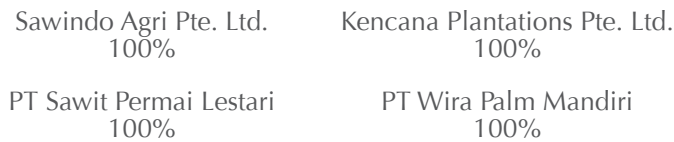




KENCANA AGRI LIMITED
ANNUAL REPORT 2016

CORPORATE STRUCTURE

PLANTATION



BULKING & LOGISTICS

Kencana Logistics Pte. Ltd.
100%

PT Bumi Permai Sentosa
100%

POWER GENERATION

Kencana Bio-Energy Pte. Ltd.
70%

PT Cahaya Permata Gemilang
71.5%

JOINT VENTURE PARTNERS

Louis Dreyfus Company

Enco



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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") and Palm Kernel Cake ("PKC"); refining of CPO and provision of bulking, port and logistics 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 68,220 ha in 2016 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 37% 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, port & bulking facilities, logistics services 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	: 185,709 ha
• Nucleus	: 164,505 ha
• Plasma	: 21,204 ha
Total Planted Area	: 68,220 ha
• Nucleus	: 54,175 ha
• Plasma	: 14,045 ha



PROCESSING

We have five palm oil mills and two kernel crushing plants in Sumatra and Kalimantan.

PALM OIL MILLS

No. of Mill	: 5
Total Processing Capacity	: 275 MT/hour

KERNEL CRUSHING PLANTS

No. of Plant	: 2
Total Processing Capacity	: 435 MT/day



PRODUCTS

Our main products are CPO, CPKO and PKC 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")

RENEWABLE BY-PRODUCTS

Empty Fruit Bunches, Liquid Waste, Kernel Shells, Fibre



SUPPORTING BUSINESS

Our port & bulking facilities and logistics services complement and support our plantation operations by providing storage facilities and transportation 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.

PORT & BULKING FACILITIES

Total Capacity	: 120,500 MT
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LOGISTICS SERVICES

No of Vessels	: 4
Total Capacity	: 7,950 MT

BIOMASS POWER PLANTS

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

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



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

² Joint venture with Louis Dreyfus Company in Balikpapan





CHAIRMAN'S STATEMENT

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 2016 ("FY2016").

PERFORMANCE

The year 2016 was a challenging one for the palm oil industry. Production was affected by the El Niño weather phenomenon that started in 2015 with its impact stretching into 2016. Crude palm oil prices trended higher initially due to the reduced supply and decline in stockpiles but its progress was limited by depressed crude oil prices, ample supply of soybean and a slowdown in global demand. The Group's revenue in FY2016 increased by 5% to US\$138.6 million, as a result of higher average selling price ("ASP") of CPO offset by the impact of the reduction in sales volume. ASP of CPO increased from US\$511 to US\$585 whereas sales volume of CPO decreased by 7% to 211,508 MT.

The Group's Operating Profit ("OP") for 2016 increased from US\$0.3 million in 2015 to US\$10.8 million and Net Loss After Tax ("NLAT") decreased from US\$30.3 million to US\$8.9 million. The increase in OP this year was mainly due to the increase in the ASP and the decrease in NLAT was mainly due to the increase in ASP and lower foreign exchange losses.

While the FFB production for the year is down as compared to 2015, we are pleased to report that Q4 production was particularly strong. This is an indication that we have turned the corner on the low production affected by the weather and can look forward to a better production in 2017.

In view of the market and weather conditions, the Group took a conscious effort to rein in capital expenditure and discretionary spending. Planting was slowed down and will be stepped up only when conditions improve. Planted area was 68,220ha as at end of FY2016.

SUSTAINABILITY

Kencana Agri 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.

Last year we reported that our very first Sustainability Report (SR) was in the pipeline. We are now pleased to advise that it has been published in August 2016 and it is available on our website. For our maiden SR, we are also very honored to have been commended by the National Center for Sustainability Reporting (NCSR) for best practices in palm oil sustainable performance and communications in 2016. The report reiterates our commitment to no deforestation, no burning, protecting peat area as well as driving a positive socio-economic impact on the community.

PROSPECTS AND OUTLOOK

We expect 2017 to be a challenging year with volatile prices already seen in the first few months of the year. Production is expected to recover and we are positioning ourselves to take advantage of this by rationalizing our operations.

DIVIDEND

In view of short term challenges ahead, the Board is not recommending any dividend to be paid for this financial year. We sincerely appreciate your kind understanding and continued support.

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.

HENRY MAKNAWI

Chairman and Chief Executive Officer

“ Good Harvest
comes from
Good Seeds
nurtured with
Good Deeds ”



FINANCIAL AND OPERATIONAL HIGHLIGHTS



FINANCIAL HIGHLIGHTS

Summary of Results for FY2016

US\$'000	FY2016	FY2015 (Restated)	% Change
Revenue	138,581	131,844	5%
Gross Profit	19,619	18,010	9%
Operating Profit ("OP")	10,804	264	3992%
EBITA	21,198	(2,429)	n/m
Loss Before Tax	(5,908)	(34,261)	-83%
Net Loss After Tax ("NLAT")	(8,910)	(30,283)	-71%

The Group's revenue increased by 5% from US\$131.8 million in FY2015 to US\$138.6 million in FY2016. The increase was mainly due to higher Average Selling Price ("ASP") of CPO. Sales volume of CPO decreased approximately 7% from 226,915 MT in 2015 to 211,508 MT in 2016 and ASP of CPO increased from US\$511 in FY2015 to US\$585 in FY2016. The decrease in the volume was mainly due to lower CPO production as a result of lower FFB produced for the year due to the effect of very dry weather.

Gross profit increased 9% from US\$18.0 million in FY2015 to US\$19.6 million in FY2016 and gross profit margin increased from 13.7% in FY2015 to 14.2% in FY2016.

The Group's Operating Profit ("OP") increased from US\$0.3 million in FY2015 to US\$10.8 million in FY2016 and Net Loss After Tax ("NLAT") decreased from US\$30.3 million to US\$8.9 million. The increase in OP for current year was mainly due to increase in the ASP in FY2016 as compared to FY2015 as well as the gain on fair value changes in consumable biological assets of US\$4.7 million in FY2016 compared to a loss of US\$5.7 million in FY2015. The decrease in NLAT was similarly due to increase in ASP for the year, lower foreign exchange loss in FY2016 of US\$2.6 million as compared to US\$16.7 million in FY2015 offset by higher interest expense. The increase in interest expense was mainly due to additional loans obtained and higher interests expensed instead of capitalised in the biological assets as more trees matured. Included in the tax expense for the year were the reversal of deferred tax assets and current year tax losses not carried forward.

Balance Sheet

US\$'000	As at 31 Dec 2016	As at 31 Dec 2015 (Restated)	As at 31 Dec 2014 (Restated)
Current assets	68,673	56,629	65,372
Non-current assets	323,512	319,761	326,881
Total assets	392,185	376,390	392,253
Current liabilities	94,881	104,993	97,981
Non-current liabilities	253,697	221,474	214,470
Total liabilities	348,578	326,467	312,451
Shareholders' equity	43,607	49,923	79,802
Net debt/Equity ratio (%)	625.4	496.6	284.5
Net debt/Total assets (%)	69.5	65.7	57.9
Net debt/EBITA (x)	12.9	n/m	10.0
EBITA/Interest expense (x)	1.1	n/m	1.8

Total assets increased by 4% from US\$376.4 million as at 31 December 2015 to US\$392.2 million as at 31 December 2016 mainly as a result of:

CURRENT ASSETS:

- Increase in consumable biological assets of US\$4.8 million as a result of higher forecasted FFB production as at 31 December 2016;
- Decrease in other assets amounting to US\$4.6 million mainly due to reclassification of prepayments to property, plant and equipment upon realisation during the year;
- Investment in joint venture amounting to US\$8.7 million has been reclassified to asset held for sale

NON-CURRENT ASSETS:

- Increase of US\$1.5 million in other receivables mainly due to capital and operational expenditures paid for plasma holders;
- Increase of US\$5.0 million in bearer plant. This was mainly due to additions made during the year amounting to US\$2.4 million and foreign exchange translation gain of US\$4.2m and interest and depreciation capitalized of US\$5.8 million and offset by disposal to plasma amounting to US\$1.7 million and depreciation charges of US\$5.7 million;
- Increase of US\$3.0 million in land use right is mainly due to additions made during the year amounting to US\$3.2 million and foreign exchange translation gain of US\$0.9m offset by amortization charge of US\$1.2 million

Total liabilities increased 7% from US\$326.5 million as at 31 December 2015 to US\$348.6 as at 31 December 2016, largely due to:

CURRENT LIABILITIES

- Increase in income tax payable of US\$1.4 million in relation to profitable subsidiary companies turning in better results as compared to last year
- Decrease in trade and other payables of US\$6.0 million as a result of realisation of customer advances to sales revenue
- Decrease in other financial liabilities of US\$5.4 million due to refinancing arrangement made during the year

NON-CURRENT LIABILITIES

- Increased in other financial liabilities of US\$35.0 million mainly due to additions of long-term borrowings offset by the reclassification of some long term liabilities to short term liabilities.
- Decrease in other payables of US\$4.4m due to realization of customer advances

Shareholders' equity decreased from US\$49.9 million as at 31 December 2015 to US\$43.6 million as at 31 December 2016 mainly due to net loss for the financial year of US\$8.9 million offset translation gain of US\$2.4 million.

Net asset value per share for the Group decreased from 17.39 US cents as at 31 December 2015 to 15.19 US cents as at 31 December 2016.

Cash Flow

US\$'000	FY2016	FY2015	FY2014
Cash at the beginning of year	8,196	13,735	14,208
Net cash from/(used in) operating activities	13,241	(1,537)	31,005
Net cash used in investing activities	(8,567)	(18,481)	(43,217)
Net cash (used in)/from financing activities	(713)	14,479	11,739
Net increase/(decrease) in cash	3,961	(5,539)	(473)
Cash at end of year	12,157	8,196	13,735

The closing cash and cash equivalents of the Group increased by US\$4.0 million from US\$8.2 million as at 31 December 2015 to US\$12.2 million as at 31 December 2016. The increase was mainly

due to net cash generated from operating offset by cash outflow to investing activities and financing activities.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

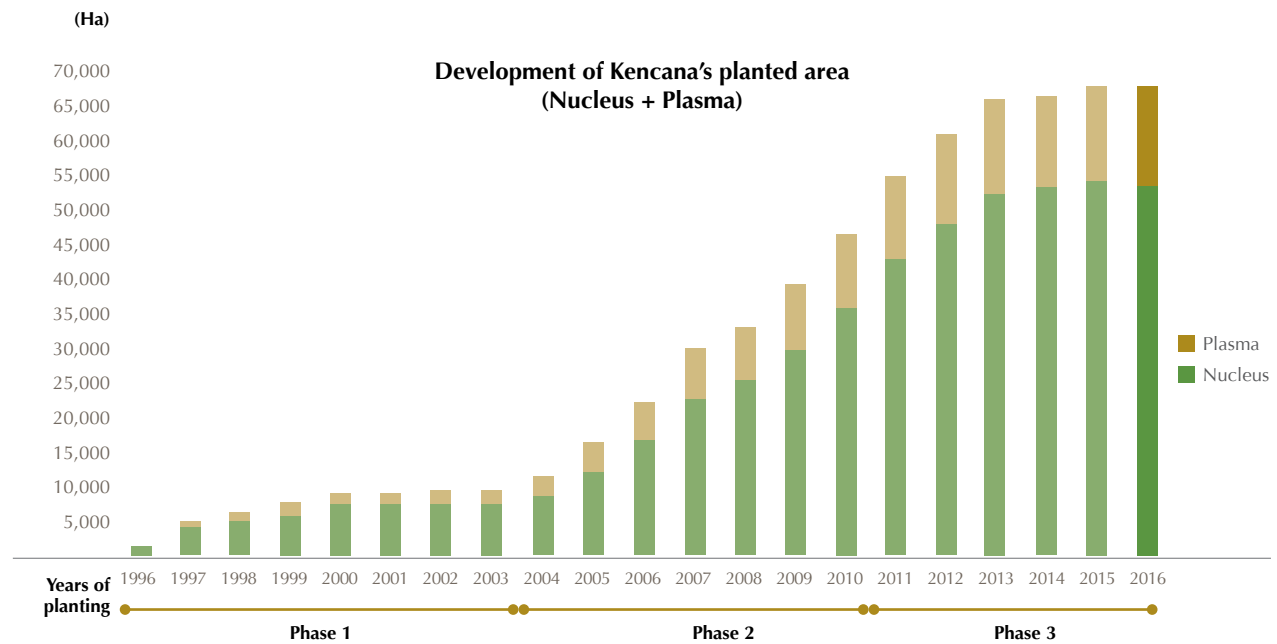
REVIEW OF OPERATIONAL PERFORMANCE

Increasing 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 456 ha. Total planted area for nucleus and plasma to 68,220 ha as at December 2016.

Nucleus planted area decreased by 19 ha to 54,175 ha whereas plasma planted area increased by 312 ha to 14,045 ha.

Planted Area



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

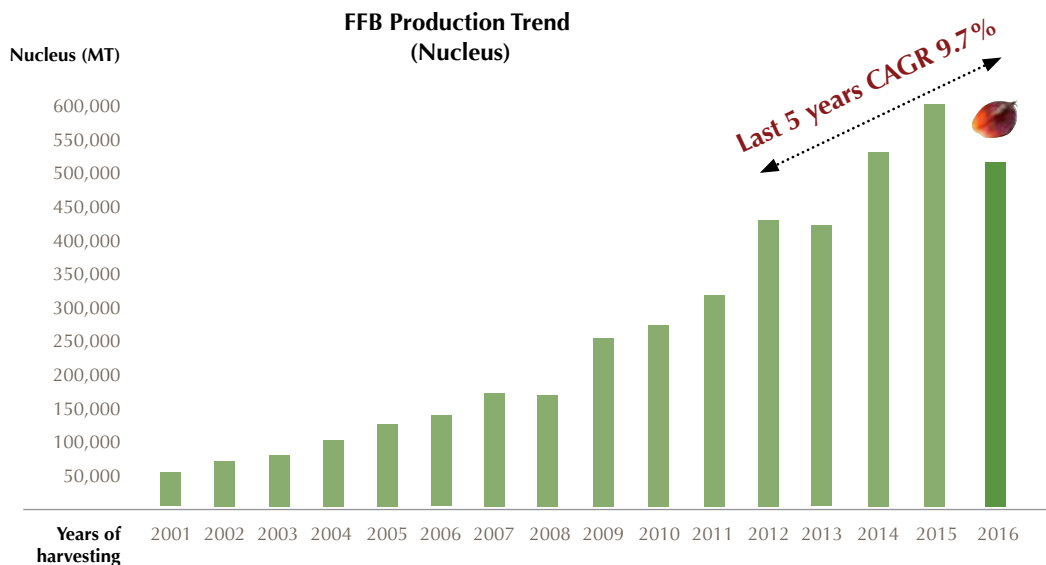
Kencana's growth potential is not fully realised yet because 59% of its nucleus oil palms are in the immature and young mature stage. This shows that Kencana's current profitability is derived mostly from 41% production of its prime mature oil palms.

The young profile of oil palms, with a weighted average age of 8.2 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	13,236	25	18,638	34	22,301	41	54,175
Plasma	1,789	13	4,557	32	7,699	55	14,045
Total	15,025	22	23,195	34	30,000	44	68,220

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

Due to very dry weather caused by El Niño effect in last year, the group's production of Nucleus FFB has decreased from 595,969 MT in FY2015 to 502,933 MT in FY2016. Compounded Annual Growth Rate ("CAGR") is 9.7% for the last 5 years. This growth was mainly supported by Kencana's prime mature oil palms, which comprised about 41% of its total oil palms. With more mature oil palms coming on stream in the next few years and 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.

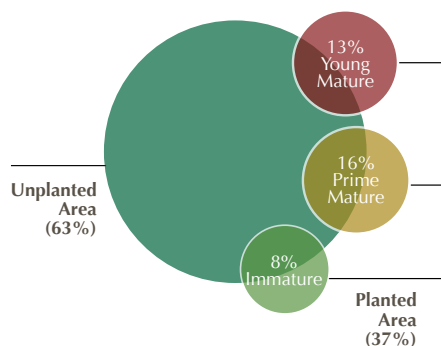


In general, oil palms start to yield FFB after approximately 36 months of age as they enter the young mature phase. After which, their average FFB yields will increase exponentially from the initial 5-6 MT/ha to up to 22-28 MT/ha when they enter their prime years.

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 2016, the Group had a total land bank of 185,709 ha (Nucleus and Plasma), with 63% 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 185,709 ha* (Nucleus + Plasma)

Land Bank (ha)	Planted Area (ha)	%	Unplanted Area (ha)	%	Total	%
Nucleus	54,175	33	110,330	67	164,505	89
Plasma	14,045	66	7,159	34	21,204	11
Total	68,220	37	117,489	63	185,709	100

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2016		2015		2014	
LAND BANK (HA)	185,709		193,574		193,570	
Nucleus	164,505	89%	173,946	90%	174,165	90%
Plasma	21,204	11%	19,628	10%	19,405	10%
PLANTED AREA (HA)	68,220		67,927		66,666	
Nucleus	54,175	79%	54,194	80%	53,224	80%
Plasma	14,045	21%	13,733	20%	13,442	20%
PLANTED PROFILE (HA)						
Nucleus	54,175		54,194		53,224	
1 - 3 years (Immature)	13,236	25%	17,326	32%	22,817	43%
4 - 6 years (Young mature)	18,638	34%	17,891	33%	13,751	26%
7 - 20 years (Prime mature)	22,301	41%	18,977	35%	16,656	31%
Plasma	14,045		13,733		13,442	
1 - 3 years (Immature)	1,789	13%	2,747	20%	3,475	26%
4 - 6 years (Young mature)	4,557	32%	4,737	34%	4,495	33%
7 - 20 years (Prime mature)	7,699	55%	6,249	46%	5,472	41%
PRODUCTION VOLUME (MT)						
FFB Production	637,314		761,052		669,644	
Nucleus	502,933	79%	595,969	78%	527,118	79%
Plasma	134,381	21%	165,083	22%	142,526	21%
FFB Processed	622,476		772,964		691,784	
Oil Production						
CPO	130,003		160,043		143,732	
CPKO	3,349		5,512		10,596	
AVERAGE FFB YIELD (MT/HA)						
Nucleus	12.3		16.2		17.3	
Plasma	11.0		15.0		14.3	
OIL EXTRACTION RATES						
CPO	20.9%		20.7%		21.0%	
CPKO	43.3%		43.3%		43.3%	
SALES VOLUME (MT)						
CPO	211,508		226,915		210,657	
CPKO	2,800		5,850		9,999	
AVERAGE SELLING PRICE (US\$/MT)						
CPO	585		511		708	
CPKO	1,036		770		1,012	

KEY MILESTONES 1995-2016



2012 - 2016

- 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
- New planted area (including plasma) of approximately 13,353 ha from FY2012 to FY2016
- Commenced joint venture operations for bio-energy (JV with Enco) in FY2014
- Refinery commenced operations in FY2013
- Commenced construction of the Group's first palm oil refinery in Balikpapan (JV with Louis Dreyfus Company)
- Acquired 23,000 ha of landbank in Sulawesi region

2009 - 2011

- Commenced joint venture port operations in East Kalimantan with Louis Dreyfus Company, lifting total port and bulking capacity to 66,000 MT
- 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
- Received a "Good" and a "Very Good" classification award from the local governor for our subsidiaries PT. Sawindo Kencana ("SWK") and PT. Alamraya Kencana Mas ("AKM") respectively in 2006
- 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
- Carried out approximately 4,513 hectares of new planting in 2006
- 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 recognize 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 recognize 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
Chairman and
Chief Executive Officer

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
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
Deputy Chief Executive Officer

Ms. Ratna Maknawi is responsible for managing the Group's overall business operations and development. 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 as Deputy Chief Executive Officer. Ms. Ratna Maknawi graduated cum laude from the University of Wisconsin – Whitewater, USA with a Bachelor of Business Administration (Accounting major) in 1993.



MR. KENT SURYA
Finance Director

Mr. Kent Surya is responsible for treasury and cash flow management, finance and corporate finance, IT, tax compliance, and financial reporting at our Group. He is engaged as a Director for most of the Group's companies since 2004. In 1981-1987, he has held various positions relating to the commercial and housing developer industries. Between 1987 and 1998, as well as 2000 and 2003, he has held various positions related to banking (PT Bank Danamon Indonesia, listed co) and consumer finance (PT Olympindo Multi Finance). In addition, he oversaw a business in the wood-based industry (Huttrindo group) as Chief Operating Officer and Deputy Chief Executive Officer from 1999 to 2000. Since 2004, he has been engaged by some of our Group's companies, namely SWK, AKM and AIK, first as a senior Financial Advisor and later on as Vice President Director in charge of the Group's finances and operations. From August 2004 to May 2013, he was engaged as President Director of PT Graha Meruya, a company related to the Group. Mr. Surya graduated in 1983 with a degree in Civil Engineering from the University of Tarumanagara in Jakarta, Indonesia, and obtained his Masters in Business Administration (International-Strategic Management major) in 1994 from the Institut Management Prasetya-Mulya, Jakarta-Indonesia.



MR. SOH YEW HOCK
Lead Independent Director

Mr. Soh Yew Hock has been appointed as Lead Independent Director since 2008. He has extensive experience in commerce and industry and is presently the Lead Independent Director and Chairman of the Audit Committee of Japan Residential Assets Manager Limited (Manager of Saizen Reit). Mr. Soh has previously served as a director of several listed companies 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
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 and a commissioner of various companies, namely, PT. Sumber Sawit Sejahtera and PT. Catur Manunggal Hidup Sejahtera. 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
Non-Executive and
Non-Independent Director

Mr. Darwin has been appointed as Non-executive Director since 2013. He is currently the Deputy Country Head for Wilmar International Limited in Indonesia. 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 Operating Officer

Mr. Albert Maknawi has been appointed as COO since 2011 and is responsible for overseeing the group's overall operational activities. 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 ("BE") 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. AJIS CHANDRA
Head of Bulking and Logistics

Mr. Ajis Chandra is in charge of managing the bulking and logistics services of our operations. He is also currently the President Director of PT Indotrust and PT Pelayaran Asia Marine. He was previously with the Lippo Group for about 11 years, holding various positions in Indonesia, Malaysia and Vietnam. Mr. Chandra obtained a Bachelor of Commerce in 1987 and two Masters Degrees in Accountancy and Commerce in 1988 and 1989 respectively, from the University of Wollongong, Australia.



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 currently a non-practising member 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 2016, 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 2016, the Group has adhered to the principles and guidelines as set out in the Code where appropriate, and has disclosed and explained any deviations from the Code in this 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 seven members:

Henry Maknawi	Chairman and Chief Executive Officer
Tengku Alwin Aziz	Vice-Chairman and Independent Director
Ratna Maknawi	Deputy Chief Executive Officer
Kent Surya	Finance Director
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.

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.

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.

CORPORATE GOVERNANCE REPORT *(cont'd)*

A total of five board meetings were held in the year 2016. 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
Kent Surya	5	5
Ratna Maknawi	5	5
Tengku Alwin Aziz	5	5
Soh Yew Hock	5	5
Sim Idrus Munandar	5	5
Darwin Indigo	5	5

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.

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 Corporate Regulatory Authority Limited ("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.

CORPORATE GOVERNANCE REPORT *(cont'd)*

For FY2016, 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, more than one-third of the Board members are independent directors.

While the Chairman and the Chief Executive Officer ("CEO") is the same person, the Board is of the opinion that based on the Group's current size and operations, it is not necessary to have independent directors make up at least half of the Board at present.

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 and 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 judgment 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 FY2016, 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. As at the date of this report, there is no Director who has served on the Board for more than 9 years from the date of his first appointment.

The Board is of the opinion that its current size of seven 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.

CORPORATE GOVERNANCE REPORT *(cont'd)*

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 Board, after careful consideration, is of the opinion that it is in the best interests of the Group to adopt a single leadership structure, whereby Chairman and CEO is the same person, so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

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 his remuneration package is 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 in a single individual.

The Group's Chairman and CEO, Mr. Henry Maknawi, plays an instrumental role in developing the business of the Group and provides the Group with strong leadership and vision. In addition to managing the day-to-day business operations of the Group, he is to ensure that each member of the Board and the Management works well together with integrity and competency. His duties and responsibilities include:-

- (a) Leading the Board to ensure it is effective in its role;
- (b) 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;
- (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 and CEO has failed to resolve, or where such contact is inappropriate.

The Independent Directors meet with the Company's external auditors without the presence of Management to discuss matters such as the Group's financial performance, corporate governance and risk management initiatives and board processes.

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 2016. 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 judgments, 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 (including the CEO) 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 Tengku Alwin Aziz and Mr Soh Yew Hock to retire and seek re-election at the forthcoming AGM. Mr Kent Surya is retiring at the forthcoming AGM and he will not be offering himself for re-election to the office. The Board would like to record its appreciation to Mr Kent Surya for his past services to the Company.

The Board recognizes 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 FY2016. 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 their multiple board appointments, Mr Soh Yew Hock and Mr Sim Idrus Munandar, who sit on multiple boards of listed companies outside of the Group, have been able to devote sufficient time and attention to the affairs of the Group to adequately discharge their duties as Directors 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	24 April 2015	Nil	Nil
Kent Surya	30 May 2008	24 April 2015	Nil	Nil
Ratna Maknawi	26 September 2007	29 April 2016	Nil	Nil
Tengku Alwin Aziz	30 May 2008	24 April 2015	Nil	Nil
Soh Yew Hock	30 May 2008	24 April 2015	Japan Residential Assets Manager Ltd (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 September 2010	29 April 2016	Samko Timber Limited – Independent Director and Chairman of Nominating Committee	Nil
Darwin Indigo	26 April 2013	29 April 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.

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.

CORPORATE GOVERNANCE REPORT *(cont'd)*

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 2016. The details of the attendance are as follows:

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

CORPORATE GOVERNANCE REPORT *(cont'd)*

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 contain 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 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.

The Company had entered into separate Service Agreements with the three Executive Directors, namely, Mr Henry Maknawi, Ms Ratna Maknawi and Mr Kent Surya, 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.

CORPORATE GOVERNANCE REPORT *(cont'd)*

Remuneration of Directors of the Company

A breakdown, showing the level and mix of each individual director's remuneration paid for the financial year ended 31 December 2016, is as follows:-

Remuneration Band	Fee ⁽¹⁾ (%)	Salary & fixed allowance (%)	Bonus & incentives (%)	Other Benefits (%)	Total (%)
<u>\$500,001 to \$750,000</u>					
Henry Maknawi	–	92	7	1	100
<u>\$250,001 to \$500,000</u>					
Ratna Maknawi	–	92	7	1	100
Kent Surya	–	92	7	1	100
<u>\$250,000 and below</u>					
Tengku Alwin Aziz	100	–	–	–	100
Soh Yew Hock	100	–	–	–	100
Sim Idrus Munandar	100	–	–	–	100
Darwin Indigo	100	–	–	–	100

⁽¹⁾ Directors' fees are payable after approval by shareholders in the 2017 AGM

⁽²⁾ The proposed fee for Mr Darwin Indigo, upon approval by shareholders in the 2017 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 be kept confidential, due to the sensitive nature of such information.

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 top five key management personnel (who are not Directors of the Company) for the financial year ended 31 December 2016.

Remuneration Band	Number of Key Management personnel
\$250,001 to \$500,000	1
\$250,000 and below	4

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 five key management personnel (who are not directors or the CEO) for FY2016 is \$51,023,000 (rounded to the nearest thousand dollars).

There are three employees who are immediate family members of a Director or CEO and whose remunerations exceeded \$50,000 for the financial year ended 31 December 2016: (i) Mr Eddy Maknawi, who is the brother of both Mr Henry Maknawi and Ms Ratna Maknawi, (ii) Mr Albert Maknawi, who is the son of Mr Henry Maknawi, and (iii) 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 long-term incentive schemes for Executive Directors and key management personnel.

CORPORATE GOVERNANCE REPORT *(cont'd)*

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.

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 recognizes 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 recognizes 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 summarizes 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 a half-yearly basis.

For FY2016, the Board has received assurance from the CEO and the Finance Director 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 2016.

CORPORATE GOVERNANCE REPORT *(cont'd)*

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.

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 judgments 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, 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 67 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.

CORPORATE GOVERNANCE REPORT *(cont'd)*

During the year 2016, the ARC met four times and the details of attendance are as follows:

	Number of meetings held	Number of meetings attended
Soh Yew Hock	4	4
Tengku Alwin Aziz	4	4
Sim Idrus Munandar	4	4

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 FY2016, 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 also reviewed the Group's financial condition, internal and external audit reports.

The ARC has also met with the external auditors to discuss the audit findings as well as their audit. The Management has made a number of significant judgements relating to significant accounting estimates in the financial statements. These also required the making of assumptions regarding uncertain future events including in particular those relating to (a) changes in accounting policy and the related fair value measurement of the biological assets; (b) impairment assessment of deferred tax assets; (c) accuracy and completeness of revenue. The financial reporting matters that required significant judgements and estimates are more fully described in Note 2C to the accompanying financial statements.

At the quarterly reviews, the ARC considered the assessment made by Management of the current and forecasted net debt positions and the various financing facilities and options available to the Group. Based on the reviews, the ARC confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate.

The ARC also considered the key audit matters (KAMs) reported by the external auditors. The KAMs included those relating to (a) changes in accounting policy and the related fair value measurement of the biological assets; (b) impairment assessment of deferred tax assets; (c) accuracy and completeness of revenue. The ARC and the external auditors discussed these three KAMs and other audit matters, their reason 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.

Changes in accounting policy – biological assets

FRS 41 has been amended and is effective from 1 January 2016 to be applied retrospectively. The amendments require "bearer plants" to be accounted for as property, plant and equipment and included within the scope of FRS 16. The produce growing (un-harvested FFB or biological assets) on bearer plants remains within the scope of FRS 41. Management has elected to account for the bearer plants at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses.

The impact of this change in accounting policies on the affected balances for 2015 is reconciled in Note 39 to the financial statements. The new accounting policies are applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is made and corresponding adjustments made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement.

The ARC had discussions with the Management and the external auditor on the selection of the accounting policy for the bearer plants, the subjective issues relating to the fair value measurement of biological assets and the approach taken for the recognition of resulting assets and liabilities based on the historical cost method. The application of the historical cost method was generally straight forward as the operating plantation subsidiaries in Indonesia had kept the accounting records using the historical cost method because this was required by the accounting regulations in Indonesia.

For the biological assets, the Management made certain judgements on the accounting estimates and assumptions used as disclosed in Note 21 of the financial statements). These were discussed with the Management and the external auditor 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 the balances of assets and liabilities at 1 January 2015, 31 December 2015 and 31 December 2016.

CORPORATE GOVERNANCE REPORT *(cont'd)*

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 plantations 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. All the deferred tax liabilities arising on the fair value gains from the biological assets (under the pre-FRS 41 changes) have been reversed. For the plantation subsidiaries (that are in the immature and young nature 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 forecasts results of the relevant juvenile subsidiaries, prepared by the Management and reviewed by the Board. The ARC was satisfied with the Management's approach and subsequent recognition of a deferred tax asset in relation to the subsidiaries.

Revenue

The ARC reviewed the approach used by Management regarding the timing of recognition of revenue, that is, when significant risks and rewards of ownership of the FFB and CPO have been transferred to the buyers. Revenue is mainly from the sale of CPO which is produced from the processed FFB. Management receives detailed reports from the operation managers and performs a review of the budgeted and actual production and the CPO posted prices to ensure the accuracy of the revenue recognised. Based on the expected output per hectare, the quantity of the FFB is then estimated. The CPO quantity is based on the expected extraction rates. These rates are also benchmarked with those of other plantation companies. Sales volume of CPO decreased approximately 7% from 226,915 MT in 2015 to 211,508 MT in 2016 while the average selling price ("ASP") of CPO increased from US\$511 in 2015 to US\$585 in 2016. The decrease in the volume was mainly due to lower CPO production as a result of lower FFB produced for the year due to the effect of very dry weather. The Group's revenue increased by 5% from US\$131.8 million in 2015 to US\$138.6 million in 2016. The ARC reviewed the basis on which the recognition of revenue is made and concurred with Management's judgements.

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 is satisfied that the IA is adequately staffed by qualified and experienced personnel.

SHAREHOLDER RIGHTS

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognize, 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.

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/circulars sent to all shareholders. They are given the opportunity to participate effectively and vote at general meetings of the Company, where relevant rules and procedures governing the meetings are clearly communicated.

CORPORATE GOVERNANCE REPORT *(cont'd)*

The Constitution of the Company allows each shareholder to appoint up to two proxies to attend general meetings. On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as “relevant intermediary” to attend and participate in general meetings without being constrained by the two-proxy requirement. 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 growth, cash position, projected capital requirements for business growth and other factors as the Board may deem appropriate. Given the volatility in palm oil prices and having considered the projected capital expenditure requirements for the coming year, the Board has decided not to recommend a dividend for FY2016 .

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 express their views and raise any queries regarding the Company.

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.

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.

CORPORATE GOVERNANCE REPORT *(cont'd)*

DEALINGS 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 2016.

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 2016 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)	-	2,654
Wilmar Group (Purchases)	-	1,597
PT Berkas Wahana Sukses (Services received)	70	-
PT Berkas Wahana Sukses (Services received, shareholders' mandate obtained at EGM held on 26 April 2012)	1,504	-
PT Alamindo Sejahtera Persada (Services received)	-	-
PT Alamindo Sejahtera Persada (Services received, shareholders' mandate obtained at EGM held on 26 April 2012))	-	-

Save as disclosed, there is no other material contract 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.

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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 2016.

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 this 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
 Kent Surya
 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 other than wholly-owned subsidiaries 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	7,486,378	7,486,378	—	—
Ratna Maknawi	1,246,867	1,246,867	32,767	32,767
Tengku Alwin Aziz	384,580	384,580	—	—

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	–	–
Kent Surya	209,360	209,360	–	–
Soh Yew Hock	50,000	50,000	–	–

The directors' interests as at 21 January 2017 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.

STATEMENT BY DIRECTORS *(cont'd)*

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.
- 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's objectivity and independence are 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 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 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 2016.

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 27 February 2017, 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
28 March 2017

Kent Surya
Director

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 2016, 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 Financial Reporting Standards in Singapore (FRSs) 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 2016 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 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.

Change in accounting policy – Biological assets:

Please refer to Note 2A on accounting policies; Note 16 on bearer plants; Note 21 on biological assets and Note 39 on change in accounting policies and restatement of comparative figures and the annual report on the section on the audit and risk management committee's views and responses to the reported KAMs.

FRS 41 has been amended and is effective from 1 January 2016 to be applied retrospectively. The new requirements include bearer plants within the scope of FRS 16. Accordingly, the amendments require bearer plants to be accounted for as property, plant and equipment and included within the scope of FRS 16, instead of FRS 41. The produce growing on bearer plants (FFB in formation) remains within the scope of FRS 41. Management has elected to account for the bearer plants using the cost model, that is, these are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. The amendments are applied retrospectively and this has resulted in changes in certain balances for prior periods presented. The balances affected included biological assets, bearer plants, equity, deferred tax balances, income tax and depreciation expense. The impact of this change in accounting policy on the affected balances is reconciled in Note 39 to the financial statements.

We focused on the above changes because the changes are material to the consolidated financial statements as a whole and the fact that the values had not previously been assigned at the consolidation level.

We agreed the cost of the bearer plants to the books of the Indonesian components which have been recognising the bearer plants at cost less accumulated depreciation and any accumulated impairment losses under Indonesian GAAP. We tested management's categorisation of the assets into immature plants and mature plantations. Our audit procedures and the audit procedures of our component auditors on bearer plants included site visits and substantive testing of management's positions 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.

INDEPENDENT AUDITOR'S REPORT

to the Members of KENCANA AGRI LIMITED (cont'd)

Key audit matters (cont'd)

Change in accounting policy – Biological assets (cont'd):

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.

The audit team tested the material transactions for compliance with the group's accounting policy and FRSs.

Deferred tax assets:

Please refer to 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 including tax specialists 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.

Revenue:

Please refer to Note 4 on revenue and the annual report on the section on the audit and risk management committee's views and responses to the reported KAMs.

The SSAs indicates that there is a risk of material misstatement relating to revenue recognition. The audit team focused on this area because material misstatement relating to revenue recognition often results from an overstatement of revenues and it may result also from an understatement of revenues through improperly shifting revenues to a later period.

The operating subsidiaries in Indonesia are audited by the component auditors who are member firms of RSM International. They are also the statutory auditors of these subsidiaries. We visited the components auditors and reviewed their audit working papers for the significant components. Any further work required by our group audit team is then performed by the component auditor.

The audit team tested the timing of revenue recognition, taking into account contractual obligations, and in particular assessed whether management had appropriately recorded revenue based on whether contractual arrangements, such as bill and hold arrangements had been appropriately applied. The majority of the group's revenue arrangements are generally straightforward, being on a point of sale basis. The audit team understood the revenue recognition policies and how they are applied and the controls over revenue recognition where appropriate. Key contractual arrangements were discussed with management and the relevant documentation sighted. For unsettled trades, third-party confirmations were obtained or appropriate alternative procedures performed on the trade receivables.

INDEPENDENT AUDITOR'S REPORT

to the Members of KENCANA AGRI LIMITED (cont'd)

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 FRSSs, 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.

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 company'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 company'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 company 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.

INDEPENDENT AUDITOR'S REPORT

to the Members of KENCANA AGRI LIMITED (cont'd)

Auditor's responsibilities for the audit of the financial statements (cont'd)

- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities of 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.

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 Kaka Singh.

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

28 March 2017

Engagement partner – effective from year ended 31 December 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year Ended 31 December 2016

		Group	
	Notes	2016 US\$'000	2015 US\$'000 (Restated)
Revenue	4	138,581	131,844
Cost of sales	5	(118,962)	(113,834)
Gross profit		19,619	18,010
Interest income		2,971	2,981
Other gains	6	1,983	254
Fair value changes in biological assets and other receivables	7	4,746	(6,151)
Distribution costs	8	(2,423)	(1,753)
Administrative expenses		(9,695)	(9,908)
Finance costs	9	(19,269)	(16,654)
Other losses	6	(4,013)	(18,923)
Share of results from equity-accounted joint ventures	18	173	(2,117)
Loss before tax from continuing operations		(5,908)	(34,261)
Income tax (expense)/income	11	(3,002)	3,978
Loss from continuing operations, net of tax		(8,910)	(30,283)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating IDR functional currency to US\$ presentation currency, net of tax		2,355	(148)
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension plans, net of tax	29	239	552
Other comprehensive income for the year, net of tax		2,594	404
Total comprehensive loss		(6,316)	(29,879)
Loss per share			
Loss per share currency unit		Cents	Cents
Basic			
Continuing operations		(3.10)	(10.55)
Total	13	(3.10)	(10.55)
Diluted			
Continuing operations		(3.10)	(10.55)
Total	13	(3.10)	(10.55)

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

			Group (Restated)	(Restated)	Company	
	Notes	31.12.2016	31.12.2015	1.1.2015	2016	2015
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS						
<u>Non-current assets</u>						
Property, plant and equipment	14	91,163	90,985	96,767	–	–
Investment property	15	2,403	2,430	2,460	–	–
Bearer plants	16	160,819	155,856	161,457	–	–
Investments in subsidiaries	17	–	–	–	39,455	38,429
Investments in joint ventures	18	–	6,169	5,523	–	5,755
Land use rights	19	38,282	35,301	38,386	–	–
Deferred tax assets	11	9,108	8,739	5,168	–	–
Other receivables, non-current	23	21,000	19,520	16,276	–	–
Other assets, non-current	24	737	761	844	–	–
Total non-current assets		323,512	319,761	326,881	39,455	44,184
<u>Current assets</u>						
Asset held for sale	20	8,697	–	–	5,938	–
Biological assets	21	9,965	5,126	11,802	–	–
Inventories	22	10,031	11,161	11,729	–	–
Trade and other receivables, current	23	22,490	22,841	16,335	22,002	21,666
Other assets, current	24	4,188	8,814	11,382	1	2
Cash and cash equivalents	25	13,302	8,687	14,124	309	724
Total current assets		68,673	56,629	65,372	28,250	22,392
Total assets		392,185	376,390	392,253	67,705	66,576
EQUITY AND LIABILITIES						
<u>Equity</u>						
Share capital	26	93,860	93,860	93,860	93,860	93,860
Retained earnings/(accumulated losses)		(13,340)	(4,669)	25,057	(5,384)	(4,751)
Other reserve		2,485	2,485	2,485	–	–
Translation reserve		(39,398)	(41,753)	(41,605)	(22,881)	(24,607)
Equity, attributable to owners of the parent		43,607	49,923	79,797	65,595	64,502
Non-controlling interests		–	–	5	–	–
Total equity		43,607	49,923	79,802	65,595	64,502
<u>Non-current liabilities</u>						
Deferred tax liabilities	11	1,180	–	1,304	–	–
Finance leases, non-current	27	81	188	598	–	–
Other payables, non-current	28	6,815	11,189	9,484	–	–
Other financial liabilities, non-current	27	241,304	206,265	198,868	–	–
Other liabilities, non-current	29	4,317	3,832	4,216	–	–
Total non-current liabilities		253,697	221,474	214,470	–	–

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

STATEMENTS OF FINANCIAL POSITION *(cont'd)*

As at 31 December 2016

	Notes	Group		Company	
		(Restated)	(Restated)		
		31.12.2015	1.1.2015	2016	2015
		US\$'000	US\$'000	US\$'000	US\$'000
Current liabilities					
Income tax payable		3,291	1,867	2,334	–
Trade and other payables, current	28	46,966	52,984	53,977	2,110
Finance leases, current	27	353	422	1,235	–
Other financial liabilities, current	27	44,271	49,720	40,435	–
Total current liabilities		94,881	104,993	97,981	2,110
Total liabilities		348,578	326,467	312,451	2,110
Total equity and liabilities		392,185	376,390	392,253	66,576

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

STATEMENTS OF CHANGES IN EQUITY

Year Ended 31 December 2016

Group	Total Equity	Attributable To Parent Sub-Total	Share Capital	Retained Earnings/ (Accumulated Loss)	Other Reserve	Reserve On Post- Employment Benefits	Translation Reserve	Non- Controlling Interests
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Current year:								
Opening balance at 1 January 2016	145,505	145,505	93,860	123,245	2,485	–	(74,085)	–
Adjustments to opening balance (Note 39)	(95,582)	(95,582)	–	(127,914)	–	–	32,332	–
Restated opening balance at 1 January 2016	49,923	49,923	93,860	(4,669)	2,485	–	(41,753)	–
Movements in equity:								
Total comprehensive (loss)/ income for the year	(6,316)	(6,316)	–	(8,910)	–	239	2,355	–
Transferred to retained earnings	–	–	–	239	–	(239)	–	–
Closing balance at 31 December 2016	43,607	43,607	93,860	(13,340)	2,485	–	(39,398)	–
Previous year:								
Opening balance at 1 January 2015	172,735	172,730	93,860	139,733	2,485	–	(63,348)	5
Adjustments to opening balance (Note 39)	(92,933)	(92,933)	–	(114,676)	–	–	21,743	–
Restated opening balance at 1 January 2015	79,802	79,797	93,860	25,057	2,485	–	(41,605)	5
Movements in equity:								
Total comprehensive (loss)/ income for the year	(29,879)	(29,879)	–	(30,283)	–	552	(148)	–
Acquisition of a non- controlling interest without a change in control	–	5	–	5	–	–	–	(5)
Transferred to retained earnings	–	–	–	552	–	(552)	–	–
Closing balance at 31 December 2015	49,923	49,923	93,860	(4,669)	2,485	–	(41,753)	–

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

STATEMENTS OF CHANGES IN EQUITY *(cont'd)*

Year Ended 31 December 2016

<u>Company</u>	Total Equity	Share Capital	Accumulated Losses	Translation Reserve
	US\$'000	US\$'000	US\$'000	US\$'000
Current year:				
Opening balance at 1 January 2016	64,502	93,860	(4,751)	(24,607)
Movements in equity:				
Total comprehensive income/(loss) for the year	1,093	–	(633)	1,726
Closing balance at 31 December 2016	65,595	93,860	(5,384)	(22,881)
Previous year:				
Opening balance at 1 January 2015	71,810	93,860	(4,487)	(17,563)
Movements in equity:				
Total comprehensive loss for the year	(7,308)	–	(264)	(7,044)
Closing balance at 31 December 2015	64,502	93,860	(4,751)	(24,607)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2016

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
<u>Cash flows from operating activities</u>		
Loss before tax	(5,908)	(34,261)
Adjustments for:		
Interest income	(2,971)	(2,981)
Interest expense	19,269	16,654
Amortisation of land use rights	1,155	1,130
Depreciation expense	14,379	11,344
Fair value changes in biological assets	(4,726)	5,685
Impairment loss of property, plant and equipment	848	172
Increase in provision for employment pension benefits	622	750
Loss on disposal of property, plant and equipment	40	16
Fair value changes in other receivables	(20)	466
Gain on transfer of bearer plants to plasma	(44)	–
Share of results of equity-accounted joint ventures	(173)	2,117
Net effect of exchange rate changes in consolidating entities	1,267	6,313
Operating cash flows before changes in working capital	23,738	7,405
Inventories	1,428	568
Trade and other receivables	(2,634)	(12,737)
Other financial liabilities	(1,738)	1,785
Other assets	4,906	2,651
Trade and other payables	(12,107)	712
Net cash flows from operations	13,593	384
Income taxes paid	(584)	(534)
Net cash flows from/(used in) operating activities	13,009	(150)
<u>Cash flows from investing activities</u>		
Disposal of property, plant and equipment	1,736	1,415
Proceeds from plasma	1,699	–
Purchase of property, plant and equipment (Note 25B)	(9,393)	(12,827)
Additions to bearer plants	(2,377)	(8,004)
Purchase of land use rights	(3,203)	(1,837)
Interest received	2,971	2,772
Net cash flows used in investing activities	(8,567)	(18,481)
<u>Cash flows from financing activities</u>		
Proceeds from borrowings	347,883	188,599
Repayment of borrowings	(324,049)	(150,299)
Finance lease repayments	(665)	(1,552)
Interest paid	(23,882)	(22,269)
Net cash flows (used in)/from financing activities	(713)	14,479
Net increase/(decrease) in cash and cash equivalents	3,729	(4,152)
Net effect of exchange rate changes on cash and cash equivalents	232	(1,387)
Cash and cash equivalents, consolidated statement of cash flows, beginning balance	8,196	13,735
Cash and cash equivalents, consolidated statement of cash flows, ending balance (Note 25A)	12,157	8,196

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

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 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; financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk. The entity has considerable financial resources together with some good arrangements with a number of customers, bankers and suppliers. As a consequence, the directors believe that the entity is well placed to manage its business risks and have a reasonable expectation that the entity has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis is adopted in the preparation of the financial statements.

Accounting convention

The financial statements have been prepared in accordance with the Financial Reporting Standards in Singapore (“FRS”) and the related Interpretations to FRS (“INT FRS”) as issued by the Singapore Accounting Standards Council and the Companies Act, Chapter 50. The financial statements are prepared on a going concern basis under the historical cost convention except where a FRS requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in FRSs may not be applied when the effect of applying them is immaterial. The disclosures required by FRSs need not be provided if the information resulting from that disclosure is not material. Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in the profit or loss, as required or permitted by FRS. Reclassification adjustments are amounts reclassified to profit or loss in the income statement in the current period that were recognised in other comprehensive income in the current or previous periods.

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 challenging, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at footnote 2C, 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 in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are 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, including income, expenses and cash flows 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. Control exists when the group has the power to govern the financial and operating policies so as to gain benefits from its activities.

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 and non-controlling 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 its fair value at the date when control is lost and is subsequently accounted as available-for-sale financial assets in accordance with FRS 39.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

1. General (cont'd)

Basis of presentation (cont'd)

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 revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the reporting year arising from the course of the activities of the entity and it is shown net of any related sales taxes and rebates. Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from rendering of services that are not significant transactions is recognised as the services are provided or when the significant acts have been completed. Rental revenue is recognised on 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 or expense is recognised using the effective interest method. Dividend from equity instruments is recognised as income when the entity's right to receive dividend is established.

Employee benefits

Certain 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 periods. 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 retirement benefit plans such as the Central Provident Fund ("CPF") in Singapore which specifies the employer's obligations which are dealt with as defined contribution retirement benefit plans. 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 take a substantial period of time to get ready for their 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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

2A. Significant accounting policies (cont'd)

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 dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when recognised in other comprehensive income and if applicable deferred in equity such as qualifying cash flow hedges. 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 IDR13,436 (2015: US\$1 to IDR13,795) 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 IDR13,366 (2015: US\$1 to IDR13,389). Such translation should not be construed as a representation that the US\$ amounts could be converted into IDR at the above rate or other rate.

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 they relate to income taxes levied by the same income tax authority. 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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

2A. Significant accounting policies (cont'd)

Property, plant and equipment

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%
Plant, fixtures and equipment	–	12.5% to 25%
Vessels	–	6.25%
Assets under construction	–	Depreciation is not provided until the asset is available for use

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.

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. The gain or loss arising from the derecognition of an item of property, plant and equipment is measured as the difference between the net disposal proceeds, if any, and the carrying amount of the item and 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.

Cost also includes acquisition cost, borrowing cost capitalised 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 rates of depreciation are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

2A. Significant accounting policies (cont'd)

Bearer plants

Bearer plants related to agricultural activity are accounted for as property, plant and equipment within the scope of FRS 16. The immature plants are stated at accumulated cost until maturity, subject to impairment reviews, and the mature plantations are stated at historical cost less accumulated depreciation and any accumulated impairment losses. The annual rates of depreciation are 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. See Note 39 for change in accounting policy.

Biological assets

The biological assets (un-harvested FFB) are stated at fair value less cost 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. See Note 39 for change in accounting policy.

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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

2A. Significant accounting policies (cont'd)

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 FRS 28 Investments in Associates and 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.

In the consolidated financial statements, the accounting for investments in a joint venture is on the equity method. 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 joint venture 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. 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 FRS 39 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, an investment in a 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

Business combinations are accounted for by applying the acquisition method. 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 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 each end of the 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 unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. 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 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 each end of the 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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

2A. Significant accounting policies (cont'd)

Inventories

Inventories are measured at the lower of cost (weighted average) 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.

Financial assets

Initial recognition, measurement and derecognition:

A financial asset is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. The initial recognition of financial assets is at fair value normally represented by the transaction price. The transaction price for financial asset not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs incurred on the acquisition or issue of financial assets classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date method.

Irrespective of the legal form of the transactions performed, financial assets are derecognised when they pass the “substance over form” based on the derecognition test prescribed by FRS 39 relating to the transfer of risks and rewards of ownership and the transfer of control. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Subsequent measurement:

Subsequent measurement based on the classification of the financial assets in one of the following categories under FRS 39 is as follows:

- #1 Financial assets at fair value through profit or loss: Assets are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading assets) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the “fair value option” and it is used. All changes in fair value relating to assets at fair value through profit or loss are recognised directly in profit or loss.
- #2. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are for sale immediately or in the near term are not classified in this category. These assets are carried at amortised costs using the effective interest method (except that short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant) minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The methodology ensures that an impairment loss is not recognised on the initial recognition of an asset. Losses expected as a result of future events, no matter how likely, are not recognised. For impairment, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Typically the trade and other receivables are classified in this category.
- #3. Held-to-maturity financial assets: As at end of the reporting year date there were no financial assets classified in this category.
- #4. Available-for-sale financial assets: As at end of the reporting year date there were no financial assets classified in this category.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

2A. Significant accounting policies (cont'd)

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.

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.

Derivatives

All derivatives are initially recognised and subsequently carried at fair value. The policy is to use derivatives only for non-speculative purposes. Certain derivatives are entered into in order to hedge some transactions and all the strict hedging criteria prescribed by FRS 39 are not met. In those cases, even though the transaction has its economic and business rationale, hedge accounting cannot be applied. As a result, changes in the fair value of those derivatives are recognised directly in profit or loss and the hedged item follows normal accounting policies.

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.

Financial liabilities

Initial recognition, measurement and derecognition:

A financial liability is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument and it is derecognised when the obligation specified in the contract is discharged or cancelled or expires. The initial recognition of financial liability is at fair value normally represented by the transaction price. The transaction price for financial liability not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs incurred on the acquisition or issue of financial liability classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date method. Financial liabilities including bank and other borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

2A. Significant accounting policies (cont'd)

Financial liabilities (cont'd)

Subsequent measurement:

Subsequent measurement based on the classification of the financial liabilities in one of the following two categories under FRS 39 is as follows:

- #1. Liabilities at fair value through profit or loss: Liabilities are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. All changes in fair value relating to liabilities at fair value through profit or loss are charged to profit or loss as incurred.
- #2. Other financial liabilities: All liabilities, which have not been classified as in the previous category fall into this residual category. These liabilities are carried at amortised cost using the effective interest method.

Fair value measurement

When measuring the fair value, management uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. It is a market-based measurement, not an entity-specific measurement. The entity's intention to hold an asset or to settle or otherwise fulfill a liability is not taken into account as relevant when measuring fair value. In making the fair value measurement, management determines the following: (a) the particular asset or liability being measured (these are identified and disclosed in the relevant notes below); (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation techniques to use when measuring fair value. The valuation techniques used maximize the use of relevant unobservable inputs and minimise unobservable inputs. These inputs are consistent with the inputs a market participant may use when pricing the asset or liability.

The fair value measurements and related disclosures categorise the inputs to valuation techniques used to measure fair value by using a fair value hierarchy of three levels. These are recurring fair value measurements unless stated otherwise in the relevant notes to the financial statements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The level is measured on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting year. If a financial instrument measured at fair value has a bid price and an ask price, the price within the bid-ask spread or mid-market pricing that is most representative of fair value in the circumstances is used to measure fair value regardless of where the input is categorised within the fair value hierarchy. If there is no market, or the markets available are not active, the fair value is established by using an acceptable valuation technique.

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.

2B. Other explanatory information

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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

2B. Other explanatory information (cont'd)

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.

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 cost to sell at the point of harvest. This measurement is significant and the process is highly judgmental 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 judgmental and not susceptible to precise determination. The income tax amounts are disclosed in the note on income tax.

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 the specific asset or class of assets 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 production 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 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 specific assets at the end of the reporting year affected by the assumption are US\$89,495,000 (2015: US\$85,732,000).

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

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

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 6,903 (2015: 9,002) 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. At the end of the reporting year, the uncertified land amounted to 6,903 (2015: 9,002) hectares (see 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 2016 was US\$4,317,000 (2015: US\$3,832,000).

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 33 to these financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

3. Related party relationships and transactions

FRS 24 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.

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.

The ultimate controlling party is Henry Maknawi, a director.

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:

<u>Group</u>	2016 US\$'000	2015 US\$'000
<u>Related parties:</u>		
Sales of commodities ^(a)	2,654	1,792
Purchases of commodities ^(a)	(1,597)	(5,038)
Lease related services ^(b)	(45)	(45)
Receiving of service expense ^(b)	(1,574)	(3,221)
<u>Joint ventures:</u>		
Sales of commodities	51,498	48,180
Interest income	2,094	1,906
Management fee income	149	111
<u>Other related parties – persons with significant influence over the entity:</u>		
Acquisition of non-controlling interests	–	106

(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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

3C. Key management compensation:

	Group	
	2016	2015
	US\$'000	US\$'000
Salaries and other short-term employee benefits	1,877	1,832
Post-employment benefits	21	18

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

	Group	
	2016	2015
	US\$'000	US\$'000
Remuneration of directors of the company	1,008	929
Remuneration of directors of the subsidiaries	612	660
Fees to directors of the company	150	144

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. The above amounts for key management compensation are for all the directors and other key management personnel.

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

The trade transactions and the trade 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	
	2016	2015
	US\$'000	US\$'000
<u>Company</u>		
<u>Other receivables:</u>		
Balance at beginning of the year, net	21,666	24,908
Foreign exchange alignment	336	(3,242)
Balance at end of the year (Note 23)	22,002	21,666

4. Revenue

	Group	
	2016	2015
	US\$'000	US\$'000
Sale of goods	137,232	128,876
Rendering of services	969	2,650
Rental income	231	207
Management fee income	149	111
	138,581	131,844

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

5. Cost of sales

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
Cost of goods produced and purchases	116,492	109,692
Cost of services rendered	1,894	4,308
Realised net loss/(gain) on non-physical delivery forward contracts	576	(166)
	<u>118,962</u>	<u>113,834</u>

6. Other gains and (other losses)

	Group	
	2016	2015
	US\$'000	US\$'000
Loss on disposal of property, plant and equipment	(40)	(16)
Impairment loss of property, plant and equipment	(848)	(172)
Foreign exchange transactions losses	(2,570)	(16,722)
Gain/(loss) on derivative financial instruments	1,983	(2,013)
Realised net gain on forward currency exchange contracts	–	70
Tax assessment results	(553)	–
Miscellaneous	(2)	184
	<u>(2,030)</u>	<u>(18,669)</u>
Presented in profit or loss as:		
Other gains	1,983	254
Other losses	(4,013)	(18,923)
Net	<u>(2,030)</u>	<u>(18,669)</u>

7. Fair value changes in biological assets and other receivables

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
Gain/(loss) on fair value changes in biological assets (Note 21)	4,726	(5,685)
Gain/(loss) on fair value changes in other receivables (Note 33)	20	(466)
	<u>4,746</u>	<u>(6,151)</u>

8. Distribution costs

The major components include the following:

	Group	
	2016	2015
	US\$'000	US\$'000
Freight and storage costs	2,066	1,338

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

9. Finance costs

	Group	
	2016	2015
	US\$'000	US\$'000
Interest cost	23,882	22,269
Less: capitalised in bearer plants (Note 16)	(4,613)	(5,615)
Total finance costs	19,269	16,654

10. Employee benefits expense

	Group	
	2016	2015
	US\$'000	US\$'000
Employee benefits expense	10,617	11,056
Contribution to defined contribution plans	118	113
Other post-employment benefits (Note 29)	622	750
Employee benefits expense included in cost of sales, administrative expenses and distribution costs	11,357	11,919

11. Income tax

11A. Components of tax expense/(income) recognised in profit or loss include:

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
<u>Current tax expense:</u>		
Current tax expense	1,901	503
Under/(over) adjustments to current tax in respect of prior period	110	(2)
Subtotal	2,011	501
<u>Deferred tax expense/(income):</u>		
Current deferred tax expense/(income)	991	(4,479)
Subtotal	991	(4,479)
Total income tax expense/(income)	3,002	(3,978)

Substantially all of the group's operations are located in Indonesia. Companies in Indonesia are generally subject to a tax rate of 25% (2015: 25%). Accordingly, the Indonesian statutory tax rate of 25% (2015: 25%) is used in the reconciliation below.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

11. Income tax (cont'd)

11A. Components of tax expense/(income) recognised in profit or loss include: (cont'd)

The income tax in profit or loss varied from the amount of income tax amount determined by applying the Indonesian statutory income tax rate of 25% (2015: 25%) to profit before income tax as a result of the following differences:

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
Loss before tax	(5,908)	(34,261)
Less: Share of results from equity-accounted joint ventures	(173)	2,117
	<u>(6,081)</u>	<u>(32,144)</u>
Income tax income at the applicable tax rate	(1,520)	(8,036)
Non allowable items	3,350	3,726
Effect of different tax rates in different countries	57	97
Unrecognised deferred tax assets	913	406
Under/(over) adjustments to income tax in respect of prior period	110	(2)
Other items less than 3% each	92	(169)
Total income tax expense/(income)	<u>3,002</u>	<u>(3,978)</u>

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

The amount of income taxes outstanding as at the end of the reporting year was US\$3,291,000 (2015: US\$1,867,000). Such an amount is net of tax advances, which according to the tax rules in Indonesia, were paid before the reporting year end.

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

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
Fair value changes in biological assets and plasma receivables	1,172	(1,464)
Employee benefits provision	(602)	2
Derivatives	493	(526)
Tax loss carryforwards	(1,266)	(3,520)
Others	281	443
Deferred tax assets not recognised	913	586
Total deferred income tax expense/(income) recognised in profit or loss	<u>991</u>	<u>(4,479)</u>

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

11. Income tax (cont'd)

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

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
<u>Deferred tax:</u>		
Employee benefits provision	65	169
Exchange differences on translation to presentation currency:		
Fair value changes in biological assets and plasma receivables	22	(250)
Others	(267)	(315)
Total tax income recognised in other comprehensive income	(180)	(396)

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:

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
<u>From deferred tax assets (liabilities) recognised in profit or loss:</u>		
Fair value changes in biological assets and plasma receivables	(2,029)	(835)
Employee benefits provision	1,529	903
Derivatives	406	875
Tax loss carryforwards	12,519	10,960
Others	(1,226)	(920)
Unrecognised deferred tax assets	(2,777)	(1,815)
<u>From deferred tax liabilities recognised in other comprehensive income:</u>		
Employee benefits provision	(494)	(429)
Net balance	7,928	8,739

Presented in the statement of financial position as follows:

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
Deferred tax liabilities	(1,180)	–
Deferred tax assets	9,108	8,739
Net balance	7,928	8,739

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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

11. Income tax (cont'd)

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

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

<u>Unrecognised deferred tax assets:</u>	Tax losses		Unrecognised deferred tax assets	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Expiring in year				
Indonesian companies				
2016	–	86	–	21
2017	2,304	263	576	66
2018	2,175	783	544	196
2019	131	83	33	21
2020	414	363	104	91
2021	502	–	125	–
Singapore companies				
Unlimited period	8,210	8,352	1,395	1,420
	13,736	9,930	2,777	1,815

For the Singapore companies, the realisation of the future income tax benefits from tax loss carryforwards 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\$7,951,000 (2015: US\$6,584,000) 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.

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	
	2016	2015
	US\$'000	US\$'000
Audit fees to independent auditors included under administrative expenses:		
- company's auditors	107	109
- other auditors	168	70
Other fees to independent auditors under administrative expenses:		
- company's auditors	41	38

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

13. Loss per share

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

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
Numerators: Loss attributable to equity:		
Continuing operations: attributed to equity holders	(8,910)	(30,283)
Total basic loss and diluted loss	(8,910)	(30,283)
	2016	2015
	'000	'000
Denominators: weighted average number of equity shares		
Basic and diluted	287,011	287,011

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 is adjusted for events 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 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 per share.

There are certain changes in accounting policies as disclosed in Note 39 that have an impact on the amounts reported for earnings per share. The impact on basic and diluted loss per share arising from the changes in accounting policies is 4.61 US cents per share in 2015.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

14. Property, plant and equipment

Group	Freehold land	Leasehold buildings	Assets under construction	Vessels	Plant, fixtures and equipment	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<u>Cost:</u>						
At 1 January 2015	35	23,670	38,498	9,273	61,747	133,223
Foreign exchange alignment	–	(11,156)	(3,282)	(714)	2,135	(13,017)
Additions	–	300	8,964	1,060	3,012	13,336
Disposals	–	(23)	–	(793)	(1,626)	(2,442)
Reclassifications	–	11,939	(38,962)	–	27,023	–
At 31 December 2015	35	24,730	5,218	8,826	92,291	131,100
Foreign exchange alignment	–	478	159	(251)	2,095	2,481
Additions	–	118	6,012	37	3,698	9,865
Disposals	–	(49)	(12)	(1,830)	(2,273)	(4,164)
Reclassifications	–	6,482	(9,744)	–	3,262	–
At 31 December 2016	35	31,759	1,633	6,782	99,073	139,282
<u>Accumulated Depreciation and Impairment Losses:</u>						
At 1 January 2015	–	4,241	–	3,053	29,162	36,456
Foreign exchange alignment	–	(944)	–	(127)	(2,695)	(3,766)
Depreciation for the year	–	1,167	–	1,249	5,848	8,264
Disposals	–	(6)	–	(102)	(903)	(1,011)
Impairment for the year	–	83	–	–	89	172
At 31 December 2015	–	4,541	–	4,073	31,501	40,115
Foreign exchange alignment	–	(37)	–	106	46	115
Depreciation for the year	–	1,743	–	311	7,766	9,820
Disposals	–	(69)	–	(601)	(2,109)	(2,779)
Impairment for the year	–	–	–	848	–	848
At 31 December 2016	–	6,178	–	4,737	37,204	48,119
<u>Carrying value:</u>						
At 1 January 2015	35	19,429	38,498	6,220	32,585	96,767
At 31 December 2015	35	20,189	5,218	4,753	60,790	90,985
At 31 December 2016	35	25,581	1,633	2,045	61,869	91,163

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

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

	Group	
	2016	2015
	US\$'000	US\$'000
Leasehold properties	983	4,725
Plant and equipment	650	493
	<u>1,633</u>	<u>5,218</u>
Allocation of the depreciation expense:		
Bearer plants (Note 16)	1,158	1,364
Cost of sales	8,272	6,514
Administrative expenses	390	386
Total	<u>9,820</u>	<u>8,264</u>

Certain items of property, plant and equipment at a carrying value of US\$71,924,000 (2015: US\$73,338,000) 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	
	2016	2015
	US\$'000	US\$'000
At cost:		
At beginning and end of the year	<u>2,526</u>	<u>2,526</u>
Accumulated depreciation:		
At beginning of the year	96	66
Depreciation for the year	27	30
At end of the year	<u>123</u>	<u>96</u>
Net book value	<u>2,403</u>	<u>2,430</u>
Fair value for disclosure purposes only:		
Fair value at end of the year	<u>2,672</u>	<u>3,300</u>
Rental and service income from investment property	<u>75</u>	<u>82</u>
Allocation of depreciation expense:		
Administrative expenses	<u>27</u>	<u>30</u>

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

The investment property is leased out under operating leases. Also see Note 32 on operating lease income commitments. The management has not entered into contractual obligations for the maintenance or enhancement of the investment property.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

15. Investment property (cont'd)

The fair value of the investment property was measured in December 2016 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 3 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:	90 years.
Fair value in US\$ and fair value hierarchy – Level:	US\$2,672,000 (2015: US\$3,300,000). Level 3. (2015: Level 3).
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\$1,750 (2015: US\$2,160).
Relationship of unobservable inputs to fair value:	NA.
Sensitivity on management's estimates – 10% variation from estimate	Impact – lower/higher by US\$267,200.

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

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

16. Bearer plants

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
<u>Cost:</u>		
At beginning of the year	172,400	161,457
Impact on changes in accounting policies (Note 39)	–	13,595
Restated opening balance	172,400	175,052
Additions	2,377	8,004
Transfer to Plasma	(1,655)	–
Capitalisation of interest cost (Note 9)	4,613	5,615
Capitalisation of depreciation expense (Note 14)	1,158	1,364
Foreign exchange alignment	4,573	(17,635)
At end of the year	183,466	172,400
<u>Accumulated Depreciation:</u>		
At beginning of the year	16,544	–
Impact on changes in accounting policies (Note 39)	–	13,595
Restated opening balance	16,544	13,595
Depreciation for the year	5,690	4,414
Foreign exchange alignment	413	(1,465)
At end of the year	22,647	16,544
<u>Carrying value:</u>		
At beginning of the year (restated)	155,856	161,457
At end of the year	160,819	155,856

Depreciation expense of bearer plants is included in the 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.

Also see Note 21 for analysis of bearer plants by maturity as at reporting date.

17. Investments in subsidiaries

	Company	
	2016	2015
	US\$'000	US\$'000
Movements during the year. At cost:		
At the beginning of the year	38,429	42,615
Translation exchange adjustments	1,026	(4,186)
At the end of the year	39,455	38,429
Total cost comprises:		
Unquoted shares at cost	12,961	12,961
Quasi-equity loans receivable	34,842	34,842
Translation exchange adjustment	(8,348)	(9,374)
Total at cost	39,455	38,429
Net book value of subsidiaries	122,270	81,003

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

17. Investments in subsidiaries (cont'd)

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.

18. Investments in joint ventures

	Group		Company	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Movement during the year:				
At beginning of the year	6,169	5,523	5,755	5,500
Loans and advances to joint ventures	2,443	2,730	179	209
Share of results from equity-accounted joint ventures	173	(2,117)	–	–
Translation exchange adjustment	(88)	33	4	46
Transfer to asset held for sale (Note 20)	(8,697)	–	(5,938)	–
At end of the year	–	6,169	–	5,755
Carrying value:				
Unquoted equity shares at cost	2,000	2,000	2,000	2,000
Loans and advances to joint ventures	13,648	11,205	3,944	3,765
Share of loss from equity-accounted joint ventures	(6,747)	(6,920)	–	–
Translation exchange adjustment	(204)	(116)	(6)	(10)
Transfer to asset held for sale (Note 20)	(8,697)	–	(5,938)	–
At end of the year	–	6,169	–	5,755

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

<u>Name of joint arrangement, country of incorporation, place of operations and principal activities</u>	Percentage of equity held by the group	
	2016	2015
	%	%
Joint venture - Kencana LDC Pte. Ltd. #a #c #f (Note 18A) Singapore		
Investment holding	50	50
Joint venture - Kencana Bio-Energy Pte. Ltd. #d #c (Note 18B) Singapore		
Investment holding	70	70
Joint venture - LDC Kencana Trading Pte. Ltd. #c (Note 18C) Singapore		
Dormant	50	50

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

18. Investments in joint ventures (cont'd)

Kencana LDC Pte. Ltd. owns the following subsidiary:

Name of subsidiary, country of incorporation,
place of operations and principal activities

Percentage of equity held by the group

	2016	2015
	%	%
PT Dermaga Kencana Indonesia ("DKI") #b Indonesia Trading and refinery company	50	50

Kencana Bio-Energy Pte. Ltd. owns the following subsidiary:

Name of subsidiary, country of incorporation,
place of operations and principal activities

Percentage of equity held by the group

	2016	2015
	%	%
PT Cahaya Permata Gemilang ("CPG") #e #g Indonesia Wholesaler of electricity-related products	71.5	71.5

Held through PT Cahaya Permata Gemilang

PT Belitung Energy ("BE") #e #g
Indonesia

Power generation	71.5	71.5
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PT Listrindo Kencana ("LK") #e #g
Indonesia

Power generation	71.5	71.5
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PT Energi Cipta Utama ("ECU") #e #g
Indonesia

Dormant	71.5	71.5
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PT Energi Karya Persada ("EKP") #e #g
Indonesia

Dormant	71.5	71.5
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NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

18. Investments in joint ventures *(cont'd)*

- #a. Kencana LDC Pte. Ltd. is 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. Also see Note 20.
- #b. 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) for the Indonesian entity.
- #c. Audited by RSM Chio Lim LLP, a member of RSM International.
- #d. 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.
- #e. 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 RSM AAJ Associates, Jakarta.
- #f. Under an agreement between Louis Dreyfus Commodities Asia Pte. Ltd. ("LDCA") joint venture partner of the group in PT Dermaga Kencana Indonesia ("DKI") (a wholly owned subsidiary of joint venture Kencana LDC Pte. Ltd.) and the group, LDCA will purchase 100% of the volume of palm products originating from DKI. A Joint Book Account is maintained to record the trading of DKI's palm products. The group and LDCA will share the profits or losses arising from this Joint Book Account equally. This agreement, in substance, would extend the operation and trading cycle of DKI. Therefore the share of profit or loss from the Joint Book Account is 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 is US\$1,065,000 (2015: net loss of US\$179,000).
- #g. 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.

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 expect the arrangement to benefit them in different ways (trading and refinery business). KLDC's legal form is that it causes the separate vehicle to be considered in its own right. The parties have 50% interest each. The shareholders' agreement establishes joint control of the activities of KLDC. 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 KLDC. The parties recognise their rights to the net assets of KLDC as investments and account for them using the equity method.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

18. Investments in joint ventures (cont'd)

18A. Joint venture - Kencana LDC Pte. Ltd. (cont'd)

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.

	Group	
	2016	2015
	US\$'000	US\$'000
<u>Joint venture - Kencana LDC Pte. Ltd.:</u>		
Revenue	238,059	215,135
Profit for the reporting year	4,876	807
Other comprehensive income	26	24
Total comprehensive income	4,902	831
Depreciation and amortisation	(2,741)	(2,687)
Interest income	42	40
Interest expense	(1,992)	(2,103)
Income tax expense	(1,688)	(462)
Current assets	69,779	66,604
Cash and cash equivalents	3,158	5,253
Non-current assets	38,403	40,195
Current liabilities	(92,736)	(91,136)
Current financial liabilities (excluding trade and other payables and provisions)	(30,440)	(26,104)
Non-current liabilities	(5,465)	(10,576)
Non-current financial liabilities (excluding trade and other payables and provisions)	(3,847)	(9,948)
Reconciliation:		
Net assets of the joint venture	9,981	5,087
Proportion of the reporting entity's interest in the joint venture	50%	50%
Carrying amount of the interest in the joint venture	4,991	2,544

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 convertible 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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

18. Investments in joint ventures (cont'd)

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

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.

	Group	
	2016	2015
	US\$'000	US\$'000
<u>Joint venture - Kencana Bio-Energy Pte. Ltd.:</u>		
Revenue	755	786
Loss for the reporting year	(4,914)	(3,345)
Other comprehensive income	11	347
Total comprehensive loss	(4,903)	(2,998)
Depreciation and amortisation	(649)	(621)
Interest income	2	7
Interest expense	(2,575)	(2,235)
Income tax (expense)/income	(288)	575
Current assets	5,417	7,024
Cash and cash equivalents	86	126
Non-current assets	12,162	10,666
Current liabilities	(2,102)	(2,094)
Current financial liabilities (excluding trade and other payables and provisions)	(900)	(905)
Non-current liabilities	(27,832)	(22,878)
Non-current financial liabilities (excluding trade and other payables and provisions)	(505)	(1,589)
Non-controlling interests	704	444
Reconciliation:		
Net liabilities of the joint venture	(12,354)	(7,282)
Proportion of the reporting entity's interest in the joint venture	71.5%	71.5%
Carrying amount of the interest in the joint venture	(8,833)	(5,207)
Capital commitments for construction of plant, fixtures and equipments	542	318

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

18. Investments in joint ventures (cont'd)

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

This is a joint venture that is 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.

	Group	
	2016	2015
	US\$'000	US\$'000
<u>Joint venture – LDC Kencana Trading Pte. Ltd.:</u>		
Loss for the reporting year	(5)	(5)
Total comprehensive loss	(5)	(5)
Current assets	3	7
Cash and cash equivalents	3	7
Current liabilities	(38)	(36)
Reconciliation:		
Net liabilities of the joint venture	(35)	(29)
Proportion of the reporting entity's interest in the joint venture	50%	50%
Carrying amount of the interest in the joint venture	(18)	(15)

19. Land use rights

	Group	
	2016	2015
	US\$'000	US\$'000
<u>Cost:</u>		
At beginning of the year	38,690	40,927
Foreign exchange adjustment	1,017	(4,074)
Additions	3,203	1,837
At end of the year	42,910	38,690
<u>Accumulated amortisation:</u>		
At beginning of the year	(3,389)	(2,541)
Foreign exchange adjustment	(84)	282
Amortisation for the year included under administrative expenses	(1,155)	(1,130)
At end of the year	(4,628)	(3,389)
<u>Carrying value:</u>		
At beginning of the year	35,301	38,386
At end of the year	38,282	35,301
<u>Balance to be amortised:</u>		
Not later than one year	1,148	1,132
Later than one year and not later than five years	4,592	4,526
Later than five years	32,542	29,643
	38,282	35,301

The land rights with a carrying value of US\$36,744,000 (2015: US\$30,675,000) have been pledged as security for the bank facilities (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

19. Land use rights (cont'd)

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 112,874 hectares were obtained before 31 December 2016 while the land rights certificates covering the remaining area of 6,903 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:-

Land rights	Expire in years
23,464 hectares	2028 – 2037
89,410 hectares	2038 – 2040
6,903 hectares	Certificates have yet to be received as of the date of this report
<u>119,777 hectares</u>	

20. Asset held for sale

In December 2016, management identified a buyer and then made a decision to sell the investment in Kencana LDC Pte. Ltd. ("KLDC", a joint venture). Accordingly the investment in KLDC is classified as "asset held for sale" at the end of the reporting year. The amount is the carrying value of the investment in the joint venture (Note 18A) at the end of the reporting year, plus a loan receivable from KLDC.

21. Biological assets

	Group	
	2016	2015
<u>Movement in fair value:</u>	US\$'000	US\$'000
		(Restated)
At beginning of the year	288,424	297,169
Impact on change in accounting policies (Note 39)	(283,262)	(285,367)
Restated beginning of the year	5,126	11,802
Foreign currency alignment	113	(991)
Fair value less estimated point-of-sale costs (Note 7)	4,726	(5,685)
At end of the year (Level 3)	9,965	5,126

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

Biological assets comprise of un-harvested fresh fruit bunch ("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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

21. Biological assets (cont'd)

The recurring fair value of the biological assets was measured with the assistance of KJPP Benedictus Darmapuspita dan Rekan, a firm of independent professional valuers on 17 February 2017 based on the present value of the expected net cash flows of the FFB on the trees as at the valuation date (fair value hierarchy: Level 3). The expected net cash flows of the FFB are determined using the forecast market price of FFB, which is largely dependent on the historical and projected selling prices of CPO and CPKO in the market. 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 to grow to maturity;
- (ii) 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, the yield ranges from 6 metric tonnes per hectare to 27 metric tonnes per hectare (2015: 6 metric tonnes per hectare to 27 metric tonnes per hectare);
- (iii) The discount rate used in 2016 is 12.15% per annum (2015: 13.38% 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);
- (iv) 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 World Bank forecasts;

The fair value of biological assets would be affected by changes in the above assumptions used, particularly the CPO price used.

Sensitivity on unobservable inputs:

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

If the projected selling prices of CPO 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\$1,252,000 (2015: US\$757,000) 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\$22,000 (2015: US\$11,000).

- (a) Analysis of bearer plants:

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

	Group	
	2016	2015
Planted area amounts:		
- mature (US\$'000)	89,621	70,157
- immature (US\$'000)	71,198	85,699
	<u>160,819</u>	<u>155,856</u>
Planted area size:		
- mature (hectares)	40,939	36,868
- immature (hectares)	13,236	17,326
	<u>54,175</u>	<u>54,194</u>

- (b) Analysis of biological assets:

During the reporting year, the group harvested approximately 503,000 tonnes (2015: 596,000 tonnes) of FFB from the oil palm tree.

- (c) At the end of the reporting year, the bearer plants and biological assets are pledged for certain bank borrowings (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

22. Inventories

	Group	
	2016	2015
	US\$'000	US\$'000
Raw materials, consumables and supplies	6,783	9,313
Finished goods and goods for resale (CPO and CPKO)	3,248	1,848
	<u>10,031</u>	<u>11,161</u>
(Increase)/decrease in inventories of finished goods	(1,400)	692
Raw materials and consumables used included in cost of sales	<u>16,283</u>	<u>18,912</u>

Inventories with a carrying value of US\$1,855,000 (2015: US\$10,797,000) are pledged as security for the bank facilities (see Note 27).

23. Trade and other receivables

	Group		Company	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Non-current</u>				
<u>Other receivables:</u>				
Advances under Plasma Programme (Note 33)	7,495	7,155	–	–
Convertible loan receivable from joint venture (Note 23A)	13,505	12,365	–	–
Net other receivables - Subtotal	<u>21,000</u>	<u>19,520</u>	<u>–</u>	<u>–</u>
Total other receivables, non-current	<u>21,000</u>	<u>19,520</u>	<u>–</u>	<u>–</u>
<u>Current</u>				
<u>Trade receivables:</u>				
Outside parties	3,801	5,927	–	–
Less allowance for impairment	(900)	(900)	–	–
Joint venture (Note 3)	274	101	–	–
Related parties (Note 3)	192	120	–	–
Net trade receivables - Subtotal	<u>3,367</u>	<u>5,248</u>	<u>–</u>	<u>–</u>
<u>Other receivables:</u>				
Subsidiaries (Note 3)	–	–	22,002	21,666
Related parties (Note 3)	1	1	–	–
Joint venture (Note 3)	–	152	–	–
Staff advances	145	153	–	–
Prepaid taxes	3,112	3,077	–	–
VAT receivable	8,020	6,377	–	–
Advances under Plasma Programme (Note 33)	7,044	7,426	–	–
Other receivables	801	407	–	–
Net other receivables - Subtotal	<u>19,123</u>	<u>17,593</u>	<u>22,002</u>	<u>21,666</u>
Total trade and other receivables, current	<u>22,490</u>	<u>22,841</u>	<u>22,002</u>	<u>21,666</u>
Total trade and other receivables	<u>43,490</u>	<u>42,361</u>	<u>22,002</u>	<u>21,666</u>

There was no movement in the above allowance for the reporting years 2016 and 2015.

Certain trade receivables with a carrying value of US\$14,039,000 (2015: US\$2,276,000) have been pledged as security for the bank facilities (see Note 27).

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

23. Trade and other receivables (cont'd)

23A. Convertible loan receivables from joint venture

	Group	
	2016	2015
	US\$'000	US\$'000
<u>Movement during the year:</u>		
Balance at the beginning of the year	12,365	12,412
Additions at cost	2,261	1,186
Interest income	1,885	1,697
Amount off-set against convertible loan receivables from joint venture	(3,330)	(2,342)
Foreign exchange alignment	324	(588)
Balance at the end of the year	13,505	12,365

The convertible loan receivables are 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. Notwithstanding this the joint venture shall have right to repay such part of the loans as its board of directors may from time to time approve. For an investment in a convertible debt receivable that is convertible before maturity, the amount paid for the debt receivable is split between the debt instrument without the conversion option and the equity conversion option. Changes in the fair value of the equity conversion option are recognised in profit or loss unless the option is part of a cash flow hedging relationship. The fair values of the debt receivable component and the conversion option component were measured at date of issue of the loan. The interest income recognised in profit or loss is calculated using the effective interest rate method at 10.75% to the debt receivable component for the period since the debt receivable was issued. The fair value of the conversion option at the end of the 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 over 4 years. The carrying amount is a reasonable approximation of fair value (Level 3).

24. Other assets

	Group		Company	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Other assets, non-current:</u>				
Prepaid rent to a related party (Note 31)	737	761	–	–
Total other assets, non-current	737	761	–	–
<u>Other assets, current:</u>				
Prepaid rent to a related party (Note 31)	44	43	–	–
Advance payments	1,819	5,120	–	–
Other prepayments	2,325	3,651	1	2
Total other assets, current	4,188	8,814	1	2
Total other assets	4,925	9,575	1	2

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

25. Cash and cash equivalents

	Group		Company	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Not restricted in use	13,302	8,687	309	724

The interest earning balances are not significant.

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

	Group	
	2016	2015
	US\$'000	US\$'000
Amount as shown above	13,302	8,687
Bank overdrafts (Note 27)	(1,145)	(491)
Cash and cash equivalents for consolidated statement of cash flows purposes at end of the year	12,157	8,196

25B. Non-cash transactions:

There were acquisitions of certain assets under property, plant and equipment with a total cost of US\$472,000 (2015: US\$509,000) acquired by means of finance leases.

26. Share capital

	Number of shares issued	Share capital
	'000	US\$'000
Ordinary shares of no par value:		
Balance at beginning of the year 1 January 2015	1,148,045	93,860
Balance at end of the year 31 December 2015	287,011	93,860
Balance at end of the year 31 December 2016	287,011	93,860
Balance as at 1 January 2015	1,148,045	93,860
Consolidation of shares – 4 into 1	(861,034)	–
Balance at end of the year 31 December 2015 and 31 December 2016	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.

Share consolidation – In the prior reporting year, a share consolidation exercise was made to facilitate compliance with the continuing listing requirement imposed by SGX-ST for issuers listed on the SGX Mainboard to have a minimum trading price per share of S\$0.20. Under this arrangement every four (4) shares were consolidated into one (1) consolidated share. The share consolidation does not involve the diminution of any liability in respect of any unpaid capital or the payment to any shareholder of any paid-up capital and has no effect on the equity of the company and the subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

26. Share capital (cont'd)

Capital management:

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 automatically continue to satisfy that requirement, as it did throughout the reporting year. Management receives a report from the registrars frequently on substantial share interests showing the non-free float to ensure continuing compliance with the 10% limit throughout the reporting year.

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.

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. Adjusted capital comprises all components of equity (that is, share capital and reserves).

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.

	Group	
	2016	2015
	US\$'000	US\$'000 (Restated)
Net debt:		
All current and non-current borrowings including finance leases	286,009	256,595
Less: cash and cash equivalents	(13,302)	(8,687)
Net debt	272,707	247,908
Adjusted capital:		
Total equity	43,607	49,923
Debt-to-adjusted capital ratio	625%	497%

The increase in the debt-to-adjusted capital ratio for the reporting year resulted mainly from the increased borrowings and reduced equity due to losses 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 2016

27. Other financial liabilities

	Group	
	2016	2015
	US\$'000	US\$'000
<u>Non-current:</u>		
<u>Floating interest rates:</u>		
Bank loans (secured) (Note 27B)	–	48,151
Investment loans (secured) (Note 27B)	153,556	126,634
Term loans (secured) (Note 27B)	87,748	31,480
	241,304	206,265
<u>Fixed interest rates:</u>		
Finance leases (Note 27C)	81	188
Non-current, total	241,385	206,453
<u>Current:</u>		
<u>Floating interest rates:</u>		
Bank overdrafts (secured) (Note 27A)	1,145	491
Bank loans (secured) (Note 27A)	22,461	32,338
Investment loans (secured) (Note 27A)	12,542	8,907
Term loans (secured) (Note 27A)	6,359	4,482
	42,507	46,218
<u>Fixed interest rates:</u>		
Finance leases (Note 27C)	353	422
Derivative financial instruments (Note 30)	1,764	3,502
Current, total	44,624	50,142
Total	286,009	256,595

Presented in the statement of financial position as follows:

	Group	
	2016	2015
	US\$'000	US\$'000
Finance lease, non-current	81	188
Other financial liabilities, non-current	241,304	206,265
Finance lease, current	353	422
Other financial liabilities, current	44,271	49,720
Net balance	286,009	256,595

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

27. Other financial liabilities (cont'd)

27A. Bank overdrafts and bank loans - current

The range of floating interest rates paid was as follows:

	Group	
	2016	2015
Bank overdrafts – secured		
Indonesian Rupiah	11.50%	11.50%
Bank loans – secured		
United States dollar	5.50% - 6.50%	5.50% - 6.50%
Indonesian Rupiah	–	10.50% - 11.50%
Investment loans – secured		
United States dollar	5.50% - 6.50%	5.50% - 6.50%
Indonesian Rupiah	10.50% - 11.50%	10.50% - 11.50%
Term loans – secured		
United States dollar	5.50% - 6.50%	5.50% - 6.50%
Singapore dollar	3.48% - 4.18%	2.13% - 2.61%

The bank overdrafts and other secured banking facilities are covered by way of negative pledges on certain inventories, trade 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	
	2016	2015
Bank loans – secured		
Indonesian Rupiah	–	10.50% - 11.50%
Investment loans – secured		
United States dollar	5.50% - 6.50%	5.50% - 6.50%
Indonesian Rupiah	10.50% - 11.50%	10.50% - 11.50%
Term loans – secured		
United States dollar	5.50% - 6.50%	5.50% - 6.50%
Singapore dollar	3.48% - 4.18%	2.13% - 2.61%

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

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

27. Other financial liabilities (cont'd)

27B. Bank loans – non-current (cont'd)

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

	Indonesian Rupiah	Singapore dollars	United States dollars	Total
<u>Long-term borrowings:</u>	US\$'000	US\$'000	US\$'000	US\$'000
<u>As at 31 December 2016</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
<u>As at 31 December 2015</u>				
2 – 5 years	89,274	960	48,391	138,625
Above 5 years	37,361	1,982	28,297	67,640
Total	126,635	2,942	76,688	206,265

The long-term banking facilities are covered by way of negative pledges on certain inventories, trade 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\$89,308,000 (2015: US\$109,569,000) and the lenders have not made a demand for repayment and agreed to waive the breaches prior to the reporting year end.

27C. Finance leases

<u>Group</u>	Minimum	Finance	Present
<u>2016</u>	payments	charges	value
	US\$'000	US\$'000	US\$'000
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

<u>2015</u>	Minimum	Finance	Present
	payments	charges	value
	US\$'000	US\$'000	US\$'000
Minimum lease payments payable:			
Due within one year	461	(39)	422
Due within 2 to 5 years	195	(7)	188
Total	656	(46)	610

Net book value of plant and equipment under finance leases 1,898

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 6.8% to 15.0% (2015: 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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

27. Other financial liabilities (cont'd)

27C. Finance leases (cont'd)

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 6.8% to 15.0% (2015: 6.8% to 14.5%).

28. Trade and other payables

	Group		Company	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Non-current</u>				
<u>Other payables:</u>				
Advances from customer	6,815	11,189	–	–
Total other payables, non-current	6,815	11,189	–	–
<u>Current</u>				
<u>Trade payables:</u>				
Outside parties and accrued liabilities	18,748	20,074	140	104
Joint venture (Note 3)	–	–	1,970	1,970
Related party (Note 3)	50	3	–	–
Subtotal	18,798	20,077	2,110	2,074
<u>Other payables:</u>				
Advances from customer	23,423	29,339	–	–
Other payables for property, plant and equipment	3,829	2,912	–	–
Other payables	916	656	–	–
Subtotal	28,168	32,907	–	–
Total trade and other payables, current	46,966	52,984	2,110	2,074
Total trade and other payables	53,781	64,173	2,110	2,074

29. Other liabilities, non-current

	Group	
	2016	2015
	US\$'000	US\$'000
Employee pension benefits	4,317	3,832

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

29. Other liabilities, non-current (cont'd)

Estimated liability for employee pension benefits (cont'd)

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 13 January 2017. As at 31 December 2016, the balance of the related actuarial liability for employee pension benefits are as follows:

	Group	
	2016	2015
	US\$'000	US\$'000
Present value of employee benefits obligation in addition to the defined contribution scheme	4,205	4,252
Foreign currency alignment	112	(420)
	<u>4,317</u>	<u>3,832</u>

Changes in the present value of the defined benefits obligation are as follows:

	Group	
	2016	2015
	US\$'000	US\$'000
Benefits obligation at beginning of the year	3,832	4,216
Current service costs	496	463
Interest costs on benefits obligation	129	320
Past services costs – vested	(3)	(33)
Actuarial gain	(310)	(721)
Foreign currency alignment	173	(413)
Benefits obligation at end of the year	<u>4,317</u>	<u>3,832</u>

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

	Group	
	2016	2015
	US\$'000	US\$'000
Current service costs	496	463
Interest costs on benefits obligation	129	320
Past services costs – vested	(3)	(33)
Components of employee benefits expense recognised in profit or loss (Note 10)	<u>622</u>	<u>750</u>
Component of employee benefits gain recognised in other comprehensive income, net of tax	(239)	(552)
	<u>383</u>	<u>198</u>

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

29. Other liabilities, non-current (cont'd)

Estimated liability for employee pension benefits (cont'd)

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

Annual discount rate	: 8.25% - 8.41% in 2016 and 9.03% - 9.48% in 2015
Future annual salary increase	: 5% in 2016 and 8% - 10% in 2015
Annual employee turnover rate	: 7% in 2016 and in 2015 for employees under 40 years old and decreasing linearly until 0% at the age of 55 years
Disability rate	: 10% per year in 2016 and 10% - 20% per year in 2015
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 obligation 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	(217)	189

For the above sensitivity analysis, the present value of the defined benefit obligation 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 obligation 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 2016

30. Derivative financial instruments

	Group	
	2016	2015
	US\$'000	US\$'000
<u>Liabilities – Derivatives with negative fair values:</u>		
Cross currency swap contracts (Note 30A)	1,558	3,316
Interest rate swap contracts (Note 30B)	65	186
Commodities derivative contracts (Note 30C)	141	–
Total derivatives	1,764	3,502
Movements during the year were as follows:		
	2016	2015
	US\$'000	US\$'000
Fair value at the beginning of the year	(3,502)	(1,717)
Additions	435	–
Disposal	–	(236)
Gains on disposal included in other gains	–	70
Increase/(decrease) in fair value included in other losses	1,983	(2,013)
(Loss)/gains recognised in cost of sales	(576)	166
Foreign exchange alignment	(104)	228
Fair value at end of the year (Note 27)	(1,764)	(3,502)

30A. Forward currency exchange contracts

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		Fair Value	
		2016	2015	2016	2015
<u>Reference currency</u>		US\$'000	US\$'000	US\$'000	US\$'000
Cross currency swaps	USD	9,615	16,217	1,558	3,316
		9,615	16,217	1,558	3,316

Currency derivatives are utilised to hedge significant future transactions and cash flows. The entity is party to a variety of foreign currency forward 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.

The fair value of the forward currency contracts is based on the difference between the contractual exchange rate and the market rate at the end of the reporting year. The fair value of the currency derivatives is estimated based on market values of equivalent instruments at the statements of financial position date (Level 2).

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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

30. Derivative financial instruments (cont'd)

30A. Forward currency exchange contracts (cont'd)

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

Interest on the interest rate swaps is calculated on the notional amount of US\$27,781,000 (2015: US\$30,930,000). They are designed to convert floating rate borrowings to fixed rate exposure for the next five years at 6.50% per year (2015: 6.50%). At the end of the reporting year, the floating interest rate was 5.94% (2015: 5.41%). 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.

30C. Commodity derivative contracts

Forward commodity contracts are entered into to manage the fluctuations in prices of CPO. The commodity derivative contracts are not designated as hedges for accounting purposes.

		Principal		Fair Value	
		2016	2015	2016	2015
	<u>Reference currency</u>	US\$'000	US\$'000	US\$'000	US\$'000
Commodity derivative	USD	5,066	–	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 in the above paragraph is the future price for CPO as published by Bursa Malaysia Derivative Berhad.

31. 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	
	2016	2015
	US\$'000	US\$'000
Not later than one year	45	43
Later than one year and not later than five years	179	174
Later than five years	557	587
Rental expenses for the year	45	45

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 subsidiary had prepaid an amount of US\$781,000 (2015: US\$804,000) to the related party (Note 24).

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

32. 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	
	2016	2015
	US\$'000	US\$'000
Not later than one year	13	93
Rental income for the year	75	82

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.

33. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

33. Contingent liabilities (cont'd)

Arrangements under the Plasma Programme (cont'd)

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	
	2016	2015
	US\$'000	US\$'000
Facility amounts	26,537	23,984
Outstanding balances	17,605	14,670

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:

	Group	
	2016	2015
	US\$'000	US\$'000
Cost of development of plantations	14,539	14,581

Presented as other receivables (Note 23):

Advances under Plasma Programme, current	7,044	7,426
Advances under Plasma Programme, non-current	9,238	8,911
Fair value adjustments	(1,885)	(1,905)
Foreign currency alignment	142	149
	14,539	14,581

Fair value of non-current advances under plasma programme was measured by management in December 2016 based on the present value of the underlying biological assets (fair value hierarchy: Level 3) as more fully disclosed in Note 21. There was no change in the level during the year.

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\$180,000 (2015: US\$211,000) and US\$188,000 (2015: US\$202,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

34. 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	
	2016	2015
	US\$'000	US\$'000
Commitments for construction of leasehold buildings	83	–
Commitments for construction of plant, fixtures and equipment	117	146

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:

	Group		Company	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Financial assets:</u>				
Cash and cash equivalents	13,302	8,687	309	724
Loans and receivables	25,839	24,703	22,002	21,666
Financial assets at fair value through profit or loss	14,539	14,581	–	–
At end of the year	53,680	47,971	22,311	22,390
<u>Financial liabilities:</u>				
Derivative financial instruments at fair value	1,764	3,502	–	–
Other financial liabilities measured at amortised cost	283,811	252,483	–	–
Finance leases measured at amortised cost	434	610	–	–
Trade and other payables measured at amortised cost	23,543	23,645	2,110	2,074
At end of the year	309,552	280,240	2,110	2,074

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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

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. 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 good 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 finance director 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.

35D. Credit risk on financial assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner consist principally of cash balances with banks, cash equivalents and receivables. The maximum exposure to credit risk is: the total of the fair value of the financial assets; the maximum amount the entity could have to pay if the guarantee is called on; and the full amount of any loan payable commitments at the end of the reporting year. Credit risk on cash balances with banks and any derivative financial instruments is limited because the counter-parties are entities with acceptable credit ratings. For credit risk on receivables an ongoing credit evaluation is performed on the financial condition of the debtors and a loss from impairment is recognised in profit or loss. The exposure to credit risk with customers is controlled by setting limits on the exposure to individual customers and these are disseminated to the relevant persons concerned and compliance is monitored by management.

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

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

35D. Credit risk on financial assets (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 receivable customers is about 30 days (2015: 30 days). But some customers take a longer period to settle the amounts.

- (a) Ageing analysis of the age of trade receivable amounts that are past due as at the end of reporting year but not impaired:

	Group	
	2016	2015
	US\$'000	US\$'000
Trade receivables:		
1 to 60 days	2,901	5,027

- (b) Ageing analysis as at the end of reporting year of trade receivable amounts that are impaired:

	Group	
	2016	2015
	US\$'000	US\$'000
Trade receivables:		
Over 180 days	900	900

Other receivables are normally with no fixed terms and therefore there is no maturity.

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

	Group	
	2016	2015
	US\$'000	US\$'000
Top 1 customer	1,293	1,501
Top 2 customers	2,176	2,756

35E. Liquidity risk – financial liability maturity analysis

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

Group	Less than 1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Non-derivative financial liabilities:					
<u>2016</u>					
Gross borrowing commitments	45,522	89,532	138,422	117,700	391,176
Gross finance lease commitments	380	85	–	–	465
Trade and other payables	23,543	–	–	–	23,543
Total	69,445	89,617	138,422	117,700	415,184
<u>2015</u>					
Gross borrowing commitments	68,274	95,342	100,753	73,497	337,866
Gross finance lease commitments	461	195	–	–	656
Trade and other payables	23,645	–	–	–	23,645
Total	92,380	95,537	100,753	73,497	362,167

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

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

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 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 statements 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>2016</u>			
Cross currency swaps	167	1,391	1,558
Interest rate swaps	–	65	65
Commodity derivative contracts	141	–	141
Total	308	1,456	1,764
<u>2015</u>			
Cross currency swaps	674	2,642	3,316
Interest rate swaps	–	186	186
Total	674	2,828	3,502

Financial guarantee contracts – For issued financial guarantee contracts the maximum earliest 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>2016</u>				
Financial guarantees in respect of the Plasma Programme (Note 33)	1,530	11,953	4,122	17,605
<u>2015</u>				
Financial guarantees in respect of the Plasma Programme (Note 33)	2,340	8,916	3,414	14,670

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

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

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 58 days (2015: 64 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 fair value of the financial guarantees is not significant.

Bank facilities:

	Group	
	2016	2015
	US\$'000	US\$'000
Undrawn borrowing facilities	101,513	85,288

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 which are both fixed rate and floating rate. 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	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
Financial liabilities with interest:				
Floating rate	283,811	252,483	–	–
Fixed rate	434	610	–	–
Total at end of year	284,245	253,093	–	–
Financial assets with interest:				
Floating rate	13,302	8,687	309	724
Fixed rate	13,505	12,365	–	–
Total at end of year	26,807	21,052	309	724

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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

35F. Interest rate risk (cont'd)

Sensitivity analysis:

	Group		Company	
	2016	2015	2016	2015
	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 loss for the year by	133	87	3	7
<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 loss for the year by	2,838	2,525	—	—

The analysis has been performed for fixed interest rate and floating interest rate over a year for financial instruments. The impact of a change in interest rates on fixed interest rate financial instruments has been assessed in terms of changing of their fair value. 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 net expenses. The hypothetical changes in basis points are not based on observable market data (unobservable inputs).

There is an adverse change in interest rates during the current reporting year mainly due to the adverse changes in variable rate borrowing instruments.

35G. Foreign currency risks

Analysis of amounts denominated in non-functional currency:

<u>Group</u>	US dollars	Total
	US\$'000	US\$'000
<u>2016</u>		
<u>Financial assets:</u>		
Cash and cash equivalents	909	909
Trade and other receivables	1,129	1,129
Total financial assets	2,038	2,038
<u>Financial liabilities:</u>		
Borrowings	(172,677)	(172,677)
Finance leases	(14)	(14)
Trade and other payables	(428)	(428)
Total financial liabilities	(173,119)	(173,119)
Net financial liabilities at the end of the year	(171,081)	(171,081)

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

35G. Foreign currency risks (cont'd)

	US dollars	Total
	US\$'000	US\$'000
<u>2015</u>		
<u>Financial assets:</u>		
Cash and cash equivalents	3,708	3,708
Trade and other receivables	467	467
Total financial assets	4,175	4,175
<u>Financial liabilities:</u>		
Borrowings	(108,917)	(108,917)
Finance leases	(194)	(194)
Trade and other payables	(3,755)	(3,755)
Total financial liabilities	(112,866)	(112,866)
Net financial liabilities at the end of the year	(108,691)	(108,691)
	US dollars	Total
	US\$'000	US\$'000
<u>Company</u>		
<u>2016</u>		
<u>Financial assets:</u>		
Cash and cash equivalents	196	196
Net financial assets at the end of the year	196	196
<u>2015</u>		
<u>Financial assets:</u>		
Cash and cash equivalents	605	605
Net financial assets at the end of the year	605	605

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

Sensitivity analysis:

	Group	
	2016	2015
	US\$'000	US\$'000

A hypothetical 10% strengthening in the exchange rate of the functional currency against the US\$ would have a favourable effect on pre-tax loss of

17,108	10,869
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Sensitivity analysis:

	Company	
	2016	2015
	US\$'000	US\$'000

A hypothetical 10% strengthening in the exchange rate of the functional currency against the US\$ would have an adverse effect on pre-tax loss of

(20)	(60)
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NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

35G. Foreign currency risks (cont'd)

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.

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 FRS 108 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.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

36. Financial information by segments (cont'd)

36A. Information about reportable segment profit or loss, assets and liabilities (cont'd)

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.

36B. Profit or loss from continuing operations and reconciliations

<u>Group 2016</u>	Plantation	Logistics & Bulking	Elimination	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Revenue by Segment:				
Revenue from external customers	137,379	1,202	–	138,581
Inter-segment sales	–	479	(479)	–
Total revenue	137,379	1,681	(479)	138,581
Results:				
Segment results	(3,192)	(1,831)	–	(5,023)
Other unallocated items				(1,058)
Share of results of joint ventures				173
Income tax expense				(3,002)
Loss, net of tax				(8,910)

<u>Group 2015</u>	Plantation	Logistics & Bulking	Elimination	Total
	US\$'000	US\$'000	US\$'000	US\$'000
	(Restated)			(Restated)
Revenue by Segment:				
Revenue from external customers	128,987	2,857	–	131,844
Inter-segment sales	–	525	(525)	–
Total revenue	128,987	3,382	(525)	131,844
Results:				
Segment results	(29,292)	(1,873)	–	(31,165)
Other unallocated items				(979)
Share of results of joint ventures				(2,117)
Income tax income				3,978
Loss, net of tax				(30,283)

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

36. Financial information by segments (cont'd)

36C. Assets and reconciliations

<u>Group 2016</u>	Plantation	Logistics & Bulking	Total
	US\$'000	US\$'000	US\$'000
Total assets for reportable segments	375,482	3,401	378,883
Cash and cash equivalents	13,154	148	13,302
Total group assets	388,636	3,549	392,185

<u>Group 2015</u>	Plantation	Logistics & Bulking	Total
	US\$'000	US\$'000	US\$'000
	(Restated)		(Restated)
Total assets for reportable segments	361,394	6,309	367,703
Cash and cash equivalents	8,628	59	8,687
Total group assets	370,022	6,368	376,390

36D. Liabilities and reconciliations

<u>Group 2016</u>	Plantation	Logistics & Bulking	Total
	US\$'000	US\$'000	US\$'000
Total liabilities for reportable segments	57,021	1,077	58,098
Current tax liabilities	3,262	29	3,291
Deferred tax liabilities	1,180	–	1,180
Finance leases			
Current	353	–	353
Non-current	81	–	81
Other financial liabilities			
Current	44,271	–	44,271
Non-current	241,304	–	241,304
Total group liabilities	347,472	1,106	348,578

<u>Group 2015</u>	Plantation	Logistics & Bulking	Total
	US\$'000	US\$'000	US\$'000
	(Restated)		(Restated)
Total liabilities for reportable segments	66,770	1,235	68,005
Current tax liabilities	1,855	12	1,867
Finance leases			
Current	422	–	422
Non-current	188	–	188
Other financial liabilities			
Current	48,791	929	49,720
Non-current	205,894	371	206,265
Total group liabilities	323,920	2,547	326,467

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

36. Financial information by segments (cont'd)

36E. Other material items and reconciliations

<u>Group 2016</u>	Plantation	Logistics & Bulking	Total
	US\$'000	US\$'000	US\$'000
Depreciation and amortisation expense	15,173	361	15,534
Foreign exchange loss, net	2,401	169	2,570
Gain on forward currency exchange contracts	(1,983)	–	(1,983)
Interest expense	19,198	71	19,269
Interest income	(2,970)	(1)	(2,971)
Loss on disposal of property, plant and equipment	29	11	40
Gain on fair value changes in biological assets and other receivables, net	(4,746)	–	(4,746)
Impairment of property, plant and equipment	–	848	848

<u>Group 2015</u>	Plantation	Logistics & Bulking	Total
	US\$'000	US\$'000	US\$'000
	(Restated)		(Restated)
Depreciation and amortisation expense	11,179	1,295	12,474
Foreign exchange loss, net	16,462	260	16,722
Loss on forward currency exchange contracts	2,013	–	2,013
Interest expense	16,479	175	16,654
Interest income	(2,980)	(1)	(2,981)
Loss on disposal of property, plant and equipment	16	–	16
Loss on fair value changes in biological assets and other receivables, net	6,151	–	6,151
Impairment of property, plant and equipment	172	–	172

36F. Geographical information

	Revenue		Non-current assets	
	2016	2015	2016	2015
	US\$'000	US\$'000	US\$'000	US\$'000
				(Restated)
Indonesia	98,399	101,348	288,193	286,194
Singapore	40,182	30,496	5,211	5,308
Total	138,581	131,844	293,404	291,502

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 2016

37. Changes and adoption of financial reporting standards

For the current reporting year new or revised Singapore Financial Reporting Standards and the related Interpretations to FRS ("INT FRS") 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 to financial statements presentations and measurement as disclosed in Note 39.

FRS No.	Title
FRS 1	Amendments to FRS 1: Disclosure Initiative
FRS 16 & 38	Amendments to FRS 16 and FRS 38: Clarification of Acceptable Methods Depreciation and Amortisation
FRS 16 & 41	Amendments to FRS 16 and FRS 41: Agriculture: Bearer Plants
FRS 110 & 28	Amendments to FRS 110 and FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
FRS 111	Amendments to FRS 111: Accounting for Acquisitions of Interests in Joint Operations

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

For the future reporting years new or revised Singapore Financial Reporting Standards and the related Interpretations to FRS ("INT FRS") 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 material adjustments to the financial position, results of operations, or cash flows for the following year except as disclosed below for the material adjustments from the known or reasonably estimable information relevant to assessing the possible impact that application of the new or revised FRSs will have on the entity's financial statements in the period of initial application.

FRS No.	Title	Effective date for periods beginning on or after
FRS 7	Amendments to FRS 7: Disclosure Initiative	1 Jan 2017
FRS 12	Amendments to FRS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1 Jan 2018
FRS 109	Financial Instruments	1 Jan 2018
FRS 115	Revenue from Contracts with Customers	1 Jan 2018
FRS 115	Amendments to FRS 115: Clarifications to FRS 115 Revenue from Contracts with Customers	1 Jan 2018
FRS 116	Leases	1 Jan 2019

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

Those Singapore Financial Reporting Standards that are expected to have a material impact are as follows:

FRS 109 Financial Instruments

FRS 109 Financial Instruments will replace FRS 39 effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

FRS 109 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 by reference to the business model within which they are held and their contractual cash flow characteristics. For financial liabilities, the most significant effect of FRS 109 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, FRS 109 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised. For hedge accounting, FRS 109 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures. The derecognition provisions are carried over almost unchanged from FRS 39.

The management anticipate that FRS 109 will be adopted in the financial statements when it becomes mandatory and that the application of the new standard might have a significant effect on amounts reported in respect of the financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Application of IFRS 1 First-time adoption of IFRS

Singapore-incorporated companies listed on the Singapore Exchange will be required to comply with new financial reporting standards (to be issued by the Singapore Accounting Standards Council) as identical to the International Financial Reporting Standards for reporting year beginning on after 1 January 2018. Comparative figures are required. The management anticipate that new financial reporting standards will be adopted in the financial statements when they become mandatory. The application of IFRS 1 First-time adoption of IFRS might have a significant effect on amounts reported in the financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

39. Changes in accounting policies and restatements of comparative figures

Effective from beginning of the current reporting year certain new or revised Financial Reporting Standards in Singapore were adopted as mentioned in Note 37. Adoption of these has resulted in some changes in the detailed application of the accounting policies and some modifications to financial statements presentation and these changes are summarised below.

FRS 41 has been amended. The amendments are effective from 1 January 2016 to be applied retrospectively. The new requirements include "bearer plants" within the scope of FRS 16. A bearer plant is defined as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. Accordingly, the amendments require bearer plants to be accounted for as property, plant and equipment and included within the scope of FRS 16, instead of FRS 41. The produce growing on bearer plants will remain within the scope of FRS 41. Under FRS 16 the bearer plant is accounted at cost less accumulated depreciation and impairment losses.

On initial adoption the group may elect to measure an item of bearer plants at its fair value at the beginning of the earliest period presented and use that fair value as its deemed cost at that date. However management has elected to account for the bearer plants at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses.

The amendments are applied retrospectively and this has resulted in changes in certain balances for prior periods presented. The impact of this change in accounting policy on the affected balances for 2015 is reconciled below:

	After restatement	Before restatement	Difference
	US\$'000	US\$'000	US\$'000
<u>2015 Consolidated Statement of Profit or Loss and Other Comprehensive Income:</u>			
Cost of sales	(113,834)	(109,420)	(4,414)
Gross profit	18,010	22,424	(4,414)
Fair value changes in biological assets and other receivables	(6,151)	5,614	(11,765)
Loss before tax from continuing operations	(34,261)	(18,082)	(16,179)
Income tax income	3,978	1,037	2,941
<u>Other comprehensive income:</u>			
Exchange differences on translating IDR functional currency to US\$ presentation currency, net of tax	(148)	(10,737)	10,589
Other comprehensive income/(loss) for the year, net of tax	404	(10,185)	10,589
Total comprehensive loss	(29,879)	(27,230)	(2,649)

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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

	After restatement	Before restatement	Difference
	US\$'000	US\$'000	US\$'000
2015 Consolidated statement of financial position:			
Biological assets, non-current / Bearer plants, non-current	155,856	288,424	(132,568)
Deferred tax assets	8,739	–	8,739
Biological assets, current	5,126	–	5,126
Deferred tax liabilities	–	23,121	(23,121)
2015 Statements of changes in equity:			
(Accumulated losses) / Retained earnings	(4,669)	123,245	(127,914)
Translation reserve	(41,753)	(74,085)	32,332

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>	<u>Cost in books of company</u>	
	2016	2015
	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 2016

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, Bulking

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(cont'd)*

31 December 2016

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 Alam Permai ("SAP") ^(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 RSM AAJ Associates, Jakarta.
- (c) Not audited as it is not material.

INFORMATION ON SHAREHOLDINGS

As at 16 March 2017

Issued and fully paid capital	:	SGD133,451,118
Number of shares	:	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	13	0.93	500	0.00
100 - 1,000	173	12.34	103,905	0.04
1,001 - 10,000	847	60.41	3,424,497	1.19
10,001 - 1,000,000	348	24.82	22,861,100	7.96
1,000,001 AND ABOVE	21	1.50	260,621,175	90.81
TOTAL	1,402	100.00	287,011,177	100.00

SHAREHOLDING HELD BY THE PUBLIC

Based on the information available to the Company as at 16 March 2017, approximately 21.83% 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 16 March 2017

TOP TWENTY 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	CITIBANK NOMINEES SINGAPORE PTE LTD	7,948,450	2.77
4	BNP PARIBAS NOMINEES SINGAPORE PTE LTD	4,736,130	1.65
5	MORPH INVESTMENTS LTD	3,850,000	1.34
6	RAFFLES NOMINEES (PTE) LIMITED	3,589,400	1.25
7	PHILLIP SECURITIES PTE LTD	3,296,950	1.15
8	RHB SECURITIES SINGAPORE PTE. LTD.	3,267,525	1.14
9	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	3,043,640	1.06
10	SUSANTO AMIN @ LIM HWA MIN	2,677,250	0.93
11	DBS NOMINEES (PRIVATE) LIMITED	2,640,000	0.92
12	SOEKARTO	2,169,380	0.76
13	OCBC SECURITIES PRIVATE LIMITED	2,078,600	0.72
14	HENRY MAKNAWI	1,774,970	0.62
15	HSBC (SINGAPORE) NOMINEES PTE LTD	1,630,850	0.57
16	DICKY PERMANA	1,596,090	0.56
17	WONG SHAW SENG REGI	1,482,000	0.52
18	SOEPRAPTO KASNAWI ABDUL LATIF	1,436,480	0.50
19	KGI SECURITIES (SINGAPORE) PTE LTD	1,242,500	0.43
20	ARIFIN @ LIE TJONG TJIN @ LIE CHANG CHIN	1,175,000	0.41
TOTAL		259,592,675	90.45

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN That the 2017 Annual General Meeting of the Company will be held at Hotel Fort Canning, 11 Canning Walk, Singapore 178881, Legends 1 on 25 April 2017 at 2:30 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 2016 together with the Auditors' Report thereon. **Resolution 1**
2. To record the retirement of Mr Kent Surya, a Director retiring in pursuant to Article 91 of the Company's Constitution, who, although eligible, is not offering himself for re-election.
3. To re-elect the following director retiring pursuant to the Company's Constitution: **Resolution 2**

Tengku Alwin Aziz (Article 91)

Tengku Alwin Aziz shall, upon re-election as Director of the Company, remain as Chairman of the Nominating Committee, a member of the Audit & Risk Management Committee and a member of the Remuneration Committee. Tengku Alwin Aziz shall be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.
4. To re-elect the following director retiring pursuant to the Company's Constitution: **Resolution 3**

Mr Soh Yew Hock (Article 91)

Mr Soh Yew Hock shall, upon re-election as Director of the Company, remain as Chairman of the Audit & Risk Management Committee, a member of the Nominating Committee and a member of the Remuneration Committee. Mr Soh Yew Hock shall be considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.
5. To approve the Directors' fees of SGD207,900 for the year ended 31 December 2016. **Resolution 4**
6. 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:

7. **Proposed Share Issue Mandate** **Resolution 6**
"That pursuant to Section 161 of the Companies Act, Cap. 50. and Rule 806 of the Listing Manual 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) 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) 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) shall be based on the total number of issued shares (excluding treasury shares) 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 Manual 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)

8. **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 7 April 2017 (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 Manual which may be prescribed by Singapore Exchange Securities Trading Limited 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."

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

NOTICE OF ANNUAL GENERAL MEETING *(cont'd)*

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) 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: 7 April 2017

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)

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

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the 2017 Annual General Meeting of the Company to be held at Hotel Fort Canning, 11 Canning Walk, Singapore 178881, Legends 1 on 25 April 2017 at 2:30 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 2016		
2	Re-election of Tengku Alwin Aziz as Director		
3	Re-election of Mr Soh Yew Hock as Director		
4	Approval of Directors' fees for the year ended 31 December 2016		
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 _____ 2017

Signature(s) of member(s) or common seal

Total number of Shares held

IMPORTANT: PLEASE READ NOTES OVERLEAF

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 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 later 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 7 April 2017.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Henry Maknawi
Chairman and CEO

Tengku Alwin Aziz
Vice Chairman and
Independent Director

Ms. Ratna Maknawi
Deputy CEO

Mr. Kent Surya
Finance Director

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: Mr. Kaka Singh

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 Negara Indonesia (Persero) Tbk
PT Bank Mandiri (Persero) Tbk
PT Bank OCBC NISP Tbk



KENCANA AGRI LIMITED
Registration No. 200717793E

www.kencanaagri.com

SINGAPORE

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Indonesia