



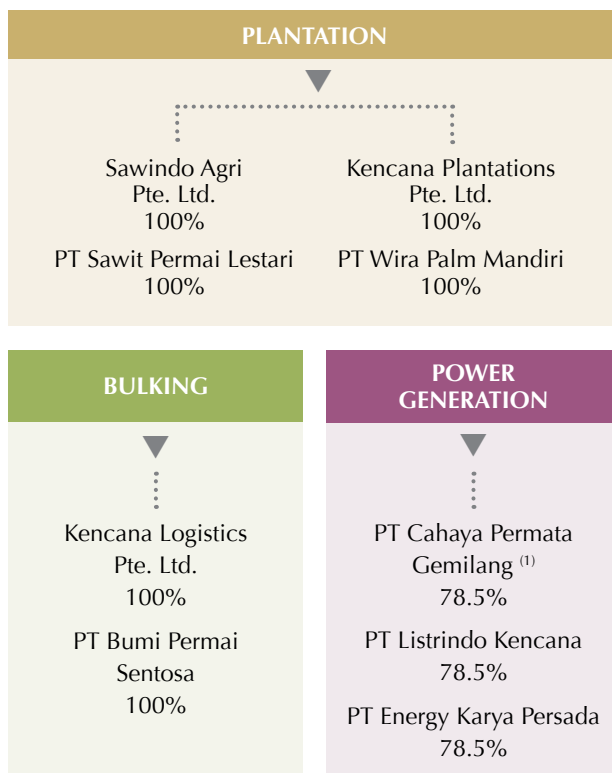
KENCANA AGRI LIMITED
ANNUAL REPORT 2019

Corporate Structure



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⁽¹⁾ On 12 December 2019, the Company and its wholly owned subsidiary, PT Sawindo Kencana, entered into a Conditional Share Sale and Purchase Agreement with a related party, PT Kencana Energi Lestari Tbk. for the sale and purchase of 78.5% of the issued and paid-up share capital of PT Cahaya Permata Gemilang.

Corporate Profile



OUR VISION

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

OUR MISSION

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

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

Kencana’s oil palm plantations are located mainly in Sumatra, Kalimantan and Sulawesi regions of Indonesia. Since its inception in 1996, the Group’s planted area has grown to about 67,722 ha in 2019 including plasma. The Group currently has six palm oil mills with total processing capacity of 305 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.

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. Furthermore we commit and strive to adopt sustainable agricultural practices through certification with Indonesian Sustainable Palm Oil (“ISPO”) as required by the Indonesian government.

It also sells “green” electricity to the state-owned electricity company PT Perusahaan Listrik Negara (“PLN”) from its renewable biomass power plants in Bangka island.

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

Business And Operations

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

PLANTATION

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

PLANTATION

Total Planted Area	: 67,722 ha
• Nucleus	: 51,586 ha
• Plasma	: 16,136 ha

PROCESSING

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

PALM OIL MILLS

No. of Mills	: 6
Processing Capacity	: 305 MT/hour

KERNEL CRUSHING PLANTS

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

PRODUCTS

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

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

MAIN PRODUCTS

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

RENEWABLE BY-PRODUCTS

Empty Fruit Bunches, Liquid Waste, Kernel Shells, Fibre

SUPPORTING BUSINESS

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

The "green" electricity generated by our renewable biomass power plants in Bangka 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.

BIOMASS POWER PLANTS

1st Plant (2005)	
Location	: Bangka
Capacity	: 6.0 MW
2nd Plant (2009)	
Location	: Belitung
Capacity	: 7.5 MW
3rd Plant (2018)	
Location	: Bangka
Capacity	: 6.0 MW

On 12 December 2019, the Company and its wholly owned subsidiary, PT Sawindo Kencana, entered into a Conditional Share Sale and Purchase Agreement with a related party, PT Kencana Energi Lestari Tbk. for the sale and purchase of 78.5% of the issued and paid-up share capital of PT Cahaya Permata Gemilang.



GROWTH **EXCELLENCE** **INTEGRITY**



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







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 2019 ("FY2019").

PERFORMANCE

In the year 2019 production was affected by dry weather in the region. Although production picked up slightly in 4Q2019, the overall production of FFB for the year of 701,169MT was 10% below last year's record production of 782,758MT. The Group's revenue decreased by 17% from US\$125.0 million in 2018 to US\$104.1 million in 2019 due to weak CPO prices for most of the year until mid-November when it started to rise sharply due to low supply and higher demand resulting from the biodiesel mandates. The Group recorded an Operating Profit ("OP") of US\$15.9 million and a Net Loss for the Year of US\$12.8 million in 2019. The Net Loss for the Year in 2019 was mainly due to lower ASP, impairment of receivables, share of loss from equity accounted joint venture and write off of deferred tax assets offset by fair value gain in biological assets and foreign exchange gain as a result of the IDR strengthening against the USD. We are also pleased to inform that our 6th mill in Central Sulawesi is already in operation.

SUSTAINABILITY

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

We recognize that while economic performance is a key driver of business sustainability, other drivers such as environmental, social and governance (ESG) factors also impact business value. Our 3rd Sustainability Report was published in May 2019 and it is available on our website. In the report, you will find our commitment towards no deforestation of high carbon stock areas and the preservation of high conservation value areas, no burning and no new planting on peat of any depth as well as no exploitation of human rights. It represents our commitment to go beyond what is required and to progress to a more sustainable palm oil business by balancing our business targets with social and environmental consciousness.

PROSPECTS AND OUTLOOK

With new mature area coming on stream, we expect production to increase steadily over the next few years. Prices of CPO started 2020 on a positive note trending upwards until it was halted by the effects of the Covid-19 pandemic and the steep decline in crude oil prices. Based on the experience we have with SARS, CPO demand can be expected to fall in the coming months but the full impact of the pandemic remains to be seen. Over the long run however, we are confident that the prospects for palm oil remain positive due to long term population growth leading to increase in consumption as well as the limited supply of arable land. The bio-diesel mandate in Indonesia will also provide support for the demand of palm oil as the country pushes towards self-sufficiency for fuel.

DIVIDEND

In view of the loss for the year, the Board is not recommending any dividend to be paid for this financial year. We sincerely appreciate your kind understanding and support to achieve our long term goals.

APPRECIATION

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

HENRY MAKNAWI

Executive Chairman

“ Over the long run, we are confident that the prospects for palm oil remain positive due to long term population growth leading to increase in consumption as well as the limited supply of arable land. ”



Financial And Operational Highlights

FINANCIAL HIGHLIGHTS

SUMMARY OF RESULTS FOR FY2019

US\$'000	FY2019	FY2018	% Change
Revenue	104,065	124,981	-16.7%
Gross profit	22,345	24,345	-8.2%
Operating profit	15,948	6,922	+130.4%
EBITDA	23,888	11,314	+111.1%
Gain/(Loss) before tax from continuing operations	1,404	(24,380)	n/m
Discontinued operations	(2,435)	(2,694)	-9.6%
Net loss after tax	(12,821)	(23,848)	-46.2%

The Group's revenue decreased by 17% from US\$125.0 million in 2018 to US\$104.1 million in 2019. The decrease was mainly due to lower Average Selling Price ("ASP") of Crude Palm Oil ("CPO") and lower sales volume. ASP of CPO decreased 10% from US\$498 in 2018 to US\$450 in 2019 and sales volume of CPO decreased by approximately 3% from 208,386 MT in 2018 to 201,526 MT in 2019.

The Group recorded an Operating Profit ("OP") of US\$15.9 million and a Net Loss for the Year of US\$12.8 million in 2019. The Net Loss for the Year in 2019 was mainly due to lower ASP, impairment of receivables, share of loss from equity accounted joint venture and write off of deferred tax assets offset by fair value gain in biological assets and foreign exchange gain as a result of the IDR strengthening against the USD.

BALANCE SHEET

US\$'000	As at 31 Dec 2019	As at 31 Dec 2018	As at 31 Dec 2017
Current assets	93,351	69,215	78,310
Non-current assets	265,145	288,114	312,955
Total assets	358,496	357,329	391,265
Current liabilities	147,761	132,337	97,413
Non-current liabilities	200,879	202,848	245,282
Total liabilities	348,640	335,185	342,695
Shareholders' equity	9,856	22,144	48,570
Net debt/Equity ratio (x)	24.0	11.5	5.6
Net debt/Total assets (x)	0.7	0.7	0.7
Net debt/EBITDA (x)	9.9	22.5	6.9
EBITDA/Interest expense (x)	1.2	0.6	1.9

Total assets increased by 0.3% from US\$357.3 million as at 31 December 2018 to US\$358.5 million as at 31 December 2019 mainly as a result of:

CURRENT ASSETS:

- increase in biological assets amounting to US\$9.6 million due to higher forecasted FFB selling price;
- long-term receivables from equity accounted joint venture and investment property amounting to US\$4.1 million and US\$2.3 million respectively reclassified to assets held for sale; and
- increase in trade and other receivables amounting to US\$4.9 million mainly due to transfer of bearer plants to plasma.

NON-CURRENT ASSETS:

- decrease in other receivables amounting to US\$6.4 million mainly due to the impairment of receivables from equity accounted joint venture and the reclassification to assets held for sale;
- decrease in deferred tax assets amounting to US\$5.2 million mainly due to write off of deferred tax assets;
- decrease in bearer plants of US\$6.2 million mainly due to depreciation and transfer of bearer plants to plasma; and
- decrease in property, plant and equipment of US\$3.0 million mainly due to depreciation.

Total liabilities increased by 4.0% from US\$335.2 million as at 31 December 2018 to US\$348.6 million as at 31 December 2019, largely due to:

CURRENT LIABILITIES

- increase in trade and other payables amounting to US\$20.7 million due to longer repayment cycle to suppliers and increase in advances from customers;
- increase in income tax payables of US\$2.9 million due to additional tax payable recognised in relation to subsidiaries making profit for the year; and
- decrease in other financial liabilities of US\$8.2 million due to decrease in current portion of long - term borrowings as a result of refinancing activities.

NON-CURRENT LIABILITIES

Total non-current liabilities remained fairly stable between 31 December 2018 and 31 December 2019.

Shareholders' equity decreased from US\$22.1 million as at 31 December 2018 to US\$9.9 million as at 31 December 2019 mainly due to loss for the year of US\$12.8 million.

Net asset value per share for the Group decreased from 7.72 US cents as at 31 December 2018 to 3.43 US cents as at 31 December 2019.

CASH FLOW

The closing cash and cash equivalents (net of bank overdrafts and cash pledged) of the Group increased by US\$4.5 million from US\$7.5 million as at 31 December 2018 to US\$12.0 million as at 31 December 2019. The increase was due to net cash inflow from operating activities offset by net cash outflow from investing and financing activities.

US\$'000	FY 2019	FY 2018	FY2017
Cash at the beginning of year	7,466	16,692	12,157
Net cash from operating activities	44,517	36,265	13,069
Net cash (used in)/from investing activities	(2,390)	(10,213)	10,868
Net cash used in financing activities	(38,265)	(34,158)	(19,292)
Net increase/(decrease) in cash	3,862	(8,106)	4,645
Net effect of exchange rate changes on cash and cash equivalents	700	(1,120)	(110)
Cash at end of year	12,028	7,466	16,692

REVIEW OF OPERATIONAL PERFORMANCE

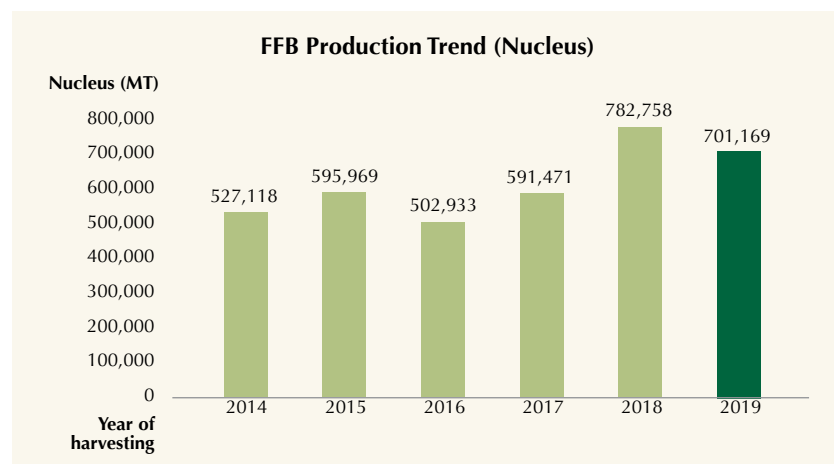
YOUNG PROFILE OF OIL PALMS DRIVES THE POTENTIAL FOR STRONG FFB PRODUCTION GROWTH

Kencana's growth potential is not fully realised yet because 37% of its nucleus oil palms are in the immature and young mature stage. This shows that Kencana's current profitability is derived mostly from 63% production of its prime mature oil palms.

Age Profile	Immature	%	Young Mature	%	Prime Mature	%	Total	%
Nucleus	4,608	9	14,258	28	32,720	63	51,586	100
Plasma	2,632	16	3,076	19	10,428	65	16,136	100
Total	7,240	11	17,334	25	43,148	64	67,722	100

DECREASE IN PRODUCTION VOLUME

The group's production of Nucleus FFB has decreased from 782,758 MT in FY2018 to 701,169 MT in FY2019 due to dry weather in the regional.



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

Financial And Operational Highlights

	2019	2018	2017
PLANTED AREA (HA)	67,722	67,612	68,483
Nucleus	51,586 76%	53,301 79%	54,188 79%
Plasma	16,136 24%	14,311 21%	14,295 21%
PLANTED PROFILE (HA)			
Nucleus	51,586	53,301	54,188
1 - 3 years (Immature)	4,608 9%	6,495 12%	11,465 21%
4 - 6 years (Young mature)	14,258 28%	19,032 36%	17,045 32%
7 - 20 years (Prime mature)	32,720 63%	27,774 52%	25,678 47%
Plasma	16,136	14,311	14,295
1 - 3 years (Immature)	2,632 16%	1,173 8%	1,398 10%
4 - 6 years (Young mature)	3,076 19%	3,616 25%	5,043 35%
7 - 20 years (Prime mature)	10,428 65%	9,522 67%	7,854 55%
PRODUCTION VOLUME (MT)			
FFB Production	885,624	992,722	758,893
Nucleus	701,169 79%	782,758 79%	591,471 78%
Plasma	184,455 21%	209,964 21%	167,422 22%
FFB Processed	896,729	979,115	723,966
Oil Production			
CPO	187,899	197,149	147,716
CPKO	-	-	3,721
AVERAGE FFB YIELD (MT/HA)			
Nucleus	14.9	16.7	13.8
Plasma	13.7	16.0	13.0
OIL EXTRACTION RATES			
CPO	21.0%	20.1%	20.4%
CPKO	-	-	43.3%
SALES VOLUME (MT)			
CPO	201,526	208,386	198,565
CPKO	-	-	5,185
AVERAGE SELLING PRICE (US\$/MT)			
CPO	450	498	623
CPKO	-	-	1,155

Key Milestones 1995-2019



2012 - 2019

- Built sixth palm oil mill in Central Sulawesi, commenced operations in April 2019
- Completed the sale of joint venture with Louis Dreyfus Company in May 2017
- PT. Sawindo Kencana and PT. Alamraya Kencana Mas received International Sustainability and Carbon Certification (ISCC), allowing our CPO to be used as feedstock in biodiesel production
- PT. Sawindo Kencana, PT. Alamraya Kencana Mas and PT. Sawit Kaltim Lestari received Indonesian Sustainable Palm Oil (ISPO) Certification
- PT. Sawindo Kencana was awarded the Padmamitra Award for Corporate Social Responsibility in December 2016 by the Ministry of Social Affairs (Kementrian Sosial Republik Indonesia)
- Issued first sustainability report in August 2016
- Completed construction of fifth palm oil mill in East Kalimantan; commenced operations in October 2015
- Commenced joint venture operations for bio-energy (JV with Enco) in FY2014
- Acquired 23,000 ha of landbank in Sulawesi region

2009 - 2011

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

2008

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

2004 - 2007

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

1995 - 2003

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

Sustainability And Corporate Responsibility



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

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

ENVIRONMENTAL MANAGEMENT

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

Our Environmental Management sustainable commitments are as follows:

- No deforestation of high carbon stock (“HCS”) forest areas and no further land clearing of potential HCS areas until the results of the proposed HCS study are adopted.
- No deforestation of high conservation value (“HCV”) areas.
- Apply a zero burning policy in respect of new planting and replanting.
- Refrain from undertaking new development on peat land of any depth.
- Endeavour to align ourselves with the industry practices and standards generally adopted by the market in relation to sustainable palm oil production.





COMMUNITY DEVELOPMENT AND SOCIAL IMPACT

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

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

Our Community Development and Social Impact sustainable commitment as follows:

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

HUMAN RIGHTS AND WORKPLACE

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

Our Human Rights and Workplace sustainable commitment as follows:

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

Board Of Directors



MR HENRY MAKNAWI, 65
Executive Chairman

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

TENGGU ALWIN AZIZ, 77
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, 50
Executive Vice-Chairman

Ms Ratna Maknawi was appointed as the Group's Executive Vice-Chairman on 1 January 2018. Prior to this, she served as Deputy CEO, managing the Group's overall business operations and development from 2008 until end of 2017. She started as Finance Manager in 1993 and had played pivotal senior management roles in the growth and development of the Group's diverse businesses before advancing to her present position. Ms Ratna Maknawi graduated cum laude from the University of Wisconsin-Whitewater, USA with a Bachelor of Business Administration (Accounting major).



MR SOH YEW HOCK, 76
Lead Independent Director

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



MR SIM IDRUS MUNANDAR, 66
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. He is also a member of the board of commissioners and a member of the audit committee of PT Kencana Energi Lestari, Tbk., a public listed company in Indonesia engaged in the renewable energy business. 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, 38
Non-Executive and
Non-Independent Director

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

Key Management Team



MR ALBERT MAKNAWI
Chief Executive Officer

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



MR TONNY HERMAWAN
Chief Operating Officer

Mr. Tonny Hermawan joined our Group in July 2019 as Chief Operating Officer, and is responsible for the Group's operations both in mills and estates. His career started in Federal Motor (now PT. Astra Honda Motor), and it was a career that spans from 1982 to 2000. His last position in PT. Federal Motor was as Production Director. In the year 2000 he would then move to PT Astra Agro Lestari Tbk and worked there until 2011. He was appointed as Operating Director and later on as Vice President Director, before stepping down, nonetheless still continued to act as an Advisor until 2012. He was also an Advisor for Amara Group oil palm plantation (2011 – 2016) and CT Agro Group (2011 – 2017). He is also currently the Independent Commissioner for PT Kirana Megatara Tbk since 2017. Mr Tonny Hermawan graduated from Institut Teknologi Bandung University with a Bachelor of Mechanical Engineering in 1982.



MR PHILLIP LIM
Financial Controller

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

Corporate Governance Report

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

This report describes the Group's corporate governance structures and practices that were in place throughout the financial year ended 31 December 2019, with specific reference made to the principles of the revised Code of Corporate Governance 2018 (the "Code") issued in August 2018 which is effective from financial year commencing from 1 January 2019.

The Board is pleased to confirm that for the financial year ended 31 December 2019, the Group has adhered to the principles and provisions as set out in the Code. In so far as any provision has not been complied with, the reason has been provided.

BOARD MATTERS

The Board's Conduct of Affairs

Principle 1: The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.

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) provide entrepreneurial leadership, and set strategic objectives, plans, policies and financial objectives of the Group and monitoring the performance of Management;
- b) ensure that the necessary resources are in place for the Company to meet its strategic objectives;
- c) establish and maintain a sound risk management framework to effectively monitor and manage risks, and to achieve an appropriate balance between risks and company performance;
- d) approve nominations and appointments of Board directors, committee members and key personnel;
- e) review and approve annual budgets, investments, capital expenditures, major acquisitions and divestments;
- f) instil an ethical corporate culture and ensure that the Company's values, standards, policies and practices are consistent with the culture;
- g) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation and ensure transparency and accountability to key stakeholder groups; and
- h) assume responsibility for corporate governance.

The Board exercises objective judgement independently from Management on corporate affairs of the Group and no individual or small group of individuals dominate the decisions of the Board. All Directors are expected to exercise due diligence and independent judgement in dealing with the business affairs of the Group and are obliged to act in good faith and to take objective decisions in the interests of the Group. Each Director is required to promptly disclose any conflict or potential conflict of interest, whether direct or indirect, in relation to a transaction or proposed transaction with the Group as soon as it is practicable after the relevant facts have come to his/her knowledge. In the event that any Director faces a conflict of interest, he/she will recuse himself from any discussion and decision involving the issue of conflict.

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

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

Corporate Governance Report (cont'd)

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

For FY2019, 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.

The Group has adopted internal guidelines governing matters that require the Board's approval.

The matters requiring the Board's approval include:

- Annual Budgets/Forecasts;
- Announcement of half-year and full year results, and release of annual report;
- Issuance of shares and dividend payout;
- 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.

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. The composition of each Board Committee, the key terms of reference and a summary of each Board Committee's activities can be found in this report.

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.

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. Board papers for Board meetings were sent to the Board in advance in order for the directors to be adequately prepared for meetings, including all relevant documents, materials, background or explanatory information relating to the matters to be brought before the Board. The Board meets at least three 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)

The attendances of the Directors at meetings of the Board, Board Committees and Annual General Meeting, as well as the frequency of such meetings held during the financial year ended 31 December 2019 are as follows:

	Board	Audit & Risk Management Committee	Nominating Committee	Remuneration Committee	Annual General Meeting
No. of meetings held	5	5	1	1	1
No. of meetings attended by the Directors					
Henry Maknawi	5	N.A.	1	N.A.	1
Ratna Maknawi	5	N.A.	N.A.	N.A.	1
Tengku Alwin Aziz	5	5	1	1	0
Soh Yew Hock	5	5	1	1	1
Sim Idrus Munandar	5	5	N.A.	N.A.	1
Darwin Indigo	5	N.A.	N.A.	N.A.	1

If a Director is unable to attend a Board or Board Committee meeting, he/she will still receive all the papers and materials for discussion at that meeting. He/She will review them and advise the Chairman of the Board or the Board Committee of his/her views and comments on the matters to be discussed so that they can be conveyed to other members at the meeting.

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

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.

Corporate Governance Report (cont'd)

Board Composition and Guidance

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

The Company endeavours to maintain a strong and independent element on the Board. As at the date of this report, the Board consists of six directors, of whom four are non-executive directors. Accordingly, the Company is in compliance with the requirement of the Code where non-executive directors make up a majority of the Board. The Board comprises the following members:

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

Mr Soh Yew Hock, Tengku Alwin Aziz and Mr Sim Idrus Munandar are considered to be independent as they have no relationship with the Company, its related corporations, substantial shareholders or its officers that could interfere or be reasonably perceived to interfere with the exercise of their independent business judgement with a view to the best interests of the Company.

Even though the Chairman is not independent, 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 a majority of the Board at present.

The Board is of the view that there is a sufficiently strong independent element and safeguards in place to enable independent exercise of objective judgement on affairs and operations of the Group by members of the Board. All major proposals and decisions are discussed and reviewed by the Board. The Chairman and CEO's performance and appointment to the Board are reviewed by the NC and their remuneration packages are reviewed by the RC. The ARC and RC consist of all independent directors while 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.

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

The Board recognizes that a diverse Board is an important element which will better support the Company's achievement of its strategic objectives for sustainable development by enhancing the decision-making process of the Board through the perspectives derived from the various skills, knowledge, business experience, industry discipline, gender and age.

When reviewing and assessing the composition of the Board and making recommendations to the Board for the appointment of Directors, the NC will consider all aspects of diversity in order to arrive at an optimum balanced composition of the Board.

In this regard, the NC will try to ensure that: (a) if external search consultants are used to search for candidates for Board appointments, the brief will include a requirement to also present female candidates; (b) when seeking to identify a new Director for appointment to the Board, the NC will request for female candidates to be fielded for consideration; and (c) female representation on the Board be continually improved over time based on the set objectives of the Board. The final decision on selection of Directors will be based on merit against an objective criterion that complements and expands the skills and experience of the Board as a whole, and after having given due regard to the overall balance and effectiveness of a diverse Board.

Corporate Governance Report (cont'd)

The Board currently comprises business leaders and professionals with financial (including accounting and tax), risk management and business management qualifications and backgrounds. The Board has one female member, and Directors with ages ranging from late 30s to more than 70 years old, who have served on the Board for different tenures. The members of the Board with their combined business, management and professional experience, knowledge and expertise, provide the core competencies to allow for diverse and objective perspectives on the Group's business and direction. Further information on the individual Directors' background, experience and skills can be found in the 'Board of Directors' section in the AR. Having considered the scope and nature of the operations of the Group, the Board is satisfied that the current composition mix and size of the Board provide for diversity and allow for informed and constructive discussion and effective decision making at meetings of the Board and Committees. The Board will however continue to review opportunities to refresh the Board with a view to expanding the skills, experience and diversity of the Board as a whole.

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. The Independent Directors meet on a need-to basis amongst themselves and with the Company's external auditors and internal auditors without the presence of Management to discuss matters such as the Group's financial performance, corporate governance and risk management initiatives, board processes and any audit observations. The outcome or suggestion arising from such meetings will be provided to the Board and/or Chairman as appropriate.

Chairman and Chief Executive Officer

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

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

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

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

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

The overall role of the Chairman, Mr Henry Maknawi, is to lead and ensure the effectiveness of the Board and this includes promoting a culture of openness and debate at the Board, facilitating the effective contribution of all directors and promoting high standards of corporate governance.

The Chairman's duties and responsibilities include:-

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

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

Corporate Governance Report (cont'd)

The Board has appointed Mr Soh Yew Hock as the Lead Independent Director to coordinate and lead the independent directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. He is the principal liaison on board issues between the Independent Directors and the Chairman. He is available to shareholders where they have concerns which contact through the normal channels of the Chairman and Chief Executive Officer has failed to satisfactorily resolve or is considered inappropriate.

Board Membership

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

The NC is established and it comprises 3 members, the majority of whom, including the Chairman, are independent non-executive directors. The Lead Independent Director, Mr Soh Yew Hock, is a member of the NC.

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. Some of the duties of the NC include:

- (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 judgement, relevance to the Company and the industry and appropriate personal qualities;
- (b) To review and make recommendation to the Board on the succession plans for directors, in particular the appointment and/or replacement of the Chairman, the CEO and key management personnel;
- (c) 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;
- (d) To determine annually whether or not a director is independent;
- (e) To make recommendation to the Board on the process and criteria for evaluation of the performance of the Board, its board committees and directors; and
- (f) To review and make recommendation to the Board on the training and professional development programmes for the Board and its directors.

A summary of the NC's activities during FY2019 is shown below:

- i) Reviewed the Board's performance for FY2019 on a collective basis
- ii) Reviewed and recommended to the Board the re-election of Tengku Alwin Aziz and Mr Soh Yew Hock as directors
- iii) Annual review of the independence of the independent directors

The NC regards succession planning as an important part of corporate governance and has an internal process of succession planning for directors, the Chairman, the Chief Executive Officer and key management personnel to ensure the progressive and orderly renewal of Board membership and management team.

Process for selection and appointment of new directors

The NC is responsible for identifying candidates and reviewing all nominations for the appointment of new directors.

Where an existing director chooses to retire or the need for a new director arises, either to replace a retiring director or to enhance the Board's strength, the NC, in consultation with the Board, evaluates and determines the selection criteria so as to identify candidates with the appropriate expertise and experience for the appointment as a new director. The selection criterion includes age, gender, qualification, skills, calibre, industry experience and financial literacy. The NC seeks potential candidates widely and beyond director/management recommendations and is empowered to engage external parties, such as professional search firms, to undertake research on or assessment of candidates as it deems necessary.

The NC then meets with the shortlisted potential candidates with the appropriate profile to assess suitability and to ensure that the candidates are aware of the expectation and the level of commitment required, before nominating the most suitable candidate to the Board for approval and appointment as director.

Corporate Governance Report (cont'd)

Process for re-appointment of directors

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"). In addition, the Company shall require all directors (including the Managing Director) to submit themselves for re-nomination and re-election 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.

On an annual basis, the NC determines whether or not a director is independent, taking into account the Code definition of an "independent" director and guidance on relationships, the existence of which could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in the interest of the Group.

Each independent director is required to complete a Director's Independence Form to confirm his independence annually to confirm his independence based on the guidelines as set out in the Code. For FY2019, the NC carried out a review on the independence of each independent director based on the foregoing considerations, the respective Director's Independence Form and their actual performance on the Board and Board Committees. Having carried out their review, the NC is satisfied that the three Directors, who are non-executive, are independent.

The Board recognises that the Independent Directors may over time develop significant insights in the Group's businesses and operations, and can continue to provide noteworthy and valuable contribution to the Board. The independence of the Independent Directors must be based on the substance of their professionalism, integrity, objectivity and not merely based on the number of years which they have served on the Board. As such, the Board has not set a term of office for each of its independent directors so as to be able to retain the services of the directors as necessary.

As at the end of FY2019, Mr Soh Yew Hock, Tengku Alwin Aziz and Mr Sim Idrus Munandar have served on the Board for more than nine years from the date of their first appointment. The Board has subjected their independence to a rigorous review before extending their tenure as directors. After due consideration and with the concurrence of the NC, the Board is of the view that Mr Soh Yew Hock, Tengku Alwin Aziz and Mr Sim Idrus Munandar have demonstrated strong independence of character and judgement over the years in discharging their duties and responsibilities as the Independent Directors of the Company with the utmost commitment in upholding the interests of the shareholders. Mr Soh Yew Hock, Tengku Alwin Aziz and Mr Sim Idrus Munandar do not represent any substantial shareholder of the Company and they are not accustomed or under an obligation whether formal or informal, to act in accordance with the directions, instructions or wishes of any shareholder. They have always been objective, frank and candid in expressing their opinions during meetings. They would raise queries, objectively debate and scrutinise issues in meeting discussion. They will also seek clarification as they deemed necessary, including direct access to the Management. In addition, Mr Soh Yew Hock, Tengku Alwin Aziz and Mr Sim Idrus Munandar had declared their independence and confirmed that they had no relationships with the Company or any of its related corporation which would affect or interfere with the exercise of their judgement.

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

The NC ensures that new directors are aware of their duties and obligations. For re-nomination and re-appointment of directors, the NC takes into consideration the competing time commitments faced by directors and their ability to devote appropriate time and attention to the Company. Based on the directors' commitments and contributions to the Company, which are also evident in their level of attendance and participation at Board and Board Committees meetings, the NC and the Board are satisfied that all directors are able to adequately carry out their duties as directors of the Company in FY2019.

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 Director	Appointment	Date of Initial Appointment	Date of Last Re-election	Present Directorship in other Listed Companies	Previous Directorship in other Listed Companies (FY2017 to FY2019)
Henry Maknawi	Executive	30 May 2008	27 April 2018	PT Kencana Energi Lestari Tbk	-
Ratna Maknawi	Executive	26 September 2007	29 April 2019	-	-
Tengku Alwin Aziz	Independent and Non-Executive	30 May 2008	25 April 2017	-	-
Soh Yew Hock	Independent and Non-Executive	30 May 2008	25 April 2017	-	Japan Residential Assets Manager Limited (Manager of Saizen REIT)
Sim Idrus Munandar	Independent and Non-Executive	30 September 2010	27 April 2018	Samko Timber Limited PT Kencana Energi Lestari Tbk	-
Darwin Indigo	Non-Executive	26 April 2013	29 April 2019	-	-

Board Performance

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

The Board, through the NC, has used its best effort to ensure that directors appointed to the Board and the Board Committees, whether individually or collectively, possess the background, experience, knowledge in the business, competencies in finance and management skills critical to the Group's business. It has also ensured that each director, with his special contributions, brings to the Board an independent and objective perspective to enable sound, balanced and well-considered decisions to be made.

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, board processes, corporate strategy and planning, board performance and risk management and internal control etc.

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 on the board procedures and processes and the changes which should be made to enhance the effectiveness of the Board. The responses are reviewed by the NC and discussed with Board members for determining areas of improvement.

Corporate Governance Report (cont'd)

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

The Board has not engaged any external facilitator in conducting the assessment of the Board's performance. Where relevant, the NC will consider such engagement.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6: The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her 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 and key management personnel. 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.

The RC has adopted written terms of reference that defines its membership, roles and functions and administration. The duties of the RC are as follows:

- (a) To review and recommend to the Board, in consultation with senior management, a framework of remuneration for the Executive Directors, the CEO and key management personnel;
- (b) To review the remuneration packages of all managerial staff who are related to any director, CEO and/or substantial shareholder of the Company; 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.

A summary of the RC's activities during FY2019 is shown below:

- i) Reviewed and recommended to the Board the annual remuneration (including variable bonus to be granted) of the Executive Directors, the CEO and the key management personnel
- ii) Reviewed the remuneration of an employee who is an immediate family member of a Director, the CEO or a substantial shareholder and whose remuneration exceeded S\$100,000 for the financial year ended 31 December 2019
- iii) Reviewed and recommended to the Board the directors' fee for the financial year ended 31 December 2019
- iv) Reviewed and considered the need to engage an independent remuneration consultant

The RC considers all aspects of remuneration (including directors' fees, salaries, allowances, bonuses, benefits in kind and termination payments) and will aim to be fair and avoid rewarding poor performance. The RC also review the Company's obligations arising in the event of termination of the executive directors, the CEO and key management personnel's contracts of service, to ensure that such contract of service contain fair and reasonable termination clauses.

The RC, has explicit authority within its terms of reference to seek appropriate expert advice in the field of executive compensation outside the Company on remuneration matters where necessary. There being no specific necessity, the RC did not seek the service of an external remuneration consultant in FY2019.

Corporate Governance Report (cont'd)

Level and Mix of Remuneration

Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

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

The remuneration framework of the Executive Directors, CEO 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. This is designed to align remuneration with the interests of shareholders and link rewards to corporate and individual performance so as to promote the long-term sustainability of the Group.

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

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

The Company had entered into separate Service Agreements with the two Executive Directors, namely, Mr Henry Maknawi and Ms Ratna Maknawi for an initial term of three years commencing from the Listing Date, which will continue thereafter. The service agreements may be terminated by not less than six months' notice in writing served by either party on the other. The Group is of the view that it is not necessary to incorporate contractual provisions to allow it to reclaim incentive components of remuneration from Executive Directors, CEO 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 internal and 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.

Corporate Governance Report (cont'd)

Disclosure on Remuneration

Principle 8: The Company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Remuneration of Directors and CEO of the Company

A breakdown, showing the level and mix of each individual director's and CEO's remuneration paid for the financial year ended 31 December 2019, is as follows:-

Remuneration Band	Fee ⁽¹⁾ (%)	Salary & fixed allowance (%)	Bonus & incentives (%)	Other Benefits (%)	Total (%)
<u>S\$500,001 to S\$750,000</u>					
Henry Maknawi		97	0	3	100
<u>S\$250,001 to S\$500,000</u>					
Ratna Maknawi		98	0	2	100
Albert Maknawi		97	0	3	100
<u>S\$250,000 and below</u>					
Tengku Alwin Aziz	100				100
Soh Yew Hock	100				100
Sim Idrus Munandar	100				100
Darwin Indigo ⁽²⁾	100				100

⁽¹⁾ Directors' fees are payable after approval by shareholders in the 2020 AGM

⁽²⁾ The proposed fee for Mr Darwin Indigo, upon approval by shareholders in the 2020 AGM, will be paid to Wilmar International Limited

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

Remuneration of Key Management personnel of the Group

The remuneration policy for key management personnel takes into consideration the responsibility and performance of individual personnel. The following table below sets out the remuneration of our key management personnel (who are not Directors and CEO of the Company) for the financial year ended 31 December 2019.

Remuneration Band	Number of Key Management personnel
S\$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 four key management personnel (who are not Directors or the CEO) for FY2019 is S\$652,891. Save as disclosed above, there are no other key management personnel.

There is one employee who is an immediate family member of a Director, the CEO or a substantial shareholder and whose remuneration exceeded S\$100,000 for the financial year ended 31 December 2019: Mr Eddy Maknawi, who is the brother of both Mr Henry Maknawi and Ms Ratna Maknawi.

Corporate Governance Report (cont'd)

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

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

ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its stakeholders.

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

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 Group has put in place a documentation on its risk profile which summarizes the material risks faced by the Group, the appropriate risk rankings set for the respective risk and the countermeasures in place to manage or mitigate those risks. On an annual basis, the RWG will review the key risks identified, considered the relevance of these risks, identify new risks which may arise and assess the internal controls in place to mitigate such risks. The RWG will also carry out internal risk management exercise and report the findings and action plans to the ARC on an annual basis.

The RWG reviewed and assessed the adequacy and effectiveness of the Group's risk management and internal control systems that address the Group's financial, operational, compliance and information technology risks, with the assistance of the internal and external auditors and the Management.

For FY2019, the Board has received:

- (a) Assurance from the CEO and FC that the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
- (b) Assurance from the CEO and the key management personnel who are responsible for the Group's risk management and internal control systems that the Group's risk management and internal control systems in place were adequate and effective to address the financial, operational, compliance and information technology risks in the current scope of the Group's business operations.

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 opinion that the risk management and internal control systems of the Group, addressing the financial, operational, compliance and information technology risks are adequate and effective as at 31 December 2019.

Audit & Risk Management Committee

Principle 10: The Board has an Audit Committee ("AC") which discharges its duties objectively.

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

Corporate Governance Report (cont'd)

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

As a sub-committee of the Board of Directors, the ARC assist the Board in discharging their responsibility to safeguard the Group's assets, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that our management creates and maintains an effective control environment in the Group. The ARC also reviews and supervises the internal audit functions of the Group.

The ARC provides a channel of communication between the Board, Management and the external auditors on matters relating to audit.

The ARC has adopted written terms of reference defining its membership, administration and duties. The duties and responsibilities of the ARC include:

- 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) Discuss problems and concerns, if any, arising from the interim and final audits and any matters that the external auditors may wish to discuss with the AC in the absence of the Management;
- c) Review of interim and full year financial results, including review of the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- d) Review at least annually the adequacy and effectiveness of the Company's internal controls and risk management systems;
- e) Review the assurance from the CEO and FC on the financial records and financial statements;
- f) Review the independence and objectivity of the external auditors and make recommendations to the Board on: (i) the proposals to the shareholders on the appointment and removal of external auditors; and (ii) the remuneration and terms of engagement of the external auditors;
- g) Review the adequacy, effectiveness, independence, scope and results of the external audit and the company's internal audit function;
- h) Review of interested person transactions (as defined in the Chapter 9 of the Listing Manual of SGX-ST);
- i) Review the policy and arrangements for concerns about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately followed up on. The company publicly discloses, and clearly communicates to employees, the existence of a whistle-blowing policy and procedures for raising such concerns; and
- j) Any other functions that are requested by the Board, as may be required by statute or the Listing Manual.

Apart from the duties listed above, the ARC shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position.

In discharging the above duties, 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 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.

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

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

Corporate Governance Report (cont'd)

Valuation of biological assets

The Management made certain judgements on the accounting estimates and assumptions used in the valuation of biological assets as disclosed in Note 22 of the financial statements. These were discussed with the Management and the external auditors so as to be satisfied as to relevance of the assumptions applied in the measurement of the fair value of the biological assets. Management also engaged an independent valuer for assistance in measuring the fair value. The ARC was satisfied with the Management's approach and subsequent recognition of biological assets at fair value.

Deferred tax assets

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

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 reviews the adequacy of the internal audit function to ensure that the internal audits are performed effectively. The ARC also reviews and ensures that the internal audit department is adequately staffed by qualified and experienced personnel. The ARC is satisfied that the Internal Auditor is independent and the audit work is conducted with impartiality and professional care.

A summary of the ARC's activities during FY2019 is shown below:

- i) Reviewed the Group's financial performance, internal and external audit reports
- ii) Reviewed with the Management and the external auditors, the financial results of the Group before submitting them to the Board for its approval and announcement of the financial results
- iii) Conducted an annual review of the volume of non-audit services provided by the external auditors to ensure 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 in the Notes to the Financial Statement on page 73 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.
- iv) Reviewed the adequacy of the resources, experience of the external auditors and of the audit engagement partner assigned to the audit. The ARC is satisfied that the external auditors are able to meet their audit obligations.
- v) The ARC met with the internal auditors and the external auditors, without the presence of Management.
- vi) The external auditors updated the ARC on changes and updates to the accounting standards, and other issues which might have a direct impact on the financial statements of the Group.

Corporate Governance Report (cont'd)

SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and Conduct of General Meetings

Principle 11: The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

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 and circulars sent to all shareholders. They are given the opportunity to participate effectively and vote at general meetings of the Company. All shareholders are entitled to vote in accordance with the established voting rules and procedures. The Company conducted poll voting for all resolutions tabled at the general meetings. The rules, including the voting process, were explained by the scrutineers at such general meetings.

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

All shareholders of the company receive the annual report of the company and notice of AGM within the mandatory period. The notice is also published in the local newspaper and made available on the SGXNET and the Company's website. Participation of shareholders is encouraged at the Company's general meetings. Resolutions tabled at general meetings are on each substantially separate issue. 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 Annual General Meeting to address any questions that shareholders may have. The attendance of the Directors at the last AGM is set out under Principle 1 of this report.

The Board is of the view that absentia voting at general meeting may only be possible following careful study to ensure that the integrity of the information and authentication of the identify of shareholders through the web is not compromised.

The minutes of all general meetings are posted on the Company's corporate website as soon as practicable. The minutes include comments and questions received from shareholders, together with responses from the Board and the Management, as well as details of the proceedings.

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.

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. In view of the current market condition and the expected capital expenditure for FY2020, the Board has decided not to recommend a dividend for the financial year ended 31 December 2019.

Corporate Governance Report (cont'd)

Engagement with Shareholders

Principle 12: The Company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

The Company endeavours to communicate regularly, effectively and fairly with its shareholders. Timely, as well as, detailed disclosure is made to the public in compliance with SGX-ST guidelines. The Company does not practise selective disclosure. All price sensitive information is announced on the SGXNET on a timely basis.

Financial 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. Financial 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.

Engagement with Stakeholders

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

The Board considers ongoing stakeholder engagement as an important activity to develop effective management strategies and pursue sustainable business practices. The Company's approach to stakeholder engagement is to ensure that it has a good understanding of the key stakeholders' concern and expectation, and develop practical and responsive sustainability strategies. In its pursuit of sustainable business practices, stakeholders have been identified as entities or individuals who are either directly or indirectly involved in the Company's business, have specific interests in the Company and may be significantly impacted by how the Company operates. To better understand the interests of the Company's stakeholders, a materiality survey has been conducted every year since 2016, with results reported annually in the Sustainability Report. The materiality survey touches on topics such as, but not limited to; product quality, health & safety, employee welfare gender equality and fire management.

The Company highlights that in 2019, Kencana conducted a joint Sustainability Development Program study that focuses on providing good workers welfare within our operations with Golden Agri Resources, and Verité. The joint workgroup is expected to continue in 2020. Moreover, the Company has also continued to work with Manggala Agni, a special unit under the Ministry of Environment and Forestry specially appointed to control forest fires by participating in firefighting simulations training. Manggala Agni has also helped our Kutai Estates in Kalimantan Timur to implement social development programs to the neighbouring villages to mitigate fire breakout due to illegal fishing practices.

More details on these are available on the 2019 Sustainability Report. The Company will also make available all media releases, financial results, annual reports, SGXNET announcements and other corporate information in the "Investor Relations" section of its corporate website <http://www.kencanaagri.com>.

Corporate Governance Report (cont'd)

DEALING IN SECURITIES

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

- Directors and key officers are prohibited from trading in the Company's securities during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, and one month before the announcement of the Company's full-year financial statements. The prohibition ends on the day of the announcement of such results. Save as disclosed above, pursuant to Rule 1207(8) of the Listing Manual of the SGX-ST, there was no material contract involving the interests of any director or controlling shareholder entered into by the Company or any of its subsidiaries, either still subsisting at the end of the financial year or if not then subsisting, which was entered into since the end of the previous financial year.
- 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 2019.

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.

Corporate Governance Report (cont'd)

The aggregate value of interested person transactions for the financial year ended 31 December 2019 is as follows:-

Name of interested person	Nature of relationship	Aggregate value of all interested person transactions during the period 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)
		2019	2019
		USD'000	USD'000
Wilmar Group ⁽¹⁾ (Sales)	Controlling Shareholder	–	7,799
Wilmar Group ⁽¹⁾ (Purchases)	Controlling Shareholder	–	463
Wilmar Group ⁽²⁾ (Interest)	Controlling Shareholder	189	–
PT Berkat Wahana Sukses ⁽³⁾ (Services received)	Associate	222	–
PT Berkat Wahana Sukses ⁽⁴⁾ (Services received, shareholders' mandate obtained at EGM held on 29 April 2019)	Associate	1,777	–
PT Kencana Energi Lestari, TBK ⁽⁵⁾ (Interest)	Associate	92	–
PT Paramata Indah Lestari ⁽⁵⁾ (Interest)	Associate	174	–

- (1) In respect of transactions conducted pursuant to General Mandate for transactions with Wilmar Group.
(2) In respect of interest paid on trade payables due to Wilmar Group.
(3) In respect of transportation services obtained from PT Berkat Wahana Sukses. The Maknawi family is the controlling shareholder PT Berkat Wahana Sukses.
(4) In respect of transactions conducted pursuant to Specific Mandate for transactions PT Berkat Wahana Sukses.
(5) In respect of loans obtained from PT Kencana Energi Lestari, TBK and PT Paramata Indah Lestari. The Maknawi family is the controlling shareholder of both PT Kencana Energi Lestari, TBK and PT Paramata Indah Lestari.

Save as disclosed above, pursuant to Rule 1207(8) of the Listing Manual of the SGX-ST, there was no material contract involving the interests of any director or controlling shareholder entered into by the Company or any of its subsidiaries, either still subsisting at the end of the financial year or if not then subsisting, which was entered into since the end of the previous financial year.

APPOINTMENT OF AUDITORS

The Group has complied with Rules 712, 715 and 716 of the Listing Manual of the SGX-ST in relation to its auditors.

Corporate Governance Report (cont'd)

ADDITIONAL INFORMATION ON DIRECTORS NOMINATED FOR RE-ELECTION

Pursuant to Rule 720(6) of the SGX-ST Listing Manual, the information as set out in Appendix 7.4.1 to the SGX-ST Listing Manual relating to Tengku Alwin Aziz and Mr Soh Yew Hock, being the Directors who are retiring in according with the Company's Constitution at the forthcoming AGM, is set out below:

Name of Director	Tengku Alwin Aziz	Mr Soh Yew Hock
Date of Appointment	30 May 2008	30 May 2008
Date of last re-appointment (if applicable)	25 April 2017	25 April 2017
Age	77	76
Country of principal Residence	Indonesia	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The NC has recommended and the Board has agreed for Tengku Alwin Aziz to retire and seek re-election at the forthcoming AGM.	The NC has recommended and the Board has agreed for Mr Soh Yew Hock to retire and seek re-election at the forthcoming AGM.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	<ul style="list-style-type: none"> Chairman, Nominating Committee Member, Audit & Risk Management Committee Member, Remuneration Committee 	<ul style="list-style-type: none"> Lead Independent Director Chairman, Audit & Risk Management Committee Member, Remuneration Committee Member, Nominating Committee
Professional Qualifications	Chartered Accountant	<ul style="list-style-type: none"> Fellow, Institute of Chartered Accountants, Singapore Fellow, CPA (Australia) Fellow, Certified Chartered Accountant, UK Fellow, Chartered Institute of Marketing, UK Fellow, Singapore Institute of Directors Advanced Management Program, Harvard University
Working experience and occupation(s) during the past 10 years	<ul style="list-style-type: none"> Non-Executive and Independent Director of Kencana Agri Limited Non-Executive and Independent Director and Chairman of Audit Committee of PT. Baramulti Suksesarana (TBK) Non-Executive and Independent Director and Chairman of Audit Committee of PT. PP London Sumatra Indonesia (TBK) 	<ul style="list-style-type: none"> Lead Independent Director and Chairman of Audit & Risk Committee of Japan Residential Assets Manager Limited Lead Independent Director and Chairman of Audit & Risk Committee of HTL Corporation Limited Chairman of C.K. Tang Limited Director and Chairman of Audit & Risk Committee of Tang Holdings Pte Ltd Deputy Chairman of Audit & Risk Committee of Abilities Beyond Limitations and Expectations Limited (Charity)

Corporate Governance Report (cont'd)

Shareholding interest in the listed issuer and its subsidiaries	418,970 shares	50,000 shares held in the name of DBS Nominees Pte Ltd
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Nil	Nil
Conflict of interest (including any competing business)	Nil	Nil
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Other Principal Commitments including Directorships <ul style="list-style-type: none"> • Past (for the last 5 years) • Present 	<p>Directorships PT. PP London Sumatra Indonesia (TBK)</p> <p>Directorships PT. Baramulti Suksessarana (TBK)</p>	<p>Directorships Japan Residential Assets Manager Limited (Manager of Saizen REIT) HTL International Holdings Limited</p> <p>Directorships C.K. Tang Limited Tang Holdings Private Limited</p>
Disclose the following matters concerning an appointment of director, chief executive officer, chief financial officer, chief operating officer, general manager or other officer of equivalent rank. If the answer to any question is “yes”, full details must be given.		
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
(c) Whether there is any unsatisfied judgement against him?	No	No

Corporate Governance Report (cont'd)

(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
(f) Whether at any time during the last 10 years, judgement has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
(i) Whether he has ever been the subject of any order, judgement or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No

Corporate Governance Report (cont'd)

<p>(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:-</p> <p>i. any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or</p> <p>ii. any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or</p> <p>iii. any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or</p> <p>iv. any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?</p>	No	No
<p>(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?</p>	No	No
<p>Any prior experience as a director of an issuer listed on the Exchange?</p> <p><i>If yes, please provide details of prior experience.</i></p> <p><i>If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).</i></p>	<p>Yes</p> <p>Tengku Alwin Aziz is currently a director of Kencana Agri Limited.</p>	<p>Yes</p> <p>Mr Soh Yew Hock is currently a director of Kencana Agri Limited and a past director of the following companies listed on the SGX-ST previously:</p> <ul style="list-style-type: none"> • Japan Residential Assets Manager Limited (Manager of Saizen REIT) • HTL International Holdings Limited • Asia Dekor Holdings Limited • WBL Corporation Limited • MFS Technology Ltd • Goodpack Limited

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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 2019.

1. Opinion of the directors

In the opinion of the directors,

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

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

2. Directors

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

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

3. Directors' interests in shares and debentures

The directors of the company holding office at the end of the reporting year had no interests in shares in or debentures of the company or other related body corporate as recorded in the register of directors' shareholdings kept by the company under section 164 of the Companies Act, Chapter 50 (the "Act") except as follows:

Name of directors and companies in which interests are held	At beginning of the reporting year	At end of the reporting year	At beginning of the reporting year	At end of the reporting year
	Number of shares of no par value			
	Direct interest		Deemed interest	
<u>Kencana Holdings Pte. Ltd.</u>				
(The ultimate parent company)				
Henry Maknawi	31,056,776	31,056,776	–	–
Ratna Maknawi	5,172,551	5,172,551	135,932	135,932
Tengku Alwin Aziz	1,595,406	1,595,406	–	–
<u>Kencana Agri Limited</u>				
(The company)				
Henry Maknawi	1,774,970	1,774,970	152,555,224	152,555,224
Ratna Maknawi	–	–	1,416,530	1,416,530
Tengku Alwin Aziz	418,970	418,970	–	–
Soh Yew Hock	50,000	50,000	–	–

The directors' interests as at 21 January 2020 were the same as those at the end of the reporting year.

Statement By Directors (cont'd)

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

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

5. Options

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

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

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

6. Independent auditor

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

7. Report of audit and risk management committee

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

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

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

- Reviewed with the independent external auditor their audit plan.
- Reviewed with the independent external auditor their evaluation of the company's internal accounting controls relevant to their statutory audit, and their report on the financial statements and the assistance given by management to them.
- Reviewed with the internal auditor the scope and results of the internal audit procedures (including those relating to financial, operational and compliance controls and risk management) and the assistance given by the management to the internal auditor.
- Reviewed the financial statements of the group and the company prior to their submission to the directors of the company for adoption.
- Reviewed the interested person transactions (as defined in Chapter 9 of the Singapore Exchange Securities Trading Limited's Listing Manual).

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

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

Statement By Directors (cont'd)

8. Directors' opinion on the adequacy of internal controls

Based on the internal controls established and maintained by the company, work performed by the internal and external auditors, and reviews performed by management, other committees of the board and the board, the audit and risk management committee and the board are of the opinion that the company's internal controls, addressing financial, operational and compliance risks, are adequate as at the end of the reporting year 31 December 2019.

9. Subsequent developments

There are no significant developments subsequent to the release of the group's and the company's preliminary financial statements, as announced on 28 February 2020, which would materially affect the group's and the company's operating and financial performance as of the date of this report.

On behalf of the directors

.....
Henry Maknawi
Director

.....
Ratna Maknawi
Director

27 March 2020

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 2019, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and notes to the financial statements, including accounting policies.

In our opinion, the accompanying consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS (I)") so as to give a true and fair view of the consolidated financial position of the group and the financial position of the company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the group and the changes in equity of the company for the reporting year ended on that date.

Basis for opinion

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

Key audit matters

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

Valuation of biological assets:

Please refer to Note 2A on accounting policies; Note 2C on critical judgements, assumptions and estimation uncertainties; and Note 22 on biological assets and the annual report on the section on the audit and risk management committee's views and responses to the reported KAMs.

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

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

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

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

Independent Auditor's Report (cont'd)

to the Members of KENCANA AGRI LIMITED

Key audit matters (cont'd)

Deferred tax assets:

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

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

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

Other information

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

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

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

Responsibilities of management and directors for the financial statements

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

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

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

Independent Auditor's Report (cont'd)

to the Members of KENCANA AGRI LIMITED

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Independent Auditor's Report (cont'd)

to the Members of KENCANA AGRI LIMITED

Report on other legal and regulatory requirements

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

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

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

27 March 2020

Engagement partner – effective from year ended 31 December 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year Ended 31 December 2019

	Notes	Group	
		2019 US\$'000	2018 US\$'000
Continuing operations			
Revenue	4	104,065	124,981
Cost of sales	5	(81,720)	(100,636)
Gross profit		22,345	24,345
Interest income		3,348	3,680
Other gains	6	9,323	2,094
Changes in biological assets and plasma receivables	7	8,776	(7,009)
Distribution costs	8	(2,569)	(2,148)
Administrative expenses		(8,692)	(9,745)
Finance costs	9	(20,470)	(19,057)
Other losses	6	(5,665)	(14,737)
Share of results from equity-accounted joint ventures	19	(4,992)	(1,803)
Profit/(loss) before tax from continuing operations		1,404	(24,380)
Income tax (expense)/benefit	11	(11,790)	3,226
Loss from continuing operations, net of tax		(10,386)	(21,154)
Discontinued operations			
Loss from discontinued operations	21	(2,435)	(2,694)
Net loss for the year		(12,821)	(23,848)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating group entities' functional currency to US\$ presentation currency, net of tax		422	(2,494)
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension plans, net of tax	30	111	(84)
Other comprehensive income/(loss) for the year, net of tax		533	(2,578)
Total comprehensive loss		(12,288)	(26,426)
Loss per share			
Loss per share currency unit		Cents	Cents
Basic			
Continuing operations		(3.62)	(7.37)
Discontinued operations		(0.85)	(0.94)
Total	13	(4.47)	(8.31)
Diluted			
Continuing operations		(3.62)	(7.37)
Discontinued operations		(0.85)	(0.94)
Total	13	(4.47)	(8.31)

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

Statements of Financial Position

As at 31 December 2019

	Notes	Group		Company	
		2019 US\$'000	2018 US\$'000	2019 US\$'000	2018 US\$'000
ASSETS					
<u>Non-current assets</u>					
Property, plant and equipment	14	79,850	82,832	–	–
Right-of-use assets	15	670	–	–	–
Investment property	16	–	2,350	–	–
Bearer plants	17	136,473	142,685	–	–
Investments in subsidiaries	18	–	–	37,868	36,351
Investments in joint ventures	19	–	–	–	–
Land use rights	20	34,887	34,749	–	–
Deferred tax assets	11	6,460	11,657	–	–
Other receivables	24	6,805	13,199	–	–
Other assets	25	–	642	–	–
Total non-current assets		265,145	288,114	37,868	36,351
<u>Current assets</u>					
Assets held for sale	21	6,431	–	–	–
Biological assets	22	15,315	5,681	–	–
Inventories	23	12,135	12,976	–	–
Trade and other receivables	24	35,947	31,047	36,880	32,934
Other assets	25	1,174	2,160	1	1
Cash and cash equivalents	26	22,349	17,351	33	20
Total current assets		93,351	69,215	36,914	32,955
Total assets		358,496	357,329	74,782	69,306
EQUITY AND LIABILITIES					
<u>Equity</u>					
Share capital	27	93,860	93,860	93,860	93,860
(Accumulated losses) / Retained earnings		(44,752)	(32,042)	3,437	2,116
Other reserve		2,485	2,485	–	–
Translation reserve		(41,737)	(42,159)	(25,588)	(28,439)
Total equity attributable to owners of the parent		9,856	22,144	71,709	67,537
<u>Non-current liabilities</u>					
Deferred tax liabilities	11	1,903	383	–	–
Lease liabilities	28C	272	127	–	–
Other financial liabilities	28	193,359	197,890	–	–
Other liabilities	30	5,345	4,448	–	–
Total non-current liabilities		200,879	202,848	–	–
<u>Current liabilities</u>					
Income tax payable		3,525	659	–	–
Trade and other payables	29	78,786	58,131	3,073	1,769
Lease liabilities	28C	354	216	–	–
Other financial liabilities	28	65,096	73,331	–	–
Total current liabilities		147,761	132,337	3,073	1,769
Total liabilities		348,640	335,185	3,073	1,769
Total equity and liabilities		358,496	357,329	74,782	69,306

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

Statements of Changes in Equity

Year Ended 31 December 2019

	Total equity attributable to owners of the parent	Share capital	Accumulated losses	Other reserve	Reserve on post- employment benefits	Translation reserve
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Group						
Current year:						
Opening balance at 1 January 2019	22,144	93,860	(32,042)	2,485	–	(42,159)
Changes in equity:						
Total comprehensive (loss)/ income for the year	(12,288)	–	(12,821)	–	111	422
Transferred to retained earnings	–	–	111	–	(111)	–
Closing balance at 31 December 2019	9,856	93,860	(44,752)	2,485	–	(41,737)
Previous year:						
Opening balance at 1 January 2018	48,570	93,860	(8,110)	2,485	–	(39,665)
Changes in equity:						
Total comprehensive loss for the year	(26,426)	–	(23,848)	–	(84)	(2,494)
Transferred to retained earnings	–	–	(84)	–	84	–
Closing balance at 31 December 2018	22,144	93,860	(32,042)	2,485	–	(42,159)

	Total equity	Share capital	Retained earnings/ (Accumulated losses)	Translation reserve
	US\$'000	US\$'000	US\$'000	US\$'000
Company				
Current year:				
Opening balance at 1 January 2019	67,537	93,860	2,116	(28,439)
Changes in equity:				
Total comprehensive income for the year	4,172	–	1,321	2,851
Closing balance at 31 December 2019	71,709	93,860	3,437	(25,588)
Previous year:				
Opening balance at 1 January 2018	75,962	93,860	5,652	(23,550)
Changes in equity:				
Total comprehensive loss for the year	(8,425)	–	(3,536)	(4,889)
Closing balance at 31 December 2018	67,537	93,860	2,116	(28,439)

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

Consolidated Statement of Cash Flows

Year Ended 31 December 2019

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Cash flows from operating activities</u>		
Profit/(Loss) before income tax from continuing operations	1,404	(24,380)
Loss before tax from discontinued operations	(2,435)	(2,694)
Loss before tax	(1,031)	(27,074)
Adjustments for:		
Interest income	(3,348)	(3,680)
Interest expense	20,470	19,057
Amortisation of land use rights	1,353	1,212
Depreciation expense	15,740	14,369
Fair value changes in biological assets	(9,253)	7,430
Changes in plasma receivables	477	(421)
Loss on disposal of assets held for sale	–	190
Gain on transfer of bearer plants to plasma	–	(18)
Gain on disposal of subsidiary (Note 39)	–	(92)
Provision for employment pension benefits	878	350
Loss/(Gain) on disposal of property, plant and equipment	66	(40)
Impairment loss on property, plant and equipment	474	–
Bearer plants written off (Note 17)	218	–
Impairment on loan receivable from joint venture (Note 24A)	4,120	–
Share of results from equity-accounted joint ventures from continuing operations	4,992	1,803
Share of results from equity-accounted joint ventures from discontinued operations	2,435	2,694
Net effect of exchange rate changes in consolidating entities	(6,766)	9,191
Operating cash flows before changes in working capital	30,825	24,971
Inventories	1,382	(5,128)
Trade and other receivables	(1,498)	832
Other financial liabilities	–	(287)
Other assets	1,032	1,324
Trade and other payables	15,676	17,500
Net cash flows from operations	47,417	39,212
Income taxes paid	(2,900)	(2,947)
Net cash flows from operating activities	44,517	36,265
<u>Cash flows used in investing activities</u>		
Proceeds on disposal of property, plant and equipment	142	471
Proceeds on disposal of assets held for sale	–	1,061
Proceeds on disposal of subsidiary (Note 39)	–	145
Purchase of property, plant and equipment	(3,618)	(9,909)
Additions to bearer plants	(1,200)	(2,958)
Disposal of bearer plants	–	842
Purchase of land use rights	(63)	(433)
Interest received	849	568
Refundable deposit received in respect of disposal of discontinued operations	1,500	–
Net cash flows used in investing activities	(2,390)	(10,213)

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

Consolidated Statement of Cash Flows (cont'd)

Year Ended 31 December 2019

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Cash flows used in financing activities</u>		
Cash restricted in use	(576)	(9,323)
Proceeds from borrowings	299,547	229,775
Repayment of borrowings	(315,287)	(234,075)
Repayment of lease liabilities	(134)	(242)
Interest paid	(21,815)	(20,293)
Net cash flows used in financing activities	(38,265)	(34,158)
Net increase/(decrease) in cash and cash equivalents	3,862	(8,106)
Net effect of exchange rate changes on cash and cash equivalents	700	(1,120)
Cash and cash equivalents, consolidated statement of cash flows, beginning balance	7,466	16,692
Cash and cash equivalents, consolidated statement of cash flows, ending balance (Note 26A)	12,028	7,466

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

Notes to the Financial Statements

31 December 2019

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 directors have the power to amend and reissue the financial statements.

The principal activity of the company is investment holding.

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

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

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

The group’s current liabilities are more than the current assets. The financial position of the entity, its cash flows, liquidity position and borrowing facilities are described in the notes to the financial statements. In addition, the notes to the financial statements include the objectives, policies and processes for managing capital, the financial risk management objectives, details of its financial instruments, availability of borrowing facilities and its exposures to credit risk and liquidity risk. The group has considerable financial resources in the form of undrawn borrowing facilities (Note 34E) together with some satisfactory arrangements with a number of customers, bankers and suppliers. In addition, the group successfully restructured its bank loans of US\$43,995,000 to extend the repayment period by 2 to 4 years after year end which will further help to enhance the group’s cash flows. The financial statements have been prepared on a going concern basis, which assumes that the group will be able to meet its obligations as and when they fall due in the next twelve months. The group also had net operating cash inflows in 2019 and 2018.

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

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

In addition, management has considered the recent COVID-19 outbreak which may potentially lead to further business disruptions in this region in the coming year and uncertainties relating to the impairment or recoverability of assets and the completeness or valuation of liabilities reflected in the financial statements. An assessment is made at the end of the reporting year whether there is any indication that the above mentioned assets and liabilities may be impacted adversely. If any such indication of uncertainties exists, an estimate is made of the fair value of the account balance.

Whilst no adjustments were made, the recoverability of the assets and the ability of the entity to maintain or pay its debts as they mature are dependent to a large extent on the efficacy of the fiscal and other measures undertaken by Indonesia and the affected countries overseas to successfully meet those economic challenges. These measures are beyond the management’s control.

Statement of compliance with financial reporting standards

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

Notes to the Financial Statements (cont'd)

31 December 2019

1. General (cont'd)

Accounting convention

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

Basis of preparation of the financial statements

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

Basis of presentation

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

Changes in the group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the group's interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the group loses control of a subsidiary, it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss.

Any investment retained in the former subsidiary is measured at fair value at the date when control is lost and is subsequently accounted as financial assets in accordance with the financial reporting standard on financial instruments.

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

2. Significant accounting policies and other explanatory information

2A. Significant accounting policies

Revenue recognition

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

2A. Significant accounting policies (cont'd)

Revenue recognition (cont'd)

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

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

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

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

Management fee from plasma - Management fee is recognised during the period in which the services are provided.

Employee benefits

Certain overseas subsidiaries of the group are required to provide for employee service entitlements in order to meet the minimum benefits required to be paid to qualified employees as required under existing manpower regulations in Indonesia. Short-term employee benefits are recognised at an undiscounted amount where employees have rendered their services to the group during the accounting period. Post-employment benefits are recognised at discounted amounts when the employees have rendered their services to the group during the accounting periods. Liabilities and reserves are measured using actuarial techniques which include constructive obligations that arise from the group's common practices. In calculating the liabilities, the benefits are discounted by using the projected unit credit method and changes in fair value recognised through other comprehensive income.

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

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

Borrowing costs

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

Foreign currency transactions

The functional currency of the company and all of its subsidiaries except for Sawindo Agri Pte. Ltd. is the Indonesian Rupiah ("IDR"). The functional currency of Sawindo Agri Pte. Ltd. is the United States Dollar ("US\$"). The functional currency reflects the primary economic environment in which these entities operate. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively.

Notes to the Financial Statements (cont'd)

31 December 2019

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

2A. Significant accounting policies (cont'd)

Foreign currency transactions (cont'd)

All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when a gain or loss on a non-monetary item is recognised in other comprehensive income, any foreign exchange component on that gain or loss is recognised in other comprehensive income. The presentation currency is the US\$ as the financial statements are meant primarily for international users. For the US\$ 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 IDR13,901 (2018: US\$1 to IDR14,481) which approximate the rate of exchange at the end of the reporting year. The average rates of exchange for the reporting year were US\$1 to IDR14,131 (2018: US\$1 to IDR14,267). Such translation should not be construed as a representation that the US\$ amounts could be converted into IDR at the above or other rates.

Translation of financial statements of other entities

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

Income tax

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

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

2A. Significant accounting policies (cont'd)

Property, plant and equipment

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

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

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

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

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

Right-of-use assets

The right-of-use assets are accounted and presented as if they were owned such as property, plant and equipment.

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%

Land use rights

Land use rights relate to right-of-use assets that have a limited useful life and 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 2019

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

Biological assets

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

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

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

Leases

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A right-of-use asset is capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease is also recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. The right-of-use asset is depreciated over the earlier of the end of the useful life of the right-of-use asset or the end of the lease term and an interest expense on the recognised lease liability (included in finance costs).

For short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office equipment), an accounting policy choice exists under the lease standard whereby the lease payments are expensed to profit or loss as incurred on a straight line basis over the remaining lease term.

Lessor

As a lessor, the reporting entity classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and it is presented in its statement of financial position as a receivable at an amount equal to the net investment in the lease. For a finance lease, the finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Lease receipts from operating leases are recognised as income on either a straight-line basis or another systematic basis over the term of the lease.

Notes to the Financial Statements (cont'd)

31 December 2019

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

2A. Significant accounting policies (cont'd)

Subsidiaries

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

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

Joint arrangements – joint venture

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

Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The carrying value and the net book value of the investment in the joint venture is 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 venture 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 an joint venture and accounts for the investment in accordance with the financial reporting standard on financial instruments from that date. Any gain or loss is recognised in profit or loss. Any investment retained in the former joint venture is measured at fair value at the date that it ceases to be an joint venture.

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

Business combinations

There were no acquisitions during the reporting year.

Notes to the Financial Statements (cont'd)

31 December 2019

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

2A. Significant accounting policies (cont'd)

Impairment of non-financial assets

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

Inventories

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

Financial instruments

Recognition and derecognition of financial instruments:

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

At initial recognition, the financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Notes to the Financial Statements (cont'd)

31 December 2019

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

2A. Significant accounting policies (cont'd)

Financial instruments (cont'd)

Classification and measurement of financial assets:

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

Classification and measurement of financial liabilities:

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

Cash and cash equivalents

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

Hedging

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

Derivative financial instruments

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

2A. Significant accounting policies (cont'd)

Derivative financial instruments (cont'd)

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.

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

Plasma receivables

Plasma receivables represent loans to Plasma farmers under various Indonesian Government policies as elaborated in Note 32. Plasma receivables are either immediately claimed to the financing banks, or temporarily self-funded by the group for those awaiting bank's funding, or shall be reimbursed by the Plasma farmers. Plasma receivables will include advances to Plasma farmers for loan instalments paid to banks. This account is presented at net amount after financing costs, received from the banks. Bank financing are soft loans obtained by cooperatives whose agreements were signed by Plasma farmers and the respective banks for which the group acts as guarantors for the loan repayments.

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

Fair value measurement

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

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

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

2A. Significant accounting policies (cont'd)

Provisions

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

Segment reporting

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

2B. Other explanatory information

Assets classified as held for sale

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

In addition, the results of discontinued operations are presented separately in profit or loss. A discontinued operation is a component of the business that represents a separate major line of business or geographical area of operations that has been sold, or classified as held for sale or has been abandoned. They are shown separately in profit or loss and comparative figures are restated to reclassify them from continuing to discontinued operations.

2C. Critical judgements, assumptions and estimation uncertainties

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

Biological assets:

The biological assets (un-harvested FFB) are stated at fair value less costs to sell at the point of harvest. This measurement is significant and the process is highly judgemental and is based on assumptions that are affected by expected future market or economic conditions. As a result, judgement is required in evaluating the assumptions and methodologies used by management, in particular those relating to the forecasted revenue growth and profit margins.

Notes to the Financial Statements (cont'd)

31 December 2019

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

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

Biological assets: (cont'd)

The disclosures about measurement of fair values are included in Note 22, which explains that small changes in the key assumptions used could give rise to gains and losses. Actual outcomes could vary from these estimates.

During the reporting year, the group revised certain inputs to its valuation model for assessment of the fair value of biological assets. In accordance with SFRS(I) 8, this change in estimates has been applied on a prospective basis.

The details were as follows:

- (a) Replacement of depreciation expense with reserve for replacement cost in line with current valuation practices. The effect of this change in the current period is an increase in fair value of US\$3,429,000; and
- (b) Use of December 2019 published prices instead of January 2020 published prices to improve the timeliness of financial closing process. The effect of this change in the current period is a decrease in fair value of US\$4,537,000.

The effect in future periods is not disclosed as estimating it is impracticable. This is dependent on the estimate of the projected volumes of FFB harvested which is based on management inspection on the actual condition of un-harvested FFB growing on the trees as at the valuation date.

Income tax amounts:

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

Property, plant and equipment:

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

Useful lives of property, plant and equipment:

The estimates for the useful lives and related depreciation charges for property, plant and equipment is based on commercial and other factors which could change significantly as a result of innovations and in response to market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete items or assets that have been abandoned. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amounts of the relevant property, plant and equipment at the end of the reporting year affected by the assumption are US\$76,295,000 (2018: US\$72,600,000).

Notes to the Financial Statements (cont'd)

31 December 2019

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 4,371 (2018: 4,624) hectares of Kadastral land. Kadastral land is land that is measured to determine the actual land area for the HGU title based on the application submitted by the group. The group is also in the process of acquiring and clearing land held under their land bank prior to the issuance of Kadastral for such land. Prior to the issuance of the HGU certificates, such land is considered as uncertified land. Pending the issue of HGU certificates, the group is permitted to physically occupy and build on the uncertified land and to plant and harvest crops. However, as the administration of land laws and regulations may be subject to a certain degree of discretion by the Indonesian authorities, there is no assurance with certainty that the relevant authorities would not take a different approach or view as regard the uncertified land, its use, registration and future disposal for value. Should the relevant authorities take a different approach or view as regards the same and the group is unable to convert the uncertified land to HGU certified land, the group’s interest in the uncertified land as well as the use of such land may be adversely affected. Further details are included in Note 20.

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 2019 was US\$5,345,000 (2018: US\$4,448,000).

Measurement of impairment of subsidiary or joint venture:

Where an investee is in net equity deficit and or has suffered losses, a test is made whether the investment in the investee has suffered any impairment loss. This measurement requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amounts. The carrying amounts of the company’s investments in subsidiaries and the group’s investments in joint ventures are disclosed in Notes 18 and 19 respectively.

Advances/guarantees under the Plasma Programme:

The group has provided guarantees in respect of loans granted by banks to villagers under the Plasma Programme. The villagers will repay the bank loans from the sale proceeds of FFB. In the event the villagers default on their obligations to repay the bank loans, the banks may call upon the guarantees, which have been provided by the group to the banks to secure the loans of the villagers. The entity recognises expected losses, if any, which require significant judgement. Details of the bank guarantees provided are disclosed in Note 32.

Notes to the Financial Statements (cont'd)

31 December 2019

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

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

Environmental regulations:

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

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

3. Related party relationships and transactions

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

The ultimate controlling party is Henry Maknawi, a director.

3A. Members of a group:

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

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

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.

Notes to the Financial Statements (cont'd)

31 December 2019

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

3B. Related party transactions: (cont'd)

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:

	2019	2018
	US\$'000	US\$'000
Group		
Related parties:		
Sales of commodities ^(a)	7,799	10,569
Purchases of commodities ^(a)	(463)	(4,740)
Receiving of service expense ^(b)	(2,023)	(2,041)
Interest expense ^(a)	(189)	–
Interest expense ^(c)	(272)	–
Joint ventures:		
Miscellaneous service income	85	103
Interest income (Note 24A)	2,499	3,112
Management fee income (Note 4)	75	76

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

(b) The related party, PT Berkat Wahana Sukses, is a company in which directors or their immediate family members have a significant or controlling interest.

(c) The related parties, PT Kencana Energi Lestari, TBK and PT Paramata Indah Lestari, are companies in which directors or their immediate family members have a significant or controlling interest.

3C. Key management compensation:

	Group	
	2019	2018
	US\$'000	US\$'000
Salaries and other short-term employee benefits	1,575	2,181
Post-employment benefits	18	20

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

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

	Group	
	2019	2018
	US\$'000	US\$'000
Remuneration of directors of the company	665	730
Remuneration of directors of the subsidiaries	648	1,176
Fees to directors of the company	152	154

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

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

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

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

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

	Subsidiaries	
	2019	2018
	US\$'000	US\$'000
Company		
Other receivables:		
Balance at beginning of the year	32,934	38,708
Amounts paid out and settlement of liabilities on behalf of subsidiaries - net	2,307	-
Amounts paid in and settlement of liabilities on behalf of the company - net	-	(576)
Allowance for impairment	-	(2,412)
Foreign exchange alignment	1,639	(2,786)
Balance at end of the year (Note 24)	36,880	32,934
Related parties		
Other payables:		
Balance at beginning of the year	-	-
Loans from related parties	6,971	-
Repayment of loans and interest to related parties	(6,499)	-
Interest expense (Note 3B)	272	-
Foreign exchange alignment	(104)	-
Balance at end of the year (Note 29)	640	-

Notes to the Financial Statements (cont'd)

31 December 2019

4. Revenue

#A. Revenue classified by type of good or service:

	Group	
	2019	2018
	US\$'000	US\$'000
Sale of goods	103,517	124,292
Rendering of services	–	229
Rental income	473	384
Management fee income (Note 3)	75	76
	104,065	124,981

#B. Revenue classified by duration of contract:

	Group	
	2019	2018
	US\$'000	US\$'000
Short-term contracts	104,065	113,695
Long-term contracts	–	11,286
Total revenue	104,065	124,981

#C. Revenue classified by timing of revenue recognition:

	Group	
	2019	2018
	US\$'000	US\$'000
Point in time	104,065	124,981

The revenue from sale of goods such as Crude Palm Oil ("CPO"), palm kernel and FFB, and rendering of services is earned from customers who are mainly wholesalers and producers of oil palm products. Also see Note 35.

The sales consideration is based on the market prices or predetermined monthly contract values.

5. Cost of sales

	Group	
	2019	2018
	US\$'000	US\$'000
Cost of goods produced and purchases	81,388	99,993
Cost incurred for rental income and rendering of services	332	643
	81,720	100,636

Notes to the Financial Statements (cont'd)

31 December 2019

6. Other gains and (other losses)

	Group	
	2019	2018
	US\$'000	US\$'000
(Loss)/gain on disposal of property, plant and equipment	(66)	40
Loss on disposal of assets held for sale	–	(190)
Impairment loss of property, plant and equipment (Note 14)	(474)	–
Foreign exchange translation gain/(loss)	7,570	(14,409)
Withholding and other tax expenses	(904)	(104)
Insurance claim	8	77
Gain on derivative financial instruments (Note 31)	–	474
Gain on disposal of subsidiary (Note 39)	–	92
Impairment on other receivables - joint venture (Note 24A)	(4,120)	–
Management fee from plasma	871	787
Tolling fee	85	170
Sale of waste	789	–
Bearer plants written off (Note 17)	(218)	–
Miscellaneous	117	420
	<u>3,658</u>	<u>(12,643)</u>
Presented in profit or loss as:		
Other gains	9,323	2,094
Other losses	(5,665)	(14,737)
Net	<u>3,658</u>	<u>(12,643)</u>

7. Changes in biological assets and plasma receivables

	Group	
	2019	2018
	US\$'000	US\$'000
Gain/(loss) on fair value changes in biological assets (Note 22)	9,253	(7,430)
(Loss)/gain on changes in plasma receivables	(477)	421
	<u>8,776</u>	<u>(7,009)</u>

8. Distribution costs

The major components include the following:

	Group	
	2019	2018
	US\$'000	US\$'000
Freight and storage costs	2,396	1,973

Notes to the Financial Statements (cont'd)

31 December 2019

9. Finance costs

	Group	
	2019	2018
	US\$'000	US\$'000
Gross finance costs	21,886	20,699
Less: capitalised in bearer plants (Note 17)	(1,416)	(1,642)
Net finance costs	20,470	19,057

10. Employee benefits expense

	Group	
	2019	2018
	US\$'000	US\$'000
Employee benefits expense	9,963	11,790
Contribution to defined contribution plans	298	206
Other post-employment benefits (Note 30)	878	350
Employee benefits expense included in cost of sales, administrative expenses and distribution costs	11,139	12,346

11. Income tax

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

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Current tax expense:</u>		
Current tax expense	4,737	2,724
<u>Deferred tax expense:</u>		
Current deferred tax expense/(benefit)	7,053	(6,363)
Under provision adjustments to deferred tax in respect of prior period	–	413
Subtotal	7,053	(5,950)
Total income tax expense/(benefit)	11,790	(3,226)

The group's operations are predominantly located in Indonesia. Companies in Indonesia are generally subject to a tax rate of 25% (2018: 25%). Accordingly, the Indonesian statutory tax rate of 25% (2018: 25%) is used in the reconciliation below.

Notes to the Financial Statements (cont'd)

31 December 2019

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 determined by applying the Indonesian statutory income tax rate of 25% (2018: 25%) to profit/(loss) before income tax as a result of the following differences:

	Group	
	2019	2018
	US\$'000	US\$'000
Profit/(loss) before tax from:		
- continuing operations	1,404	(24,380)
- discontinued operations	(2,435)	(2,694)
	(1,031)	(27,074)
Share of results from equity-accounted joint ventures from continuing operations	4,992	1,803
Share of results from equity-accounted joint ventures from discontinued operations	2,435	2,694
Profit/(loss) before tax and share of results from equity-accounted joint ventures, net of tax	6,396	(22,577)
Income tax expense/(benefit) at the applicable tax rate	1,599	(5,644)
Non-allowable items	2,246	1,166
Effect of different tax rates in different countries	25	355
Unrecognised deferred tax assets	7,920	451
Under provision adjustments to income tax in respect of prior period	–	413
Other items less than 3% each	–	33
Total income tax expense/(benefit)	11,790	(3,226)

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

The amount of income tax payable outstanding as at the end of the reporting year was US\$3,525,000 (2018: US\$659,000). 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 (benefit)/expense recognised in profit or loss include:

	Group	
	2019	2018
	US\$'000	US\$'000
Changes in biological assets and plasma receivables	2,150	(1,748)
Employee benefits provision	(197)	(147)
Derivatives	(6)	206
Tax loss carryforwards	(1,564)	(3,950)
Others	(1,250)	(762)
Deferred tax assets not recognised	7,920	451
Total deferred tax (benefit)/expense recognised in profit or loss	7,053	(5,950)

Notes to the Financial Statements (cont'd)

31 December 2019

11 Income tax (cont'd)

11C. Tax expense/(income) recognised in other comprehensive income include:

	Group	
	2019	2018
	US\$'000	US\$'000
Deferred tax:		
Employee benefits provision	(22)	50
Exchange differences on translation to presentation currency	358	(538)
Total tax income recognised in other comprehensive income	336	(488)

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	
	2019	2018
	US\$'000	US\$'000
<u>From deferred tax (liabilities)/assets recognised in profit or loss:</u>		
Changes in biological assets and plasma receivables	(3,428)	(1,193)
Employee benefits provision	1,377	1,239
Derivatives	–	(6)
Tax loss carryforwards	16,664	15,222
Others	43	(1,180)
Unrecognised deferred tax assets	(10,055)	(2,675)

From deferred tax liabilities recognised in other comprehensive income:

Employee benefits provision	(44)	(133)
Net balance	4,557	11,274

Presented in the statement of financial position as follows:

	Group	
	2019	2018
	US\$'000	US\$'000
Deferred tax liabilities	(1,903)	(383)
Deferred tax assets	6,460	11,657
Net balance	4,557	11,274

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 2019

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:

	Tax losses		Unrecognised deferred tax assets	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Unrecognised deferred tax assets:				
Indonesian companies				
Expiring in year				
2019	–	1,128	–	282
2020	7,332	1,004	1,833	251
2021	6,640	612	1,660	153
2022	3,556	600	889	150
2023	9,072	20	2,268	5
2024	7,564	–	1,891	–
Singapore companies				
Unlimited period	8,906	10,788	1,514	1,834
	<u>43,070</u>	<u>14,152</u>	<u>10,055</u>	<u>2,675</u>

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

No deferred tax liability of approximately US\$7,019,000 (2018: US\$5,498,000) 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	
	2019	2018
	US\$'000	US\$'000
Audit fees to independent auditors included under administrative expenses:		
- company's auditors	89	104
- other auditors	78	80
Other fees to independent auditors included under administrative expenses:		
- company's auditors	44	50

Notes to the Financial Statements (cont'd)

31 December 2019

13. Loss per share

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

	Group	
	2019	2018
	US\$'000	US\$'000
(A) Numerators: loss attributable to equity		
Continuing operations: loss attributable to equity holders	(10,386)	(21,154)
Discontinued operations: loss for the year	(2,435)	(2,694)
	<u>(12,821)</u>	<u>(23,848)</u>
(B) Denominators: weighted average number of equity shares		
Basic and diluted (Note 27)	287,011	287,011
Loss per share (US\$ cents)		
From continuing operations	(3.62)	(7.37)
From discontinued operations	(0.85)	(0.94)
	<u>(4.47)</u>	<u>(8.31)</u>

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

The weighted average number of ordinary shares outstanding during the period and for all periods presented are adjusted for events, if any, that have changed the number of ordinary shares outstanding without a corresponding change in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

There is no dilution of loss 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.

Notes to the Financial Statements (cont'd)

31 December 2019

14. Property, plant and equipment

	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
Group						
Cost:						
At 1 January 2018	35	32,175	2,502	3,971	99,915	138,598
Foreign exchange alignment	–	(2,098)	(281)	(306)	(6,269)	(8,954)
Additions	–	173	10,547	–	1,739	12,459
Disposals	–	(1)	(141)	(3,665)	(394)	(4,201)
Disposal of a subsidiary (Note 39)	–	(52)	(29)	–	(176)	(257)
Reclassifications	–	1,320	(2,401)	–	1,081	–
At 31 December 2018	35	31,517	10,197	–	95,896	137,645
Foreign exchange alignment	–	1,362	961	–	3,178	5,501
Additions	–	237	2,248	–	1,536	4,021
Disposals	–	(41)	(4)	–	(1,731)	(1,776)
Reclassifications	–	2,589	(9,882)	–	7,293	–
At 31 December 2019	35	35,664	3,520	–	106,172	145,391
Accumulated Depreciation and Impairment Losses:						
At 1 January 2018	–	8,339	–	3,583	42,753	54,675
Foreign exchange alignment	–	(566)	–	(221)	(2,804)	(3,591)
Depreciation for the year	–	2,039	–	48	5,503	7,590
Disposals	–	(1)	–	(3,410)	(371)	(3,782)
Disposal of a subsidiary (Note 39)	–	(13)	–	–	(66)	(79)
At 31 December 2018	–	9,798	–	–	45,015	54,813
Foreign exchange alignment	–	445	–	–	2,404	2,849
Depreciation for the year	–	2,198	–	–	6,775	8,973
Disposals	–	(18)	–	–	(1,550)	(1,568)
Impairment for the year	–	–	–	–	474	474
At 31 December 2019	–	12,423	–	–	53,118	65,541
Carrying Value:						
At 1 January 2018	35	23,836	2,502	388	57,162	83,923
At 31 December 2018	35	21,719	10,197	–	50,881	82,832
At 31 December 2019	35	23,241	3,520	–	53,054	79,850

During the reporting year, there was an impairment of equipment that was no longer in use in a subsidiary.

Notes to the Financial Statements (cont'd)

31 December 2019

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

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

	Group	
	2019 US\$'000	2018 US\$'000
Leasehold buildings	950	937
Plant and equipment	2,570	9,260
	3,520	10,197
	2019	2018
	US\$'000	US\$'000
Allocation of the depreciation expense:		
Bearer plants (Note 17)	399	280
Cost of sales	8,217	6,979
Administrative expenses	357	331
Total	8,973	7,590

Certain items of property, plant and equipment at a carrying value of US\$17,029,000 (2018: US\$20,187,000) are pledged as security for the bank facilities (see Note 28).

Certain items are under finance lease agreements (see Note 28C).

15. Right-of-use assets

The details of right-of-use assets in the statement of financial position are as follows:

<u>Group</u>	<u>Leasehold buildings</u> US\$'000
<u>Cost:</u>	
At 1 January 2019	686
Foreign exchange adjustments	28
At 31 December 2019	714
<u>Accumulated depreciation and impairment losses:</u>	
At 1 January 2019	–
Depreciation for the year	44
At 31 December 2019	44
<u>Carrying value:</u>	
At 1 January 2019	686
At 31 December 2019	670

The right-of-use assets are for the lease of office and warehousing premises from a related party. The lease agreement covers a period of 25 years from 1 July 2008 to 30 June 2033. The group has prepaid the lease payments to the related party. Accordingly, no lease liability has been recognised.

Notes to the Financial Statements (cont'd)

31 December 2019

16. Investment property

	Group	
	2019	2018
	US\$'000	US\$'000
At cost:		
At beginning of the year	2,526	2,526
Reclassified as held for sale (Note 21)	(2,526)	–
At end of the year	–	2,526
Accumulated depreciation:		
At beginning of the year	176	150
Depreciation for the year	27	26
Reclassified as held for sale (Note 21)	(203)	–
At end of the year	–	176
Net book value at beginning of the year	2,350	2,376
Net book value at end of the year	–	2,350
Fair value for disclosure purposes only:		
Fair value at end of the year	–	2,501
Rental and service income from investment property	–	45
Allocation of depreciation expense:		
Administrative expenses	27	26
Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period	30	27

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

The investment property was leased out under an operating lease. The management has not entered into contractual obligations for the maintenance or enhancement of the investment property.

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

Notes to the Financial Statements (cont'd)

31 December 2019

16. Investment property (cont'd)

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

Asset:	Leasehold property at 36 Armenian Street #03-03, Singapore 179934
Gross floor area:	1,527 square feet
Tenure of land:	99 years from 2007
Unexpired lease term:	87 years
Fair value in US\$ and fair value hierarchy – Level:	Nil (2018: US\$2,501,000) Nil (2018: Level 2)
Valuation technique for recurring fair value measurements:	Comparison with market evidence on recent offer of sale prices for similar properties
Significant observable inputs and range (weighted average):	Price per square foot: Nil (2018: US\$1,637)
Relationship of unobservable inputs to fair value:	NA
Sensitivity on management's estimates – 10% variation from estimate	Impact – lower by Nil (2018: US\$250,000); higher by Nil (2018: US\$250,000)

The group's investment property is presented as held for sale following the decision of management in 2019 to sell the investment property. The sale is expected to be completed in 2020.

17. Bearer plants

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Cost</u>		
At beginning of the year	174,726	186,176
Additions	1,200	2,958
Disposal of a subsidiary (Note 39)	–	(2,395)
Disposal	–	(1,371)
Transfer to Plasma ^(a)	(8,765)	–
Capitalisation of interest cost (Note 9)	1,416	1,642
Capitalisation of depreciation expense (Note 14)	399	280
Written-off (Note 17)	218	–
Foreign exchange alignment	7,180	(12,564)
At end of the year	175,938	174,726
<u>Accumulated Depreciation:</u>		
At beginning of the year	32,041	28,310
Depreciation for the year	7,095	7,033
Disposal of a subsidiary (Note 39)	–	(379)
Disposal	–	(547)
Foreign exchange alignment	(1,106)	(2,376)
Transfer to Plasma ^(a)	1,435	–
At end of the year	39,465	32,041
<u>Carrying Value:</u>		
At beginning of the year	142,685	157,866
At end of the year	136,473	142,685

Notes to the Financial Statements (cont'd)

31 December 2019

17. Bearer plants (cont'd)

- (a) During the year ended 31 December 2019, certain reclassification from bearer plants to plasma receivables were made. The reclassification related to costs incurred for development of plasma plantations previously capitalised under bearer plants, so as to be in line with reference costs published by the Indonesian government's Ministry of Agriculture. The reference costs are for plantation companies to develop plasma plantations for villagers who are members of rural cooperatives.

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

The interest capitalised is the actual interest incurred on the bank borrowings to finance the development of oil palm plantations. The interest rates are disclosed in Note 28.

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

	Group	
	2019	2018
	US\$'000	US\$'000
Planted area amounts:		
- mature (US\$'000)	87,767	100,582
- immature (US\$'000)	48,706	42,103
	136,473	142,685
Planted area size:		
- mature (hectares)	46,978	46,806
- immature (hectares)	4,608	6,495
	51,586	53,301

At the end of reporting year, US\$136,473,000 (2018: US\$ 137,322,000) of bearer plants are pledged for certain bank borrowings (see Note 28).

18. Investments in subsidiaries

	Company	
	2019	2018
	US\$'000	US\$'000
Movements during the year:		
At the beginning of the year	36,351	39,160
Allowance for impairment loss	–	(339)
Translation exchange adjustments	1,517	(2,470)
At the end of the year	37,868	36,351
Total carrying value comprises:		
Unquoted shares, at cost	12,961	12,961
Quasi-equity loans receivable	34,842	34,842
Allowance for impairment loss	(339)	(339)
Translation exchange adjustment	(9,596)	(11,113)
Total	37,868	36,351
Movements in allowance for impairment:		
At beginning of the year	339	–
Impairment loss charge to profit or loss included in other losses	–	339
At the end of the year	339	339

Notes to the Financial Statements (cont'd)

31 December 2019

18 Investments in subsidiaries (cont'd)

In 2018, the decreasing performance of a subsidiary, Kencana Logistics Pte. Ltd., was considered sufficient evidence to trigger impairment test which resulted in the recognition of a loss. Accordingly, it has been written down to the recoverable amount. The subsidiary has remained dormant and hence allowance for impairment was carried forward.

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 39.

19. Investments in joint ventures

	Group		Company	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Movements during the year:				
At beginning of the year	–	–	–	–
Loans and advances to joint ventures (Note 24A)	7,427	4,497	–	–
Share of results from equity-accounted joint ventures – continuing operations	(4,992)	(1,803)	–	–
Share of results from equity-accounted joint ventures – discontinued operations (Note 21)	(2,435)	(2,694)	–	–
At end of the year	–	–	–	–
Carrying value:				
Unquoted equity shares, at cost	–	–	2,586	2,586
Loans and advances to joint ventures	23,734	16,307	–	–
Share of loss from equity-accounted joint ventures	(23,734)	(16,307)	(2,586)	(2,586)
At end of the year	–	–	–	–

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	
	2019	2018
	%	%
Joint venture - Kencana Bio-Energy Pte. Ltd. #a #b (Note 19A)		
Singapore		
Investment holding	70	70
Kencana Bio-Energy Pte. Ltd. owns the following subsidiary:		
PT Cahaya Permata Gemilang ("CPG") #c #d		
Indonesia		
Wholesaler of electricity-related products	71.5	71.5

Notes to the Financial Statements (cont'd)

31 December 2019

19. Investments in joint ventures (cont'd)

<u>Name of subsidiary owned by joint arrangement, country of incorporation, place of operations and principal activities</u>	Percentage of equity held by the group	
	2019	2018
	%	%
<i>Held through PT Cahaya Permata Gemilang</i>		
PT Belitung Energy ("BE") #c #d		
Indonesia		
Dormant	71.5	71.5
PT Listrindo Kencana ("LK") #c #d		
Indonesia		
Power generation	71.5	71.5
PT Energy Cipta Utama ("ECU") #c #d		
Indonesia		
Dormant	71.5	71.5
PT Energy Karya Persada ("EKP") #c #d		
Indonesia		
Power generation	71.5	71.5

- #a. Audited by RSM Chio Lim LLP, a member of RSM International
- #b. Kencana Bio-Energy Pte. Ltd. ("KB") is an investment holding company. Its subsidiaries, LK and EKP own and operate power plants at Bangka, Indonesia.
- #c. Audited by a member firm of RSM International of which RSM Chio Lim LLP in Singapore is a member. The name of the member firm is Amir Abadi Jusuf, Aryanto, Mawar dan Rekan ("RSM Indonesia"), Jakarta.
- #d. 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 has an additional 5% interest in the wholly owned subsidiaries of CPG, which are BE, LK, ECU and EKP.

19A. 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 24A for details of the loan receivable from joint venture).

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

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

Notes to the Financial Statements (cont'd)

31 December 2019

19. Investments in joint ventures (cont'd)

19A. 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 were exercisable were based on the performance of KB. The fair value of the options could not be reliably measured because (a) the variability in the range of reasonable fair value measurements was 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 had 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	
	2019	2018
	US\$'000	US\$'000
<u>Joint venture - Kencana Bio-Energy Pte. Ltd.:</u>		
Revenue	–	–
Loss for the reporting year – continuing operations	(48)	(23)
Loss for the reporting year – discontinued operations	(10,902)	(6,500)
Net loss for the reporting year attributable to owners	(10,402)	(6,197)
Other comprehensive income	4	–
Total comprehensive loss attributable to owners	(10,398)	(6,197)
Depreciation and amortisation	–	–
Interest income	–	–
Interest expense	–	–
Income tax expense	(26)	(12)
Current assets	13,090	2,531
Cash and cash equivalents	1,883	461
Assets of a disposal group	11,207	–
Non-current assets	–	13,599
Current liabilities	(48,588)	(3,045)
Current financial liabilities (excluding trade and other payables and provisions)	–	(932)
Liabilities of a disposal group classified as held-for-sale	(42,769)	–
Non-current liabilities	–	(36,479)
Non-current financial liabilities (excluding trade and other payables and provisions)	–	(4,186)
Non-controlling interests	(1,860)	(1,251)
Reconciliation:		
Net liabilities of the joint venture	(35,498)	(23,394)
Proportion of the reporting entity's interest in the joint venture	71.5%	71.5%
Carrying amount of the interest in the joint venture ^(a)	–	–
Capital commitments for construction of plant, fixtures and equipments	–	–

Notes to the Financial Statements (cont'd)

31 December 2019

19. Investments in joint ventures (cont'd)

19A. Joint venture - Kencana Bio-Energy Pte. Ltd. (cont'd)

- (a) After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

20. Land use rights

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Cost:</u>		
At beginning of the year	41,369	44,327
Foreign exchange adjustment	1,673	(2,855)
Additions	63	433
Disposal of a subsidiary (Note 39)	–	(536)
At end of the year	43,105	41,369
<u>Accumulated amortisation:</u>		
At beginning of the year	(6,620)	(5,848)
Foreign exchange adjustment	(245)	394
Amortisation for the year included under cost of sales	(1,353)	(1,212)
Disposal of a subsidiary (Note 39)	–	46
At end of the year	(8,218)	(6,620)
<u>Carrying value:</u>		
At beginning of the year	34,749	38,479
At end of the year	34,887	34,749
<u>Balance to be amortised:</u>		
Not later than one year	1,317	1,194
Later than one year and not later than five years	5,269	4,776
Later than five years	28,301	28,779
	34,887	34,749

The land rights with a carrying value of US\$32,027,000 (2018: US\$31,970,000) have been pledged as security for the bank facilities (see Note 28).

At the end of the reporting year, the group's land rights covering a total land area shown below, represent Business Usage Rights ("Hak Guna Usaha" or "HGU") that have been applied for. Out of these land rights, the certificates for 115,737 hectares were obtained before 31 December 2019 while the land rights certificates covering the remaining area of 4,371 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.

Notes to the Financial Statements (cont'd)

31 December 2019

20. Land use rights (cont'd)

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

<u>Land rights</u>	<u>Expire in years</u>
23,464 hectares	2028 – 2032
92,273 hectares	2033 – 2052
<u>4,371 hectares</u>	Certificates have yet to be received as of the date of this report
<u>120,108 hectares</u>	

21. Discontinued operations and assets held for sale

Details of the assets classified as held for sale are as follows:

	Group 2019
	US\$'000
Investment property (Note 16)	2,323
Investments in joint ventures (Note 19)	–
Loan receivable from joint venture (Note 24A)	4,108
Total assets classified as held for sale	<u>6,431</u>

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities, and accordingly, no impairment loss has been recognised on the classification of these assets as held for sale.

Investment property

The group's investment property is presented as held for sale following the decision of management in 2019 to sell the investment property. The sale is expected to be completed in 2020.

The investment property is mortgaged as security for certain bank facilities (see Note 28), and the related loan of US\$1,363,000 has also been classified as current.

Joint Ventures

On 12 December 2019, the company, together with its subsidiary, PT Sawindo Kencana ("SWK"), entered into a Conditional Sales and Purchase Agreement with a related party, PT Kencana Energi Lestari, TBK, for the sale and purchase of 78.5% of the issued shares and paid-up share capital of CPG. As at 31 December 2019, share of results for CPG and its subsidiaries are accordingly presented in the consolidated statement of profit or loss and other comprehensive income as "loss from discontinued operations". The related assets of CPG and its subsidiaries have been presented in the statement of financial position as "assets held for sale". The disposal is expected to be completed in 2020.

The results of the discontinued operations are as follows:

	Group	
	2019	2018
	US\$'000	US\$'000
Share of results from equity-accounted joint ventures	<u>2,435</u>	<u>2,694</u>

Notes to the Financial Statements (cont'd)

31 December 2019

21. Discontinued operations and assets held for sale (cont'd)

Joint Ventures (cont'd)

The impact of the discontinued operations on the cash flows of the group for the reporting year ended 31 December 2019 was as follows:

	Group 2019
	US\$'000
Operating cash outflows	(4,371)
Total cash outflows	(4,371)

22. Biological assets

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Movement in fair value</u>		
At beginning of the year	5,681	14,099
Foreign currency alignment	381	(804)
Fair value less estimated point-of-sale costs (Note 7)	9,253	(7,430)
Disposal of a subsidiary (Note 39)	–	(184)
At end of the year (Level 3)	15,315	5,681

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

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

The fair value of the biological assets was measured with the assistance of KJPP Benedictus Darmapusita dan Rekan, a firm of independent professional valuers on 7 February 2020 based on the present value of the expected net cash flows of the FFB on the trees as at the valuation date of 31 December 2019 (fair value hierarchy: Level 3). The expected net cash flows of the FFB are determined using the forecast market price of FFB. The significant assumptions made in determining the fair values of the oil palm plantations are as follows:

- (i) Projected volumes of FFB harvested subsequent to year-end are based on management inspection on actual condition of un-harvested FFB growing on the trees as at valuation date;
- (ii) The discount rate used in 2019 is 12.05% per annum (2018: 12.88% per annum) (such discount rates represent the asset specific rate for the group's plantation operations which is applied in the discounted future cash flows calculations); and
- (iii) The projected selling prices of FFB are based on FFB published prices for the respective provinces for December 2019, which is used as an estimate for the forecasted market price.

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

Notes to the Financial Statements (cont'd)

31 December 2019

22. Biological assets (cont'd)

Sensitivity on unobservable inputs:

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

If the projected selling prices of FFB used in the above valuation increased or decreased by 5%, assuming all other variables are held constant, the group's profit and the carrying value of biological assets would increase or decrease by approximately US\$1,297,000 (2018: US\$1,127,000) as a result of higher or lower gains arising from changes in fair value of the biological assets.

If the projected volume of FFB harvested used in the above valuation increased or decreased by 5%, assuming all other variables are held constant, the group's profit or loss and the carrying value of biological assets would increase or decrease by approximately US\$1,307,000 (2018: US\$885,000) 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 or loss and the carrying value of biological assets would decrease or increase by approximately US\$40,000 (2018: US\$17,000).

During the reporting year, the group harvested approximately 701,169 tonnes (2018: 782,758 tonnes) of FFB from the oil palm trees.

At the end of the reporting year, US\$15,315,000 (2018: US\$5,681,000) of the biological assets are pledged for certain bank borrowings (see Note 28).

Risk management strategy related to agricultural activities:

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

Regulatory and environmental risks:

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

Supply and demand risks:

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

Climate and other risks:

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

23. Inventories

	Group	
	2019	2018
	US\$'000	US\$'000
Raw materials, consumables and supplies	6,397	9,258
Finished goods and goods for resale (CPO and CPKO)	5,738	3,718
	12,135	12,976
Increase in inventories of finished goods	(2,020)	(1,442)
Raw materials and consumables used included in cost of sales	26,096	25,986

Notes to the Financial Statements (cont'd)

31 December 2019

23. Inventories (cont'd)

Inventories with a carrying value of US\$11,706,000 (2018: US\$10,402,000) are pledged as security for the bank facilities (see Note 28).

24. Trade and other receivables

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Non-current</u>		
<u>Other receivables:</u>		
Advances under Plasma Programme (Note 32)	6,805	4,023
Loan receivable from joint venture (Note 24A)	–	9,176
Total other receivables, non-current	6,805	13,199
<u>Current</u>		
<u>Trade receivables:</u>		
Outside parties	1,621	4,244
Related parties (Note 3)	56	350
Net trade receivables - Subtotal	1,677	4,594
<u>Other receivables:</u>		
Related parties (Note 3)	–	1
Joint venture (Notes 3 and 19)	–	235
Staff advances	203	196
Prepaid taxes	2,796	1,659
VAT receivable	12,574	13,967
Advances under Plasma Programme (Note 32)	18,099	10,034
Loan receivable from joint venture (Note 24A)	203	–
Other receivables	395	337
Derivative financial instruments (Note 31)	–	24
Net other receivables - Subtotal	34,270	26,453
Total trade and other receivables, current	35,947	31,047
Total trade and other receivables	42,752	44,246
Movements in above allowance on other receivables:		
At beginning of the year	–	900
Written-off	–	(900)
At end of the year	–	–

Notes to the Financial Statements (cont'd)

31 December 2019

24. Trade and other receivables (cont'd)

Certain receivables with a carrying value of US\$24,898,000 (2018: US\$20,640,000) have been pledged as security for the bank facilities (see Note 28).

	Company	
	2019	2018
	US\$'000	US\$'000
<u>Current</u>		
<u>Other receivables:</u>		
Subsidiaries (Note 3)	39,292	35,346
Less allowance for impairment	(2,412)	(2,412)
Total other receivables	36,880	32,934
Movements in above allowance on other receivables:		
At beginning of the year	2,412	–
Charge to profit or loss	–	2,412
At end of the year	2,412	2,412

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring expected credit losses (“ECL”) which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The expected credit losses are based on the past payment experience and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomics factors affecting the ability of the customers to settle the receivables. The group deals with regular customers and has arrangements to obtain advance payments to limit its credit risk. At the end of the reporting year, there were no amounts for trade receivables that were impaired. As at 31 December 2019, the ageing analysis of trade receivables which were past due but not impaired is as follows:

	Group	
	2019	2018
	US\$'000	US\$'000
Receivables past due:		
More than 91 days past due	56	4
	56	4

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade customers is about 60 days (2018: 60 days). However, some customers take a longer period to settle the amounts.

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

	Group	
	2019	2018
	US\$'000	US\$'000
Top 1 customer	312	2,401
Top 2 customers	602	2,942

Notes to the Financial Statements (cont'd)

31 December 2019

24. Trade and other receivables (cont'd)

The other receivables at amortised cost are subject to the expected credit loss model under the financial reporting standard on financial instruments. The other receivables at amortised cost and which can be graded as low risk individually are considered to have low credit risk. At the end of the first reporting period, a loss allowance is recognised at an amount equal to 12 month expected credit losses because there has not been a significant increase in credit risk since initial recognition. At each subsequent reporting date, an evaluation is made whether there is a significant change in credit risk by comparing the debtor's credit risk at initial recognition (based on the original, unmodified cash flows) with the credit risk at the reporting date (based on the modified cash flows). Adjustment to the loss allowance is made for any increase or decrease in credit risk.

24A. Loan receivable from joint venture

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Movement during the year:</u>		
Balance at the beginning of the year	9,176	15,331
Additions	36,598	2,907
Repayments	(32,227)	(6,603)
Interest income (Note 3B)	2,499	3,112
Amount off-set against loan receivable from joint ventures (Note 19)	(7,427)	(4,497)
Allowance for impairment (Note 6)	(4,120)	–
Reclassified as held for sale (Note 21)	(4,108)	–
Foreign exchange alignment	(188)	(1,074)
Balance at the end of the year	203	9,176

The loan receivable was convertible at the holder's option into ordinary shares of the investee company (Kencana Bio-Energy Pte. Ltd., see Note 19A) at any time before 21 March 2018. The option was not exercised by the group.

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

The loan receivable from certain entities has been reclassified and presented as "Assets held for sale" as the group expects to recover the receivable through disposal and the disposal is expected to be completed in 2020.

25. Other assets

	Group		Company	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Other assets, non-current:</u>				
Prepaid rent to a related party	–	642	–	–
Total other assets, non-current	–	642	–	–
<u>Other assets, current:</u>				
Prepaid rent to a related party	–	44	–	–
Advance payments	280	628	–	–
Other prepayments	894	1,488	1	1
Total other assets, current	1,174	2,160	1	1
Total other assets	1,174	2,802	1	1

Notes to the Financial Statements (cont'd)

31 December 2019

26. Cash and cash equivalents

	Group		Company	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Not restricted in use	12,450	8,028	33	20
Deposits pledged for bank facilities	9,899	9,323	–	–
Cash at end of the year	22,349	17,351	33	20

Deposit pledged for bank facilities of US\$9,219,000 that were previously classified as not restricted in use in 2018 has been reclassified. This was adjusted in the consolidated statement of cash flows and had no impact to the other notes.

26A. Cash and cash equivalents in consolidated statement of cash flows:

	Group	
	2019	2018
	US\$'000	US\$'000
Amount as shown above	22,349	17,351
Bank overdrafts (Note 28)	(422)	(562)
Deposits pledged for bank facilities	(9,899)	(9,323)
Cash and cash equivalents for consolidated statement of cash flows purposes at end of the year	12,028	7,466

26B. Non-cash transactions:

There were acquisitions of certain assets under property, plant and equipment with a total cost of US\$403,000 (2018: US\$128,000) acquired by means of finance leases and US\$NIL (2018: US\$2,422,000) reclassified from other assets.

26C. Reconciliation of liabilities arising from financing activities:

	1 January	Cash	Non-cash		31
	2019	flows (net of	changes		December
	US\$'000	repayment)	US\$'000		2019
	US\$'000	US\$'000	US\$'000		US\$'000
Lease liabilities ^(a)	343	(134)	417	(c) & (d)	626
Other financial liabilities ^(b)	271,221	(15,740)	2,974	(d)	258,455
Total liabilities from financing activities	271,564	(15,874)	3,391		259,081
	1 January	Cash	Non-cash		31
	2018	flows (net of	changes		December
	US\$'000	repayment)	US\$'000		2018
	US\$'000	US\$'000	US\$'000		US\$'000
Lease liabilities ^(a)	489	(242)	96	(c) & (d)	343
Other financial liabilities ^(b)	290,419	(4,300)	(14,898)	(d) & (e)	271,221
Total liabilities from financing activities	290,908	(4,542)	(14,802)		271,564

Notes to the Financial Statements (cont'd)

31 December 2019

26. Cash and cash equivalents (cont'd)

26C. Reconciliation of liabilities arising from financing activities: (cont'd)

- (a) Lease liabilities include current and non-current portions. Also see Note 28C.
- (b) Other financial liabilities include current and non-current portions. Also see Note 28.
- (c) Acquisition of property, plant and equipment.
- (d) Foreign exchange movements.
- (e) Disposal of a subsidiary. Also see Note 39.

27. Share capital

	Number of shares issued	Share capital
	'000	US\$'000
Ordinary shares of no par value:		
Balance at 1 January 2018, 31 December 2018 and 31 December 2019	287,011	93,860

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

Capital management:

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

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

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

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

Notes to the Financial Statements (cont'd)

31 December 2019

27. Share capital (cont'd)

Capital management: (cont'd)

	Group	
	2019	2018
	US\$'000	US\$'000
Net debt:		
All current and non-current borrowings including lease liabilities	259,081	271,564
Less: cash and cash equivalents	(22,349)	(17,351)
Net debt	236,732	254,213
Adjusted capital:		
Total equity	9,856	22,144
Debt-to-adjusted capital ratio	2,402%	1,148%

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

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

28. Other financial liabilities

	Group	
	2019	2018
	US\$'000	US\$'000
<u>Non-current</u>		
<u>Floating interest rates:</u>		
Investment loans (secured) (Note 28B)	122,954	120,786
Term loans (secured) (Note 28B)	70,405	77,104
	193,359	197,890
<u>Fixed interest rates:</u>		
Lease liabilities (Note 28C)	272	127
Non-current, total	193,631	198,017
<u>Current</u>		
<u>Floating interest rates:</u>		
Bank overdrafts (secured) (Notes 26A and 28A)	422	562
Bank loans (secured) (Note 28A)	33,552	29,916
Investment loans (secured) (Note 28A)	21,656	31,612
Term loans (secured) (Note 28A)	9,466	11,241
	65,096	73,331
<u>Fixed interest rates:</u>		
Lease liabilities (Note 28C)	354	216
Current, total	65,450	73,547
Total	259,081	271,564

Notes to the Financial Statements (cont'd)

31 December 2019

28. Other financial liabilities (cont'd)

Presented in the statement of financial position as follows:

	Group	
	2019	2018
	US\$'000	US\$'000
Lease liabilities, non-current	272	127
Other financial liabilities, non-current	193,359	197,890
Lease liabilities, current	354	216
Other financial liabilities, current	65,096	73,331
Total	259,081	271,564

28A. Bank overdrafts and bank loans - current

The range of floating interest rates paid was as follows:

	Group	
	2019	2018
	US\$'000	US\$'000
Bank overdrafts – secured		
Indonesian Rupiah	10.75%	10.50%
Bank loans – secured		
United States dollar	4.75% - 5.75%	4.50% - 6.01%
Indonesian Rupiah	6.15% - 10.75%	6.15% - 10.50%
Investment loans – secured		
United States dollar	4.91% - 6.00%	5.50% - 6.31%
Indonesian Rupiah	9.75% - 11.00%	10.30% - 10.75%
Term loans – secured		
United States dollar	4.75% - 5.75%	5.50% - 6.31%
Singapore dollar	3.55% - 4.48%	2.78% - 4.33%

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

28B. Bank loans – non-current

The range of floating interest rates paid was as follows:

	Group	
	2019	2018
	US\$'000	US\$'000
Investment loans – secured		
United States dollar	4.91% - 6.00%	5.50% - 6.31%
Indonesian Rupiah	9.75% - 11.00%	10.30% - 10.75%
Term loans – secured		
United States dollar	4.75% - 5.75%	5.50% - 6.31%
Singapore dollar	4.48%	2.78% - 4.33%

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

Notes to the Financial Statements (cont'd)

31 December 2019

28. Other financial liabilities (cont'd)

28B. Bank loans – non-current (cont'd)

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

	Indonesian Rupiah	Singapore dollars	United States dollars	Total
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Long-term borrowings:</u>				
<u>2019</u>				
2 – 5 years	43,942	531	77,854	122,327
Over 5 years	24,565	277	46,190	71,032
Total	<u>68,507</u>	<u>808</u>	<u>124,044</u>	<u>193,359</u>
<u>2018</u>				
2 – 5 years	56,535	1,085	100,460	158,080
Over 5 years	11,025	1,227	27,558	39,810
Total	<u>67,560</u>	<u>2,312</u>	<u>128,018</u>	<u>197,890</u>

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

The loan agreements include covenants that require the maintenance of certain financial ratios. Any non-compliance with these covenants will result in these loans becoming repayable immediately upon service of a notice by default by the lenders. As at reporting year end, there were certain breaches in loan agreement covenants for loans amounting to US\$119,990,000 (2018: US\$161,709,000) and the lenders have not made a demand for repayment and agreed to waive the breaches prior to the reporting year end.

Notes to the Financial Statements (cont'd)

31 December 2019

28. Other financial liabilities (cont'd)

28C. Lease liabilities

	Minimum payments	Finance charges	Present value
	US\$'000	US\$'000	US\$'000
Group			
<u>2019</u>			
Minimum lease payments payable:			
Due within one year	389	(35)	354
Due within 2 to 5 years	308	(36)	272
Total	<u>697</u>	<u>(71)</u>	<u>626</u>
Net book value of plant and equipment under finance lease			<u>1,044</u>
	Minimum payments	Finance charges	Present value
	US\$'000	US\$'000	US\$'000
<u>2018</u>			
Minimum lease payments payable:			
Due within one year	239	(23)	216
Due within 2 to 5 years	137	(10)	127
Total	<u>376</u>	<u>(33)</u>	<u>343</u>
Net book value of plant and equipment under finance lease			<u>500</u>

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 6.5% to 13.0% per year (2018: 7.0% to 13.0% per year). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The obligations under finance leases are secured by the lessor's charge over the leased assets.

The fair value (Level 2) is a reasonable approximation of the carrying amount. The fair value of the finance leases was estimated by discounting the future cash flows payable under the terms of the finance leases using the year-end interest rates ranging between 6.5% to 13.0% per year (2018: 7.0% to 13.0% per year).

Notes to the Financial Statements (cont'd)

31 December 2019

29. Trade and other payables

	Group		Company	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables:				
Outside parties and accrued liabilities	24,662	18,845	–	–
Net trade payables - Subtotal	24,662	18,845	–	–
Other payables:				
Advances from customer	36,935	33,261	–	–
Related parties (Note 3)	640	–	–	–
Other payables	16,549	6,025	3,073	1,769
Net other payables - Subtotal	54,124	39,286	3,073	1,769
Total trade and other payables	78,786	58,131	3,073	1,769

The related parties' balances, which includes balances due to a director of US\$444,000 (2018: Nil), bear interest at 10.5% (2018: NIL) and are unsecured.

30. Other liabilities

	Group	
	2019	2018
	US\$'000	US\$'000
Employee pension benefits	5,345	4,448

Estimated liability for employee pension benefits

Besides the benefits provided under the defined contribution retirement plans, the group has recorded additional provisions for employee service entitlements in order to meet the minimum benefits required to be paid to the qualified employees, as required under existing manpower regulations in Indonesia. The additional provisions are measured based on actuarial computations prepared by an independent firm of actuaries, PT QUATTRO Asia Consulting, using the "Projected Unit Credit" method which is covered in their reports dated 2 January 2020. The related actuarial liabilities for employee pension benefits are as follows:

	Group	
	2019	2018
	US\$'000	US\$'000
Present value of employee benefits obligation in addition to the defined contribution scheme	5,131	4,754
Foreign currency alignment	214	(306)
	5,345	4,448

Notes to the Financial Statements (cont'd)

31 December 2019

30. Other liabilities (cont'd)

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

	Group	
	2019	2018
	US\$'000	US\$'000
Benefits obligation at beginning of the year	4,448	4,322
Current service costs	575	506
Interest costs on benefits obligation	303	287
Past services costs – vested	–	(443)
Actuarial gain	(179)	90
Disposal of subsidiary (Note 39)	–	30
Foreign currency alignment	198	(344)
Benefits obligation at end of the year	5,345	4,448

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

	Group	
	2019	2018
	US\$'000	US\$'000
Current service costs	575	506
Interest costs on benefits obligation	303	287
Past services costs – vested	–	(443)
Components of employee benefits expense recognised in profit or loss (Note 10)	878	350
Component of employee benefits (gain)/loss recognised in other comprehensive income, net of tax	(111)	84
	767	434

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

Annual discount rate	:	7.16% to 8.19% in 2019 and 8.2% to 8.65% in 2018
Future annual salary increase	:	5% in 2019 and 2018
Annual employee turnover rate	:	7% in 2019 and 2018 for employees under 40 years old and decreasing linearly until 0% at the age of 55 years
Disability rate	:	10% per year in 2019 and 2018
Retirement age	:	55 years of age
Mortality rate	:	Indonesian mortality table 3

Notes to the Financial Statements (cont'd)

31 December 2019

30. Other liabilities (cont'd)

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	256	(293)

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.

31. Derivative financial instruments

	Group	
	2019	2018
	US\$'000	US\$'000
Assets – Derivatives with positive fair values:		
Interest rate swap contracts	–	24
Total derivatives	–	24

Movements during the year were as follows:

	2019	2018
	US\$'000	US\$'000
Fair value at the beginning of the year	24	(712)
Gains recognised in other gains (Note 6)	–	474
Loss recognised in cost of sales	(24)	–
Foreign exchange alignment	–	262
Fair value at the end of the year	–	24

Presented in the statement of financial position as follows:

	Group	
	2019	2018
	US\$'000	US\$'000
Trade and other receivables (Note 24)	–	24
Net balance	–	24

Notes to the Financial Statements (cont'd)

31 December 2019

32. 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 "KKSJR"), 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 KKSJR 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.

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	
	2019	2018
	US\$'000	US\$'000
Facility amounts	31,964	24,622
Outstanding balances	24,839	18,000

Notes to the Financial Statements (cont'd)

31 December 2019

32. Contingent liabilities (cont'd)

Arrangements under the Plasma Programme (cont'd)

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 is US\$24,834,000 (2018: US\$14,057,000):

	Group	
	2019	2018
	US\$'000	US\$'000
Presented as other receivables (Note 24):		
Advances under Plasma Programme, current	18,099	10,034
Advances under Plasma Programme, non-current	6,805	4,023
Total	24,904	14,057

The advances under plasma programme that are not secured by bank facilities and to be repaid by villagers using FFB was measured by management in December 2019 based on the present value of the expected net cash flows with the following significant assumptions.

- (i) Yield per hectare of oil palm trees is determined by reference to guidelines issued by the Indonesian Oil Palm Research Institute (Pusat Penelitian Kelapa Sawit), which varies with the average age of oil palm trees;
- (ii) The discount rate for 2019 is 5% per annum (2018: 6% per annum);
- (iii) The projected selling prices of FFB are derived from adjusting CPO prices to the FFB extraction rate (% of CPO extractable from FFB) and processing costs. The CPO prices are based on the World Bank forecasts.

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

Relationship of unobservable inputs to carrying value:

Favourable or adverse change in discount rate will increase or decrease carrying 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 increase or decrease by approximately US\$315,000 (2018: US\$124,000) and US\$180,000 (2018: US\$130,000) respectively.

Notes to the Financial Statements (cont'd)

31 December 2019

33. 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	
	2019	2018
	US\$'000	US\$'000
Commitments for construction of leasehold buildings	258	705
Commitments for construction of plant, fixtures and equipment	1,130	1,772

34. Financial instruments: information on financial risks

34A. 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	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Financial assets:</u>				
Financial assets measured at amortised cost	49,731	45,947	36,913	32,954
Financial assets measured at FVTPL	–	24	–	–
At end of the year	49,731	45,971	36,913	32,954
<u>Financial liabilities:</u>				
Financial liabilities measured at amortised cost	300,932	296,434	3,073	1,769
At end of the year	300,932	296,434	3,073	1,769

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.

34B. Financial risk management

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

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

34B. Financial risk management (cont'd)

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

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

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

34C. Fair value of financial instruments

The analysis 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.

34D. Credit risk on financial assets

Financial assets are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. For expected credit losses ("ECL") on financial assets, the three-stage approach in the financial reporting standard on financial instruments is used to measure the impairment allowance. Under this approach, the financial assets move through the three stages as their credit quality changes.

However, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables, an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

34E. Liquidity risk – financial liability maturity analysis

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be settled at their contractual maturity. The average credit period taken to settle trade payables is about 110 days (2018: 68 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.

Notes to the Financial Statements (cont'd)

31 December 2019

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

34E. Liquidity risk – financial liability maturity analysis (cont'd)

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

	Less than 1 year US\$'000	2 – 3 years US\$'000	4 – 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
<u>Group</u>					
Non-derivative financial liabilities:					
<u>2019</u>					
Gross borrowings	69,288	69,371	85,127	111,828	335,614
Gross lease liabilities	389	308	–	–	697
Trade and other payables	41,918	–	–	–	41,918
Total	111,595	69,679	85,127	111,828	378,229
<u>2018</u>					
Gross borrowings	75,265	114,565	88,368	63,979	342,177
Gross lease liabilities	239	137	–	–	376
Trade and other payables	24,870	–	–	–	24,870
Total	100,374	114,702	88,368	63,979	367,423

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

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

	Less than 1 year US\$'000	2 – 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
<u>Group</u>				
<u>2019</u>				
Financial guarantees in respect of the Plasma Programme (Note 32)	3,476	10,375	10,988	24,839
<u>2018</u>				
Financial guarantees in respect of the Plasma Programme (Note 32)	1,607	13,282	3,111	18,000

The fair value of the financial guarantees is not significant.

Notes to the Financial Statements (cont'd)

31 December 2019

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

34E. Liquidity risk – financial liability maturity analysis (cont'd)

Bank facilities:

	Group	
	2019	2018
	US\$'000	US\$'000
Undrawn borrowing facilities	30,816	60,003

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.

34F. Interest rate risk

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

	Group		Company	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Financial liabilities with interest:				
Floating rate	258,455	271,221	–	–
Fixed rate	1,194	343	–	–
Total at end of year	259,649	271,564	–	–
Financial assets with interest:				
Floating rate	22,349	17,351	33	20
Fixed rate	–	9,176	–	–
Total at end of year	22,349	26,527	33	20

Notes to the Financial Statements (cont'd)

31 December 2019

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

34F. Interest rate risk (cont'd)

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

Sensitivity analysis:

	Group		Company	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
<u>Financial assets:</u>				
A hypothetical variation in interest rates by 100 basis points with all other variables held constant, would have an increase in pre-tax profit or loss for the year by	223	174	–	–
<u>Financial liabilities:</u>				
A hypothetical variation in interest rates by 100 basis points with all other variables held constant, would have a decrease in pre-tax profit or loss for the year by	2,585	2,712	–	–

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

34G. Foreign currency risks

Analysis of significant amounts denominated in non-functional currency:

	US dollars US\$'000
<u>Group</u>	
<u>2019</u>	
<u>Financial assets:</u>	
Cash and cash equivalents	339
Total financial assets	<u>339</u>
<u>Financial liabilities:</u>	
Borrowings	<u>(163,426)</u>
Total financial liabilities	<u>(163,426)</u>
Net financial liabilities at the end of the year	<u>(163,087)</u>
<u>2018</u>	
<u>Financial assets:</u>	
Cash and cash equivalents	764
Total financial assets	<u>764</u>
<u>Financial liabilities:</u>	
Borrowings	<u>(182,944)</u>
Total financial liabilities	<u>(182,944)</u>
Net financial liabilities at the end of the year	<u>(182,180)</u>

Notes to the Financial Statements (cont'd)

31 December 2019

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

34G. Foreign currency risks (cont'd)

	<u>US dollars</u> <u>US\$'000</u>
<u>Company</u>	
<u>2019</u>	
<u>Financial assets:</u>	
Cash and cash equivalents	7
Net financial assets at the end of the year	<u>7</u>
<u>2018</u>	
<u>Financial assets:</u>	
Cash and cash equivalents	7
Net financial assets at the end of the year	<u>7</u>

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

	<u>Group</u>	
	<u>2019</u>	<u>2018</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Sensitivity analysis:		
A hypothetical 10% strengthening in the exchange rate of the functional currency against the US\$ would have a favourable effect on pre-tax profit or loss of	(16,309)	(18,218)
	<u> </u>	<u> </u>
	<u>Company</u>	
	<u>2019</u>	<u>2018</u>
	<u>US\$'000</u>	<u>US\$'000</u>
Sensitivity analysis:		
A hypothetical 10% strengthening in the exchange rate of the functional currency against the US\$ would have an adverse effect on pre-tax profit or loss of	1	(1)
	<u> </u>	<u> </u>

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

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

34H. 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.

35. Financial information by operating segments

35A. Information about reportable segment profit or loss, assets and liabilities

Segment reporting is not presented as the group is primarily engaged in the palm oil plantation business. The core business consists of planting of palm oil trees, processing of fresh fruit bunches into palm oil and palm kernel at the palm oil mills and kernel crushing plants and the sale of crude palm oil and palm kernel. The measurement of profit or loss that is used by the chief operating decision makers is on a group basis.

35B. Geographical information

	Revenue		Non-current assets	
	2019	2018	2019	2018
	US\$'000	US\$'000	US\$'000	US\$'000
Indonesia	104,065	113,695	249,189	257,722
Singapore	–	11,286	2,691	5,536
Total	104,065	124,981	251,880	263,258

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.

35C. Information about revenue from major customers

	Group	
	2019	2018
	US\$'000	US\$'000
Top 1 customer in plantation segment	19,929	27,684
Top 2 customers in plantation segment	39,808	42,589
Top 3 customers in plantation segment	53,062	54,752

Notes to the Financial Statements (cont'd)

31 December 2019

36. Changes and adoption of financial reporting standards

For the current reporting year, new or revised financial reporting standards were issued by the Singapore Accounting Standards Council. Those applicable to the reporting entity are listed below. Adoption of the applicable new or revised standards has resulted in some changes in the detailed application of the accounting policies and some modifications in financial statements presentation and measurement as disclosed in Note 38.

SFRS(I) No.	Title
FRS (I) 1-19	Amendments: Plan Amendment, Curtailment or Settlement
SFRS (I) 9	Amendments: Prepayment Features with Negative Compensation
SFRS (I) 16	Leases (and Leases - Illustrative Examples & Amendments to Guidance on Other Standards)
SFRS(I) 1-28	Amendments to Long-term Interests in Associates and Joint Ventures
SFRS (I) INT 23	Uncertainty over Income Tax Treatments
SFRS (I) 1-12	Improvements (2017) – Amendments: Income Taxes
SFRS (I) 1-23	Improvements (2017) – Amendments: Borrowing Costs
SFRS (I) 3	Improvements (2017) – Amendments: Business Combinations
SFRS (I) 11	Improvements (2017) – Amendments: Joint Arrangements

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

For the future reporting years, certain new or revised financial reporting standards were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the reporting entity for future reporting years are listed below. Adoption of the applicable new or revised standards are not expected to result in changes in the detailed application of the accounting policies and significant modifications to financial statements presentation and measurement.

SFRS(I) No	Title	Effective date for periods beginning on or after
SFRS (I) 3	Definition of a Business – Amendments	1 Jan 2020
SFRS (I) 1-1 and 1-8	Definition of Material – Amendments to the Conceptual Framework for Financial Reporting	1 Jan 2020
SFRS (I)10 and SFRS (I) 1-28	Sale or Contribution of Assets between and Investor and its Associate or Joint Venture	Not fixed yet

Notes to the Financial Statements (cont'd)

31 December 2019

38. Changes in accounting policies and restatements of comparative figures

Effective from beginning of the current reporting year, certain new or revised financial reporting standards were adopted as mentioned in Note 36. Adoption of those policies and any other changes have resulted in some changes in the application of the accounting policies and some modifications to financial statements presentation and these changes are summarised below.

	After restatements	Before restatements	Difference
	US\$'000	US\$'000	US\$'000
<u>Group</u>			
<u>1 January 2019 Statement of financial position</u>			
Other assets, non-current	–	642	(642)
Other assets, current	–	44	(44)
Right-of-use assets	686	–	686

Leases:

The financial reporting standard on leases is effective for annual periods beginning on or after 1 January 2019 and it supersedes the previous reporting standard and the related interpretations on leases. For the lessee, almost all leases are brought onto the statements of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Accordingly, the group has reclassified its prepaid rent to a related party as right-of-use assets. There is no corresponding liability in respect of the lease as the group has prepaid the rent to the related party. The group elected to apply the modified retrospective approach for this standard new standard on leases. Under the modified retrospective approach, the comparative information is not restated and therefore there is no presentation of a third column for the statement of financial position. There is no adjustment to the opening balance of retained earnings at the date of initial application.

39. 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>	
	<u>2019</u>	<u>2018</u>
	US\$'000	US\$'000
Kencana Logistics Pte. Ltd. ("KL") ^(a) Singapore Investment holding	315	315
Kencana Plantations Pte. Ltd. ("KP") ^(a) Singapore Investment holding	2,043	2,043
Sawindo Agri Pte. Ltd. ("SA") ^(a) Singapore Trading and investment holding	10,603	10,603
	<u>12,961</u>	<u>12,961</u>

Notes to the Financial Statements (cont'd)

31 December 2019

39. 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, Dormant

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

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

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

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

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

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

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

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, Dormant

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

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

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

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

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

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

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

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

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

- (a) Audited by RSM Chio Lim LLP, a member of RSM International.
- (b) Audited by a member firm of RSM International of which RSM Chio Lim LLP in Singapore is a member. The name of the member firm is Amir Abadi Jusuf, Aryanto, Mawar dan Rekan ("RSM Indonesia"), Jakarta.
- (c) Not audited as it is not material.

#C. Disposal of subsidiary

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

Details of the disposal were as follows:

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

Notes to the Financial Statements (cont'd)

31 December 2019

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

#C. Disposal of subsidiary (cont'd):

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

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

40. Events after the end of the reporting year

The group completed the restructuring of the bio-energy business in January 2020. Upon completion of the restructuring, the group disposed of its 70% equity shareholding in KB to Enco Ventures (Singapore) Pte. Ltd. The group's effective interest in CPG and BE (held through SWK) after year-end has increased from 71.5% to 78.5% while Enco Ventures (Singapore) Pte. Ltd.'s interest in CPG and BE (held through KB) has been diluted from 28.5% to 21.5%. The group will continue to account for the investment in BE as a joint venture.

As elaborated in Note 21, subject to the shareholders' approval, CPG and its subsidiaries will be sold to PT Kencana Energi Lestari, TBK and will continue to be accounted for as held for sale till disposed.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr Henry Maknawi
Executive Chairman

Tengku Alwin Aziz
Vice-Chairman and
Independent Director

Ms Ratna Maknawi
Executive Vice-Chairman

Mr Soh Yew Hock
Lead Independent Director

Mr Sim Idrus Munandar
Independent Director

Mr Darwin Indigo
Non-Executive and
Non-Independent Director

AUDIT & RISK MANAGEMENT COMMITTEE

Mr Soh Yew Hock
Chairman

Tengku Alwin Aziz

Mr Sim Idrus Munandar

REMUNERATION COMMITTEE

Mr Sim Idrus Munandar
Chairman

Tengku Alwin Aziz

Mr Soh Yew Hock

NOMINATING COMMITTEE

Tengku Alwin Aziz
Chairman

Mr Soh Yew Hock

Mr Henry Maknawi

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Indonesia

COMPANY SECRETARY

Mr Phillip Lim Lian Teng

SHARE REGISTRAR AND SHARE TRANSFER AGENT

Boardroom Corporate & Advisory
Services Pte. Ltd.

AUDITORS

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
8 Wilkie Road,
#03-08, Wilkie Edge,
Singapore 228095

Partner in Charge: Ms Uthaya Chandrikaa
d/o Ponnusamy

INDEPENDENT VALUER (Biological Assets)

KJPP Benedictus Darmapusita dan Rekan
Property & Business Appraisal,
Feasibility Study, Advisory
Jalan Musi 38
Jakarta 10150, Indonesia

PRINCIPAL BANKERS

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



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