The sale was completed on 29 January 2018 and 5 June 2018 respectively. The sale consideration was US\$1,061,000 and a loss of US\$190,000 was recorded upon disposal. The carrying amount of the vessels as of disposal date was US\$1,251,000.

21. Biological assets

	Group	
	2018	2017
	US\$'000	US\$'000
<u>Movements in fair value</u>		
At beginning of the year	14,099	9,965
Foreign currency alignment	(804)	(130)
Fair value less estimated point-of-sale costs (Note 7)	(7,430)	4,264
Disposal of a subsidiary (Note 40)	(184)	–
At end of the year (Level 3)	<u>5,681</u>	<u>14,099</u>

There was no change in the level during the year. The group's oil palm plantations are located in Indonesia.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

21. Biological assets (cont'd)

Biological assets comprise of un-harvested fresh fruit bunches ("FFB") growing on oil palm trees (bearer plants). The group measures its biological assets at fair value less cost to sell at the point of harvest, which require use of accounting estimates and assumptions. Significant components of fair value measurement were determined using assumptions and estimates such as the yield of oil palm trees, annual discount rate, and projected selling prices of FFB. Any changes in fair values of these biological assets would affect the group's profit and carrying value of the biological assets. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected.

The fair value of the biological assets was measured with the assistance of KJPP Benedictus Darmapuspita dan Rekan, a firm of independent professional valuers on 7 February 2019 based on the present value of the expected net cash flows of the FFB on the trees as at the valuation date of 31 December 2018 (fair value hierarchy: Level 3). The expected net cash flows of the FFB are determined using the forecast market price of FFB. The significant assumptions made in determining the fair values of the oil palm plantations are as follows:

- (i) The FFB on the trees takes 6 months (2017: 6 months) to grow to maturity;
- (ii) Projected volumes of FFB harvested subsequent to year-end are based on management inspection on actual condition of un-harvested FFB growing on the trees as at valuation date;
- (iii) The discount rate used in 2018 is 12.88% per annum (2017: 12.31% per annum) (such discount rates represent the asset specific rate for the group's plantation operations which is applied in the discounted future cash flows calculations); and
- (iv) The projected selling prices of FFB are based on FFB market price for January 2019, which is used as an estimate for the forecasted market price.

The fair value of biological assets would be affected by changes in the above assumptions used, particularly the FFB prices used and projected volumes of FFB.

Sensitivity on unobservable inputs:

Favourable or adverse changes in discount rate, projected selling price and projected volume of FFB will increase or decrease the fair value.

If the projected selling prices of FFB used in the above valuation increased or decreased by 5%, assuming all other variables are held constant, the group's profit and the carrying value of biological assets would increase or decrease by approximately US\$1,127,000 (2017: US\$1,590,000) as a result of higher or lower gains arising from changes in fair value of the biological assets.

If the projected production used in the above valuation increased or decreased by 5%, assuming all other variables are held constant, the group's profit and the carrying value of biological assets would increase or decrease by approximately US\$885,000 (2017: US\$1,354,000) as a result of higher or lower gains arising from changes in fair value of the biological assets.

If the discount rate used in the above valuation increased or decreased by 1%, assuming all other variables are held constant, the group's profit and the carrying value of biological assets would decrease or increase by approximately US\$17,000 (2017: US\$39,000).

During the reporting year, the group harvested approximately 782,758 tonnes (2017: 591,471 tonnes) of FFB from the oil palm trees.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

21. Biological assets (cont'd)

At the end of the reporting year, US\$5,681,000 (2017: US\$13,922,000) of the biological assets are pledged for certain bank borrowings (see Note 27).

Risk management strategy related to agricultural activities:

The group is exposed to the following risks relating to its oil palm plantations.

Regulatory and environmental risks:

The group is subject to laws and regulations in Indonesia. The group has established environmental policies and procedures aimed at compliance with local environmental and other laws.

Supply and demand risks:

The group is exposed to risks arising from fluctuations in the price and sales volume of Crude Palm Oil ("CPO") and Crude Palm Kernel Oil ("CPKO"). When possible, the group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses for projected harvest volumes and pricing.

Climate and other risks:

The group's plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The group has extensive processes in place aimed at monitoring and mitigating those risks, including regular plantation health inspections and industry pest and disease surveys. The group is also insured against natural disasters such as floods and hurricanes.

22. Inventories

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Raw materials, consumables and supplies	9,258	6,187	6,783
Finished goods and goods for resale (CPO and CPKO)	3,718	2,276	3,248
	12,976	8,463	10,031
		2018	2017
		US\$'000	US\$'000
(Increase)/decrease in inventories of finished goods		(1,442)	972
Raw materials and consumables used included in cost of sales		25,986	21,378

Inventories with a carrying value of US\$10,402,000 (2017: US\$2,829,000) are pledged as security for the bank facilities (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

23. Trade and other receivables

	31 December 2018 US\$'000	Group 31 December 2017 US\$'000	1 January 2017 US\$'000
<u>Non-current</u>			
<u>Other receivables:</u>			
Advances under Plasma Programme (Note 31)	4,023	6,122	7,495
Loan receivable from joint venture (Note 23A)	9,176	15,331	13,505
Total other receivables, non-current	13,199	21,453	21,000
<u>Current</u>			
<u>Trade receivables:</u>			
Outside parties	4,244	4,192	3,801
Less allowance for impairment	–	(900)	(900)
Joint venture (Note 3)	–	–	274
Related parties (Note 3)	350	316	192
Net trade receivables - Subtotal	4,594	3,608	3,367
<u>Other receivables:</u>			
Related parties (Note 3)	1	1	1
Joint venture (Note 3)	235	169	–
Staff advances	196	194	145
Prepaid taxes	1,659	2,625	3,112
VAT receivables	13,967	10,774	8,020
Advances under Plasma Programme (Note 31)	10,034	12,148	7,044
Other receivables	337	490	801
Derivative financial instruments (Note 30)	24	184	–
Net other receivables - Subtotal	26,453	26,585	19,123
Total trade and other receivables, current	31,047	30,193	22,490
Total trade and other receivables	44,246	51,646	43,490

	2018 US\$'000	2017 US\$'000
Movements in above allowance on other receivables:		
At beginning of the year	900	900
Written-off	(900)	–
At end of the year	–	900

Certain receivables with a carrying value of US\$20,640,000 (2017: US\$25,183,000) have been pledged as security for the bank facilities (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

23. Trade and other receivables (cont'd)

	31 December 2018	Company 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
<u>Current</u>			
<u>Other receivables:</u>			
Subsidiaries (Note 3)	35,346	38,708	22,002
Less allowance for impairment	(2,412)	—	—
Total other receivables	32,934	38,708	22,002

	Company 2018	Company 2017
	US\$'000	US\$'000
Movements in above allowance on other receivables:		
At beginning of the year	—	—
Charge to profit or loss	2,412	—
At end of the year	2,412	—

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The expected credit losses are based on the past payment experience and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomics factors affecting the ability of the customers to settle the receivables. The group deals with regular customers and has arrangements to obtain advance payments to limit its credit risk. For the past three years, the group had negligible credit losses other than provision for receivables from a specific customer that was under liquidation. The loss allowance was determined as follows for trade receivables:

	31 December 2018	Gross amount 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Trade receivables:			
1 to 60 days past due	4,244	3,292	2,901

	31 December 2018	Loss allowance 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Trade receivables:			
Over 180 days past due	—	900	900

As at the end of reporting year, there were no amounts (2017: US\$900,000) that were impaired.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

23. Trade and other receivables (cont'd)

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade customers is about 60 days (2017: 60 days). However, some customers take a longer period to settle the amounts.

Concentration of trade receivable customers as at the end of the reporting year:

	Group	
	2018	2017
	US\$'000	US\$'000
Top 1 customer	2,401	1,411
Top 2 customers	2,942	2,483

The other receivables at amortised cost are subject to the expected credit loss model under the financial reporting standard on financial instruments. The other receivables at amortised cost and which can be graded as low risk individually are considered to have low credit risk. At the end of the first reporting period, a loss allowance is recognised at an amount equal to 12 month expected credit losses because there has not been a significant increase in credit risk since initial recognition.

At each subsequent reporting date, an evaluation is made whether there is a significant change in credit risk by comparing the debtor's credit risk at initial recognition (based on the original, unmodified cash flows) with the credit risk at the reporting date (based on the modified cash flows). Adjustment to the loss allowance is made for any increase or decrease in credit risk.

23A. Loan receivable from joint venture

	Group	
	2018	2017
	US\$'000	US\$'000
<u>Movements during the year:</u>		
Balance at the beginning of the year	15,331	13,505
Additions at cost	2,907	3,335
Repayments	(6,603)	–
Interest income	3,112	2,612
Amount off-set against loan receivable from joint venture	(4,497)	(3,970)
Foreign exchange alignment	(1,074)	(151)
Balance at the end of the year	9,176	15,331

The loan receivable was convertible at the holder's option into ordinary shares of the investee company (Kencana Bio-Energy Pte. Ltd., see Note 18B) at any time before 21 March 2018. The option was not exercised by the group. Notwithstanding this, the joint venture shall have the right to repay such part of the loan as its board of directors may from time to time approve. The interest income recognised in profit or loss is calculated using the effective interest rate method at 10.75%. The fair value of the conversion option at the end of the previous reporting year was not recognised as it was not expected to be significant.

The loan is carried at amortised cost using the effective interest method. The carrying amount is a reasonable approximation of fair value (Level 3).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

24. Other assets

	31 December 2018 US\$'000	Group 31 December 2017 US\$'000	1 January 2017 US\$'000
<u>Other assets, non-current:</u>			
Prepaid rent to a related party (Note 33)	642	686	737
Total other assets, non-current	642	686	737
<u>Other assets, current:</u>			
Prepaid rent to a related party (Note 33)	44	44	44
Advance payments	628	5,386	1,819
Other prepayments	1,488	1,420	2,325
Total other assets, current	2,160	6,850	4,188
Total other assets	2,802	7,536	4,925

	31 December 2018 US\$'000	Company 31 December 2017 US\$'000	1 January 2017 US\$'000
<u>Other assets, current:</u>			
Other prepayments	1	1	1
Total other assets	1	1	1

25. Cash and cash equivalents

	31 December 2018 US\$'000	Group 31 December 2017 US\$'000	1 January 2017 US\$'000
Not restricted in use	17,247	7,426	13,302
Deposits pledged for bank facilities	104	9,965	–
Cash at end of the year	17,351	17,391	13,302

	31 December 2018 US\$'000	Company 31 December 2017 US\$'000	1 January 2017 US\$'000
Not restricted in use	20	33	309
Deposits pledged for bank facilities	–	–	–
Cash at end of the year	20	33	309

Included in the cash and cash equivalents is cash pledged for bank facilities not available for use amounting to US\$104,000 (2017: US\$9,965,000).

The interest earning balances are not significant.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

25. Cash and cash equivalents (cont'd)

25A. Cash and cash equivalents in consolidated statement of cash flows:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Amount as shown above	17,351	17,391	13,302
Bank overdrafts (Note 27)	(562)	(699)	(1,145)
Cash and cash equivalents for consolidated statement of cash flows purposes at end of the year	16,789	16,692	12,157

25B. Non-cash transactions:

There were acquisitions of certain assets under property, plant and equipment with a total cost of US\$128,000 (2017: US\$479,000) acquired by means of finance leases and US\$2,422,000 (2017: US\$ Nil) reclassified from other assets.

25C. Reconciliation of liabilities arising from financing activities:

	1 January 2018	Cash flows (net of repayment)	Non-cash changes		31 December 2018
	US\$'000	US\$'000	US\$'000		US\$'000
Finance leases ^(a)	489	(242)	96	(c) & (d)	343
Other financial liabilities ^(b)	290,419	(4,300)	(14,898)	(d), (e) & (f)	271,221
Total liabilities from financing activities	290,908	(4,542)	(14,802)		271,564

	1 January 2017	Cash flows (net of repayment)	Non-cash changes		31 December 2017
	US\$'000	US\$'000	US\$'000		US\$'000
Finance leases ^(a)	434	(420)	475	(c) & (d)	489
Other financial liabilities ^(b)	285,575	4,877	(33)	(d) & (e)	290,419
Total liabilities from financing activities	286,009	4,457	442		290,908

(a) Finance leases include current and non-current portions. Also see Note 27.

(b) Other financial liabilities include current and non-current portions. Also see Note 27.

(c) Acquisition of property, plant and equipment.

(d) Foreign exchange alignments.

(e) Fair value changes.

(f) Disposal of a subsidiary. Also see Note 40.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

26. Share capital

	Number of shares issued '000	Share capital US\$'000
Ordinary shares of no par value:		
Balance at 1 January 2017, 31 December 2017 and 31 December 2018	287,011	93,860

The ordinary shares of no par value which are fully paid carry no right to fixed income. The company is not subject to any externally imposed capital requirements except as noted below.

Capital management:

The objectives when managing capital are: to safeguard the reporting entity's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders, and to provide an adequate return to owners by pricing the sales commensurately with the level of risk. The management sets the amount of capital to meet its requirements and the risk taken. There were no changes in the approach to capital management during the reporting year. The management manages the capital structure and makes adjustments to it where necessary or possible in the light of changes in conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the management may adjust the amount of dividends paid to owners, return capital to owners, issue new shares, or sell assets to reduce debt. Adjusted capital comprises all components of equity (that is, share capital and reserves).

In order to maintain its listing on the Singapore Stock Exchange, it has to have share capital with a free float of at least 10% of the shares. The company met the capital requirement on its initial listing and the rules limiting treasury share purchases mean it will continue to satisfy that requirement, as it did throughout the reporting year. Management receives a report from the share registrars frequently on substantial share interests showing the non-free float to ensure continuing compliance with the 10% limit throughout the reporting year.

The management does not set a target level of gearing but uses capital opportunistically to support its business and to add value for shareholders. The key discipline adopted is to widen the margin between the return on capital employed and the cost of that capital.

The management monitors the capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt/adjusted capital (as shown below). Net debt is calculated as total borrowings less cash and cash equivalents.

	31 December 2018 US\$'000	Group 31 December 2017 US\$'000	1 January 2017 US\$'000
Net debt:			
All current and non-current borrowings including finance leases	271,564	290,908	286,009
Less: cash and cash equivalents	(17,351)	(17,391)	(13,302)
Net debt	254,213	273,517	272,707
Adjusted capital:			
Total equity	22,144	48,570	43,607
Debt-to-adjusted capital ratio	1,148%	563%	625%

The increase in the debt-to-adjusted capital ratio for the reporting year resulted mainly from the decreased equity due to loss for the year.

All reserves classified on the face of the statements of financial position as retained earnings represent past accumulated earnings and are distributable. The other reserves are not available for cash dividends unless realised.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

27. Other financial liabilities

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
<u>Non-current</u>			
<u>Floating interest rates:</u>			
Investment loans (secured) (Note 27B)	120,786	157,435	153,556
Term loans (secured) (Note 27B)	77,104	81,717	87,748
	197,890	239,152	241,304
<u>Fixed interest rates:</u>			
Finance leases (Note 27C)	127	244	81
Non-current, total	198,017	239,396	241,385
<u>Current</u>			
<u>Floating interest rates:</u>			
Bank overdrafts (secured) (Notes 25A and 27A)	562	699	1,145
Bank loans (secured) (Note 27A)	29,916	24,029	22,461
Investment loans (secured) (Note 27A)	31,612	17,750	12,542
Term loans (secured) (Note 27A)	11,241	7,893	6,359
	73,331	50,371	42,507
<u>Fixed interest rates:</u>			
Finance leases (Note 27C)	216	245	353
Derivative financial instruments (Note 30)	–	896	1,764
Current, total	73,547	51,512	44,624
Total	271,564	290,908	286,009

Presented in the statement of financial position as follows:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Finance leases, non-current	127	244	81
Other financial liabilities, non-current	197,890	239,152	241,304
Finance leases, current	216	245	353
Other financial liabilities, current	73,331	51,267	44,271
Net balance	271,564	290,908	286,009

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

27. Other financial liabilities (cont'd)

27A. Bank overdrafts and bank loans – current (cont'd)

The range of floating interest rates paid was as follows:

	Group	
	2018	2017
Bank overdrafts – secured		
Indonesian Rupiah	10.50%	10.50% - 10.75%
Bank loans – secured		
United States dollar	4.50% - 6.01%	4.00% - 5.50%
Indonesian Rupiah	6.15% - 10.50%	6.15% - 10.50%
Investment loans – secured		
United States dollar	5.50% - 6.31%	5.25% - 6.70%
Indonesian Rupiah	10.30% - 10.75%	10.50% - 11.00%
Term loans – secured		
United States dollar	5.50% - 6.31%	5.25% - 6.20%
Singapore dollar	2.78% - 4.33%	2.78% - 4.18%

The bank overdrafts and other secured banking facilities are covered by way of negative pledges on certain deposits, inventories, receivables, land use rights, investment properties, property, plant and equipment, bearer plants and biological assets of the group.

27B. Bank loans – non-current

The range of floating interest rates paid was as follows:

	Group	
	2018	2017
Investment loans – secured		
United States dollar	5.50% - 6.31%	5.25% - 6.70%
Indonesian Rupiah	10.30% - 10.75%	10.50% - 11.00%
Term loans – secured		
United States dollar	5.50% - 6.31%	5.25% - 6.20%
Singapore dollar	2.78% - 4.33%	2.78% - 4.18%

The floating rate loans are with interest rates that are re-set regularly at one to three months intervals.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

27. Other financial liabilities (cont'd)

27B. Bank loans – non-current

The scheduled maturities of the group's borrowings (excluding finance leases) are as follows:

	Indonesian Rupiah US\$'000	Singapore dollars US\$'000	United States dollars US\$'000	Total US\$'000
<u>Long-term borrowings:</u>				
<u>As at 31 December 2018</u>				
2 – 5 years	56,535	1,085	100,460	158,080
Above 5 years	11,025	1,227	27,558	39,810
Total	67,560	2,312	128,018	197,890
<u>As at 31 December 2017</u>				
2 – 5 years	89,393	1,033	80,043	170,469
Above 5 years	19,451	1,587	47,645	68,683
Total	108,844	2,620	127,688	239,152
<u>As at 1 January 2017</u>				
2 – 5 years	92,175	884	73,452	166,511
Above 5 years	6,842	1,801	66,150	74,793
Total	99,017	2,685	139,602	241,304

The long-term banking facilities are covered by way of negative pledges on certain deposits, inventories, receivables, land use rights, investment properties, property, plant and equipment, bearer plants and biological assets of the group.

The loan agreements include covenants that require the maintenance of certain financial ratios. Any non-compliance with these covenants will result in these loans becoming repayable immediately upon service of a notice by default by the lenders. As at reporting year end, there were certain breaches in loan agreement covenants for loans amounting to US\$161,709,000 (2017: US\$204,909,000) and the lenders have not made a demand for repayment and agreed to waive the breaches prior to the reporting year end.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

27. Other financial liabilities (cont'd)

27C. Finance leases

Group	Minimum payments US\$'000	Finance charges US\$'000	Present value US\$'000
<u>31 December 2018</u>			
Minimum lease payments payable:			
Due within one year	239	(23)	216
Due within 2 to 5 years	137	(10)	127
Total	376	(33)	343

Net book value of plant and equipment under finance leases 500

	Minimum payments US\$'000	Finance charges US\$'000	Present value US\$'000
<u>31 December 2017</u>			
Minimum lease payments payable:			
Due within one year	279	(34)	245
Due within 2 to 5 years	265	(21)	244
Total	544	(55)	489

Net book value of plant and equipment under finance leases 778

	Minimum payments US\$'000	Finance charges US\$'000	Present value US\$'000
<u>1 January 2017</u>			
Minimum lease payments payable:			
Due within one year	380	(27)	353
Due within 2 to 5 years	85	(4)	81
Total	465	(31)	434

Net book value of plant and equipment under finance leases 1,024

There are leased assets for certain plant and equipment under finance leases. The average lease term is 3 years. The fixed rate of interest for finance leases is about 7.0% to 13.0% per year (2017: 6.8% to 14.5% per year). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The obligations under finance leases are secured by the lessor's charge over the leased assets.

The fair value (Level 2) is a reasonable approximation of the carrying amount. The fair value of the finance leases was estimated by discounting the future cash flows payable under the terms of the finance leases using the year-end interest rates ranging between 7.0% to 13.0% per year (2017: 6.8% to 14.5% per year).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

28. Trade and other payables

	31 December 2018 US\$'000	Group 31 December 2017 US\$'000	1 January 2017 US\$'000
<u>Non-current</u>			
<u>Other payables:</u>			
Advances from customer	–	–	6,815
Total other payables, non-current	–	–	6,815
<u>Current</u>			
<u>Trade payables:</u>			
Outside parties and accrued liabilities	18,845	18,596	18,748
Related party (Note 3)	–	3	50
Subtotal	18,845	18,599	18,798
<u>Other payables:</u>			
Advances from customer	33,261	21,881	23,423
Other payables	6,025	3,481	4,745
Subtotal	39,286	25,362	28,168
Total trade and other payables, current	58,131	43,961	46,966
Total trade and other payables	58,131	43,961	53,781
		Company	
	31 December 2018 US\$'000	31 December 2017 US\$'000	1 January 2017 US\$'000
<u>Current</u>			
<u>Trade payables:</u>			
Outside parties and accrued liabilities	–	100	140
Subtotal	–	100	140
<u>Other payables:</u>			
Other payables	1,769	1,840	1,970
Subtotal	1,769	1,840	1,970
Total trade and other payables	1,769	1,940	2,110

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

29. Other liabilities

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Employee pension benefits	4,448	4,322	4,317

Estimated liability for employee pension benefits

Besides the benefits provided under the defined contribution retirement plans, the group has recorded additional provisions for employee service entitlements in order to meet the minimum benefits required to be paid to the qualified employees, as required under existing manpower regulations in Indonesia. The additional provisions are measured based on actuarial computations prepared by an independent firm of actuaries, PT QUATTRO Asia Consulting, using the "Projected Unit Credit" method which is covered in their reports dated 25 January 2019. The related actuarial liabilities for employee pension benefits are as follows:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Present value of employee benefit obligations in addition to the defined contribution scheme	4,754	4,357	4,205
Foreign currency alignment	(306)	(35)	112
	4,448	4,322	4,317

Changes in the present value of the defined benefit obligations are as follows:

	Group 2018 US\$'000	2017 US\$'000
Benefit obligations at beginning of the year	4,322	4,317
Current service costs	506	141
Interest costs on benefit obligations	287	89
Past services costs – vested	(443)	53
Actuarial gain	90	(323)
Disposal of a subsidiary (Note 40)	30	–
Foreign currency alignment	(344)	45
Benefit obligations at end of the year	4,448	4,322

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

29. Other liabilities (cont'd)

Estimated liability for employee pension benefits (cont'd)

The following table summarises the component of net employee benefits expense recognised in the profit or loss and other comprehensive income:

	Group	
	2018	2017
	US\$'000	US\$'000
Current service costs	506	141
Interest costs on benefit obligations	287	89
Past services costs – vested	(443)	53
Components of employee benefits expense recognised in profit or loss (Note 10)	350	283
Component of employee benefits (gain)/loss recognised in other comprehensive income, net of tax	84	(242)
	434	41

The principal assumptions used in determining post-employment obligations for the plan are as follows:

Annual discount rate	: 8.2% to 8.65% in 2018 and 7.19% to 7.38% in 2017
Future annual salary increase	: 5% in 2018 and 2017
Annual employee turnover rate	: 7% in 2018 and in 2017 for employees under 40 years old and decreasing linearly until 0% at the age of 55 years
Disability rate	: 10% per year in 2018 and 2017
Retirement age	: 55 years of age
Mortality rate	: Indonesian mortality table 3

The assumptions relating to longevity used to compute the defined benefit obligation liabilities are based on best estimate of the mortality of plan members both during and after employment based on the published mortality tables commonly used by the actuarial profession in each territory concerned.

For the above significant actuarial assumptions, a sensitivity analysis on the defined benefit obligations has been determined based on reasonably possible changes of the assumption occurring at the end of the reporting year, while holding all other assumptions constant:

	Group	
	Decrease	Increase
	US\$'000	US\$'000
If the discount rate is 1% (lower)/higher	215	(250)

For the above sensitivity analysis, the present value of the defined benefit obligations has been determined using the projected unit credit method at the end of the reporting year. Such sensitivity analysis might not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

30. Derivative financial instruments

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
<u>Assets/(liabilities) – Derivatives with positive (negative) fair values:</u>			
Cross currency swap contracts (Note 30A)	–	(896)	(1,558)
Interest rate swap contracts (Note 30B)	24	56	(65)
Commodity derivative contracts (Note 30C)	–	128	(141)
Total derivatives	24	(712)	(1,764)

Movements during the year were as follows:

	2018 US\$'000	2017 US\$'000
Fair value at the beginning of the year	(712)	(1,764)
Additions	–	744
Gains recognised in other gains (Note 6)	187	–
Increase in fair value included in other gains (Note 6)	287	693
Loss recognised in cost of sales (Note 5)	–	(475)
Foreign exchange alignment	262	90
Fair value at the end of the year	24	(712)

Presented in the statement of financial position as follows:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Trade and other receivables (Note 23)	24	184	–
Other financial liabilities (Note 27)	–	(896)	(1,764)
Net balance	24	(712)	(1,764)

30A. Cross currency swap contracts

Cross currency swap contracts are utilised to hedge significant future transactions and cash flows. The entity is party to a variety of cross currency swap contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the entity's principal markets. As a matter of principle, the entity does not enter into derivative contracts for speculative purposes.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

30. Derivative financial instruments (cont'd)

30A. Cross currency swap contracts (cont'd)

These include the gross amount of all notional values for contracts that have not yet been settled or cancelled. The amount of notional value outstanding is not necessarily a measure or indication of market risk, as the exposure of certain contracts may be offset by that of other contracts.

		Principal		
		31 December	31 December	1 January
		2018	2017	2017
		US\$'000	US\$'000	US\$'000
Reference currency				
Cross currency swaps	USD	–	5,249	9,615

		Fair Value		
		31 December	31 December	1 January
		2018	2017	2017
		US\$'000	US\$'000	US\$'000
Reference currency				
Cross currency swaps	USD	–	(896)	(1,558)

There are contractual agreements or currency swaps with other parties to exchange streams of payments over time based on specified notional amounts. The entity pays a specified amount in one currency and receives a specified amount in another currency. The currency swaps for which gross cash flows are exchanged are shown gross. The increases or decreases in the fair values of the foreign currency denominated financial assets and liabilities are partially offset by gains and losses on the economic hedging instruments.

The applied valuation techniques for the currency swaps include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. For these financial instruments, inputs into models are market observable (Level 2).

30B. Interest rate swap contracts

The notional amount of the interest rate swaps was US\$8,094,000 (2017: US\$22,750,000). They are designed to convert floating rate borrowings to fixed rate exposure for the next five years at 6.50% (2017: 6.50%) per year. At the end of the reporting year, the floating interest rate was 7.69% (2017: 6.46%) per year. Information on the maturities of the loans is provided in Note 27.

The interest rate swaps are not traded in an active market. As a result, their fair values are based on valuation techniques currently consistent with generally accepted valuation methodologies for pricing financial instruments, and incorporate all factors and assumptions that knowledgeable, willing market participants would consider in setting the price (Level 2). The valuation technique uses market observable inputs.

The fair value (Level 2) of interest rate swaps is measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

30. Derivative financial instruments (cont'd)

30C. Commodity derivative contracts

Commodity derivative contracts are entered into to manage the fluctuations in prices of CPO. The commodity derivative contracts are not designated as hedges for accounting purposes. The contractual or underlying principal amounts of the commodity derivative contracts with fixed pricing terms that were outstanding at the end of the reporting year were as follows:

		31 December 2018	Principal 31 December 2017	1 January 2017
	Reference currency	US\$'000	US\$'000	US\$'000
Commodity derivative	USD	–	1,978	5,066

		31 December 2018	Fair Value 31 December 2017	1 January 2017
	Reference currency	US\$'000	US\$'000	US\$'000
Commodity derivative	USD	–	128	(141)

The fair value of the commodity derivative contracts is based on the difference between the contractual price and market price at the end of the reporting year. The fair value of the commodity derivative contract is estimated based on market values of equivalent instruments at the statement of financial position date (Level 2). Market price mentioned above is the futures price for CPO as published by Bursa Malaysia Derivatives Exchange.

31. Contingent liabilities

Arrangements under the Plasma Programme

The Indonesian authorities require oil palm plantations to develop the surrounding local plantation areas held by small landholders when applying for land rights for oil palm plantations. This form of assistance to local small landholders is generally known as the Plasma Programme. Under the Plasma Programme, a plantation developer transfers a designated land area to the small landholders, who then operate the plasma plantation under the supervision of the plantation developer.

Certain subsidiaries of the group have implemented the Plasma Programme using plantation business cooperatives scheme (Kredit Koperasi Primer Anggota or “KKPA”), cooperation in local community oil palm plantation scheme (Kebun Kelapa Sawit Rakyat or “KKSRR”), and independent plasma scheme (Plasma Mandiri).

Under the KKPA scheme, the villagers typically occupy the land and the group helps to develop the land and manage the oil palms to maturity. The development costs are funded by bank loans, which are guaranteed by the group using the aforementioned land certificates and/or other appropriate forms of security as collateral. Upon maturity of the oil palms, the land will be maintained and managed by the villagers or in the future by the group. The harvested fresh fruit bunches (“FFB”) will then be sold to the group. The villagers will repay the loan facilities from a portion of the FFB sale price. The group obtains a power of attorney to manage the accounts of the villagers into which all monies from the sale of FFB will be deposited. This power of attorney allows the group to withdraw funds from such accounts to pay for all the villagers operating costs and expenses. Under the KKSRR scheme, the villagers also typically occupy the land. The group will provide seedlings and the regional authorities will provide fertiliser to the villagers. Post-harvest, the FFB will be sold to the group and part of the sale proceeds will be paid to the group and the regional authorities as payment for the seedlings and fertiliser respectively. Plasma Mandiri is a scheme whereby the group will provide the seedlings to the villagers, and the villagers will plant and maintain the plantations. Post-harvest, the FFB will be sold to the group and part of the sale proceeds will be paid to the group as payment for the seedlings provided. There is no governmental involvement under this scheme.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

31. Contingent liabilities (cont'd)

Arrangements under the Plasma Programme (cont'd)

Costs incurred during development up to conversion of the oil palm plantations and temporary funding to the villagers for working capital purposes are included in other receivables in the statement of financial position. The funds received from the designated banks on behalf of villagers for the development and operations of the plantations are offset against advances under plasma program in the statement of financial position.

The development of plantations is financed by credit investment facilities granted by designated banks to the villagers through local cooperatives as the representatives of the villagers. The loan facilities are secured by the land certificates held by the villagers and corporate guarantees from the group. The credit facility amounts and the outstanding balances of the bank loans granted by the banks to the villagers as at the end of the reporting year are as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
Facility amounts	24,622	26,317
Outstanding balances	18,000	17,459

Upon maturity of the oil palm, the land will be maintained and managed by the villagers or in the future by the group. The harvested FFB will then be sold to the group. The villagers will repay the loan facilities from a portion of the FFB sale price. In addition to the scheme, the group provided temporary funding to the local cooperatives for working capital purposes. The cost of development of plantations and temporary funding provided by the group to local cooperatives as at the end of the reporting year are as follows:

	31 December 2018	31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
Cost of development of plantations	14,057	18,270	14,539
Presented as other receivables (Note 23):			
Advances under Plasma Programme, current	10,034	12,148	7,044
Advances under Plasma Programme, non-current	4,858	7,448	9,238
Fair value adjustments	(1,044)	(1,465)	(1,885)
Foreign currency alignment	209	139	142
	14,057	18,270	14,539

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

31. Contingent liabilities (cont'd)

Arrangements under the Plasma Programme (cont'd)

Fair value of advances under plasma programme that are not secured by bank facilities and to be repaid by villagers using FFB was measured by management in December 2018 based on the present value of the expected net cash flows with the following significant assumptions (fair value hierarchy: Level 3). There was no change in the level during the year.

- (i) Yield per hectare of oil palm trees is determined by reference to guidelines issued by the Indonesian Oil Palm Research Institute (Pusat Penelitian Kelapa Sawit), which varies with the average age of oil palm trees;
- (ii) The discount rate for 2018 is 6% per annum (2017: 6.26% per annum);
- (iii) The projected selling prices of FFB are derived from adjusting CPO prices to the FFB extraction rate (% of CPO extractable from FFB) and processing costs. The CPO prices are based on the World Bank forecasts.

The fair value of advances under plasma programme would be affected by changes in the assumptions used.

Relationship of unobservable inputs to fair value:

Favourable or adverse change in discount rate will increase or decrease fair value.

Sensitivity on unobservable inputs:

If the discount rate used in the above valuation increased or decreased by 1%, assuming all other variables are held constant, the group's pre-tax profit or loss and the carrying value of advances under plasma programme would decrease or increase by approximately US\$124,000 (2017: US\$185,000) and US\$130,000 (2017: US\$193,000) respectively.

32. Capital commitments

Estimated amounts committed at the end of the reporting year for future capital expenditure but not recognised in the financial statements are as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
Commitments for construction of leasehold buildings	705	767
Commitments for construction of plant, fixtures and equipment	1,722	6,577

33. Operating lease payment commitments – as lessee

At the end of the reporting year, the total of future minimum lease payment commitments under non-cancellable operating leases are as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
Not later than one year	44	48
Later than one year and not later than five years	176	192
Later than five years	466	490
Rental expenses for the year	41	48

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

33. Operating lease payment commitments – as lessee (cont'd)

Operating lease payments represent rentals payable for certain office and warehousing premises. The lease agreement covering a period of 25 years from 1 July 2008 to 30 June 2033 was entered with a related party. The lease rental terms are negotiated annually and rentals are subject to an escalation clause that is limited to a certain percentage. As at the end of the reporting year, the group has a prepayment of US\$686,000 (2017: US\$730,000) to the related party (Note 24).

34. Operating lease income commitments – as lessor

At the end of the reporting year, the total of future minimum lease receivables committed under non-cancellable operating leases are as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
Not later than one year	–	11
Rental income for the year	45	65

Operating lease income commitments are for the investment property. The lease rental income terms are negotiated for an average term of two years and rentals are subject to an escalation clause but the amount of the rent increase is not to exceed a certain percentage.

During the year, its tenant has terminated its tenancy agreement. At the end of 2018, investment property is unoccupied and the company is actively searching for a tenant.

35. Financial instruments: information on financial risks

35A. Categories of financial assets and liabilities

The following table categorises the carrying amount of financial assets and liabilities recorded at the end of the reporting year:

	31 December 2018	Group 31 December 2017	1 January 2017
	US\$'000	US\$'000	US\$'000
<u>Financial assets:</u>			
Financial assets measured at amortised cost	53,548	58,297	43,940
Financial assets measured at FVTPL	24	184	–
At end of the year	54,572	58,481	43,940
<u>Financial liabilities:</u>			
Financial liabilities measured at amortised cost	296,434	312,092	307,788
Financial liabilities measured at FVTPL	–	896	1,764
At end of the year	296,434	312,988	309,552

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

35. Financial instruments: information on financial risks (cont'd)

35A. Categories of financial assets and liabilities (cont'd)

	31 December 2018 US\$'000	Company 31 December 2017 US\$'000	1 January 2017 US\$'000
<u>Financial assets:</u>			
Financial assets measured at amortised cost	32,954	38,741	22,311
At end of the year	32,954	38,741	22,311
<u>Financial liabilities:</u>			
Financial liabilities measured at amortised cost	1,769	1,940	2,110
At end of the year	1,769	1,940	2,110

Further quantitative disclosures are included throughout these financial statements. Certain disclosures for the company have not been made as the financial assets and financial liabilities are not significant.

35B. Financial risk management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate, currency risk and price risk exposures. Management has certain practices for the management of financial risks. However these are not formally documented in written form. The guidelines include the following:

1. Minimise interest rate, currency, credit and market risk for all kinds of transactions.
2. Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance (if necessary). The same strategy is pursued with regard to interest rate risk.
3. All financial risk management activities are carried out and monitored by senior management staff.
4. All financial risk management activities are carried out following acceptable market practices.
5. When appropriate, consideration is given to entering into derivatives or any other similar instruments solely for hedging purposes.

The entity is exposed to currency and interest rate risks. From time to time, there may be borrowings and foreign exchange arrangements or interest rate swap contracts or similar instruments entered into as derivatives against changes in interest rates, cash flows or the fair value of the financial assets and liabilities.

There have been no changes to the exposures to risk; the objectives, policies and processes for managing the risk and the methods used to measure the risk.

The chief financial officer who monitors the procedures reports to the board.

35C. Fair value of financial instruments

The analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include both the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

35. Financial instruments: information on financial risks (cont'd)

35D. Credit risk on financial assets

Financial assets are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. For expected credit losses ("ECL") on financial assets, the three-stage approach in the financial reporting standard on financial instruments is used to measure the impairment allowance. Under this approach, the financial assets move through the three stages as their credit quality changes. However, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables, an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

Note 25 discloses the maturity of the cash and cash equivalents balances.

35E. Liquidity risk – financial liability maturity analysis

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be settled at their contractual maturity. The average credit period taken to settle trade payables is about 68 days (2017: 58 days). The other payables are with short-term durations. The classification of the financial assets is shown in the statements of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary.

The following table analyses the non-derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

Group	Less than 1 year US\$'000	1 – 3 years US\$'000	3 – 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
Non-derivative financial liabilities:					
<u>2018</u>					
Gross borrowings	75,265	114,565	88,368	63,979	342,177
Gross finance leases	239	137	–	–	376
Trade and other payables	24,870	–	–	–	24,870
Total	100,374	114,702	88,368	63,979	367,423
<u>2017</u>					
Gross borrowings	54,300	116,617	108,234	112,549	391,700
Gross finance leases	279	265	–	–	544
Trade and other payables	22,080	–	–	–	22,080
Total	76,659	116,882	108,234	112,549	414,324

The undiscounted amounts on the borrowings with fixed and floating interest rates are determined by reference to the conditions existing at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

35. Financial instruments: information on financial risks (cont'd)

35E. Liquidity risk – financial liability maturity analysis (cont'd)

The above amounts disclosed in the maturity analysis are the contractual undiscounted cash flows and such undiscounted cash flows differ from the amount included in the statement of financial position. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to pay. The undiscounted amounts on the bank borrowings with fixed and floating interest rates are determined by reference to the conditions existing at the reporting date.

The following table analyses the derivative financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

Group	Less than 1 year US\$'000	1 – 3 years US\$'000	Total US\$'000
Derivative financial liabilities:			
<u>2018</u>			
Cross currency swaps	–	–	–
Total	–	–	–
<u>2017</u>			
Cross currency swaps	896	–	896
Total	896	–	896

Financial guarantee contracts - For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. At the end of the reporting year, no claims on the financial guarantees are expected to be payable. The following table shows the maturity analysis of the contingent liabilities from financial guarantees:

Group	Less than 1 year US\$'000	1 – 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
<u>2018</u>				
Financial guarantees in respect of the Plasma Programme (Note 31)	1,607	13,283	3,111	18,000
<u>2017</u>				
Financial guarantees in respect of the Plasma Programme (Note 31)	1,517	11,855	4,087	17,459

The fair value of the financial guarantees is not significant.

Bank facilities:

	Group	
	2018 US\$'000	2017 US\$'000
Undrawn borrowing facilities	60,003	116,961

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

35. Financial instruments: information on financial risks (cont'd)

35E. Liquidity risk – financial liability maturity analysis (cont'd)

The undrawn borrowing facilities are available for operating activities and to settle other commitments. Borrowing facilities are maintained to ensure funds are available for the operations. A schedule showing the maturity of financial liabilities and unused bank facilities is provided regularly to management to assist in monitoring the liquidity risk.

35F. Interest rate risk

The interest rate risk exposure is from changes in fixed rate and floating interest rates and it mainly concerns financial liabilities. The interest from financial assets including cash balances is not significant. The following table analyses the breakdown of the significant financial instruments (excluding derivatives) by type of interest rate:

	Group		Company	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
Financial liabilities with interest:				
Floating rate	271,221	289,523	–	–
Fixed rate	343	489	–	–
Total at end of year	271,564	290,012	–	–
Financial assets with interest:				
Floating rate	17,351	17,391	20	33
Fixed rate	9,176	15,331	–	–
Total at end of year	26,527	32,722	20	33

The floating rate debt instruments are with interest rates that are re-set at regular intervals. The interest rates are disclosed in the respective notes.

Sensitivity analysis:

	Group		Company	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Financial assets:</u>				
A hypothetical variation in interest rates by 100 basis points with all other variables held constant, would have an increase in pre-tax profit or loss for the year by	174	174	–	–
<u>Financial liabilities:</u>				
A hypothetical variation in interest rates by 100 basis points with all other variables held constant, would have a decrease in pre-tax profit or loss for the year by	2,712	2,895	–	–

The analysis has been performed for floating interest rate over a year for financial instruments. The impact of a change in interest rates on floating interest rate financial instruments has been assessed in terms of changing of their cash flows and therefore in terms of the impact on profit or loss. The hypothetical changes in basis points are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

35. Financial instruments: information on financial risks (cont'd)

35G. Foreign currency risks

Analysis of amounts denominated in non-functional currency:

	US dollars	Total
	US\$'000	US\$'000
Group		
<u>2018</u>		
<u>Financial assets:</u>		
Cash and cash equivalents	764	764
Total financial assets	764	764
<u>Financial liabilities:</u>		
Borrowings	(182,944)	(182,944)
Total financial liabilities	(182,944)	(182,944)
Net financial liabilities at the end of the year	(182,180)	(182,180)
<u>2017</u>		
<u>Financial assets:</u>		
Cash and cash equivalents	886	886
Trade and other receivables	1,071	1,071
Total financial assets	1,957	1,957
<u>Financial liabilities:</u>		
Borrowings	(154,197)	(154,197)
Finance leases	(34)	(34)
Total financial liabilities	(154,231)	(154,231)
Net financial liabilities at the end of the year	(152,274)	(152,274)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

35. Financial instruments: information on financial risks (cont'd)

35G. Foreign currency risks (cont'd)

	US dollars US\$'000	Total US\$'000
Company		
<u>2018</u>		
<u>Financial assets:</u>		
Cash and cash equivalents	7	7
Net financial assets at the end of the year	7	7
<u>2017</u>		
<u>Financial assets:</u>		
Cash and cash equivalents	6	6
Net financial assets at the end of the year	6	6

There is exposure to foreign currency risk as part of its normal business. In particular, there is significant exposure to US\$ currency risk due to the loans denominated in United States dollars.

	Group	
	2018 US\$'000	2017 US\$'000
Sensitivity analysis:		
A hypothetical 10% strengthening in the exchange rate of the functional currency against the US\$ would have a favourable effect on pre-tax profit or loss of	18,218	15,227
	Company	
	2018 US\$'000	2017 US\$'000
Sensitivity analysis:		
A hypothetical 10% strengthening in the exchange rate of the functional currency against the US\$ would have an adverse effect on pre-tax profit or loss of	(1)	(1)

The above table shows sensitivity to a hypothetical 10% variation in the functional currency against the relevant non-functional foreign currencies. The sensitivity rate used is the reasonably possible change in foreign exchange rates. For similar rate weakening of the functional currency against the relevant foreign currencies above, there would be comparable impacts in the opposite direction.

In management's opinion, the above sensitivity analysis is unrepresentative of the foreign currency risks as the historical exposure does not reflect the exposure in future.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

35. Financial instruments: information on financial risks (cont'd)

35H. Price risk

The group is exposed to commodity price risk due to certain factors, such as weather, government policy, level of demand and supply in the market and the global economic environment resulting from population growth and changes in standards of living, and global production of similar and competitive crops. During its ordinary course of business, the value of its open sales and purchase commitments and inventory of raw material changes continuously in line with movements in the prices of the underlying commodity. To the extent that its open sales and purchase commitments do not match at the end of each business day, the group will be subject to price fluctuations in the commodities market. Consequently, it is the group's policy to minimise the risks arising from the fluctuations in the commodity prices by being partly self-sufficient in CPO and CPKO as this provides a hedge against such cost fluctuations. To the extent it is unable to do so, the group may minimise such risks through direct purchases of the similar commodities or through forward purchase and sales contracts. As such, it may also be exposed to commodity price risk as changes in fair value of forward commodity contracts are recognised directly in the statement of profit or loss and other comprehensive income.

Decisions to enter into forward purchase and sales contracts must be approved by at least two directors and are currently under the purview of the group's chairman and deputy chief executive officer. The group does not enter into forward purchase and sales contracts for speculative purposes.

36. Financial information by operating segments

36A. Information about reportable segment profit or loss, assets and liabilities

Disclosure of information about operating segments, products and services, the geographical areas, and the major customers are made as required by SFRS(I) 8 Operating Segments. This disclosure standard has no impact on the reported results or financial position of the reporting entity.

For management purposes, the reporting entity is organised into the following major strategic operating segments that offer different products and services: (1) plantation, and (2) logistics & bulking. Such a structural organisation is determined by the nature of risks and returns associated with each business segment and it defines the management structure as well as the internal reporting system. It represents the basis on which the management reports the primary segment information that is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing the performance. They are managed separately because each business requires different strategies.

Two or more operating segments may be aggregated into a single operating segment if in the judgement of management the segments have similar economic characteristics, and the segments are similar in some aspects such as the nature of the products and services; production processes; type or class of customer; distribution methods.

The segments and the types of products and services are as follows:

The plantation segment is the group's main business comprising plantations, palm oil mills, and kernel crushing plants.

The logistics & bulking segment provides support storage facilities and transportation of palm oil products.

Inter-segment sales are measured on the basis that the entity actually used to price the transfers. Internal transfer pricing policies of the reporting entity are as far as practicable based on market prices. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The following tables illustrate the information about the reportable segment profit or loss, assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

36. Financial information by operating segments (cont'd)

36B. Profit or loss from continuing operations and reconciliations

<u>Group 2018</u>	Plantation	Logistics & Bulking	Elimination	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Revenue by Segment:				
Revenue from external customers	124,368	613	–	124,981
Inter-segment sales	–	34	(34)	–
Total revenue	124,368	647	(34)	124,981
Results:				
Segment results	(25,666)	(350)	–	(26,016)
Other unallocated items				3,439
Share of results of joint ventures				(4,497)
Income tax expense				3,226
Loss, net of tax				(23,848)
 <u>Group 2017</u>	 Plantation	 Logistics & Bulking	 Elimination	 Total
	US\$'000	US\$'000	US\$'000	US\$'000
				Restated
Revenue by Segment:				
Revenue from external customers	148,468	592	–	149,060
Inter-segment sales	–	334	(334)	–
Total revenue	148,468	926	(334)	149,060
Results:				
Segment results	6,085	(575)	–	5,510
Gain on disposal of joint venture, net				8,161
Other unallocated items				(154)
Share of results of joint ventures				(2,534)
Income tax expense				(5,995)
Profit, net of tax				4,988

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

36. Financial information by operating segments (cont'd)

36C. Assets and reconciliations

<u>Group 2018</u>	Plantation US\$'000	Logistics & Bulking US\$'000	Total US\$'000
Total assets for reportable segments	339,132	846	339,978
Cash and cash equivalents	17,079	272	17,351
Total group assets	356,211	1,118	357,329

<u>Group 2017</u>	Plantation US\$'000	Logistics & Bulking US\$'000	Total US\$'000
Total assets for reportable segments	370,966	2,908	373,874
Cash and cash equivalents	16,978	413	17,391
Total group assets	387,944	3,321	391,265

36D. Liabilities and reconciliations

<u>Group 2018</u>	Plantation US\$'000	Logistics & Bulking US\$'000	Total US\$'000
Total liabilities for reportable segments	62,214	365	62,579
Current tax liabilities	624	35	659
Deferred tax liabilities	383	–	383
Finance leases			
Current	216	–	216
Non-current	127	–	127
Other financial liabilities			
Current	73,331	–	73,331
Non-current	197,890	–	197,890
Total group liabilities	334,785	400	335,185

<u>Group 2017</u>	Plantation US\$'000	Logistics & Bulking US\$'000	Total US\$'000
Total liabilities for reportable segments	47,385	898	48,283
Current tax liabilities	1,926	14	1,940
Deferred tax liabilities	1,564	–	1,564
Finance leases			
Current	245	–	245
Non-current	244	–	244
Other financial liabilities			
Current	51,267	–	51,267
Non-current	239,152	–	239,152
Total group liabilities	341,783	912	342,695

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

36. Financial information by operating segments (cont'd)

36E. Other material items and reconciliations

<u>Group 2018</u>	Plantation US\$'000	Logistics & Bulking US\$'000	Total US\$'000
Depreciation and amortisation expense	16,146	85	16,231
Additions for non-current assets	15,411	6	15,417
Foreign exchange loss, net	14,395	14	14,409
Gain on derivative financial instruments	(287)	–	(287)
Finance costs	18,960	97	19,057
Interest income	(3,679)	(1)	(3,680)
Gain/(loss) on disposal of property, plant and equipment	(83)	43	(40)
Loss on fair value changes in biological assets and other receivables, net	7,430	–	7,430

<u>Group 2017</u>	Plantation US\$'000	Logistics & Bulking US\$'000	Total US\$'000
Depreciation and amortisation expense	15,624	205	15,829
Additions for non-current assets	7,381	26	7,407
Foreign exchange loss, net	2,287	72	2,359
Gain on derivative financial instruments	(693)	–	(693)
Finance costs	20,677	94	20,771
Interest income	(3,413)	(1)	(3,414)
Loss/(gain) on disposal of property, plant and equipment	147	(39)	108
Gain on fair value changes in biological assets and other receivables, net	(4,684)	–	(4,684)

36F. Geographical information

	Revenue		Non-current assets	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
		Restated		
Indonesia	113,695	113,171	257,722	277,706
Singapore	11,286	35,889	5,536	5,624
Total	124,981	149,060	263,258	283,330

Revenues are attributed to countries on the basis of the customer's location, irrespective of the origin of the goods and services. The non-current assets are analysed by the geographical area in which the assets are located. The non-current assets exclude any financial instruments and deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

36. Financial information by operating segments (cont'd)

36G. Information about revenue from major customers

	Group	
	2018	2017
	US\$'000	US\$'000
Top 1 customer in plantation segment	27,684	41,538
Top 2 customers in plantation segment	42,589	77,408
Top 3 customers in plantation segment	54,752	91,781

37. Changes and adoption of financial reporting standards

For the current reporting year, new or revised financial reporting standards were issued by the Singapore Accounting Standards Council. Those applicable to the reporting entity are listed below. Adoption of the applicable new or revised standards has resulted in some changes in the detailed application of the accounting policies and some modifications in financial statements presentation and measurement as disclosed in Note 39.

<u>SFRS(I) No.</u>	<u>Title</u>
SFRS(I) 1-40	Amendments to, Transfer of Investment Property
SFRS(I) 1	First-time Adoption of Singapore Financial Reporting Standards (International)
SFRS(I) 9	Financial Instruments
SFRS(I) 15	Revenue from Contracts with Customers. Amendments to, Clarifications to SFRS(I) 15 Revenue from Contracts with Customers

38. New or amended standards in issue but not yet effective

For the future reporting years, certain new or revised financial reporting standards were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the reporting entity for future reporting years are listed below. The transfer to the applicable new or revised standards from the effective dates is not expected to result in any significant modification of the measurement methods or the presentation in the financial statements for the following year from the known or reasonably estimable information relevant to assessing the possible impact that application of the new or revised standards will have on the entity's financial statements in the period of initial application, other than in relation to leases as disclosed below.

<u>SFRS(I) No</u>	<u>Title</u>	<u>Effective date for periods beginning on or after</u>
SFRS(I) 1-28	Amendments: Long-Term Interests In Associates And Joint Ventures	1 Jan 2019
SFRS(I) 16	Leases (and Leases - Illustrative Examples & Amendments to Guidance on Other Standards)	1 Jan 2019
SFRS(I) INT 23	Uncertainty over Income Tax Treatments	1 Jan 2019
SFRS(I) 1-12	Improvements (2017) – Amendments: Income Taxes	1 Jan 2019
SFRS(I) 1-23	Improvements (2017) – Amendments: Borrowing Costs	1 Jan 2019
SFRS(I) 1-19	Amendments: Employee Benefits	1 Jan 2019

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

38. New or amended standards in issue but not yet effective (cont'd)

Leases:

The financial reporting standard on leases is effective for annual periods beginning on or after 1 January 2019 and it supersedes the previous reporting standard and the related interpretations on leases. For the lessor, the accounting remains largely unchanged. As for the finance leases of a lessee, as the financial statements have already recognised an asset and a related finance lease liability for the lease arrangement, the application of the new reporting standard on leases is not expected to have a material impact on the amounts recognised in the financial statements. For the lessee, almost all leases will be brought onto the statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. For the entity's non-cancellable operating lease commitments as at 31 December 2018 shown in Note 33, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under the new reporting standard on leases. Management does not expect any other material impact from adoption of this standard.

39. Changes in accounting policies and restatements of comparative figures

SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International):

The reporting entity first adopted SFRS(I)s from 1 January 2018, with a date of transition to SFRS(I)s of 1 January 2017. Its last financial statements in accordance with previous GAAP were for the year ended 31 December 2017.

There are no material differences between the statements of financial position and consolidated statement of cash flows presented in accordance with SFRS(I)s and the statements of financial position and consolidated statement of cash flows presented in accordance with previous GAAP, other than in relation to disclosures as a result of adoption of SFRS(I) 15 disclosed below.

SFRS(I) 15 Revenue from Contracts with Customers:

The standard establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g., the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). It replaces the former revenue recognition standards and related interpretations.

The reporting entity applied the new standard fully retrospectively in accordance with SFRS(I) 1-8 Accounting Policies, Changes in Accounting Estimates and Errors and SFRS(I) 1. Therefore, the comparatives for the reporting year 2017 are restated. However, the impact was only to the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows. The adoption of the new standard and any other changes have resulted in some changes in the application of the accounting policies and some modifications to financial statements presentation and these changes are summarised below.

		After restatements US\$'000	Before restatements US\$'000	Difference US\$'000
<u>2017 Consolidated statement of profit or loss and other comprehensive income:</u>				
Revenue	#A, #B	149,060	148,096	964
Distribution costs	#A	2,113	2,368	(255)
Interest expense	#B	20,771	19,552	1,219
<u>2017 Consolidated statement of cash flows:</u>				
Interest expense	#B	20,771	19,552	1,219
Trade and other payables	#B	(8,924)	(7,705)	(1,219)

#A Reclassification of variable consideration in relation to difference in CPO quality claimed by customers.

#B Reclassification of financing charges on long term advance payment from a customer.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

39. Changes in accounting policies and restatements of comparative figures (cont'd)

SFRS(I) 9 Financial Instruments:

The standard on financial instruments contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition. It requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification. For financial liabilities, it also has requirements to cases where the fair value option is taken. For the impairment of financial assets, it introduces an “expected credit loss” (“ECL”) model; recognition of a credit loss should no longer wait for there to be objective evidence of impairment. For hedge accounting, it allows financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures. Prior reporting periods need not be restated. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. Therefore, the standard has been applied for the reporting year ended 31 December 2018 only. The entity does not restate prior periods and there were no differences between the previous carrying amount and the carrying amount as at 1 January 2018 in the opening retained earnings.

40. Listing of and information on subsidiaries

#A. The following subsidiaries are wholly owned by the group:

<u>Name of subsidiaries, country of incorporation, place of operations and principal activities (and independent auditor)</u>	Cost in books of company	
	2018	2017
	US\$'000	US\$'000
Kencana Logistics Pte. Ltd. (“KL”) ^(a)	315	315
Singapore		
Investment holding		
Kencana Plantations Pte. Ltd. (“KP”) ^(a)	2,043	2,043
Singapore		
Investment holding		
Sawindo Agri Pte. Ltd. (“SA”) ^(a)	10,603	10,603
Singapore		
Trading and investment holding		
	12,961	12,961

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

40. Listing of and information on subsidiaries (cont'd)

#B. The following subsidiaries are held through the above subsidiaries:

Name of subsidiaries, country of incorporation, place of operations and principal activities (and independent auditor)

Global Eastern Capital Pte. Ltd. ("GEC") ^(c)
Singapore, Investment holding

PT Agri Eastborneo Kencana ("AEK") ^(b)
Indonesia, Agribusiness

PT Agro Inti Kencanamas ("AIK") ^(b)
Indonesia, Agribusiness

PT Agrojaya Tirta Kencana ("ATK") ^(b)
Indonesia, Agribusiness

PT Agro Mas Lestari ("AML") ^(b)
Indonesia, Agribusiness

PT Agro Sawit Mas Lestari ("ASML") ^(b)
Indonesia, Agribusiness

PT Alamraya Kencana Mas ("AKM") ^(b)
Indonesia, Agribusiness

PT Bumi Permai Sentosa ("BPS") ^(b)
Indonesia, Wholesaler of shipping-related products

PT Citra Megah Kencana ("CMK") ^(b)
Indonesia, Agribusiness and transportation

PT Delta Subur Permai ("DSP") ^(b)
Indonesia, Agribusiness

PT Indotrust ("IDT") ^(b)
Indonesia, Logistics

PT Kencana Agro Jaya ("KAJ") ^(b)
Indonesia, Agribusiness

PT Karunia Alam Makmur ("KAM") ^(b)
Indonesia, Agribusiness

PT Karunia Sawit Permai ("KSP") ^(b)
Indonesia, Agribusiness

PT Langgeng Nusa Makmur ("LNM") ^(b)
Indonesia, Agribusiness

PT Loka Indah Lestari ("LIL") ^(b)
Indonesia, Agribusiness

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

40. Listing of and information on subsidiaries (cont'd)

#B. The following subsidiaries are held through the above subsidiaries (cont'd):

Name of subsidiaries, country of incorporation, place of operations and principal activities (and independent auditor)

PT Mentari Bangun Persada ("MBP") ^(b)
Indonesia, Agribusiness and transportation

PT Palm Makmur Sentosa ("PMKS") ^(b)
Indonesia, Agribusiness

PT Pelayaran Asia Marine ("PAM") ^(b)
Indonesia, Logistics

PT Sawindo Cemerlang ("SCEM") ^(b)
Indonesia, Agribusiness

PT Sawindo Kencana ("SWK") ^(b)
Indonesia, Agribusiness

PT Sawit Kaltim Lestari ("SKL") ^(b)
Indonesia, Agribusiness

PT Sawit Permai Lestari ("SPL") ^(b)
Indonesia, Wholesaler of plantation-related products

PT Sawit Tiara Nusa ("STN") ^(b)
Indonesia, Agribusiness

PT Wira Mas Permai ("WMP") ^(b)
Indonesia, Agribusiness

PT Wira Palm Mandiri ("WPM") ^(b)
Indonesia, Wholesaler of plantation-related products

PT Wira Sawit Mandiri ("WSM") ^(b)
Indonesia, Agribusiness

(a) Audited by RSM Chio Lim LLP, a member of RSM International.

(b) Audited by a member firm of RSM International of which RSM Chio Lim LLP in Singapore is a member. The name of the member firm is Amir Abadi Jusuf, Aryanto, Mawar dan Rekan ("RSM Indonesia"), Jakarta.

(c) Not audited as it is not material.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31 December 2018

40. Listing of and information on subsidiaries (cont'd)

#C. Disposal of a subsidiary

On 1 July 2018, the group disposed of its subsidiary, PT Sawit Alam Permai ("SAP"), which was held through KP.

Details of the disposal are as follows:

	At disposal date US\$'000
<u>Non-current assets</u>	
Property, plant, and equipment	178
Bearer plants	2,016
Land use rights	490
Total non-current assets	<u>2,684</u>
<u>Current assets</u>	
Cash and cash equivalents	67
Trade and other receivables	2,345
Inventories	100
Biological assets	184
Total current assets	<u>2,696</u>
<u>Non-current liabilities</u>	
Deferred tax liabilities	71
Estimated liabilities for employee benefits	30
Total non-current liabilities	<u>101</u>
<u>Current liabilities</u>	
Trade and other payables	972
Short-term borrowings	4,186
Current tax payable	1
Total current liabilities	<u>5,159</u>
Net identifiable assets disposed	120
Cash consideration received	<u>212</u>
Gain on disposal (Note 6)	<u>92</u>

The gain on disposal of the subsidiary is recorded as part of other gains in the consolidated statement of profit or loss and other comprehensive income.

The net cash flows arising on disposal of the subsidiary is US\$145,000.

INFORMATION ON SHAREHOLDINGS

As at 18 March 2019

Issued and fully paid up capital	:	SGD133,451,118
Number of shares issued	:	287,011,177
Class of shares	:	ordinary shares
Voting rights	:	one vote per share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	16	1.20	627	0.00
100 - 1,000	168	12.56	99,042	0.03
1,001 - 10,000	802	59.93	3,239,321	1.13
10,001 - 1,000,000	334	24.96	26,392,662	9.20
1,000,001 AND ABOVE	18	1.35	257,279,525	89.64
TOTAL	1,388	100.00	287,011,177	100.00

SHAREHOLDING HELD BY THE PUBLIC

Based on the information available to the Company as at 18 March 2019, approximately 21.9% of the issued ordinary shares of the Company is held by the public and, therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited is complied with.

SUBSTANTIAL SHAREHOLDERS

NAME OF SHAREHOLDERS	DIRECT INTEREST		DEEMED INTEREST	
	NO. OF SHARES	% OF SHARES	NO. OF SHARES	% OF SHARES
Kencana Holdings Pte. Ltd.	152,555,224	53.15	—	—
Newbloom Pte. Ltd.	57,402,236	20.00	—	—
Wilmar International Limited ⁽¹⁾	—	—	57,402,236	20.00
Henry Maknawi ⁽²⁾	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. by virtue of its 100% shareholding interest in Newbloom Pte. Ltd.
- ⁽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.

INFORMATION ON SHAREHOLDINGS (cont'd)

As at 18 March 2019

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	KENCANA HOLDINGS PTE. LTD.	152,555,224	53.15
2	NEWBLOOM PTE. LTD.	57,402,236	20.00
3	DBS NOMINEES (PRIVATE) LIMITED	10,394,830	3.62
4	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	5,689,840	1.98
5	MORPH INVESTMENTS LTD	3,935,200	1.37
6	PHILLIP SECURITIES PTE LTD	3,620,950	1.26
7	RHB SECURITIES SINGAPORE PTE. LTD.	3,276,775	1.14
8	RAFFLES NOMINEES (PTE.) LIMITED	3,051,600	1.06
9	SUSANTO AMIN @ LIM HWA MIN	2,677,250	0.93
10	SOEKARTO	2,168,080	0.76
11	IFAST FINANCIAL PTE. LTD.	2,126,550	0.74
12	OCBC SECURITIES PRIVATE LIMITED	2,120,750	0.74
13	HENRY MAKNAWI	1,774,970	0.62
14	DICKY PERMANA	1,596,090	0.56
15	SOEPRAPTO KASNAWI ABDUL LATIF	1,436,480	0.50
16	KGI SECURITIES (SINGAPORE) PTE. LTD.	1,242,500	0.43
17	HSBC (SINGAPORE) NOMINEES PTE LTD	1,184,150	0.41
18	FONG SOON YONG	1,026,050	0.36
19	ARIFIN @ LIE TJONG TJIN @ LIE CHANG CHIN	1,000,000	0.35
20	CITIBANK NOMINEES SINGAPORE PTE LTD	997,500	0.35
TOTAL		259,277,025	90.33

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN That the 2019 Annual General Meeting of the Company will be held at Hotel Fort Canning, 11 Canning Walk, Singapore 178881, Room Legends 1 on 29 April 2019 at 2:00 p.m. to transact the following businesses:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and Audited Financial Statements of the Company for the year ended 31 December 2018 together with the Auditors' Report thereon. **Resolution 1**
2. To re-elect the following director retiring pursuant to the Company's Constitution: **Resolution 2**
Ms Ratna Maknawi (Article 91)
3. To re-elect the following director retiring pursuant to the Company's Constitution: **Resolution 3**
Mr Darwin Indigo (Article 91)
4. To approve the Directors' fees of SGD207,900 for the year ended 31 December 2018. **Resolution 4**
5. To re-appoint RSM Chio Lim LLP as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration. **Resolution 5**

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following Resolutions as Ordinary Resolutions, with or without amendments:

6. **Proposed Share Issue Mandate** **Resolution 6**
"That pursuant to Section 161 of the Companies Act, Cap. 50. and the listing rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors of the Company be authorized and empowered to:
(a) (i) allot and issue shares in the Company ("shares") whether by way of rights, bonus or otherwise; and/or
(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,
at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and
(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

provided that:

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
 - (a) new shares arising from the conversion or exercise of any convertible securities;
 - (b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
 - (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the listing rules of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held whichever is earlier."

[See Explanatory Note (i)]

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

7. Proposed Renewal Of A Shareholders' Mandate For Interested Person Transactions

Resolution 7

"THAT:-

- (a) approval be and is hereby given for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the categories of interested person transactions set out in Section 2.1.2 of the Appendix to the Annual Report dated 11 April 2019 (the "Appendix"), with any party who is of the class or classes of interested persons described in Section 2.2 of the Appendix, provided that such transactions are made on normal commercial terms in accordance with the review procedures for interested person transactions as set out in Section 2.5 of the Appendix (the "IPT Mandate");
- (b) the IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue to be in force until the conclusion of the next Annual General Meeting of the Company;
- (c) the Audit & Risk Management Committee of the Company be and is hereby authorised to take such action as it deems proper in respect of procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendment to Chapter 9 of the listing rules which may be prescribed by SGX-ST from time to time; and
- (d) the Directors of the Company and each of them be and are hereby authorised and empowered to complete and to do all such acts and things, and to approve, modify, ratify and execute such documents, acts and things as they, he or she may consider necessary, desirable or expedient to give effect to the abovementioned resolutions."

8. To transact any other business which may be properly transacted at an Annual General Meeting.

Explanatory Note:

- (i) The proposed Resolution 6 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings, if any) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders.

By Order Of the Board

Phillip Lim Lian Teng
Company Secretary

Date: 11 April 2019

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

Notes :

- a) A member entitled to attend and vote at this general meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. Where a member appoints more than one proxy, he shall specify the proportion of his shares to be represented by each proxy. A proxy need not be a member of the Company.
- b) Pursuant to Section 181 of the Companies Act, Cap. 50 of Singapore, any member who is a relevant intermediary is entitled to appoint one or more proxies to attend and vote at a general meeting. Relevant intermediary is either:
 - (i) a banking corporation licensed under the Banking Act (Cap. 19) or its wholly-owned subsidiary which provides nominee services and holds shares in that capacity;
 - (ii) a capital market services license holder which provides custodial services for securities under the Securities and Futures Act (Cap. 289) and holds in that capacity; or
 - (iii) the Central Provident Fund ("CPF") Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased on behalf of CPF investors.
- c) If a proxy is to be appointed, the form 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 meeting.
- d) In the case of joint shareholders, all holders must sign the form of proxy.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representatives to attend, speak and vote at the AGM 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 AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (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.

KENCANA AGRI LIMITED

Registration No. 200717793E
(Incorporated in Singapore)

ANNUAL GENERAL MEETING PROXY FORM

IMPORTANT

1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see Note 3 for the definition of "relevant intermediary").
2. For investors who have used their CPF monies to buy shares in the Company, this Proxy Form is not valid for use and shall be ineffective for all intents and purposes if used or is purported to be used by them.
3. Please read the notes to the Proxy Form.

I/We _____ NRIC/Passport No./Registration No. _____

of _____

being a member(s) of KENCANA AGRI LIMITED (the "Company"), hereby appoint

Name	Address	NRIC/Passport Number	Proportion of Shareholdings

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings

or failing him/her/them, the Chairman of the Annual General Meeting ("AGM") as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the 2019 AGM of the Company to be held at Hotel Fort Canning, 11 Canning Walk, Singapore 178881, Room Legends 1 on 29 April 2019 at 2:00 p.m. and at 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 Annual General Meeting. 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 Annual General Meeting.)

No.	Resolutions	For	Against
1	Directors' Statement and Audited Accounts for the year ended 31 December 2018		
2	Re-election of Ms Ratna Maknawi as Director		
3	Re-election of Mr Darwin Indigo as Director		
4	Approval of Directors' fees for the year ended 31 December 2018		
5	Re-appointment of RSM Chio Lim LLP as Auditors		
6	Proposed Share Issue Mandate		
7	Proposed renewal of a Shareholders' Mandate for Interested Person Transactions		

Dated this _____ day of _____ 2019



Signature(s) of member(s) or common seal

IMPORTANT: PLEASE READ NOTES OVERLEAF

Total number of Shares held

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in 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, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by you.
2. A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote on his behalf at the Annual General Meeting. Where a member appoints more than one proxy, he shall specify the proportion of his shares to be represented by each such proxy, failing which, the nomination shall be deemed to be alternative. A proxy need not be a member of the Company.
3. Pursuant to Section 181 of the Companies Act, Cap. 50 of Singapore, any member who is a relevant intermediary is entitled to appoint one or more proxies to attend and vote at the general meeting. Relevant intermediary is either:
 - (i) a banking corporation licensed under the Banking Act (Cap. 19) or its wholly-owned subsidiary which provides nominee services and holds shares in that capacity;
 - (ii) a capital market services license holder which provides custodial services for securities under the Securities and Futures Act (Cap. 289) and holds in that capacity; or
 - (iii) the Central Provident Fund ("CPF") Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased on behalf of CPF investors.
4. The instrument appointing a proxy or proxies 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 set for the Annual General Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or signed on its behalf by an attorney duly authorized in writing or by an authorised officer of the corporation.
6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointer by an attorney, the letter or power of attorney (or other authority) or a duly 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.
7. A corporation which is a member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the Annual General Meeting.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies 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 the instrument appointing a proxy or proxies. In addition, in the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies 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 Annual General Meeting as certified by The Central Depository (Pte) Limited to the Company.

Personal Data Privacy:

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr Henry Maknawi
Executive Chairman

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

AUDIT & RISK MANAGEMENT COMMITTEE

Mr Soh Yew Hock
Chairman

Tengku Alwin Aziz

Mr Sim Idrus Munandar

REMUNERATION COMMITTEE

Mr Sim Idrus Munandar
Chairman

Tengku Alwin Aziz

Mr Soh Yew Hock

NOMINATING COMMITTEE

Tengku Alwin Aziz
Chairman

Mr Soh Yew Hock

Mr Henry Maknawi

COMPANY REGISTRATION NUMBER

Kencana Agri Limited
Registration Number: 200717793E
Incorporated in the
Republic of Singapore

REGISTERED OFFICE

36 Armenian Street
#03-02
Singapore 179934

PRINCIPAL OFFICE

Kencana Tower, 9th Floor
Business Park Kebon Jeruk
Jalan Raya Meruya Ilir No. 88
Jakarta Barat 11620
Indonesia

COMPANY SECRETARY

Mr Phillip Lim Lian Teng

SHARE REGISTRAR AND SHARE TRANSFER AGENT

Boardroom Corporate & Advisory
Services Pte. Ltd.

AUDITORS

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
8 Wilkie Road,
#03-08, Wilkie Edge,
Singapore 228095

Partner in Charge: Ms Uthaya Chandrikaa
D/O Ponnusamy

INDEPENDENT VALUER (Biological Assets)

KJPP Benedictus Darmapuspita dan Rekan
Property & Business Appraisal,
Feasibility Study, Advisory
Jalan Musi 38
Jakarta 10150, Indonesia

PRINCIPAL BANKERS

PT Bank OCBC NISP Tbk
PT Bank Rakyat Indonesia (Persero) Tbk
PT Bank Negara Indonesia (Persero) Tbk
PT Bank Mandiri (Persero) Tbk



KENCANA AGRI LIMITED

Registration No. 200717793E

www.kencanaagri.com

SINGAPORE

36 Armenian Street

#03-02

Singapore 179934

INDONESIA

Kencana Tower 9th Floor
Business Park Kebon Jeruk
Jalan Raya Meruya Ilir No. 88
Jakarta Barat 11620
Indonesia