KENCANA AGRI LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 200717793E)
(the "**Company**")

RESPONSES TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT 2019

The Board of Directors (the "Board") of Kencana Agri Limited (the "Company") refers to the queries received from the Securities Investors Association (Singapore) on 15 June 2020 with regard to the Company's Annual Report for the financial year ended 31 December 2019 ("2019 Annual Report"), and wishes to respond to the queries as follows:

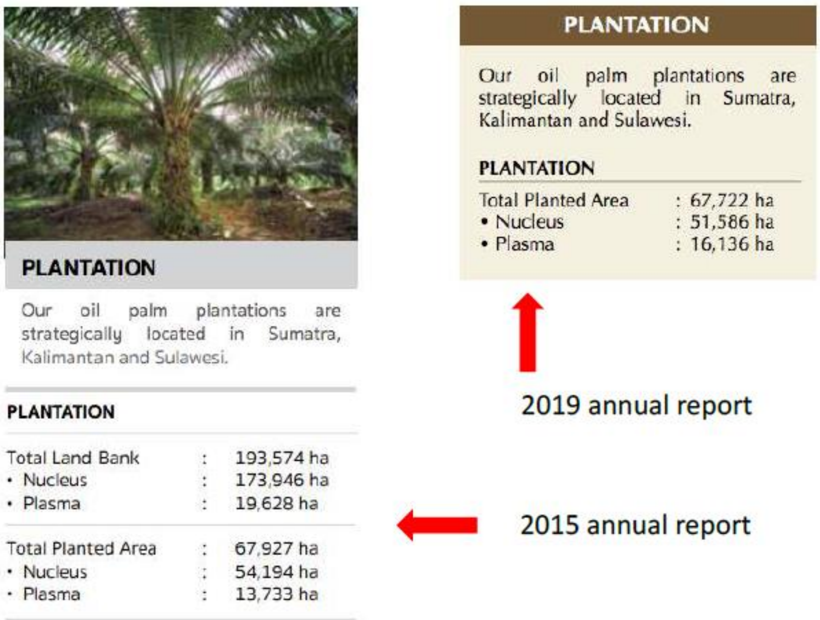
Query 1

As disclosed in the Corporate profile (page 1 of the annual report), the group has oil palm plantations of 67,722ha in 2019 including 51,586ha of nucleus land. The plantations are located mainly in Sumatra, Kalimantan and Sulawesi regions of Indonesia.

In addition, the group's integrated value chain comprises palm oil mills, kernel crushing plants, bulking facilities and renewable biomass power plants to support and complement its plantation operations. The group's six palm oil mills have a total processing capacity of 305 tonnes per hour and the two kernel crushing plants have a total capacity of 435 tonnes per day.

While the group has added a 6th mill in 2019, the group streamlined its operations and completed the disposal of all the vessels in the logistics arm in FY2018. Some of these vessels were acquired during 2012-2015. The group is in the process of selling the biomass power plants as well.

In addition, with the disposal of the non-strategic plantation in Belitung, the group's oil palm plantation has decreased over the years. A comparison of the disclosure in the 2015 and 2019 annual reports is shown below:



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

2019 annual report

PLANTATION

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

PLANTATION

Total Land Bank	:	193,574 ha
• Nucleus	:	173,946 ha
• Plasma	:	19,628 ha
Total Planted Area	:	67,927 ha
• Nucleus	:	54,194 ha
• Plasma	:	13,733 ha

2015 annual report

(i) Can the board clarify the group's strategic growth plans? The group has sold all the vessels in the logistics arm while the group's planted area has not increased since 2015.

(ii) In particular, is management focused on the growth of its oil palm nucleus plantation? What are the planting and replanting schedules?

(iii) As recent as in the 2018 annual report, the group mentioned that the current land-bank was 186,713ha and that it was only 36% planted. The group stated that it has plans to expand its planted area in a sustainable manner over the next few years to ensure steady FFB production growth. However, in the 2019 annual report, there is no mention of the land-bank. Would management state the land bank and elaborate further on the strategy to maximise the value of its land bank?

Company's Response

1(i) The logistics business has not been profitable for the group for several years and we have taken the proactive step to streamline our operations with the disposal of all vessels but keeping the bulking facilities which remain strategic to our CPO business.

As for planting, the strategy going forward is to "right size" our plantation hectarage in order to meet the challenges of increasing sustainability criteria in an environment of prolonged depressed CPO prices. Planting for the group has indeed slowed down in the recent few years but this situation is not specific to the group. It is an industry wide phenomenon where planting slows down in periods where CPO prices are soft and pick up when prices recover - albeit at different pace from company to company. It would be useful to note that oil palm trees when planted incur a net cash outflow for the initial 3 to 5 years until they reach maturity and start to bear fruits of quality and quantity sufficient to turn in a net cash inflow. Our strategy is to plant and replant sustainably when the market conditions permit.

1(ii) Growth of our core plantation business is definitely on our agenda, however we believe in adopting a measured approach to pursuing growth sustainably and when market conditions permit. Replanting is generally undertaken when the yield of an old plantation falls below a profitability threshold and it gets increasingly costly to maintain and operate. This typically happens between 25 to 30 years where productivity of fresh fruit bunches fall below 13 ton to 15 ton per year. New planting and replanting program are also dependent on market conditions and we will exercise caution in executing it strategically at the right time.

1(iii) It is important to note that not all areas in the land bank can be planted. There are limitations due to High Conservation Value (HCV) area, High Carbon Stock (HCS) area as well as Socio-economic criteria that need to be fulfilled under Indonesian Sustainable Palm Oil (ISPO) standards. Therefore, the plantable area can only be determined when a more comprehensive survey is done and it could be significantly lesser than the land bank. As and when we have meaningful information, we will make the disclosure.

<u>Query 2</u>

In Note 27 (page 92 – Share capital: Capital management), the group has net debt of US$236.7 million and total equity of US$9.9 million. The debt-to-adjusted capital ratio is 2,402%.

In addition, the group's current liabilities are more than the current assets as at 31 December 2019. The current loans and borrowings add up to more than US$65 million at the end of the financial year.

(i) Can the board help shareholders understand if it has sufficient working capital to repay the loans and borrowings as they fall due?

(ii) Given the capital intensive nature of the business, would the board be evaluating the group's financial position and to consider options to strengthen the balance sheet?

<u>Company's Response</u>

2(i) In pg40 of the 2019 Annual Report the directors gave their opinion that there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due. Further explanation was provided in pg52 of the 2019 Annual Report under Note 1, reproduced below:

"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.

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."

2(ii) The board is conscious of the financial position and had undertaken various steps to address it. These include the disposal of non-core and non-strategic assets namely the refinery in Balikpapan, the vessels and the plantation in Belitung in the last few years. The disposal of the biomass business is ongoing and is expected to be completed this year. This streamlining of our business will leave us with core quality assets to see us through the future.

Corporate action to tap the capital market and strengthen the balance sheet has always been under consideration. It may be done to finance our development in East Indonesia in the near future but the timing of the exercise has to be considered in the light of the market condition in order to optimise valuation.

Query 3

In the group's Sustainability report, it was disclosed that the group had achieved Sustainable Palm Oil certification from International Sustainability & Carbon Certification for 23.5% of its eligible nucleus palm oil plantation area which represents 12,126 hectares of plantations. This equals to 26,303 tonnes of Certified Sustainable Palm Oil (CSPO), or 14.3% of the total CPO produced by the group in 2019.

This was lower in FY2019 due to a drop in FFB production in PT Alamraya Kencana Mas and the decision to delay its ISCC re-certification process in 2019.

(i) Would management elaborate further and provide a comprehensive overview of the group's certification roadmap?

(ii) When would the group achieve full certification?

(iii) For the plantations that are yet to be certified, how close are they in meeting the criteria in the certification programme?

(iv) How does the board monitor the group's (including its partners) adherence to the environmental policies?

Company's Response

3(i) The Group is currently focusing in complying to the Indonesian Sustainable Palm Oil (ISPO) standards. The Group currently has 4 Estates certified by ISPO, and other estates will commence ISPO certification once they have received 'Productive Estate' status through Plantation Ranking Assessment by the Ministry.

3(ii) The preparation will be conducted in stages. The next estates to be certified would be plantations in Kutai region. However, due to the Covid-19 pandemic, the certification audits may have to be postponed until 2021 to 2022. One estate in Sulawesi is targeted to receive ISPO certification in 2023-2024.

3(iii) In order for estates to be certified, they initially need to receive Penailaian Kelas Kebun (Plantation Ranking Assessment) by the Ministry of Agriculture, and obtain a Productive Estate status. Since the other estates are still classified as Developing Estate by the ministry, we will roll out our certification program once they are ranked as Productive Estate. This is a long-term exercise.

3(iv) The Executive Vice-Chairman who acts as Chief Sustainability Officer (CSO) provides updates, advice and assistance to the Board in monitoring the decisions and actions of management in achieving the group's sustainability goals. The Executive Vice-Chairman reports to the Board and they collectively formulate the Group's sustainability policies, targets, and plans. Through this, the Group has developed a number of programs to corroborate the adherence to our sustainability policy. Some of these include:

a. Conduct internal sustainability audit at least once a year to each of our Area, led by the Sustainability Department. The audit covers estates, mills, plasma and 3rd parties such as transporters operating in our vicinity.

b. Actively engage with 3rd parties to assist us in monitoring and improve our sustainability practices. Some of these include our engagement with Verité to strengthen our labour practices, and joint trainings with The Ministry of Environment and Forestry every year to support our zero burning policy.

BY ORDER OF THE BOARD

Ratna Maknawi
Executive Vice Chairman

Singapore, 23 June 2020