KENCANA AGRI LIMITED
(Registration No: 200717793E)

RESPONSE TO SGX REGCO'S QUERIES IN RELATION TO THE GROUP'S UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

The board of directors (the "Board") of Kencana Agri Limited (the "Company", and together with its subsidiaries, the "Group") wishes to provide the following information in response to the queries raised by Singapore Exchange Regulation ("SGX Regco") on 6 March 2024. The queries were in relation to the Group's announcement of its unaudited condensed financial statements for the year ended 31 December 2023 (the "Announcement"). *Unless otherwise defined, all capitalized terms used herein shall bear the same meanings as ascribed to them in the Announcement.*

1. <u>Query 1</u>

Given the Group's significant liabilities of US$262.7 million and cash and cash equivalents of only US$16.7 million and noting that the Company incurred losses of US$0.28 million in FY2023, please disclose the Board's assessment on:

(i) whether the Company's current assets are adequate to meet the Company's short term liabilities of US$104.4 million, including its bases of assessment; and

(ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations

<u>Company's Response:</u>

The Group believes it will be able to meet its short-term obligations, given:

1. The Group successfully refinanced a portion of its existing loans after FY 2023. There will be additional US$20.5 million loan facility available for use in 2024. Together with this new loan facility, the Group has a total unused loan facility of US$27.9 million.

2. The Group has a working capital loan of US$27.7 million, which can be rolled over annually. This loan is included in short term liabilities and the Group believes it will be able to roll over as and when due. Excluding this loan, as at FY 2023, the Group's short term assets would have an excess over its short term liabilities of US$5.7 million.

3. The Group commissioned its 7th Crude Palm Oil ("CPO") mill in April 2023. The commissioning of this new mill is expected to improve the operating cash flow of the Group as selling of CPO will generate a higher margin as compared to Fresh Fruit Bunches ("FFB"). Prior to the commissioning of the mill, The Group sold its FFB to third party mills. As the mill has just been commissioned, the full positive effect is expected to be seen in the next 12 months and beyond.

2. <u>Query 2</u>

As at 31 December 2023, the Group has total loans and borrowings of US$188.5 million with cash and cash equivalents of US$16.7 million. The Company had further disclosed that the loan agreements include covenants that require the maintenance of certain financial ratios and any non-compliance with these covenants will result in these loans becoming repayable immediately upon service of a notice by default by the lenders.

(i) The Company disclosed that the lenders have agreed to waive the compliance of all the breaches in the covenants of certain loans amounting to US$125.8 million as at 31 December 2023. Please disclose whether the outstanding loan amount of US$62.7 million had triggered the debt covenants and will be repayable immediately. If so, please also disclose how the Company will be financing this loan amount.

<u>Company's Response:</u>

The Group did not breach the loan covenants for the remaining outstanding loan of US$62.7 million.

(ii) Please disclose the pro-active actions which management plans to take to ensure that the Group's financial position remains strong. In your response, please also provide an assessment of the Company's ability to operate as a going concern.

Company's Response:

The Group is taking appropriate long-term actions to strengthen its financial position. Among others, the notable efforts are:

a. Disposal of non-core and underperforming businesses

In February 2022 and 2023, the Group completed its sales of its non-core biomass business and underperforming plantation company, PT. Karunia Alam Makmur, respectively. These efforts reduced the strain on the cashflow and resources are channeled elsewhere that could bring better prospects.

As announced on 11 April 2022, the Group is in negotiation to dispose another of its underperforming plantation land in Kalimantan. The disposal, if successful, is expected to have a positive impact on the financial position of the Group.

b. Commissioned of new mill

The Group's 7th CPO mill located in Gorontalo, Sulawesi, with capacity of 30MT/hour, has been commissioned. The new mill is expected to improve the operating cash flow of the Group in the future as mentioned above.

c. Continuous effort to improve production yield

The Group is making the efforts to continuously improving its production yield. Over the last 2 years, significant expenditure was incurred for the activities, among others, as described below to improve its plantation performance. Barring any unforeseen and events beyond control, these efforts are expected to bring favorable results in the longer term and therefore strengthen the financial position of the Group :

- Intensifying the upkeep activities of the plantations like weeding, will increase the efficiency of FFB harvesting process and resulting in better FFB yield and intensifying application of fertiliser will improve FFB production and oil extraction rate.

- Continuous efforts to improve the plantation infrastructures such as the bridges and access road for harvesting will shorten and hasten the transportation time of FFB from the plantation to the mill. This will improve quality of FFB for processing. In addition, the Group has upgraded the housing and living condition in plantation area so as to reduce the worker's turnover rate and minimise the impact of shortage of workers.

- Continuous training for harvesters and equip them with proper know-how to increase the yield per harvester.

Given the Group's pro-active actions in improving its performance and the continuous efforts to ensure sufficient cash and financing are available to meet its obligations as and when due (as stated in Query 1), the Group believes that it has the ability to operate as a going concern.

3. Query 3

We note from the disclosure made pursuant to Rule 706A of the Listing Manual that the Group's wholly-owned subsidiary, PT. Wira Palm Mandiri ("WPM"), had subscribed for additional 60,000 shares in PT. Agro Inti Kencana Mas ("AIK") for cash consideration of IDR 60,000,000,000, which exceeds 5% of the Company's market capitalisation. It is further noted that AIK is a wholly-owned subsidiary of the Group and there is no change in the overall percentage shareholding of the Company in AIK following the subscription.

(i) Please disclose the use of proceeds; and

(ii) Please disclose the respective principal activities for WPM and AIK.

Company's Response :

(i) Detail of use of proceeds :
Capital expenditure: IDR 7,000,000,000
Interest payment on bank borrowing : IDR 2,300,000,000
The remaining amount was for the working capital needs of AIK.

(ii) WPM is an investment holding company while AIK is a plantation company engaged mainly in the cultivation of oil palms and processing of FFB into CPO and Palm Kernel.

BY ORDER OF THE BOARD OF KENCANA AGRI LIMITED

Ratna Maknawi
Vice Chairman and Executive Director
8 March 2024