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24 November 2022

To: *The Independent Board Committee and the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

RENEWAL OF INDOFOOD GROUP'S PLANTATIONS BUSINESS TRANSACTIONS AND NEW ANNUAL CAPS FOR 2023, 2024 AND 2025; NEW CONTINUING CONNECTED TRANSACTION AND ANNUAL CAPS FOR 2023, 2024 AND 2025 RELATING TO INDOFOOD GROUP'S PLANTATIONS BUSINESS

RENEWAL OF INDOFOOD GROUP'S DISTRIBUTION BUSINESS TRANSACTIONS AND NEW ANNUAL CAPS FOR 2023, 2024 AND 2025

RENEWAL OF INDOFOOD GROUP'S FLOUR BUSINESS TRANSACTIONS AND NEW ANNUAL CAPS FOR 2023, 2024 AND 2025

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions, and the 2023-2025 Flour Business Transactions, including their respective Annual Caps (the "**Transactions**"). Details of the aforesaid transactions are set out in the letter from the Board contained in the circular of the Company (the "**Circular**") to its shareholders dated 24 November 2022, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.



The Independent Board Committee comprising all the Independent Non-executive Directors, namely Prof. Edward K.Y. Chen, *GBS, CBE, JP*, Mrs. Margaret Leung Ko May Yee, *SBS, JP*, Mr. Philip Fan Yan Hok, Ms. Madeleine Lee Suh Shin and Mr. Blair Chilton Pickerell, has been established to make a recommendation to the Independent Shareholders as to whether the terms of the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions, and the 2023-2025 Flour Business Transactions, including their respective Annual Caps are on normal commercial terms, in the ordinary and usual course of business of the Company and are fair and reasonable and in the interests of the Company and its shareholders as a whole. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated or connected with the Company, Indofood, Mr. Salim or their respective core connected persons or associates and, accordingly, are considered eligible to give independent advice on the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions, and the 2023-2025 Flour Business Transactions, including their respective Annual Caps. In the two years prior to this appointment, we did not have other engagement with the Company or its associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Indofood, Mr. Salim or their respective core connected persons or associates.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group (the “**Management**”), which we have assumed in relation to the facts to be true, accurate and complete in all material aspects and in relation to any opinions to be honestly held. We have reviewed information on the Company, including but not limited to, the circular of the Company dated 28 November 2019 in relation to, among other things, the continuing connected transactions as regards the 2020-2022 Plantations Business Transactions, the 2020-2022 Distribution Business Transactions and the 2020-2022 Flour Business Transactions (the “**2019 Circular**”), the Company’s announcement dated 20 October 2021 in relation to, among other things, the revision of certain annual caps under the 2020-2022 Plantations Business Transactions and the 2020-2022 Distribution Business Transactions, the 14 October Announcement and other information contained in the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Group and have assumed in relation to the facts to be true, accurate and complete in all material aspects and in relation to any opinions to be honestly held at the time they were made and will remain, in relation to the facts to be true, accurate and complete in all material aspects and in relation to any opinions to be honestly held, up to the date of the SGM. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us.



PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and the 2023-2025 Flour Business Transactions, including their respective Annual Caps, we have taken into account the following principal factors and reasons:

1. Plantations Business

1.1 Background of and reasons for the 2023-2025 Plantations Business Transactions

Indofood Group conducts vertically integrated agribusinesses in Indonesia through Indofood Agri Resources Ltd., a listed company in Singapore, SIMP and PT Perusahaan Perkebunan London Sumatra Indonesia Tbk, listed companies in Indonesia, and their respective subsidiaries (the “**Indofood Plantations Group**”). The Indofood Plantations Group, a major producer of edible oils and fats in Indonesia with widely accepted and recognised brands, is principally engaged in research and development, oil palm seed breeding, cultivation of oil palm plantations, production and refining of crude palm oil, cultivation of rubber and sugar canes plantations and marketing and selling of other related products, management and cultivation of industrial timber plantations, including agroforestry. The Indofood Plantations Group also manages and cultivates cocoa and tea plantations, and processing, marketing and selling of related agricultural products.

As advised by the management of Indofood, the Indofood Plantations Group is based in Indonesia and had planted area of 296,635 hectares as of 30 June 2022, of which 247,347 hectares and 16,215 hectares are planted with oil palm and rubber respectively, while the remainder of 33,073 hectares are planted with other crops such as sugar cane, cocoa, tea and timber.

As also advised by the management of Indofood, the Indofood Group will continue to focus on (i) capital investment in replanting older palms in North Sumatra and Riau, and critical infrastructure; (ii) improving the fresh fruit bunch (“**FFB**”) yields through active crop management and pursuing innovations and mechanization to raise plantation productivity; and (iii) continue to focus on cost control improvements and drive greater efficiency through digitalization and streamlining of work process.

We were advised that the 2023-2025 Plantations Business Transactions are essential and continue to be imperative to the integrated supply chains of crude palm oil and sugar within the Indofood Group, with a firm target to continue to (1) vertically integrate the production of edible oils and fats and consumer branded products business of the Indofood Group and the oil palm and sugar cane plantations business of the Indofood Plantations Group; (2) ensure necessary equipment and facilities are in place for the cultivation of oil palm plantations; (3) secure reliable sources of high-quality crude palm oil attributable to the self-developed high quality seeds to fulfil the internal demand from the Indofood Group; (4) facilitate the transportation of FFB and crude palm oil to the production facilities of the Indofood Plantations Group; (5) utilise the technology developed by the research facilities of the Indofood Plantations Group to improve the yield rate and quality of crude palm oil; and (6) enhance productivity and achieve cost efficiency.



1.2 Principal terms of the 2023-2025 Plantations Business Transactions

As stated in the letter from the Board of the Circular, the framework agreements in respect of the existing 2020-2022 Plantations Business Transactions will expire on 31 December 2022. Subject to Independent Shareholders' approval having been obtained in respect of the 2023-2025 Plantations Business Transactions, the framework agreements in respect of the transactions numbered (1) to (11) in Table A in the letter from the Board of the Circular (the "**Plantations Agreements**") will be automatically renewed from 1 January 2023 for a term of three years, expiring on 31 December 2025, on the same terms as those of the existing agreements.

The arrangements described below will commence on 1 January 2023 and will have a duration of three years, expiring on 31 December 2025. Subject to compliance with the relevant requirements of the rules of any stock exchange to which any of the parties to the relevant framework agreement is subject to, including, but not limited to, the Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the initial term or subsequent renewal term, each of the framework agreements will be automatically renewed for a successive period of three years thereafter (or such other period permitted under the Listing Rules), unless terminated earlier by any party to the relevant framework agreement by giving not less than one month's notice to the other party(ies) in accordance with the terms of the relevant framework agreement.

Details of the 2023-2025 Plantations Business Transactions (the "**Plantations Transactions**") are set out as follows:

- (1) Provision of pumping and loading services by STP to SIMP and its subsidiaries (the "**SIMP Group**") (the "**Pumping Services**");
- (2) Rental of infrastructure between SIMP Group and CSNJ (the "**Infrastructure Transactions**");
- (3) Provision of various services by RMK to the SIMP Group (the "**RMK Services**");
- (4) Transactions between the IGER Group and the SIMP Group (the "**IGER Transactions**");
- (5) Sale and rental of cars and sales of spare parts and provision of car services by the Indomobil Group to the Indofood Group (the "**Indomobil (Plantations) Transactions**");
- (6) Sale of palm oil and its derivative products by SIMP to Shanghai Resources (the "**Palm Oil Transaction**");



- (7) Sale of margarine by SIMP to NIC (the “**Margarine Transaction**”);
 - (8) Grant of exclusive license of “Indosugar” trademark by Indofood to LPI (the “**Sugar Transaction**”);
 - (9) Sale of packaging materials by IAK to LPI (the “**Packaging Material Transaction**”);
 - (10) Sale of finished goods (such as cooking oil and margarine) by the SIMP Group to Indomaret Group (the “**SIMP-Indomaret (Plantations) Transactions**”); and
 - (11) Sale of finished goods (such as cooking oil and margarine) by the SIMP Group to PT IDmarco Perkasa Indonesia (“**IDP**”) (the “**IDP (Plantations) Transactions**”).
- (a) *Pumping Services*

SIMP is a subsidiary of Indofood Group which is principally engaged in the research and development, seed breeding, oil palm cultivation and milling as well as production and marketing of cooking oil, margarine and shortening products. The SIMP Group is also engaged in the cultivation of sugar cane, rubber and other crops.

STP is 100% owned by companies controlled by Mr. Salim and is engaged in pumping services at Dumai port in Indonesia, where the bulk storage tanks of SIMP are located. As advised by the management of Indofood, the SIMP Group have been utilising the pumping facilities owned by STP to infuse or extract crude palm oil from its storage tanks for more than 21 years.

We have reviewed the Plantations Agreements and we note the fee payable under the Pumping Services are mutually agreed between the relevant parties from time to time based on prevailing market conditions which are expected to be no less favourable to the SIMP Group than to independent third parties. We are further advised by the management of Indofood that the Pumping Services have comparable transactions with independent third parties. In this regard, we have requested Indofood to provide us with, among other things, samples of similar transactions or quotes with or provided by independent third parties. We note that the principal terms, i.e. service scope of the existing agreements as regard the Pumping Services have been similar to those made available to the Indofood Group by independent third parties. As observed from the quotations of similar transactions provided, the rates charged by STP have been no less favourable to SIMP Group than those offered by independent service suppliers. We are further advised by the management of Indofood that similar approach and basis will continue to be used in setting the fee of the Pumping Services.



We are advised by the management of Indofood that the services provided by STP have been satisfactory. In the view that (i) SIMP has been utilising STP's pumping services for over 21 years, quality of which have been considered satisfactory by SIMP; (ii) any changes might lead to operation interruption and extra expenses in terms of cost and time; and (iii) as discussed in the paragraph above, the service rates charged by STP will be no less favourable to SIMP Group when compared to the rates to be charged by independent third parties, we concur with the view of the Directors that the entering into of the Plantations Agreements as regard the Pumping Services is beneficial to the Group.

(b) Infrastructure Transactions

As disclosed in the letter from the Board in the Circular, CSNJ is an associate of Mr. Salim and is engaged in the business of transportation, leasing and trading in Indonesia. As provided by the management of Indofood, under the Infrastructure Transactions the SIMP Group may rent office building(s) close to its plantation areas from CSNJ for its operational use.

Pursuant to the Plantations Agreements as regard the Infrastructure Transactions, the fees shall be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions. We are advised by the management of Indofood, the SIMP Group has been renting office units near its plantation areas in Sumatera from CSNJ throughout 2020 to 2022. According to the lease agreement provided by the SIMP Group, the term of the lease is from 1 January 2020 up to 31 December 2022 and the annual rental fee for renting such office units was around Rp390 million or Rp90,400 per square meter ("**Sqm**"). In this regard, we have requested the SIMP Group to provide two quotations from independent property agencies for similar properties in the region and is considered by the Indofood Group to be within reasonable proximity to the SIMP Group's plantation area ("**CSNJ Comparable Properties**"). Based on the information provided, we noted that the annual rental fee per Sqm for the CSNJ Comparable Properties are in the range of around Rp300,000 to Rp302,778. We have discussed and understand from the Indofood Group management that the subject property being rented from CSNJ is considered to be preferable over other properties around the region because it is most convenient located next to its plantation area. Given that the rental being paid under the existing rental agreement with CSNJ is lower than the prevailing market price, as shown by the rent for the CSNJ Comparable Properties, we concur with the Directors' view that the terms of the Infrastructure Transactions have been no less favourable to the SIMP Group than those available in the market. We further understand that in case the SIMP Group decides to continue to rent office unit(s) from CSNJ adjacent to its plantations area for operation purposes during 2023 to 2025, a similar approach and basis will continue to be used to ensure that the rental fee and terms offered are fair, reasonable and comparable to those offered by independent third parties.



In view of, as discussed in paragraphs above, among other things, the entering into of the Plantations Agreements as regard the Infrastructure Transactions will not make the Indofood Group becoming obliged to enter into any transactions with CSNJ, but will only allow, among other things, CSNJ to be one of the available choice(s) for the SIMP Group's selection, we concur with the view of the Directors that the entering into of the Plantations Agreements as regard the Infrastructure Transactions is beneficial to the Group.

(c) RMK Services

RMK is 100% owned by companies controlled by Mr. Salim which provides various services, including the lease of heavy equipment, the sale of building materials, office space, trucks and tug boats rental, transportation services and road reinforcement services, in accordance with the requirements of its counterparties.

Services provided by RMK to the SIMP Group under the RMK Services include (i) leasing of office space; (ii) sales of building materials and others; (iii) provision of transportation services; and (iv) sales of road reinforcement services.

As advised by the management of Indofood, the SIMP Group has been using the RMK Services since 2007 and the SIMP Group and RMK have a long business relationship. As advised by the Indofood Group, historically speaking, a majority of the transactions under RMK Services is related to the provision of transportation services and Indofood expects near 100% of services under the RMK Services will be attributable to the provision of trucks and tugboats rental and transportation services.

We have reviewed the Plantations Agreements as regard the RMK Services, and we note that the rates/rental fees are mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which is expected to be no less favourable to the SIMP Group than those offered by independent third parties. We are further advised by the management of Indofood that all the RMK Services have comparable transactions with independent third parties. In this regard, we have requested Indofood to provide us with, among other things, the relevant records as regard similar transportation services provided by independent third parties in, and we note that the rates/rental fee/fees under the existing agreements as regard the RMK Services have been no less favourable than those made available to the SIMP Group by independent third parties.



We are advised by the management of Indofood that RMK has always provided their services on time and effectively. As such, we concur with the management of Indofood that the services provided by RMK have been satisfactory. In the view that (i) the SIMP Group and RMK have a long business relationship and RMK's services have been considered satisfactory; (ii) any changes might lead to operation interruption and extra expenses in terms of cost and time; and (iii) as discussed in the paragraph above, the rates/fees to be charged by RMK shall be no less favourable when compared to the rates/fees charged by independent third parties, we concur with the view of the Directors that the entering into of the Plantations Agreements as regard the RMK Services is beneficial to the Group.

(d) IGER Transactions

The IGER Group is comprised of joint venture plantation companies between SIMP and the Salim Group.

Transactions under the IGER Transactions include (i) the provision of operational services which include mainly research services by the SIMP Group to the IGER Group; (ii) selling of seedlings and fertilizer products by the SIMP Group to the IGER Group; (iii) leasing of office space and vehicle by the SIMP Group to the IGER Group; and (iv) purchase of palm oil and derivative products from the IGER Group by the SIMP Group. As advised by the management of Indofood, based on purchase records over the last three years, the SIMP Group acquired over 60% of the annual production volume of the IGER Group's palm oil and its derivative products for further processing.

The aforesaid transactions as regard the provision of operational services and selling of seedlings and fertilizer products would broaden the income base and enhance revenue of the SIMP Group. On the other hand, the purchase of palm oil and derivative products from the IGER Group would allow the SIMP Group to continue to secure a stable supply of quality crude palm oil and its derivative products for further processing.

We have reviewed the Plantations Agreements and we note that the rates/fees shall be mutually agreed between the relevant contracting parties from time to time and based on prevailing market conditions which is expected to be no less favourable to the SIMP Group than to independent third parties. We are further advised by the management of Indofood that, save for the operational services provided by the SIMP Group, all other IGER Transactions have comparable transactions with independent third parties. In this regard, we have requested Indofood to provide us with, among other things, the relevant transaction records and quotations of similar transactions provided by independent third parties, and we note that the principal terms under the existing agreements as regard the IGER Transactions (save for the operational services provided by the SIMP Group) have been no less favourable to the SIMP Group than to independent third parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the rates/fees under the IGER Transactions.



We are confirmed by the management of Indofood that the Indofood Group has not conducted transactions in respect of the operational services with independent third parties. We are also advised by the management of Indofood that the operational services provided to the IGER Group (e.g. chemical related analysis services) is only available from either Indofood Group or its competitors. Since the performance of the operational services will involve the collection of operational data and information, it would not be commercially sensible for the IGER Group, being a subsidiary of the SIMP Group, to engage the SIMP Group's competitors to provide such services. Nevertheless, we are advised by the management of Indofood that the Indofood Group has provided similar operational services to intra-group companies. In this regard, we have requested Indofood to provide us with, among other things, the relevant transaction records of similar intra-group transactions, and we note that the principal terms of the operational services as regard the IGER Transactions, are similar to those made available to the intra-group companies. As observed from the transaction records, the service fees for operational services under the IGER Transactions have been no more favourable than those available to the intra-group companies for similar service. Given that (i) as discussed above, the Indofood Group is likely to be the only suitable service provider to the IGER Group for certain transactions; and (ii) the service fees charged on operational services under the IGER Transactions have been no more favourable than those available to the intra-group companies for similar services, we considered that the terms under the operational services of the IGER Transactions are not unreasonable.

In view of, as discussed in paragraphs above, (i) the benefits pursuant to the IGER Transactions; and (ii) that the rates/fees involved shall be no less favourable to the SIMP Group, we concur with the view of the Directors that the entering into of the Plantations Agreements as regard the IGER Transactions is beneficial to the Group.

(e) Indomobil (Plantations) Transactions

Indomobil Group is an associate of Mr. Salim. As disclosed in the letter from the Board in the Circular, Indomobil Group is a brand holding sole agent, vehicle sales distribution, after sales service, vehicle ownership financing, spare part distribution under the "IndoParts" brand, vehicle assembly, automotive parts, component manufacturing and other related support services.



As provided by the management of Indofood, services provided by the Indomobil Group under the Indomobil (Plantations) Transactions include (i) sales/renting of vehicles; (ii) provision of vehicle services; and (iii) sales of spare parts, to Indofood Group. Indofood Group has been using the aforesaid services provided by the Indomobil Group since 1993.

We have reviewed the Plantations Agreements as regard the Indomobil (Plantations) Transactions, and we note that the price/rent/fees are determined by and mutually agreed between the relevant contracting parties from time to time and based on prevailing market conditions which are expected to be no less favourable to the Indofood Group than to independent third parties. We are further advised by the management of Indofood that all the Indomobil (Plantations) Transactions have comparable transactions with independent third parties. In this regard, we have requested Indofood to provide us with, among other things, the relevant records/quotations for purchases of vehicles/car services provided by independent third parties, and we note that the principal terms under the existing agreements as regard the Indomobil (Plantations) Transactions have been no less favourable than those made available to the Indofood Group from independent third parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future price/rent/fees under the Indomobil (Plantations) Transactions.

We are advised by the management of Indofood that the services provided by the Indomobil Group have been satisfactory. In the view that (i) the Indofood Group and the Indomobil Group have a long business relationship and the Indomobil Group's services have been considered satisfactory; (ii) any changes might lead to operation interruption and extra expenses in terms of cost and time; and (iii) as discussed in the paragraph above, the price/rent/rates to be charged by the Indomobil Group shall be no less favourable to Indofood Group when compared to the price/rent/rates charged by independent third parties, we concur with the view of the Directors that the entering into of the Plantations Agreements in relating to Indomobil (Plantations) Transactions is beneficial to the Group.

(f) Palm Oil Transaction

Shanghai Resources is a trading company in which Mr. Salim has an aggregate effective interest of 100%. It has trading experience and a consumer network in the PRC, particularly in respect of the trading of margarine and shortening.

We understand from the management of Indofood that palm oil and its derivative products are the main ingredients for production of cooking oil, margarine and shortening. SIMP has conducted the Palm Oil Transaction with Shanghai Resources for over 11 years.



We have reviewed the Plantations Agreements and we note that the selling prices of palm oil and its derivative products shall be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no less favourable to the SIMP than to independent third parties. We are advised by the management of Indofood that there are comparable products in the market. In such regard, we have reviewed the relevant recent transaction records of sale of palm oil to independent third parties by SIMP, and we note that the selling prices of palm oil and its derivative products to Shanghai Resources have been no more favourable than those offered by SIMP to independent third parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the selling prices of palm oil and its derivative products of the Palm Oil Transaction. Considering that the selling prices will be determined with reference to the prevailing market conditions and on terms no more favourable to Shanghai Resources than to independent third parties, we are of the view that the pricing basis is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

In view of, as discussed in paragraphs above, (i) the Palm Oil Transaction has been revenue contributor to Indofood Group; and (ii) that the selling prices offered to Shanghai Resources shall be no more favourable than those offered by the SIMP Group to independent third parties, we concur with the view of the Directors that the entering into of the Plantations Agreements as regard the Palm Oil Transaction is beneficial to the Group.

(g) Margarine Transaction

As stated in the letter from the Board in the Circular, NIC is an Indonesian public company with its shares listed on the Indonesia Stock Exchange in which Mr. Salim has an effective interest of approximately 16.8%. It is one of the largest mass produced bread company in Indonesia with 14 factories throughout Indonesia. We are advised by the management of Indofood that SIMP is one of the bread margarine suppliers to NIC since 2013.

We have reviewed the Plantations Agreements as regard the Margarine Transaction, and we note that the selling prices of margarine shall be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no less favourable to SIMP than to independent third parties. We are advised by the management of Indofood that the Margarine Transaction has comparable transactions with independent third parties. In such regard, we have reviewed the relevant transaction records of sale of margarine to independent third parties. As observed from the invoices, the selling prices offered to NIC have been no more favourable than those offered to independent third parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future selling prices of the Margarine Transaction such that, if applicable, the then prevailing selling prices of similar comparable transactions will be used as market references to the Margarine



Transaction. Considering that the selling prices will be determined with reference to the prevailing market conditions and be no more favourable to NIC than to independent third parties, we consider that the pricing basis is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

In view of, as discussed in paragraphs above, (i) the Margarine Transaction has been a revenue contributor to Indofood Group; and (ii) that the selling prices offered to NIC shall be no more favourable than those offered to independent third parties, we concur with the view of the Directors that the entering into of the Plantations Agreements as regard the Margarine Transaction is beneficial to the Group.

(h) Sugar Transaction

LPI is an Indonesian incorporated limited liability company in the business of plantation development in Indonesia. It currently has approximately 13,600 hectares of plantation cultivated with sugarcane located in South Sumatra and Central Java and a sugar cane production factory.

Indofood has granted the exclusive license of “Indosugar” trademark related to sugar to LPI in Indonesia since 2011 and there has been no dispute between the parties in respect of such trademark arrangement. The management of Indofood considers that the granting of the exclusive license of “Indosugar” trademark to LPI has broadened the income base and enhanced revenue of the Indofood Group and therefore, is beneficial to the Group.

We have reviewed the Plantations Agreements as regard the Sugar Transaction, and we noted that the rate of royalty fee of 1% per annum of the total sales value of sugar shall be determined by and mutually agreed between the relevant contracting parties from time to time. As the granting of the “Indosugar” trademark to LPI is exclusive, we were given to understand by the Indofood Group management that there would be no independent third-party comparable transactions. Against such backdrop, we are advised by the management of Indofood that the Sugar Transaction has comparable transactions in respect of granting of the exclusive use of trademark of other products such as granting of the exclusive use of “Milkuat” trademark of dairy products by Indofood to its other subsidiary (the “**Milkuat Comparable**”). We consider the comparison of terms between that of the Sugar Transaction against that of the Milkuat Comparable to be reasonable mainly because: (i) there are no direct comparison available for the Sugar Transaction; and (ii) based on the discussion with the Indofood Group, the nature of the grant of the exclusive use of “Milkuat” trademark by Indofood to its other subsidiary, which is also an exclusive arrangement between Indofood Group and another party, is similar to that of the Sugar Transaction. In such regard, we have reviewed the relevant agreements of similar transactions provided by Indofood. As observed from the agreements, the rate of royalty fee charged on LPI was the same as those charged for comparable transactions. We are further advised by the management of Indofood that a similar



approach and basis will be used in setting the future rate of royalty fee of the Sugar Transaction such that, if applicable, the then prevailing rate of similar comparable transactions will be used as market references to the Sugar Transaction. Considering that the rate of royalty fee will be determined with reference to the prevailing rate of similar comparable transactions and be no more favourable to LPI than to independent third parties or other subsidiary of the Indofood Group (if applicable), we consider that the pricing basis is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

In view of, as discussed in paragraphs above, (i) the Sugar Transaction has been revenue contributors to Indofood Group; and (ii) that the royalty rate involved shall be no more favourable to LPI than to independent third parties or other subsidiary to the Indofood Group (if applicable), we concur with the view of the Directors that the entering into of the Plantation Agreements as regard the Sugar Transaction is beneficial to the Group.

(i) Packaging Material Transaction

IAK is one of Indofood's operating subsidiaries for the Indofood Group's packaging business. We understand from Indofood's management that IAK has been one of the suppliers of packaging materials to LPI since 2014.

We have reviewed the Plantations Agreements as regard the Packaging Material Transaction, and we note that the selling prices of the packaging shall be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no more favourable to LPI than to independent third parties. We are advised by the management of Indofood that the Packaging Material Transaction has comparable transactions with independent third parties and the selling prices of the packaging material have been no more favourable to LPI than those to independent suppliers. In such regard, we have reviewed the relevant purchase orders for packaging material supplied by Indofood to independent third parties. As observed from the purchase orders, selling prices of the packaging materials to LPI have been no less favourable than those charged in the comparable transactions. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future selling prices of the Packaging Material Transaction such that, if applicable, the then prevailing selling prices of a similar comparable transactions will be used as market references to the Packaging Material Transaction. Considering that the selling prices will be determined with reference to the prevailing market conditions and be no more favourable to LPI than to independent third parties, we consider that the pricing basis for the Packaging Material Transaction is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.



In view of, as discussed in paragraphs above, (i) the Packaging Material Transaction has been revenue contributors to Indofood Group; and (ii) that the selling prices charged on LPI shall be no more favourable than those charged to independent third parties, we concur with the view of the Directors that the entering into of the Plantations Agreements as regard the Packaging Material Transaction is beneficial to the Group.

(j) *SIMP-Indomaret (Plantations) Transactions*

Indomaret Group is an associate of Mr. Salim. The principal business of Indomaret Group is the operation of approximately 20,200 minimarkets, 210 supermarkets and 26 outlets for wholesaling of customer goods to modern and traditional retailers and end users in Indonesia. It is one of the Indonesia's largest minimarket operators by number of stores. Indomaret was first established in 1988 and has, over the last 20 years gained tremendous amount of operational experience with knowledge and skills to operate a large-scale retail network. We are advised by the management of Indofood that the SIMP Group is one of the major suppliers of packaged cooking oil products and oil derivative products including margarine to the Indomaret Group. The SIMP Group has been a supplier of the Indomaret Group for over 23 years. Therefore, given the long business relationship with Indomaret Group for over 23 years, it would also be in Indofood's interests and make commercial sense for Indofood to ride on the success of Indomaret Group and use its readily available extensive market coverage in Indonesia to distribute its products to end customers. Moreover, based on the current available information provided, it would not be economically feasible for Indofood to diversify out of its manufacturing specialisation and seek means to create its own retail sales network to a scale that is able to match or exceed that of Indomaret Group.

We have reviewed the Plantations Agreements as regard the SIMP-Indomaret (Plantations) Transactions, and we note that the selling prices of the finished goods supplied by the SIMP Group shall be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no more favourable to the Indomaret Group than to independent third parties. We are advised by the management of Indofood that the finished goods sold to the Indomaret Group include cooking oil and margarine and that the SIMP-Indomaret (Plantations) Transactions have comparable transactions with independent third parties. In such regard, we have reviewed the relevant invoices of sale of the same finished goods to independent third parties by the SIMP Group. As observed from the invoices, the selling prices of the same finished goods charged to Indomaret Group have been no less favourable than those charged to independent third parties. We are further advised by the management of Indofood that a similar approach and basis will be used in setting the future selling prices of the SIMP-Indomaret (Plantations) Transactions such that, if applicable, the then prevailing selling prices of similar comparable transactions will be used as market references to the SIMP-Indomaret (Plantations) Transactions. Having taken into account that the selling prices will be determined with reference to the prevailing market conditions and be



no more favourable to Indomaret Group than to independent third parties, we consider that the aforesaid pricing basis is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

In view of, as discussed in paragraphs above, (i) the SIMP-Indomaret (Plantations) Transactions have been revenue contributors to Indofood Group; and (ii) that the selling prices shall be no more favourable to Indomaret Group than those to independent third parties, we concur with the view of the Directors that the entering into of the Plantation Agreements as regard the SIMP-Indomaret (Plantations) Transactions is beneficial to the Group.

(k) IDP (Plantations) Transactions

IDP is engaged in e-commerce solutions for grocery shopping for stalls, shops and kiosks. Products available through the IDP website ranges from packaged foods, snacks, soft drinks, kitchen spices and other necessities. As provided in the Circular, IDP is a company in which Mr. Salim has an aggregate effective interest of 100.0% and is an associate of Mr. Salim.

Based on business plans, the SIMP Group is expected to commence sales of finished goods such as cooking oil and margarine to IDP from 2023. We understand that the products to be sold to IDP are mainly crude palm oil (“CPO”) and its derivatives including cooking oil and margarine.

We have reviewed the corresponding framework agreements as regard the IDP (Plantations) Transactions, and we note that the selling prices of the products supplied shall be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no more favourable to IDP than those to the independent third parties.

Having taken into account that the selling prices will be determined with reference to the prevailing market conditions and be no more favourable to IDP than to independent third parties, we consider that the pricing basis for the IDP (Plantations) Transactions is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.

In view of, as discussed in paragraphs above, (i) the IDP (Plantations) Transactions will be revenue contributors to Indofood Group; and (ii) that the selling prices to IDP shall be no more favourable than those to independent third parties, we concur with the view of the Directors that the entering into of the Plantations Agreements as regard the IDP (Plantations) Transactions, is beneficial to the Group.



1.3 Annual Caps for the 2023-2025 Plantations Business Transactions

Set out below are details of the actual transacted amount of each of the Plantations Transactions for each of the two years ended 31 December 2021 and the nine months ended 30 September 2022, and details of the Annual Caps for the 2023-2025 Plantations Business Transactions:

	Actual transacted amount			Proposed Annual Caps			Revenue generating (R)/Payments by Indofood Group (P)/Bilateral (B) (Note)
	For the year ended 31 December 2020	2021	For the nine months ended 30 September 2022	For the year ending 31 December 2023	2024	2025	
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
Pumping Services	0.5	0.5	0.4	1.0	1.1	1.3	P
Infrastructure Transactions	0.0	0.0	0.0	0.1	0.1	0.1	B
RMK Services	0.4	0.9	0.6	2.1	2.4	2.7	P
IGER Transactions	38.2	49.6	38.8	98.9	108.1	119.0	B
Indomobil (Plantations) Transactions	5.4	4.7	3.8	9.4	10.1	11.6	P
Palm Oil Transaction	34.4	77.0	46.4	137.8	150.1	163.4	R
Margarine Transaction	1.3	2.4	1.8	3.4	3.8	4.1	R
Sugar Transaction	0.4	0.5	0.4	0.7	0.8	0.9	R
Packaging Material Transaction	0.5	0.4	0.4	0.7	0.8	0.9	R
SIMP-Indomaret (Plantations) Transactions	104.1	131.8	50.7	214.8	262.5	320.9	R
IDP (Plantations) Transactions	—	—	—	0.2	0.4	0.6	R
TOTAL	185.2	267.8	143.3	469.1	540.2	625.5	

Note: The classification of revenue, payment and bilateral nature of the transactions are based on the service scopes provided under the framework agreement(s).



As disclosed in the table above, the proposed annual caps for the SIMP-Indomaret (Plantations) Transactions and the Palm Oil Transaction account for 75.2%, 76.4% and 77.4% of the total annual caps for the Plantations Business Transactions for each of 2023, 2024 and 2025 respectively and such transactions are all revenue-generating in nature for Indofood Group.

(a) Pumping Services

We note the transacted amount for Pumping Services was relatively steady for each of the 2020, 2021 and 2022 (on an annualised basis).

We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the 2023-2025 Annual Caps, they have principally taken into account of (i) the expected recovery in production volume of CPO from 2023 post COVID-19 pandemic and as a result of expected improvement in weather conditions and replanting activities in previous years; (ii) the expected increase in unit prices of the pumping service provided by STP being in line with the domestic inflation in Indonesia; and (iii) a general buffer of 25.0% (the “**Plantations Buffer**”) to allow flexibility in accommodating (a) the uncertainty in the fluctuation of exchange rate of US\$ to Rp; and (b) possible unexpected increase in transaction amount due to one-off and/or occasional event(s).

We note that the 2023 Annual Cap (before applying the Plantation Buffer) represents an increase of around 60.0% over the annualised transaction amount of approximately US\$0.5 million under the Pumping Services for year ending 31 December 2022 and average growth rates of approximately 14.1% for 2024 and 2025. We concur with the Directors’ view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and the Independent Shareholders after taking into consideration the following:

- (i) Indofood has indicated in its annual report for year ended 31 December 2021 (“**Indofood 2021 Annual Report**”) that CPO production was lower than expected in the previous year mainly because of unexpected heavy rainfall that impacted most of the plantations companies in Indonesia. However, it is expecting higher CPO production volume for the coming years mainly as a result from newly developed areas, due to replanting activities in previous years, as well as younger tree coming into maturity, and from the construction of a 45 tonnes FFB per hour palm oil mill in East Kalimantan in 2021. As also stated in Indofood 2021 Annual Report, the Indofood Plantations Group also expects to increase plantation productivity, which, based on our understanding, would directly affect production volume by prioritising capital investments in the replanting of older palm trees in Riau and North Sumatra, in the development of critical infrastructure, improving FFB yields through active crop management, bolstering cost control strategies, and pursuing relevant innovations and mechanization (together, the “**Expected Increase in Production**”).



- (ii) Based on the data published by Bank Indonesia (“**BI**”), which is the central bank of the Republic of Indonesia, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022. The estimated increase in unit prices of the pumping services assumed is therefore generally in line with the domestic inflation.
- (iii) as stated in section “1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (a) Pumping Services” above, the pricing basis for the Pumping Services is considered to be fair and reasonable and sufficient internal procedures and policies are in place;
- (iv) the historical fluctuation of exchange rate of RP to US\$ during the period from 2 January 2019 to the Latest Practicable Date had been volatile as we observed that, Rp experienced maximum appreciation of around 6.4% and maximum depreciation of around 12.8% against US\$ during the period (assuming the spot rate on 2 January 2019 being the base price) (the “**FX Volatility**”). We also observed that Rp has led a gradual trend of depreciation against US\$. On such basis, we consider that a substantial portion of the buffer amount catering for the FX Volatility is not excessive; and
- (v) the Plantations Buffer is considered acceptable taking into account that, as the Pumping Services are essential for the normal operations of the Indofood Group, the buffer, apart from providing provision for the FX Volatility, will also provide flexibility for the Indofood Group to minimise the chance of operation disruption and mitigate the burden of the Group to bear additional time and costs to conduct revision of the relevant annual cap(s) as a result of possible unexpected increase in transaction amount due to unexpected one-off and/or occasional increase in demand of the services (the “**Benefits for having the Plantations Buffer (Purchase)**”).



(b) Infrastructure Transactions

We note the total transacted amounts for 2020 and 2022 (on an annualised basis) remained minimal. We note the expected Annual Caps for the coming three years ending 31 December 2025 is expected to increase marginally to approximately US\$0.1 million for each of the three years respectively. We have been advised by the management of Indofood that the reasons for the increase was because they are expecting further adjustments in total rent should it choose to rent offices from CSNJ over the next three years ending 31 December 2025 and such rate is expected to remain the same over the next three years. In addition, we understand that in determining the Annual Caps, the Plantations Buffer was also factored in.

We concur with the Directors' view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and Independent Shareholders after taking into consideration the following:

- (i) according to quotations from two independent property agency provided to us by the management of Indofood, the rent per Sqm charged for properties similar to the property being rented by the SIMP Group (i.e. the CSNJ Comparable Properties) are both higher. We note that the rent per Sqm based on the proposed new rent per year for the next three years ending 31 December 2025, being approximately Rp103,988 per Sqm, is lower than the per Sqm rent for the CSNJ Comparable Properties (located in city), being at approximately Rp300,000 and Rp302,778 per Sqm per annum;
- (ii) as stated in section "1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (b) Infrastructure Transactions" above, the pricing basis for the Infrastructure Transactions is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and
- (iii) the Plantations Buffer is considered acceptable and commercially justifiable taking into account the Benefits for having the Plantation Buffer (Purchase) as discussed in detail in section headed "1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (a) Pumping Services" above.

(c) RMK Services

We note that the transacted amount for RMK Services was approximately US\$0.4 million in 2020. We understand from Indofood that the actual transacted amount in 2020 was lower than expected due to effects of the COVID-19 pandemic where business activities were essentially halted to cope with social distancing measures enforced by governments. We note that such transacted amount bounced back to around pre COVID-19 levels in 2021 to approximately US\$0.9 million and is expected to be relatively similar of approximately US\$0.8 million for 2022.



We have discussed with the management of Indofood and understand they are expecting a general uptrend in annual caps for the RMK Services transactions mainly due to the Expected Increase in Production of its plantation areas as disclosed in the section above under the heading “1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (a) Pumping Services” which would result in the corresponding increase in demand of the RMK Services. We understand from the management of Indofood that it has adopted an embedded growth rate of 112.5% before the application of Plantations Buffer in estimating the Annual Cap for 2023 mainly due to the rise in plantation productivity including FFB yields improvement through active crop management and mechanisation initiative. We also understand that Indofood expects production level to be relatively stable for the subsequent years after 2023 and therefore, an average embedded growth rate of approximately 13.4% for 2024 and 2025 before the applying the Plantations Buffer was adopted in estimating the annual caps for the RMK Services as based on the information provided by the Indofood’s management. We note in estimating the annual caps, inflation statistics published by recognised sources such as BI was also considered. Based on the information available from BI, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022. In addition to the aforementioned and considering (i) as stated in section “1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (c) RMK Services” above, the pricing basis for the RMK Services is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and (ii) the Plantations Buffer is considered commercially justifiable taking into account the Benefits for having the Plantations Buffer (Purchase) as discussed in the section headed “1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (a) Pumping Services” above, we would concur with the Directors’ view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and the Independent Shareholders.



(d) IGER Transactions

The transacted amounts under the IGER Transactions increased by approximately 29.8% in 2021, mainly attributable to (i) the increase in CPO prices amounted to an average of US\$1,210/MT as compared with US\$719/MT in 2020 due to reduced global supply and higher prices of substitutes, and (ii) the continued demand for CPO oil of the SIMP Group from the IGER Group due to its higher production level. The transaction amount for 2022 (on an annualised basis) remains similar to that of 2021 full year.

Based on the information provided by Indofood Group, among the various transactions under the IGER Transactions, the purchase of palm oil and its derivative products from the IGER Group by the SIMP Group accounted for over 95% of the historical transacted amount of the IGER Transactions and it is expected by the Indofood Group that the purchase of palm oil and derivative products will still take up approximately 95% of the total transaction amount of the IGER Transactions in the coming three years.

We have discussed with the management of Indofood regarding the underlying reasons and noted that, in arriving at the 2023-2025 Annual Caps, they have principally taken into account (i) the continued increase in volume demand for CPO and its derivative products of the SIMP Group for the use in its edible oils and fats business; and (ii) the Plantations Buffer. The management of Indofood has adopted an embedded annual growth rate of approximately 53.0% for 2023, 9.3% for 2024 and 10.1% for 2025 along with the Plantations Buffer of 25.0%, when arriving at the Annual Caps.

We concur with the Directors' view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and the Independent Shareholders after taking into account, among others, the following consideration:

- (i) the expected increase in volume demand of CPO and derivative products from the IGER Group by SIMP Group for the use in its edible oils and fats business;
- (ii) the total purchase volume of CPO by the Indofood Group was around 898,000 metric tonnes in 2021. The projected annual demand of CPO from the IGER Group under the IGER Transactions represents not more than approximately 10% of its total annual demand of CPO of Indofood Group;
- (iii) as stated in section "1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (d) IGER Transactions" above, the pricing basis for the IGER Transactions is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and



- (iv) the Plantations Buffer is considered commercially justifiable taking into account the Benefits for having the Plantation Buffer (Purchase) as discussed in detail in section headed “1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (a) Pumping Services” above.

(e) Indomobil (Plantations) Transactions

We note the transacted amounts under the Indomobil (Plantations) Transactions between 2020 and 2021 decreased by approximately 13.0% and is expected to increase by approximately 8.5% in 2022 (on an annualised basis). As advised by the management of Indofood, this was predominately a result of the COVID-19 pandemic which impacted business globally across most industries and the expected results in 2022 is a minor rebound.

The 2023 Annual Cap, before the Plantation Buffer, represents around 47.1% increase as compared to the annualised transacted amount for 2022 and roughly 7.4% and 14.9% annual growth are assumed in the Annual Caps for 2024 and 2025 respectively. We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the Annual Caps for 2023-2025, they have principally taken into account (i) the estimated number and model of vehicles required to be purchased and leased to facilitate the growth in oil palm plantation area with new planting in the coming three year to accommodate, among others, rebound in demand to be supplied and purchased by the Indofood Plantations Group and the Expected Increase in Production to meet the global supply shortage; (ii) the estimated number of corresponding spare parts and services required for the maintenance of the vehicles; (iii) the expected increase in the leasing rate or purchase price of vehicles and spare parts; and (iv) the Plantations Buffer.

We concur with the Directors' view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and Independent Shareholders after taking into consideration the following:

- (i) the Expected Increase in Production as discussed above, which would trigger corresponding increase in demand for ancillary services including that of vehicles and other related services;
- (ii) as stated in section “1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (e) Indomobil (Plantations) Transactions” above, the pricing basis for the Indomobil (Plantations) Transactions is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and



- (iii) the Plantations Buffer is considered commercially justifiable taking into account the Benefits for having the Plantation Buffer (Purchase) as discussed in detail in section headed “1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (a) Pumping Services” above.

(f) *Palm Oil Transaction*

We note the transacted amounts for Palm Oil Transaction increased by approximately 123.8% in 2021 and declined by approximately 19.6% in 2022 (on an annualised basis). We are advised by management of Indofood that the movements were a combination of reasons including export permit restrictions on cooking oil, margarine and shortening from the Indonesia’s government, fluctuations in import volumes due to effects from COVID-19 pandemic including longer custom clearance timetables, logistics issues and lockdown in the PRC, increases in prices for its products due to the increase in CPO commodities prices combined with shortage of supply due to the effect of weather.

We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the 2023-2025 Annual Caps and in applying an embedded growth rate of approximately 78.0%, 8.9% and 8.9% for each of 2023 (before applying the Plantation Buffer), 2024 and 2025 respectively, they have principally taken into account (i) the Expected Increase in Production as discussed above which would increase the saleable products; (ii) expected shorter custom clearance timetables commencing 2023; and (iii) the Plantations Buffer.

We concur with the Directors’ view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and Independent Shareholders after taking into consideration the following:

- (i) The Expected Increase in Production set out above to address current global shortage of CPO products;
- (ii) we are given to understand that Shanghai Resources is expected to resume its business and expansion plans in the PRC (following recent shutdowns in the PRC due to COVID-19 pandemic) including enlarging its business distribution network and increase the products variety which would expect to increase, according to the Indofood’s management based on their prior experience, demand for products by approximately 10-20% per annum;
- (iii) the Palm Oil Transaction is revenue in nature and is expected to broaden the income base and enhance revenue of the SIMP Group;



- (iv) as stated in section “1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (f) Palm Oil Transaction” above, the pricing basis for the Palm Oil Transaction is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and
- (v) the Plantations Buffer is considered acceptable taking into account the FX Volatility and that the Palm Oil Transaction involve mainly sales of products which are income-generating to the Indofood Group, the Plantations Buffer, apart from providing provision for the FX Volatility, will also provide flexibility for the Indofood Group to enjoy additional income resulting from possible unexpected increase in transaction amount due to one-off and/or occasional event(s), and to mitigate the burden of the Group to bear additional time and costs to conduct revision of the relevant annual cap(s) (the “**Benefits for having the Plantations Buffer (Sales)**”), which are considered commercially justifiable.

(g) *Margarine Transaction*

As advised by the management of Indofood, the transacted amounts under the Margarine Transaction increased by approximately 84.6% in 2021 and is expected to remain on similar levels in 2022 (on an annualised basis). We note from the Indofood 2021 Annual Report that the increase in demand for margarines was mainly attributable to consumers eating and dining more at home.

We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the Annual Caps for 2023 (before applying the Plantation Buffer) to 2025 and an average embedded annual growth rate of approximately 10.7%, they have principally taken into account (i) the estimated continued increase in demand for margarine by NIC as NIC is still in the process of expanding its operations; and (iii) the Plantations Buffer.

We concur with the Directors’ view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and Independent Shareholders after taking into consideration the following:

- (i) as provided by the management of Indofood, NIC’s projected demand for margarine is around 2,100 metric tonnes, 2,300 metric tonnes and 2,500 metric tonnes in 2023, 2024 and 2025 respectively;



- (ii) the estimated increase in the unit selling price of margarine by Indofood Group is consistent with Indonesia's recent inflation statistics, the monthly inflation rate of Indonesia sharply increased from approximately 1.3% in late 2020 to as high as 4.9% in July 2022 and further increased to approximately 5.95% in September 2022 based on the data published by BI;
- (iii) as stated in section "1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (g) Margarine Transaction" above, the pricing basis for the Margarine Transaction is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and
- (iv) the Plantations Buffer is considered acceptable and commercially justifiable taking into account the Margarine Transaction being income generating in nature and the Benefits for having the Plantations Buffer (Sales) as discussed in detail in the section headed "1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (f) Palm Oil Transaction" above.

(h) *Sugar Transaction*

We note that the transacted amounts under the Sugar Transaction increased by approximately 25.0% in 2021 and remained on similar levels in 2022 (based on the best estimation by the Company since sugar is usually harvested in the 2nd semester) to around US\$0.5 million. We have been given to understand that the fluctuations as stated were a result of changes in sales volume of sugar by LPI affected by unforeseeable weather impacts which impacted the growth of sugarcane and in turn, the sugar production volume.

We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the Annual Caps for 2023-2025, they have principally taken into account (i) the estimated sales volume of sugar of LPI for the three years ending 31 December 2025 based on sales estimations, and LPI is expected to resume its plans to further increase the mill's utilisation rate in 2023 which was previously impacted by the COVID-19 pandemic; (ii) the expected increase in sugar price; and (iii) the Plantations Buffer.

We concur with the Directors' view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and Independent Shareholders after taking into consideration the following:

- (i) we understand that the Annual Caps embedded an annual growth rate for 2023 (before applying the Plantation Buffer), 2024, 2025 of around 20.0%, 14.3% and 12.5% respectively on the transaction amount. Having



considered the gradual reopening of borders and lifting of social distancing restrictions in Indonesia which is expected to have a positive impact on sales and rebound in production volume and that LPI is expected to further increase its full production capacity, we are of the view that the embedded annual growth rates for the coming three years are not excessive;

- (ii) as stated in section “1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (h) Sugar Transaction” above, the pricing basis for the Sugar Transaction is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and
- (iii) the Plantations Buffer is considered acceptable and commercially justifiable taking into account the Sugar Transaction being income-generating in nature and the Benefits for having the Plantations Buffer (Sales) as discussed in detail in the section headed “1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (f) Palm Oil Transaction” above.

(i) *Packaging Material Transaction*

We note that the actual transacted amount for transactions under the Packaging Material Transaction was largely steady between 2020 and 2022 (on an annualised basis).

The 2023 Annual Cap, before the Plantation Buffer, represents around 20.0% increase as compared to the annualised transacted amount for 2022 and roughly 14.3% and 12.5% annual growth are assumed in the Annual Caps for 2024 and 2025 respectively. We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the Annual Caps for 2023 to 2025, they have principally taken into account (i) the projected demand of packaging materials of LPI largely corresponding to the demand of the Sugar Transaction in the coming three years; (ii) the prevailing and expected increase in selling prices of packaging materials; and (iii) the Plantations Buffer.

We concur with the Directors’ view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and Independent Shareholders after taking into consideration the following:

- (i) as provided by the management of Indofood, based on expected sales volume of sugar in 2022 and the latest stock level of packaging materials of LPI, LPI’s demand for packaging materials as a whole, in 2023 is expected to increase to around 1.7 million sheets in 2023 from 1.3 million sheets in 2022, representing an expected growth of approximately 30.8%;



- (ii) the estimated increase in the unit selling price of packaging material is in line with Indonesia's recent inflation statistics, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022 based on the data published by BI; and
- (iii) as stated in section "1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (i) Packaging Material Transaction" above, the pricing basis for the Packaging Material Transaction is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and
- (iv) the Plantations Buffer is considered acceptable and commercially justifiable taking into account the Packaging Material Transaction being income-generating in nature and the Benefits for having the Plantations Buffer (Sales) as discussed in detail in the section headed "1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (f) Palm Oil Transaction" above.

(j) *SIMP-Indomaret (Plantations) Transactions*

We note that the transacted amounts for the SIMP-Indomaret (Plantations) Transactions increased by approximately 26.6% for 2021 but decreased by approximately 48.7% for 2022 (on an annualised basis). Based on information provided by the Indofood management, the fluctuations in transaction amount was mainly due to lower demand by end customers of Indomaret Group in 2022 since the cooking oil price is high.

The 2023 Annual Cap, before the Plantation Buffer, represents around 154.1% increase as compared to the annualised transacted amount for 2022 and a roughly 22.2% annual growth is assumed in the Annual Caps for 2024 and 2025 respectively. We also understand that approximately 95% of total annual cap relating to the SIMP-Indomaret (Plantations) Transactions is attributable to selling of finished goods to Indomaret and Indogrosir. Such finished goods include cooking oil and margarine. We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the Annual Caps for 2023 to 2025, they have principally taken into account (i) the estimated sales volume based on the anticipated increase in demand for the packaged cooking oil products and oil derivative products, being the key products to be sold to Indomaret Group for the next three years ending 31 December 2023; (ii) the expected adjustment in prevailing unit selling price charged by Indofood taking into account of factors including inflation; (iii) the expected sales value to be contributed from sugar and margarine products sold to Indomaret, being the biggest attributor for the annual cap; (iv) the expected increase in the number of outlets operated by Indomaret Group; and (v) the Plantations Buffer.



We concur with the Directors' view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and the Independent Shareholders after taking into consideration the following:

- (i) as provided by the management of Indofood, Indomaret and Indogrosir currently operates around 20,200 minimarkets, 210 supermarkets and 26 outlets in Indonesia in 2022. The increase in stores for Indomaret was phenomenal, as compared to, for instance the approximately 16,000 minimarkets it had in 2019. We understand the Indomaret Group intends to continue to increase its presence and to achieve an annual increase of approximately 20%;
- (ii) selling price of cooking oil products to the Indomaret Group is expected by the Indofood Group to decrease by approximately 20% mainly due to, among other factors, government policies to control the effect of increases in CPO prices over the recent years which caused significant hikes in the prices of branded cooking oil. Such decrease is expected to increase volume of products sold;
- (iii) we understand that the sales to Indomaret, being the largest contributor of the annual cap is expected to include sugar and margarine products. We understand the estimated volume and sales price of margarine expected to be sold is with reference to experiences gained from sales to Indogrosir, and Lion Superindo (which is also a part of the Indomaret Group and will be purchasing margarine products from Indofood);
- (iv) the estimated price increases in products is considered in line with Indonesia's recent inflation statistics, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022 based on the data published by BI;
- (v) as stated in section "1.2 Principal terms of the 2023-2025 Plantations Business Transactions – (j) SIMP-Indomaret (Plantations) Transactions" above, the pricing basis for the SIMP-Indomaret (Plantations) Transactions is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and
- (vi) the Plantations Buffer is considered acceptable and commercially justifiable taking into account the SIMP-Indomaret (Plantations) Transactions being income-generating in nature and the Benefits for having the Plantations Buffer (Sales) as discussed in detail in the section headed "1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (f) Palm Oil Transaction" above.



(k) IDP (Plantations) Transactions

As advised by the management of Indofood, the IDP (Plantations) Transactions will commence in 2023. Finished goods expected to be supplied to IDP include cooking oil and margarine.

We noted that the Company expects a general increase in Annual Caps for the IDP (Plantations) Transactions for the three years ending 31 December 2025, with the estimated Annual Cap of approximately US\$0.2 million, US\$0.4 million and US\$0.6 million for 2023, 2024 and 2025 respectively. We have discussed with the management of Indofood and noted the main reason for this is Expected Increase in Production which would have a positive effect on the production and sale of CPO and derivative products through all sales channels including IDP, as well as the expectation that IDP is expected to expand its product range offered to its customers to include items such as margarine. In addition, in estimating the Annual Caps for the IDP (Plantations) Transactions, Indofood has also considered IDP's estimated demand of products and the recent increases in CPO commodity prices especially in the recent two years as discussed above. As with other Plantations Transactions, the Plantations Buffer of 25.0% was also adopted.

We consider the Plantations Buffer is acceptable and commercially justifiable taking into account the IDP (Plantations) Transactions being income generating in nature and the Benefits for having the Plantations Buffer (Sales) as discussed in detail in the section headed "1.3 Annual Caps for the 2023-2025 Plantations Business Transactions – (f) Palm Oil Transaction" above.

Having considered the above, we are of the view that the Annual Caps for the IDP (Plantations) Transactions are fair and reasonable and in the interests of both the Company and Independent Shareholders.

(l) Conclusion

Having considered that, in particular, the reasons and factors discussed above in relation to our assessment of the Annual Caps for each of the 2023-2025 Plantations Business Transactions, we are of the view that the proposed aggregated Annual Caps for the 2023-2025 Plantations Business Transactions are set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of both the Company and Independent Shareholders as a whole.



2. Distribution Business

2.1 *Background of and reasons for the 2023-2025 Distribution Business Transactions*

As disclosed in the letter from the Board in the Circular, IAP and PDU are the operating subsidiaries of Indofood for the Indofood Group's distribution business ("**Distribution Business**"). The Distribution Business is a strategic asset that forms a vital part of Indofood's vertically integrated operations. Its vast network and nationwide distribution capabilities enable the availability of Indofood and third-party products throughout Indonesia. The products distributed by the Distribution Business are mainly consumer products including the instant noodle products, snack food, food seasoning, cooking oil, beverage, dairy products and personal care products. With the cooperation from the distribution partners, the Distribution Business has the most extensive distribution network of outlets in Indonesia among domestic consumer goods distributors.

Indofood Group has conducted the distribution business transactions with LS for over 16 years, FFI for over 11 years, and Indomaret and Indogrosir since 2014. LS, FFI, Indomaret and Indogrosir currently operates around 210 supermarkets, 730 restaurant outlets, 20,200 minimarkets and 26 outlets respectively in Indonesia, which form a sizeable retail network for consumer goods covering most of the major cities and regions of Indonesia. As long as the pricing and other terms of the transactions with Indomaret Group and FFI are fair and reasonable to the Group and its Shareholders as a whole, it will be beneficial to the Indofood Group to maintain business relationship with them and leverage on their retail network for the development of the Distribution Business.

As disclosed in annual report of the Company for the year ended 31 December 2021, the Group's aggregate annual turnover derived from the Distribution Business for the year ended 31 December 2021 amounted to about US\$350.0 million. As disclosed in Indofood's annual report for the year ended 31 December 2021, the Distribution Business remains a pivotal asset to Indofood's vertically integrated business model, ensuring products of both Indofood and external customers can continue to swiftly go to market despite inter-state movement restrictions and other COVID-19 challenges. To sharpen sales and profitability growth as well as market competitiveness, Indofood Group is paying close attention to evolving distribution channels to manage and develop potential sales and it will continue to grow its current network of 1,300 distribution/stock points to escalate access to both traditional and modern trade outlets across Indonesia.

We concur that it is of high importance for the Distribution Business to maintain and broaden the distribution network and the entering into of the 2023-2025 Distribution Business Transactions, which have contributed and are expected to continue to contribute to Indofood Group's operating revenue, are therefore considered in the interest of the Group.



2.2 *Principal terms of the 2023-2025 Distribution Business Transactions*

As disclosed in the letter from the Board of the Circular, existing framework agreements in respect of the 2020-2022 Distribution Business Transactions will expire on 31 December 2022.

Subject to Independent Shareholders' approval having been obtained in respect of the 2023-2025 Distribution Business Transactions, the framework agreements in respect of the transactions numbered (1) to (9) in Table B in the letter from the Board of the Circular (the **"Distribution Agreements"**) will be automatically renewed from 1 January 2023 for a term of three years, expiring on 31 December 2025, on the same terms as those of the existing agreements. Subject to compliance with the relevant requirements of the rules of any stock exchange to which any of the parties to the relevant framework agreement is subject to, including, but not limited to, the Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the initial term or subsequent renewal term, each of such new framework agreements will be automatically renewed for a successive period of three years thereafter (or such other period permitted under the Listing Rules), unless terminated earlier by any party to the relevant framework agreement by giving not less than one month's notice to the other party(ies) in accordance with the terms of the relevant framework agreement.

We have reviewed the corresponding framework agreements in relation to the 2023-2025 Distribution Business Transactions and note that the pricing basis in respect of each of transactions will be determined from time to time based on the written mutual agreement between the parties, with due regard to prevailing market conditions.

The 2023-2025 Distribution Business Transactions include:

- (1) distribution of various consumer products and finished goods (such as noodles, seasoning, sauce, snack, milk, baby food, special food, flour, cooking oil, margarine and other third party products) by IAP to the Indomaret Group (the **"IAP-Indomaret (Distribution) Transactions"**);
- (2) sales of chili and tomato sauces, seasonings and dairy products by IAP to FFI (the **"IAP-FFI Transactions"**);
- (3) distribution of various consumer products and finished goods (such as noodles, seasoning, sauce, snack, milk, baby food, special food, flour, cooking oil, margarine and other third party products) by PDU to the Indomaret Group (the **"PDU-Indomaret (Distribution) Transactions"**);
- (4) sale/rental of vehicles and spare parts and provision of vehicles service by the Indomobil Group to the Indofood Group (the **"Indomobil (Distribution) Transactions"**);
- (5) the Indofood Group use human resources outsourcing services from SDM Group (the **"Indofood-SDM (Distribution) Transactions"**);



- (6) rental of space by the Indomaret Group from IAP (the “**Indomaret Rental Transaction**”);
 - (7) management of IAP’s pension plan assets by Indolife (the “**Pension Transaction**”);
 - (8) purchase of sugar by IAP from LPI (the “**IAP-LPI Sugar Transaction**”); and
 - (9) commission fees payable and sale of finished goods (such as noodles, seasoning, sauce, snack, milk, baby food, special food, flour, cooking oil, margarine and other third party products) by IAP to IDP (the “**IDP (Distribution) Transactions**”)
- (a) *IAP-Indomaret (Distribution) Transactions, IAP-FFI Transactions and PDU-Indomaret (Distribution) Transactions*

As provided by Indofood, the Distribution Agreements involving sales of goods by the Indofood Group such as the IAP-Indomaret (Distribution) Transactions, IAP-FFI Transactions and PDU-Indomaret (Distribution) Transactions, will consist of terms and conditions similar to those offered by the Indofood Group to independent third parties and on normal commercial terms, and in particular, the price/fee to be received by Indofood Group under each relevant transaction agreements will be agreed between the relevant contracting parties from time to time based on prevailing market conditions which is expected to be no more favourable to FFI and Indomaret Group than those offered to other independent third parties by the Indofood Group.

In this regard, we have requested Indofood to provide us with the relevant transaction records and/or invoices of similar transactions with independent third parties and we note that the principal terms of the existing framework agreements as regard the IAP-Indomaret (Distribution) Transactions, IAP-FFI Transactions and PDU-Indomaret (Distribution) Transactions, have been similar to those offered by/to independent third parties for similar products. As observed from the transaction records/invoices, the prices in connection with the respective transactions charged for services/products provided/sold to connected parties have been no more favourable than the prices charged to independent third-parties. We are further advised by the management of Indofood that a similar approach and basis will be used in setting the future prices/fees under the aforesaid transactions such that, if applicable, the then prevailing selling prices/fees of similar comparable transactions will continue to be used as market references. Considering that the prices/fees will be determined with reference to the prevailing market conditions, we consider that the pricing basis for the IAP-Indomaret (Distribution) Transactions, IAP-FFI Transactions and PDU-Indomaret (Distribution) Transactions is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Independent Shareholders as a whole.



FFI is engaged in food and restaurant operations and is the master franchise holder of the Kentucky Fried Chicken (KFC) brand in Indonesia. We are advised by the Indofood Group that certain supplies to FFI under the IAP-FFI Transactions including chili, tomato sauce and seasoning, are subject to certain specification (i.e. sauce/seasonings of tailor-made tastes) and therefore, do not have direct comparable products in the market. However, we are advised by the management of Indofood that the Indofood Group only plays the role of distributor who mainly sources the required products with specifications for FFI and arranges the delivery of the finished goods, such as seasoning, dairy products and sauces from the manufacturer(s) to FFI under the IAP-FFI Transactions. Indofood Group itself does not manufacture or produce such products with specifications. Therefore, despite there are specifications imposed by FFI on the required products, IAP charges the same distribution margins of around 4% on factory prices of products supplied to FFI as those similar types of product without specification. Given the distributor role of IAP under the IAP-FFI Transactions, we concur with the management of Indofood that charging the same distribution margins on factory prices of such products supplied with specification as those similar types of product without specification is not unreasonable. In such regard, we have reviewed the relevant recent transaction records of transactions with independent third parties for the similar types of products without specification, and we note that the distribution margins charged by IAP for products with specification as regard the IAP-FFI Transactions have been no less favourable than those similar types of products that without specification offered by IAP to independent third parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future prices under the aforesaid transactions such that, if applicable, the then distribution margins charged by the Indofood Group for similar types of products without specification will be used as market references. Having considered the above, we are of the view that such pricing basis is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Independent Shareholders as a whole.



(b) Indomobil (Distribution) Transactions

As provided by Indofood, the Distribution Agreements in relation to the Indomobil (Distribution) Transactions will consist of terms and conditions similar to those offered to the Indofood Group by independent third parties and on normal commercial terms, and in particular, the price/fee to be paid by the Indofood Group will be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no less favourable to the Indofood Group than those available from other independent third parties. In this regard, we have requested Indofood to provide us with, among other things, the relevant quotations of similar transactions with independent third parties, and we note that the principal terms of the existing framework agreement as regard the Indomobil (Distribution) Transactions have been similar to those made available by independent third parties to the Indofood Group. As observed from the quotations, the prices paid by the Indofood Group have been more favourable to Indofood Group than the prices quoted by independent suppliers for similar product/service. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future prices under the Indomobil (Distribution) Transactions and therefore, considering that the prices will be determined with reference to the prevailing market conditions, we consider that the pricing basis is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Independent Shareholders as a whole.

(c) Indofood-SDM (Distribution) Transactions

As provided by the management of Indofood, SDM Group has been providing human resources outsourcing services to Indofood Group under the Indofood-SDM (Distribution) Transactions since 2015.

We have reviewed the Distribution Agreements as regard the Indofood-SDM (Distribution) Transactions, and we note that the fees are mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no less favourable to the Indofood Group than those available from independent third parties. We are further advised by the management of Indofood that all the Indofood-SDM (Distribution) Transactions have comparable transactions with independent third parties. In this regard, we have requested Indofood to provide us with, among other things, the relevant quotations of similar services provided by independent third parties and we note that the principal terms under the existing framework agreements as regard the Indofood-SDM (Distribution) Transactions have been no less favourable than those made available to the Indofood Group from independent third parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future fees under the Indofood-SDM (Distribution) Transactions. We consider that the aforesaid pricing basis is fair and reasonable, on normal commercial terms and the entering into of the Distribution Agreements as regards the Indofood-SDM (Distribution) Transactions is in the interests of both the Company and the Independent Shareholders as a whole.



(d) *Indomaret Rental Transaction*

Under the Indomaret Rental Transaction, IAP will lease out idle space to Indomaret and LS respectively as warehouses.

Pursuant to the Distribution Agreements as regard the Indomaret Rental Transaction, the annual rental fee for the coming three years period is fixed at approximately Rp12.2 billion per year. We have also confirmed and understand from Indofood that the rent is higher mainly due to increase in rent. The rental fee needs to be paid on yearly basis by Indomaret and on quarterly basis by LS. We are advised that the aforesaid rental fee has been determined after arm's length negotiations with reference to the prevailing market rental rates in similar geographical location in Indonesia. In this regard, the management of Indofood has provided us quotations from independent property agencies which showed that as at September 2022, the rental fee per Sqm charged for rental of similar industrial units considered to be comparable and within close proximity of properties being rented to Indomaret and LS respectively, were lower than the rental fee per Sqm charged under the Indomaret Rental Transaction. Accordingly, we concur that the rental rate charged by IAP is no less favourable to IAP when compared to the rental rate quoted by independent property agencies.

(e) *Pension Transaction*

As disclosed in the letter from the Board of the Circular, Indolife is engaged in life insurance and pension funds businesses and has 79 branches in Indonesia. We understand from the management of Indofood that IAP decided to fund its employees' pension through Financial Institution Pension Fund in Indonesia and engaged Indolife as the custodian and manager of the pension assets under IAP's defined benefit plan (the "DBP") for its employees. In accordance with the Distribution Agreement as regard the Pension Transaction, IAP will make monthly contribution to the DBP which IAP's employees are the beneficiaries of the custodian accounts managed by Indolife. The investment return of the pension assets under Indolife's management should not be lower than the interest rates of time deposit in the licensed bank(s) in Indonesia. We are confirmed by the management of Indofood that the employees will account for all the management fees incurred and interest incomes derived from the contribution and will be responsible for payment of the management fees and/or other expenses (if any) in respect of the custodian and management services provided by Indolife. As such, the management of Indofood confirms that the estimated transaction amounts under the Pension Transaction mainly cover the deposit of all the monthly contributions made by IAP during the respective year, without taking into account any management fees, interest incomes and/or other any other expenses/incomes (if any) derived or incurred in respect of such custodian and management arrangement during the respective year. Based on the aforesaid, we consider that the basis for calculating the annual transaction amount under the Pension Transaction, which will be calculated by the monthly total payroll to IAP's employees multiplying the contribution rate of 5% by IAP (which is above the minimum social security contribution rate of 2% issued by the Indonesian government), is reasonable.



(f) *IAP-LPI Sugar Transaction*

Based on our understanding, LPI is a joint venture plantation company within the IGER Group between SIMP and the Salim Group and is engaged in plantation development in Indonesia.

We have reviewed the corresponding framework agreements as regard the IAP-LPI Sugar Transaction, and we note that the prices payable by IAP shall be determined by and mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no less favourable to the Indofood Group than to independent third parties. We are advised by the management of Indofood that the IAP-LPI Sugar Transaction has comparable transactions with independent third parties. In such regard, we have reviewed the relevant invoices of the sale of the same products to independent third parties by LPI. As observed from the quotations/invoices, the prices offered by LPI to the Indofood Group are no less favourable to Indofood Group than those offered by independent third parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future prices under the IAP-LPI Sugar Transaction such that, if applicable, the then prevailing market prices of similar comparable transactions will be used as market references to the IAP-LPI Sugar Transactions. Having taken into account that the prices will be determined with reference to the prevailing market conditions and be no less favourable to IAP than to independent third parties, we consider that the pricing basis for the IAP-LPI Sugar Transaction is on normal commercial terms and fair and reasonable.

In view of, as discussed in paragraphs above, (i) the Indofood Group is not obligated to enter into any transactions with LPI under the Distributions Agreements as regard the IAP-LPI Sugar Transaction and LPI is only one of the options available for consideration subject to availability, price and quality; and (ii) that the selling prices involved shall be no less favourable to the Indofood Group than those offered to independent third parties, we concur with the view of the Directors that the entering into of the Distributions Agreements as regard the IAP-LPI Sugar Transaction is beneficial to the Group and the Independent Shareholders.

(g) *IDP (Distribution) Transactions*

IDP, a company in which Mr. Salim has an aggregate effective interest of 100%, is engaged in e-commerce solutions for grocery shopping for stalls, shops and kiosks. We understand from the management of Indofood that IAP would market its products through IDP and in accordance with the Distribution Agreement as regard the IDP (Distribution) Transactions, and IAP will pay a 1% commission on sales to IDP for the offline marketing services provided. Further, starting from 2021, the arrangement included sales of goods by IAP to IDP as IDP would source products from IAP to resell to third parties from time to time. Such arrangement consisted of terms and conditions similar to those offered by IAP to independent third parties and on normal commercial terms.



We have reviewed the corresponding framework agreement as regard the IDP (Distribution) Transactions, and we note that the commission payable by IAP and price of goods sold by IAP to IDP shall be determined by and mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no less favourable to the Indofood Group than to independent third parties. We are advised by the management of Indofood that the Indofood Group has entered into previous similar arrangements with independent third parties. In such regard, we have reviewed the relevant agreement and understood from the management of Indofood that the comparable online marketing services provided by independent third party would charge a 5% commission rate. We have been advised by the management of Indofood that this rate is relatively high because the independent service provider provides additional services such as warehousing. Based on the management of Indofood, this warehousing service is not required in the case of IDP (Distribution) Transactions and if it was to disregard this service, the commission rate charged by the comparable independent third party purely in relation to online marketing services alone would be approximately 2%.

As for the supply of goods from IAP to IDP, we have requested Indofood to provide us with the relevant transaction records and/or invoices of similar transactions with independent third parties and we note that the principal terms of the existing framework agreements as regard the IDP (Distribution) Transactions, has been similar to those offered by/to independent third parties in for similar goods. As observed from the transaction records/invoices, the prices in connection with the respective transactions charged for goods sold to IDP have been no less favourable to IAP than the prices charged to independent third-parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future prices under the aforesaid transactions such that, if applicable, the then prevailing selling prices of similar comparable transactions will be used as market references.

Having taken into account of the aforementioned and given the prices under the IDP (Distribution) Transactions will be determined with reference to the prevailing market conditions and be no less favourable to IAP than those offered to/ by independent third parties, we consider that the pricing basis for the IDP (Distribution) Transactions is on normal commercial terms, fair and reasonable and is in the interests of both the Company and the Independent Shareholders.



2.3 Annual Caps for the 2023-2025 Distribution Business Transactions

Set out below are details of the actual transacted amount of each of the Distribution Transactions for each of the two years ended 31 December 2021 and the nine months ended 30 September 2022 respectively, and the respective Annual Caps for the 2023-2025 Distribution Business Transactions:

	Actual transacted amount			Proposed Annual Caps			Revenue generating (R)/Payments by Indofood Group (P)/Bilateral (B) (Note)
	For the year ended 31 December 2020	2021	For the nine months ended 30 September 2022	For the year ending 31 December 2023	2024	2025	
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
IAP-Indomaret (Distribution) Transactions	245.6	287.3	241.2	536.4	670.4	838.0	R
IAP-FFI Transactions	0.5	0.5	1.4	2.8	3.5	4.3	R
PDU-Indomaret (Distribution) Transactions	13.4	13.5	11.6	22.1	25.2	28.9	R
Indomobil (Distribution) Transactions	3.8	4.0	3.1	5.8	7.3	9.1	P
Indofood-SDM (Distribution) Transactions	15.5	17.3	12.2	41.7	52.1	65.2	P
Indomaret Rental Transaction	0.3	0.6	0.4	1.1	1.1	1.1	R
Pension Transaction	0.3	0.3	0.1	0.3	0.3	0.3	P
IAP-LPI Sugar Transaction	3.2	9.9	2.0	11.0	12.4	13.5	P
IDP (Distribution) Transactions	0.0	1.7	1.1	4.4	4.4	4.4	B
Total	282.6	335.1	273.1	625.6	776.7	964.8	

Note: The classification of revenue and payment nature of the transactions are based on the service scopes provided under the framework agreement(s).



As disclosed in the table above, the proposed annual caps for the IAP-Indomaret (Distribution) Transactions account for 85.7%, 86.3% and 86.9% of the total annual caps for the Distribution Business Transactions for each of 2023, 2024 and 2025 respectively and such transactions are revenue-generating in nature for Indofood Group.

(a) IAP-Indomaret (Distribution) Transactions

We note that the actual transacted amounts under the IAP-Indomaret (Distribution) Transactions showed steady growth of approximately 17.0% and 11.9% for each of 2021 and 2022 (on an annualised basis).

We noted that further growth is anticipated by Indofood for the three years ending 31 December 2025. We understand that goods distributed by IAP to the Indomaret Group include consumer products such as noodle, seasoning, sauce, snack, milk, baby food, special food, flour, cooking oil, margarine and third party product. Based on our understanding provided, when arriving at the 2023 Annual Cap and in assuming an embedded average annual growth rate of approximately 27.8% over the next three years (before applying the Distribution Buffer), they have principally taken into account among other things, (i) addition of new outlets and demand for new products by each of LS, Indomaret and Indogrosir in the coming three years; (ii) based on our understanding from the Indofood Group, introduction of new products in the past would normally lead to an approximately 10-20% corresponding improvement in revenue; (iii) increase in sales volume and price for products including packaged cooking oil and derivative products; and (iv) a general buffer of 25.0% (the “**Distribution Buffer**”) to allow flexibility in accommodating (a) the uncertainty in the fluctuation of exchange rate of US\$ to Rp in view of the increased volatility in spot exchange rate of Rp to US\$; and (b) possible unexpected increase in transaction amount due to one-off and/or occasional events.

In addition to our discussion as outlined above, we further noted that (i) the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022 based on the data published by BI; (ii) the number of outlets operated by LS, Indomaret and Indogrosir has substantially increased, in particular, the increase in stores for Indomaret was especially phenomenal, as compared to for instance approximately 16,000 stores it had in 2019, it operates around 20,200 stores as at 2022 which represented a growth of approximately 26.3%; and (iii) the Distribution Buffer is considered acceptable taking into account the FX Volatility and that the IAP-Indomaret (Distribution) Transactions are income generating to the Indofood Group, the Distribution Buffer, apart from providing provision for the FX Volatility, will also provide flexibility for the Indofood Group to enjoy additional income resulting from any possible unexpected increase in transaction amount due to one-off and/or occasional event(s), and mitigate the burden of the Group to bear additional time and costs to conduct revision of the relevant annual cap(s) (the “**Benefits for having the Distributions Buffer (Sales)**”), which are considered commercially justifiable.



Having considered the above, we are of the view that the Annual Caps for the IAP-Indomaret (Distribution) Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(b) IAP-FFI Transactions

We note that the transacted amount for transactions under the IAP-FFI Transactions fell by approximately 66.7% in 2020 to US\$0.5 million and was steady at US\$0.5 million in 2021 before rebounding to approximately US\$1.9 million in 2022 (on an annualised basis). We have discussed and understand from Indofood that the fluctuations were mainly resulting from the gradual relief of social distancing policies imposed by the government in response to the COVID-19 pandemic which led to re-opening of restaurant operations and more customers choosing to dine out in 2022.

The 2023 Annual Cap, before the Distribution Buffer, represents around 15.8% increase as compared to the annualised transacted amount for 2022 and roughly 25.0% and 22.9% annual growth are assumed in the Annual Caps for 2024 and 2025 respectively. We noted that an upward trend is generally expected by the management of Indofood for the Annual Caps for the IAP-FFI Transactions for the three years ending 31 December 2025. We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the Annual Caps, they have principally taken into account (i) the estimated annual sale amount to FFI in the coming three years taking into account the expected increase in number of restaurant outlets operated by FFI; (ii) the expected rebound in demand with full reopening of borders as well as relaxation of social distancing measures in response to the COVID-19 pandemic in 2023; and (iii) the Distribution Buffer.

Having considered that:

- (i) as provided by the management of Indofood, FFI currently operates around 730 restaurant outlets in Indonesia. There has been an increase of around 16 restaurants since 2019 which represented a growth of approximately 2.2%;
- (ii) Based on the data published by BI, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022; and



- (iii) the Distribution Buffer is considered acceptable and commercially justifiable taking into account the IAP-FFI Transactions being income-generating and the Benefits for having the Distribution Buffer (Sales) as discussed in detail in the section headed “2.3 Annual Caps for the 2023-2025 Distribution Business Transactions – (a) IAP-Indomaret (Distribution) Transactions” above,

we are of the view that the Annual Caps for IAP-FFI Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(c) PDU-Indomaret (Distribution) Transactions

We note the transacted amounts under the PDU-Indomaret (Distribution) Transactions marginally grew by approximately 0.7% in 2021 and roughly 14.8% in 2022 (on an annualised basis).

We noted that an upward trend is generally expected by the management of Indofood in the Annual Caps for the PDU-Indomaret (Distribution) Transactions for the three years ending 31 December 2025 with an average embedded growth rate of approximately 14.5% (before the Distribution Buffer). We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the Annual Caps, they have principally taken into account (i) expected improvement in sales as a result of new products and new outlets; and (ii) the Distribution Buffer.

Having considered that:

- (i) the number of outlets currently operated by LS is approximately 210, which has increased by approximately 25% from 168 outlets in 2019, the number of outlets operated by Indogrosir increased by approximately 13.0% to 26 as at 2022 from 23 in 2019 and Indomaret increased its outlets from 16,000 locations to approximately 20,200 locations in 2022 with the intention to continue to increase its presence and to achieve an annual increase of approximately 20.0%;
- (ii) given the growth rate of the transacted amount under the PDU-Indomaret (Distribution) Transactions of approximately 14.8% in 2022 (on an annualised basis), the assumed average embedded annual growth rate in Annual Caps for the coming three years does not appear to be excessive; and



- (iii) the Distribution Buffer is also considered acceptable taking into account the PDU-Indomaret (Distribution) Transactions are income-generating in nature and the Benefits for having the Distribution Buffer (Sales) as discussed in detail in the section headed “2.3 Annual Caps for the 2023-2025 Distribution Business Transactions – (a) IAP-Indomaret (Distribution) Transactions” above” above,

we are of the view that the Annual Caps for PDU-Indomaret (Distribution) Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(d) Indomobil (Distribution) Transactions

We are advised by management of Indofood that the transacted amounts under the Indomobil (Distribution) Transactions for 2021 increased by approximately 5.3% in 2021 due to the ease of certain COVID-19 pandemic related measures. In 2022, on an annualised basis, the transacted amount remained similar at approximately US\$4.1 million, this was due to the vehicle replacement program was previously paused due to the COVID-19 pandemic.

The 2023 Annual Cap, before the Distribution Buffer, represents around 12.2% increase as compared to the annualised transacted amount for 2022 and roughly 25.9% and 24.7% annual growth are assumed in the Annual Caps for 2024 and 2025 respectively. We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the 2023-2025 Annual Cap, they have principally taken into account (i) recommencement of the vehicle replacement program for the Distribution Business which was previously paused due to the COVID-19 pandemic; (ii) an expansion in the size of its transportation team expected in order to accommodate increase in sales; and (iii) the adoption of a Distribution Buffer.

We have discussed and understand from Indofood that the vehicle replacement program involves the Indofood Group purchasing different models of vehicles required for it to carry out its distribution related businesses. We understand Indofood would, from time to time, update its fleet to ensure efficiency of operation. Based on business needs, Indofood would also acquire additional vehicles to satisfy expansion of distribution demand. Based on our discussion with Indofood, we also understand Indofood may engage service providers such as Indomobil to transport larger quantities of products (such as containers of goods).



As such, having considered that:

- (i) it is noted that prior to the outbreak of COVID-19 pandemic, the historical transacted amount was around US\$5.1 million per year (the “**Average**”) on average for the three years ended 31 December 2019. Given that the social distancing measures which was previously in place due to the COVID-19 pandemic is being eased recently, and thus the expected rebound in sales possibly back to the level prior to the outbreak of the pandemic, the estimated transaction value (before the Distribution Buffer) of approximately US\$4.6 million for 2023, which is still lower than the Average, is consider not excessive;
- (ii) given the business plans in terms of vehicle replacement program, the expected increase in fleet size, as well as the anticipated increase in distribution demand as discussed above; and
- (iii) the Distribution buffer of 25.0% is considered acceptable taking into account the FX Volatility and that the Indomobil (Distribution) Transactions involve also mainly purchase/rent of vehicles and spare parts from the Indomobil Group, the buffer, apart from providing provision for the FX Volatility, will also provide flexibility for the Indofood Group to accommodate unexpected future variations in its demand for products/services which may be caused by one-off and/or occasional event(s), and mitigate the chance of operational disruption and the burden of the Group to bear additional time and costs to conduct revision of the relevant annual cap(s) (the “**Benefits for having the Distribution Buffer (Purchase)**”), which are considered commercially justifiable,

we are of the view that the Annual Caps for the Indomobil (Distribution) Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(e) Indofood-SDM (Distribution) Transactions

As advised by the management of Indofood, the transacted amounts under the Indofood-SDM (Distribution) Transactions increased by approximately 11.6% in 2021 and showed a minor decrease of approximately 5.8% in 2022 (on an annualised basis).



The 2023 Annual Cap, before the Distribution Buffer, represents around 104.9% increase as compared to the annualised transacted amount for 2022 and a roughly 25.0% annual growth is assumed in the Annual Caps for 2024 and 2025. We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the 2023-2025 Annual Caps, they have principally taken into account (i) further increases in wages in the next three years ending 2025; (ii) the additional manpower required to facilitate business growth based on Indofood's business to accommodate its higher estimated sales; and (iii) the Distribution Buffer.

Having considered that:

- (i) based on information published by Statistics Indonesia ("BPS"), the wage growth in Indonesia reported a substantial increase of approximately 6.2% in August 2022 as compared with the previous reporting period in February 2022;
- (ii) we note from the 2019 Circular and as provided by Indofood Group, the historical transacted amount of the Indofood-SDM (Distribution) Transactions has reported consistent increase from approximately US\$8.5 million in 2017 to approximately US\$17.3 million in 2021, represented a simple average growth rate of around 25.9% per year. We are given to understand that the management of Indofood plans to use more outsourcing services from SDM Group starting from 2023 having considered that their service is better than others based on their experience; and
- (iii) the Distribution Buffer of 25.0% is considered acceptable and commercially justifiable taking into account the Benefits for having the Distribution Buffer (Purchase) as discussed in detail in the section headed "2.3 Annual Caps for the 2023-2025 Distribution Business Transactions – (d) Indomobil (Distribution) Transactions" above,

we are of the view that the Annual Caps for Indofood-SDM (Distribution) Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(f) Indomaret Rental Transaction

Under the Indomaret Rental Transaction, IAP will rent its idle space of the premises to Indomaret and LS as warehouses.

The Annual Caps for 2023 to 2025 is determined after taking into account (i) the proposed fixed annual rental fee of approximately around Rp12.2 billion (equivalent to approximately US\$0.8 million) for the term of the coming three years for Indomaret Rental Transaction; and (ii) the adoption of the Distribution Buffer.



Having considered that:

- (i) according to a quotation from an independent property agency provided to us by the management of Indofood, the prevailing market monthly rental rate of similar industrial unit proximate to where the warehouses are located was around Rp37,879 – Rp38,082 per Sqm for Indomaret and Rp120,056 - Rp128,205 per Sqm for LS as at September 2022. The monthly rental rate of around Rp42,220 per Sqm for Indomaret and Rp143,430 per Sqm for LS under the Indomaret Rental Transaction is higher than the quoted market rental rates, which is considered favourable to the Indofood Group;
- (ii) the Distribution Buffer is considered acceptable and commercially justifiable taking into account the and the Indomaret Rental Transaction being income generating in nature and the Benefits for having the Distribution Buffer (Sales) as discussed in detail in the section headed “2.3 Annual Caps for the 2023-2025 Distribution Business Transactions – (a) IAP-Indomaret (Distribution) Transactions” above,

we are of the view that the Annual Caps for the Indomaret Rental Transaction are fair and reasonable as far as the Company and Independent Shareholders are concerned.

(g) Pension Transaction

As advised by the management of Indofood, the transacted amounts under the Pension Transaction remained unchanged in 2021 and decreased by approximately 66.6% in 2022 (on an annualised basis) to US\$0.1 million. We understand the declines were attributable to less employees and hence less dollar amount contribution required.

We are advised that the Annual Caps for 2023 to 2025 is determined with reference to (i) the annual contribution to the DBP to be transferred by IAP to the custodian account managed by Indolife (the “**Annual Contribution**”); and (ii) the Distribution Buffer.

Having considered that:

- (i) we are advised that each of the expected transaction amounts of the Pension Transactions between 2020 and 2022 is equivalent to the Annual Contribution which is calculated based on the annual total payroll to IAP’s employees of around Rp60 billion in 2022 and IAP’s contribution rate of 5% per annum;



- (ii) the management of Indofood confirms to us that, as the individual employees will be the beneficiaries of the custodian accounts managed by Indolife, the estimated transaction amounts under the Pension Transaction mainly cover the deposit of all contributions by IAP, and the employees will account for all the management fees incurred and interest incomes which was invested by Indolife and will be responsible for payment of the management fees and/or other expenses (if any) in respect of the custodian and management services provided by Indolife; and
- (iii) the Distribution Buffer is considered acceptable and commercially justifiable taking into account the Benefits for having the Distribution Buffer (Purchase) as discussed in detail in the section headed “2.3 Annual Caps for the 2023-2025 Distribution Business Transactions – (d) Indomobil (Distribution) Transactions” above,

we are of the view that the Annual Caps for the Pension Transaction are fair and reasonable as far as the Company and Independent Shareholders are concerned.

(h) IAP-LPI Sugar Transaction

We note that the transacted amounts under the IAP-LPI Sugar Transaction increased by approximately 209.4% in 2021, and declined by approximately 72.7% in 2022 (based on the best estimation by the Company since sugar is usually harvested in the 2nd semester).

We have discussed with the management of Indofood regarding the underlying reasons for the Annual Caps for 2023 to 2025 and in assuming an embedded Annual Cap growth rate of around 225.9% in 2023 to US\$8.8 million (before applying the Distribution Buffer) and an average embedded Annual Cap growth rate of 12.7% and 8.9% for each of the 2024 and 2025, they have principally taken into account (i) higher consumption expected from end customers; and (ii) the Distribution Buffer.



We concur with the Directors' view that the respective Annual Caps are reasonable and in the interests of both the Company and Independent Shareholders after taking into consideration the following:

- (i) expected continued increase in domestic demand and Indonesia's status as a net sugar importer. Based on a report issued by the United States Department of Agricultural Service titled Sugar Annual, sugar production for 2022/23 is expected to increase due to private sugar mill expansion and higher rainfall as a result of La Nina weather patterns which would lead to increase in sugarcane yields. Higher demand coming from food and beverage industry is also expected to push the import of raw sugar to increase. In effect to stabilise retail sugar prices, the Indonesian government has also authorised the importation of almost 892,000 metric tonnes of raw sugar for processing into white sugar, which is up 31% from 2021;
 - (ii) the transacted amounts under the IAP-LPI Sugar Transaction has reported substantial increase historically of approximately 45.5% in 2020 and 209.4% in 2021; and
 - (iii) as stated in section "2.2 Principal terms of the 2023-2025 Distribution Business Transactions – (f) IAP-LPI Sugar Transaction" above, the pricing basis for the IAP-LPI Transaction is considered to be fair and reasonable and sufficient internal procedures and policies are in place; and
 - (iv) the Distribution Buffer is considered acceptable and commercially justifiable taking into account the Benefits for having the Distribution (Purchase) as discussed in detail in the section headed "2.3 Annual Caps for the 2023-2025 Distribution Business Transactions – (d) Indomobil (Distribution) Transactions" above.
- (i) *IDP (Distribution) Transactions*

We note that the transaction amounts under the IDP (Distribution) Transactions was minimal in 2020 because the business is still relatively new and increased to approximately US\$1.7 million in 2021. In addition to IAP paying IDP commission fees for goods sold via IDP (IDP as an agent), IAP would also sell finished goods, such as noodle, seasoning, sauce, snack, milk, baby food, special food, flour, cooking oil, margarine and third party product directly to IDP (IDP as a wholesaler) to resale to other customers and the transacted amount is expected to remain similar at approximately US\$1.5 million in 2022 (on an annualised basis) due to consistent expected sales value, which ultimately affects the amount of commission payable by IAP and the supply of goods with prices receivable by IAP.



We have discussed with the management of Indofood regarding the underlying reasons for the Annual Caps for 2023 to 2025 and we understand that they have principally taken into account (i) boom in e-commerce business; (ii) increase in sale of goods by IAP to IDP; and (iii) the adoption of a Distribution Buffer.

We understand that the Annual Cap in 2023 (before the Distribution Buffer) represents an estimated embedded growth of around 133.3% over the transaction amount in 2022 (on an annualised basis) and the Annual Caps for 2024 and 2025 are expected to remain steady. We concur with the Directors' view that the respective Annual Caps are fair and reasonable and in the interests of both the Company and the Independent Shareholders after taking into consideration the following:

- (i) according to International Trade Administration (an administration under the U.S. Department of Commerce), Indonesia has one of the highest rates of e-commerce adoption in the world in 2020 and the market was over US\$30 billion in gross market value in 2020 and is expected to significantly increase to US\$83 billion in 2025, representing a simple average annual growth of roughly 35%. The growth in Indonesia's e-commerce market is expected to be fueled by changing consumer behaviour who are willing to spend more for convenience;
- (ii) the transacted amounts under the IDP (Distribution) Transactions have reported increase historically from approximately US\$1.2 million in 2018 to US\$1.5 million in 2022 (on an annualised basis), represented a simple average growth rate of around 6.3% per year; and
- (iii) the adoption of the Distribution Buffer is considered acceptable and commercially justifiable taking into account the Benefits for having the Distribution Buffer (Purchase) as discussed in detail in the section headed "2.3 Annual Caps for the 2023-2025 Distribution Transactions – (d) Indomobil (Distribution) Transactions" above.

(p) Conclusion

Having considered that, in particular, the reasons and factors discussed above in relation to our assessment of the Annual Caps for each of the 2023-2025 Distribution Business Transactions, we are of the view that the proposed aggregated Annual Caps for the 2023-2025 Distribution Business Transactions are set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of both the Company and Independent Shareholders as a whole.



3. Flour Business

3.1 Background of and reasons for the 2023-2025 Flour Business Transactions

As disclosed in the letter from the Board of the Circular, Indofood is one of the world's largest manufacturers of wheat-based instant noodles by volume and the largest flour miller in Indonesia.

Bogasari is a division of Indofood engaged in the production of flour and pasta products. As the largest integrated flour miller in Indonesia, Bogasari operates four flour mills in Jakarta, Surabaya, Cibitung and Tangerang with a total annual capacity of around 4.4 million tonnes. A comprehensive range of flour products are sold under established brands such as Cakra Kembar, Segitiga Biru, Kunci Biru and Lencana Merah, Bogasari continued to be the domestic market leader with higher sales in both domestic and export markets.

As stated in the Indofood 2021 Annual Report, Bogasari's total sales value increased by around 12.7% to approximately Rp25.88 trillion in 2021 from approximately Rp22.97 trillion in 2020 due to higher average selling prices. It was also disclosed that despite the uncertainties surrounding the pandemic, the macroeconomic environment is likely to improve in the year ahead. The established mills will continue with their expansion programs, and this is likely to escalate the level of competition in the market. Demand for flour products is expected to pick up with economic recovery, and wheat imports into Indonesia have been forecasted to increase, taking into account its growing population size and rebounding economy.

Indofood Group has been selling flour and/or pasta products and/or other by-products to each of NIC, FFI, Indomaret Group and IDP for an average of 9 years, all of which are income-generating to the Indofood Group. We also understand that the manufacturing, consulting, human resources outsourcing and transportation services under the 2023-2025 Flour Business Transactions are required for normal operation and under ordinary and usual course of business of the Flour Business. As such, as long as the pricing and other terms of the 2023-2025 Flour Business Transactions are fair and reasonable to the Group and its Shareholders as a whole, it is beneficial for the Indofood Group to enter into the 2023-2025 Flour Business Transactions so as to provide flexibility, but not obligation, for the Indofood Group in its selection of sale channels and service suppliers.



3.2 Principal terms of the 2023-2025 Flour Business Transactions

As disclosed in the letter from the Board in the Circular, the existing framework agreements in respect of the 2020-2022 Flour Business Transactions will expire on 31 December 2022. Subject to Independent Shareholders' approval having been obtained in respect of the 2023-2025 Flour Business Transactions, the framework agreements in respect of the transactions numbered (1) to (8) in Table C in the letter from the Board in the Circular will be automatically renewed from 1 January 2023 for a term of three years, expiring on 31 December 2025, on the same terms as those of the existing agreements. The existing agreement entered into in respect of transaction (9) in Table C will expire on 31 December 2022 and subjected to Independent Shareholders' approval having been obtained in respect of the 2023-2025 Flour Business Transactions, the agreement in respect of transaction (9) will be renewed from 1 January 2023 for a term of three years expiring on 31 December 2025 (together with the framework agreements relating to the aforesaid transactions (1) to (8) the "**Flour Agreements**").

The arrangements under the renewed agreements described below will commence on 1 January 2023 and will have a duration of three years, expiring on 31 December 2025 (the "**2023-2025 Flour Business Transactions**"). Subject to compliance with the then relevant requirements of the rules of any stock exchange to which any of the parties to the relevant framework agreement is subject to, including, but not limited to, the Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the initial term or subsequent renewal term, each of the framework agreements will be automatically renewed for a successive period of three years thereafter (or such other period permitted under the Listing Rules), unless terminated earlier by any party to the relevant framework agreement.

We have reviewed the corresponding framework agreements in relation to the Flour Agreements and note that the pricing basis in respect of each of the Flour Agreements will be determined from time to time based on the written mutual agreement between the parties, with due regard to prevailing market conditions.

The 2023-2025 Flour Business Transactions include:

- (1) sale of flour by Bogasari to NIC (the "**NIC Flour Transactions**");
- (2) sale of spaghetti and flour by Bogasari to FFI (the "**FFI Flour Transactions**");
- (3) provision of consulting by IKU to Indofood Group (the "**Consulting Services**");
- (4) sale/rental of cars and spare parts and provision of car services by the Indomobil Group to the Indofood Group (the "**Indomobil (Flour) Transactions**");



- (5) the Indofood Group use human resources outsourcing services from SDM (the “**Indofood-SDM (Flour) Transactions**”);
 - (6) sale of finished goods (such as flour products) by Bogasari to Indomaret (the “**Bogasari-Indomaret (Flour) Transactions**”);
 - (7) provision of manufacturing services by Interflour Group to Indofood Group and sale of finished goods (such as flour) by Indofood Group to Interflour Group (the “**Interflour Transactions**”);
 - (8) sale of finished goods (such as flour products) by Indofood Group to IDP (the “**IDP (Flour) Transactions**”); and
 - (9) Bogasari rents warehouse from Tarumatex (the “**Tarumatex Rental Transactions**”).
- (a) *NIC Flour Transactions, FFI Flour Transactions, Bogasari-Indomaret (Flour) Transactions and IDP (Flour) Transactions*

As provided by Indofood, the Flour Agreements in relation to transactions involving sales of goods by the Indofood Group such as the NIC Flour Transactions, FFI Flour Transactions, Bogasari-Indomaret (Flour) Transactions and IDP (Flour) Transactions, will consist of terms and conditions similar to those offered to independent third parties and on normal commercial terms, and will be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which is expected to be no more favourable than those offered to other independent third parties. In this regard, we have requested Indofood to provide us with, among other things, the relevant transaction records/invoices of similar transactions with independent third parties and we note that the principal terms of the existing framework agreements as regard the NIC Flour Transactions, FFI Flour Transactions, Bogasari-Indomaret (Flour) Transactions and IDP (Flour) Transactions have been similar to those offered to independent third parties for similar products. As observed from the transaction records/invoices, the prices charged by the Indofood Group to its relevant connected parties have been no less favourable to Indofood Group than the price charged to independent customers for a similar product. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future prices/fees under the aforesaid transactions such that, if applicable, the then prevailing selling prices/fees of similar comparable transactions will be used as market references.

Considering that the prices/fees will be determined with reference to the prevailing market conditions, we consider that the pricing basis for the NIC Flour Transactions, FFI Flour Transactions, Bogasari-Indomaret (Flour) Transactions and IDP (Flour) Transactions are fair and reasonable, on normal commercial terms and in the interests of both the Company and the Independent Shareholders as a whole.



(b) Consulting Services

As stated in the letter from the Board in the Circular, IKU is a company in which Mr. Salim has an aggregate effective interest of approximately 52.0% and is engaged in the business of consultancy and engineering in Indonesia. As advised by the management of Indofood, IKU is considered one of the most reputable consultant companies which provides services in relation to engineering and project management in Indonesia.

As advised by Indofood, the Consulting Services provided by IKU include various consulting and technical services for project management such as onsite supervision of construction projects. We understand such Consulting Services are beneficial to Indofood in ensuring smooth execution of its projects and for quality control purposes.

We have reviewed the Flour Agreement as regard the Consulting Services, and we note that the fees/prices charged under the Consulting Services shall be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which is expected to be no less favourable than independent third parties. As advised by the management of Indofood, it is the internal procedure and policy of the Indofood Group to conduct bidding process for similar consulting services it requires to ensure that the price and terms offered by connected parties are fair, reasonable and comparable to those offered by independent third parties. Such bidding process would involve the request and comparison of at least two quotations for services of the same type and quality from qualified suppliers. Other than pricing, supplier reputation, quality of services, capabilities (delivery, safety etc.) and track records would also be considered during the review and evaluation process. Management of Indofood has further advised us that there were only minimal transactions executed under the Consulting Services with IKU for the two years ended 31 December 2021 because IKU were not successful in the bidding process due to other bidders being able to either offer a better quote and/or having better technical capability or qualifications to complete the service required for the projects. We have requested for and reviewed the relevant quotations in 2021 collected by Indofood Group in a bid where IKU was eventually selected, and we note that on the basis the same scope of work was offered, the fees charged as regard the Consulting Services by IKU have been more favourable to the Indofood Group compared with quotes offered by independent third parties. In light of the aforementioned, we are of the view that the pricing basis for the Consulting Services is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Shareholders as a whole.



In view of, the above and given that (i) the Indofood Group will not be obliged to enter into any transactions under the Consulting Services and it will only allow IKU to be one of the available choice(s) for the Indofood Group's consideration; (ii) the benefits having been and to be brought about pursuant to the Consulting Services; and (iii) that the service fees involved shall be no less favourable to Indofood Group compared with those offered by independent third parties, we concur with the view of the Directors that the entering into of the Flour Agreements as regard the Consulting Services is fair and reasonable, on normal commercial terms and beneficial to the Company and the Independent Shareholders as a whole.

(c) Indomobil (Flour) Transactions

As provided by the management of Indofood, services provided by the Indomobil Group under the Indomobil (Flour) Transactions include (i) sales and/or renting of vehicles; (ii) provision of car services; and (iii) sales of spare parts, to Indofood Group. Indofood Group has been using the aforesaid services provide by the Indomobil Group since 1993.

We have reviewed the Flour Agreements as regard the Indomobil (Flour) Transactions, and we note that the price/rent/fees are mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions which are expected to be no less favourable to the Indofood Group than to independent third parties. We are further advised by the management of Indofood that all the Indomobil (Flour) Transactions have comparable transactions with independent third parties. In this regard, we have requested Indofood to provide us with, among other things, relevant transaction records/quotations for purchases of vehicles and car services provided by independent third parties and we note that the principal terms under the existing agreements as regard the Indomobil (Flour) Transactions have been no less favourable to Indofood Group than those made available to independent third parties by Indomobil Group. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future price/rent/fees under the Indomobil (Flour) Transactions. We consider that the pricing basis is fair and reasonable, on normal commercial terms and in the interests of both the Company and the Independent Shareholders as a whole.



We are advised by the management of Indofood that the services provided by the Indomobil Group have been satisfactory. In the view of (i) the Indofood Group and the Indomobil Group have a long business relationship and the Indomobil Group's services have been considered satisfactory; (ii) any changes might lead to operation interruption and extra expenses in terms of cost and time; and (iii) as discussed in the paragraph above, the price/rent/rates to be charged by the Indomobil Group shall be no less favourable to Indofood Group when compared to the price/rent/rates charged to independent third parties, we concur with the view of the Directors that the entering into of the Flour Agreements as regard the Indomobil (Flour) Transactions is fair and reasonable, on normal commercial terms and beneficial to both the Company and the Independent Shareholders.

(d) Indofood-SDM (Flour) Transactions

As provided by the management, the Indofood-SDM (Flour) Transactions mainly governs transactions in relation to human resources outsourcing arrangements between the SDM Group to Indofood Group. Indofood Group has been using the aforesaid services provided by the SDM Group since 2015.

We have reviewed the Flour Agreements as regard the Indofood-SDM (Flour) Transactions, and we note that the fees are determined by and mutually agreed between the relevant contracting parties from time to time and based on prevailing market conditions which are expected to be no less favourable to the Indofood Group than to independent third parties. We are further advised by the management of Indofood that all the Indofood-SDM (Flour) Transactions have comparable transactions with independent third parties. In this regard, we have requested Indofood to provide us with, among other things, the relevant quotations for similar services provided by independent third parties, and we note that the principal terms under the existing agreements as regard the Indofood-SDM (Flour) Transactions have been no less favourable than those made available to the Indofood Group from independent third parties. We are further advised by the management of Indofood that a similar approach and basis will continue to be used in setting the future fees under the Indofood-SDM (Flour) Transactions. We consider that the aforesaid pricing basis is fair and reasonable, on normal commercial terms and the entering into of the Flour Agreements as regards the Indofood-SDM (Flour) Transactions is in the interests of both the Company and the Independent Shareholders as a whole.

(e) Interflour Transactions

We have reviewed the Flour Agreement and noted that the Interflour Transactions consists of the purchase of wheat from Eastern Pearl Flour Mills ("EPFM"), a subsidiary of Interflour, and manufacturing services (extraction of wheat to flour) provided by EPFM to manufacture flour and related products according to specifications provided by Bogasari.



We note that the fees/prices charged for the manufacturing services provided by EPFM shall be mutually agreed between the relevant contracting parties from time to time based on prevailing market conditions. We understand Indofood Group may, from time to time, purchase certain types of wheat required for the purpose of manufacturing and the production of flour from EPFM. Indofood has advised that the purchase price of wheat would be determined with reference to the export pricing and freight charge schedule published periodically by the U.S. Wheat Associates (“USW”). We further understand from Indofood that USW is an independent third-party export market development organization for the U.S. wheat industry and based on our discussion with the Indofood management, it is common for the wheat and flour industry players including themselves to price their wheat based on this schedule. We have also discussed with the management of Indofood that they would only purchase the required types of wheat from EPFM if Bogasari does not carry the quantity or the required type in its own inventory. In addition, the Indofood management has also confirmed that if the price quotes from EPFM is greater than the reference price published by USW, which is considered to be the market price, the required product will be sourced from other parties instead of EPFM. As such, based on the understanding obtained from Indofood, the purchase of wheat from EPFM is not an obligation, but merely a flexibility and a choice available for Indofood to utilise if and when necessary.

We understand the fees charged by the EPFM for the manufacturing services (i.e. extraction of wheat to flour) is expected to be approximately 3.2% cheaper per kilogram of flour produced as compared to the same products produced by Bogasari in its own mills. As advised by the management of Indofood, manufacturing services are required from EPFM because of production capacity limitations in Bogasari’s own facilities in east area and the fact that EPFM is one of the largest mills in east Indonesia. We also understand from the management of Indofood that given the products manufactured by EPFM on behalf of Indofood are specifically tailored according to unique recipes, it would not make commercial sense for Indofood to outsource this manufacturing process to other mills around the region which are either of a smaller scale or are owned by Indofood’s competitors. In this respect, we consider the fees paid by Indofood for the wheat and manufacturing services provided by EPFM fair and reasonable and in the interests of both the Company and Independent Shareholders as a whole.

In view of the above, we concur with the view of the Directors that the entering into of the Flour Agreements as regard the Interflour Transactions is beneficial to the Company and the Independent Shareholders as a whole.



(f) *Tarumatex Rental Transactions*

As discussed in the Circular, PT Tarumatex is engaged in the textile business. Under the Tarumatex Rental Transactions, Bogasari will rent warehouse space from Tarumatex. Bogasari has been renting the warehouses from Tarumatex since 2011.

Pursuant to the Flour Agreements as regard the Tarumatex Rental Transactions, the annual rental fee for 2023 to 2025 is fixed at approximately Rp1.0 billion. We are advised that the aforesaid rental fee has been determined after arm's length negotiations with reference to the prevailing market rental rates in similar geographical location in Indonesia. In this regard, the management of Indofood has provided us quotations from an independent property agency which showed that as at September 2022, the rental fee per Sqm charged for rental of similar industrial units considered to be comparable and within close proximity of properties being rented to Bogasari, were higher than the rental fee per Sqm charged by Tarumatex. Accordingly, we concur that the rental rate charged by Tarumatex is no less favourable to Bogasari when compared to the rental rate quoted by such independent property agency.



3.3 Annual Caps for the 2023-2025 Flour Business Transactions

Set out below are details of the actual transacted amount of each of the Flour Transactions for each of the two years ended 31 December 2021 and the nine months ended 30 September 2022 respectively, and the respective Annual Caps for the 2023-2025 Flour Business Transactions:

	Actual transacted amount			Proposed Annual Caps			Revenue generating (R)/Payments by Indofood Group (P)/Bilateral (B) (Note)
	For the year ended 31 December 2020	For the year ended 31 December 2021	For the nine months ended 30 September 2022	For the year ending 31 December 2023	For the year ending 31 December 2024	For the year ending 31 December 2025	
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	
NIC Flour Transactions	14.9	13.4	21.3	46.9	53.5	61.1	R
FFI Flour Transaction	0.5	0.4	0.5	1.1	1.3	1.5	R
Consulting Services	0.1	0.1	0.1	0.5	0.5	0.5	P
Indomobil (Flour) Transactions	4.4	7.4	7.8	39.2	41.0	43.0	P
Indofood-SDM (Flour) Transactions	8.4	8.1	6.5	10.6	11.5	12.4	P
Bogasari-Indomaret (Flour) Transactions	13.0	15.0	16.6	33.1	39.3	46.8	R
Interflour Transactions	2.2	1.7	0.9	3.0	3.3	3.6	B
IDP (Flour) Transactions	0.3	0.4	0.4	2.5	4.0	6.2	R
Tarumatex Transactions	0.0	0.1	–	0.1	0.1	0.1	P
TOTAL	43.8	46.6	54.1	137.0	154.5	175.2	

Note: The classification of revenue and payment nature of the transactions are based on the service scopes provided under the framework agreement(s).

As disclosed in the table above, the proposed annual caps for the NIC Flour Transactions and the Bogasari-Indomaret (Flour) Transactions account for approximately 58.4%, 60.1% and 61.6% of the total annual caps for the Flour Business Transactions for each of 2023, 2024 and 2025 respectively and such transactions are all revenue-generating in nature for Indofood Group.



(a) *NIC Flour Transactions*

We note that the actual transacted amount under the NIC Flour Transactions fell by around 12.4% in 2020, a further down by around 10.1% in 2021 and subsequently grew by around 111.9% in 2022 (on an annualised basis). We were advised by the management of Indofood that the fluctuations were due to changes in purchase patterns of NIC as from time to time. NIC would also purchase from independent third-party suppliers due to better pricing and terms.

We noted that an upward trend is generally expected by the management of Indofood for the Annual Caps for the three years ending 31 December 2025. We have discussed with the management of Indofood regarding the underlying reasons and noted that, when arriving at the 2023-2025 Annual Caps they have principally taken into account (i) an expected increase in demand as a result of the expected increase in NIC's bread production in the coming three years; (ii) the expected continuing increase in flour selling price in 2023 to 2025; (iii) estimated price increases in products; (iv) the growth in number of plants operated by NIC from 10 in 2019 to 14 in 2020; and (v) a general buffer of 25.0% (the "**Flour Buffer**") to allow flexibility in accommodating (a) the uncertainty in the fluctuation of exchange rate of US\$ to Rp in view of the increased volatility in spot exchange rate of Rp to US\$; and (b) possible unexpected increase in transaction amount due to one-off and/or occasional event(s).

We understand that the 2023-2025 Annual Caps embedded an average annual growth rate of around 20.1% (before applying the Flour Buffer). Having considered that (i) the latest historical growth in transacted amount by around 111.9% in 2022 (on an annualised basis) and the expected increase in demand of flour by NIC as a result of expansion of its bread production; (ii) the growth in number of plants operated by NIC from 10 in 2019 to 14 in 2020; and (iii) the estimated price increases in products is considered in line with Indonesia's recent inflation statistics, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022 based on the data published by BI, we consider the average embedded annual growth rate to be commercially justifiable.

The Flour Buffer is also considered acceptable taking into account the FX Volatility and that the NIC Flour Transactions which are income generating in nature, the Flour Buffer, apart from providing provision for the FX Volatility, will also provide flexibility for the Indofood Group to enjoy additional income resulting from any possible unexpected increase in transaction amount due to one-off and/or occasional event(s), and mitigate the burden of the Group to bear additional time and costs to conduct revision of the relevant annual cap(s) (collectively, the "**Benefits for having the Flour Buffer (Sales)**"), which are considered commercially justifiable.



Having considered the above, we are of the view that the Annual Caps for the NIC Flour Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(b) FFI Flour Transactions

We note that the actual transacted amount under the FFI Flour Transactions declined by approximately 20.0% in 2021 but increased by approximately 75.0% to approximately US\$0.7 million in 2022 (on an annualised basis). We were advised by the management of Indofood that this was mainly resulting from social distancing policies imposed by the government in response to the COVID-19 pandemic in 2021 which impacted on, among others, flour production, logistics as well as fluctuating demand from FFI due to closures of restaurant operations during COVID-19.

We noted that an upward trend is generally expected by the management of Indofood for the Annual Caps for the FFI Flour Transactions for the three years ending 31 December 2025, and an average embedded growth rate of approximately 20.7% (before applying the Flour Buffer). We have discussed with the management of Indofood regarding the underlying reasons and noted that they have principally taken into account (i) the expected increase in number of restaurant outlets of FFI and hence demand; (ii) the increase in wheat commodity prices; (iii) the rebound of restaurant business operated by FFI due to easing of COVID-19 social distancing measures; and (iii) the Flour Buffer.

Having considered that (i) as provided by the management of Indofood, FFI increased its number of restaurant outlets by 16 and currently operates around 730 restaurant outlets in Indonesia in 2022 which is an approximate 2.2% increase from 2019; (ii) actual transacted amounts pre-COVID-19 pandemic was US\$1.0 million, US\$1.1 million and US\$0.9 million for each of 2017, 2018, and 2019 and the expected annual caps for the coming three years ending 2025 is US\$1.1 million, US\$1.3 million and US\$1.5 million only, which is not excessive as compared to pre-COVID-19 amounts; (ii) we have reviewed and noted from historical data on Nasdaq, the CBOT wheat future prices reported a 52 week high of US\$1,294 and a 52 week low of US\$741.5 and has been fluctuating between around US\$800-US\$950 range between the end of September to the Latest Practicable Date (**“Wheat Commodity Price Increase”**) as such Indofood’s expected increase in wheat commodity price as an assumption is not unjustifiable; and (iv) the estimated price increases in products is considered in line with Indonesia’s recent inflation statistics, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022 based on the data published by BI, we consider the anticipated average embedded annual growth rate in transaction amount is not unjustifiable.



The Flour Buffer is also considered acceptable and commercially justifiable taking into account the FFI Flour Transactions being income generating in nature and the Benefits for having the Flour Buffer (Sales) as discussed in detail in paragraph headed “3.3 Annual Caps for the 2023-2025 Flour Business Transactions - (a) NIC Flour Transactions” above.

Having considered that above, we are of the view that the Annual Caps for the FFI Flour Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(c) Consulting Services

The transacted amounts under the Consulting Services remained at around US\$0.1 million for each of 2020, 2021 and 2022 (on an annualised basis).

We noted that Indofood expects the Annual Cap for the Consulting Services to be approximately US\$0.5 million for each of 2023, 2024 and 2025. We understand that other than the Flour Buffer which was considered in determining the Annual Caps, the expected transacted amounts under the Consulting Services would also depend on the number of projects on hand. For example, there is an ongoing project for the construction of a flour silo with an expected completion date of 2024 which accounted for around 60% of total annual cap under the Consulting Services transaction. Furthermore, we understand the Annual Caps for each of the years 2023-2025 was estimated with reference to budgets for the other projects with reference to costs incurred for similar scale projects carried out by the Flour Business.

The Flour Buffer, apart from providing provision for the FX Volatility, will also provide flexibility for the Indofood Group to accommodate unexpected future variations in its demand for products/services which may be caused by one-off and/or occasional event(s), and mitigate the chance of operational disruption and the burden of the Group to bear additional time and costs to conduct revision of the relevant annual cap(s) (collectively, the “**Benefits for having the Flour Buffer (Purchase)**”), which are considered commercially justifiable.

As such, we are of the view that the Annual Caps for Consulting Services are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(d) Indomobil (Flour) Transactions

We are advised by management of Indofood that the transacted amounts under the Indomobil (Flour) Transactions for 2021 and 2022 (on an annualised basis) increased by approximately 68.2% and 40.5% respectively as a result of the higher demand for transportation of flour products.



The 2023 Annual Cap, before the Flour Buffer, represents around 201.9% increase as compared to the annualised transacted amount for 2022 and a roughly 4.7% annual growth is assumed in the Annual Caps for 2024 and 2025. We have discussed with the management of Indofood regarding the underlying reasons and noted that in estimating the Annual Caps for 2023-2025, they have principally taken into account of (i) the ongoing vehicle replacement program for the Flour Business which was also previously partially halted due to the COVID-19 pandemic; and (ii) the adoption of the Flour Buffer.

Having considered the fact that (i) the transacted amounts for Indomobil (Flour) Transactions for 2021 and 2022 (on an annualised basis) increased by approximately 68.2% and 40.5% as aforementioned; (ii) the expected growth in other Flour Transactions relating to sales of flour and/or pasta products by Indofood Group in the coming three years which is expected to correspondingly increase the demand for the Indomobil (Flour) Transactions; and (iii) the estimated price increases in products is considered in line with Indonesia's recent inflation statistics, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022 based on the data published by BI, we are of the view that the Annual Caps for the Indomobil (Flour) Transactions are fair and reasonable as far as the Company and Independent Shareholders are concerned.

In addition, the Flour Buffer of 25.0% is considered acceptable and commercially justifiable taking into account the Benefits for having the Flour Buffer (Purchase) as discussed in detail in paragraph headed "3.3 Annual Caps for the 2023-2025 Flour Business Transactions - (c) Consulting Services" above.

(e) Indofood-SDM (Flour) Transactions

We note the transacted amounts for the Indofood-SDM (Flour) Transaction fluctuated at a level of around US\$8.5 million between 2020 and 2022 (on an annualised basis).

The 2023 Annual Cap, before the Flour Buffer, represents around 2.3% decrease as compared to the annualised transacted amount for 2022. We have discussed with the management of Indofood regarding underlying reasons and noted that, when arriving at the assumed embedded average annual growth rate of 8.2% for the next three years ending 31 December 2025 (before applying the Flour Buffer) and in determining the Annual Caps for 2023-2025, they have principally taken into account (i) planned business expansion; (ii) further increases in wages; and (iii) the adoption of a Flour Buffer.



Having considered that:

- (i) the wage growth in Indonesia reported a substantial increase of approximately 6.2% in August 2022 as compared with the previous reporting period in February 2022 according to BPS; and
- (ii) the Flour Buffer of 25.0% is considered acceptable and commercially justifiable taking into account the Benefits for having the Flour Buffer (Purchase) as discussed in detail in paragraph headed “3.3 Annual Caps for the 2023-2025 Flour Business Transactions - (c) Consulting Services” above,

we are of the view that the Annual Caps for Indofood-SDM (Flour) Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(f) Bogasari-Indomaret (Flour) Transactions

As advised by the management of Indofood, the transacted amounts under the Bogasari-Indomaret (Flour) Transactions showed an increase of approximately 15.4% and 47.3% respectively for 2021 and 2022 (on an annualised basis). We understand the increases were due to (i) the substantial increase in stores operated by the Indomaret Group from approximately 16,000 in 2019 to 20,200 stores in 2022 with its intention to continue to increase its presence and to achieve an annual increase of approximately 20.0%; and (ii) increase in demand from consumers for flour related products due to reasons including the COVID-19.

The 2023 Annual Cap, before the Flour Buffer, represents around 20.5% increase as compared to the annualised transacted amount for 2022 and a roughly 18.9% average annual growth is assumed in the Annual Caps for 2024 and 2025. We have discussed with the management of Indofood regarding the underlying reasons and noted that, in determining the Annual Caps for 2023-2025, they have principally taken into account (i) the planned resumption of price promotion activities of the Indomaret Group; (ii) further growth in new stores and outlets operated by the Indomaret Group; (iii) the estimated increase in sales volume of products sourced from Bogasari and the expected continued innovation of products in particular packaged of products supplied by Bogasari; (iv) the expected increase in prices for flour products sold mainly resulting from increases in wheat commodity prices; and (v) the Flour Buffer.



Having considered that (i) the introduction of new and improved packaging for its key products, which based on the management of Indofood, would likely be expected to trigger an increase in sales by approximately 10-20% based on Indofood's previous experience; (iii) the Wheat Commodity Price Increase as discussed in the section headed "3.3 Annual caps for the 2023-2025 Flour Business Transactions – (b) FFI Flour Transactions", which is expected to also have an impact on the ultimate selling prices of flour products; and (iii) the estimated price increases in products is considered in line with Indonesia's recent inflation statistics, the monthly inflation rate of Indonesia sharply increased from approximately 1.30% in late 2020 to as high as 4.94% in July 2022 and further increased to approximately 5.95% in September 2022 based on the data published by BI, we consider the basis for the estimation of Annual Caps for the coming three years is not without basis.

The Flour Buffer is also considered acceptable and commercially justifiable taking into account the Bogasari-Indomaret (Flour) Transactions are income generating in nature and the Benefits for having the Flour Buffer (Sale) as discussed in detail in paragraph headed "3.3 Annual Caps for the 2023-2025 Flour Business Transactions - (a) NIC Flour Transactions" above.

Having considered the above, we are of the view that the Annual Caps for the Bogasari-Indomaret (Flour) Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(g) Interflour Transactions

The transacted amount for the Interflour Transactions decreased by approximately 22.7% in 2021 and is expected to further decrease by approximately 29.4% in 2022 (on an annualised basis). Such decrease was due to (i) production interruptions associated with social distancing measures affecting production as a result of COVID-19 pandemic during the period; and (ii) it was difficult to match the wheat arrival time with EPFM's silo's availability.

The 2023 Annual Cap, before the Flour Buffer, represents around 100% increase as compared to the annualised transacted amount for 2022 and a roughly 9.5% annual growth is assumed in the Annual Caps for 2024 and 2025 as the Interflour Transactions is only used as a mean to cover demand in the eastern area of Indonesia using EPFM's excess capacity for production for Bogasari. We understand that a general upward trend in transaction amounts is expected for 2023 to 2025. Based on our discussion, we understand the Annual Caps for 2023 to 2025 is determined after taking into account; (i) the expected increase in wage; (ii) the expected growth rate for the Flour Business as shown by the other Flour Transactions; and (iii) the adoption the Flour Buffer.



Having considered that:

- (i) the wage growth in Indonesia reported a substantial increase of approximately 6.2% in August 2022 as compared with the previous reporting period in February 2022 according to BPS;
- (ii) Indofood has discussed in the Indofood 2021 Annual Report that Bogasari is expected to ensure its leading position and continued success with a priority focus on volume growth; and
- (iii) the Flour Buffer is considered acceptable and commercially justifiable taking into account the Benefits for having the Flour Buffer (Purchase) as discussed in detail in paragraph headed “3.3 Annual Caps for the 2023-2025 Flour Business Transactions - (c) Consulting Services” above,

we are of the view that the Annual Caps for the Interflour Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(h) IDP (Flour) Transactions

The transacted amount was approximately US\$0.3 million in 2020, US\$0.4 million, or around 33.3% increase, in 2021 and increased by another around 25.0% to US\$0.5 million in 2022 (on an annualised basis).

The 2023 Annual Cap, before the Flour Buffer, represents around 300.0% increase as compared to the annualised transacted amount for 2022 and a roughly 57.5% average annual growth is assumed in the Annual Caps for 2024 and 2025. The Annual Caps for 2023 to 2025 is determined after taking into account (i) business expansion plans and growth in e-commerce sector; (ii) the effect of increase in wheat commodity prices on the selling price of flour related products; and (iii) the adoption the Flour Buffer.

Having considered that:

- (i) according to International Trade Administration (an administration under the U.S. Department of Commerce), Indonesia has one of the highest rates of e-commerce adoption in the world in 2020 and the market was over US\$30 billion in gross market value in 2020 and is expected to significantly increase to US\$83 billion in 2025, representing a simple average annual growth of roughly 35%. The growth in Indonesia’s e-commerce market is expected to be fueled by changing consumer behaviour who are willing to spend more for convenience;



- (ii) the Wheat Commodity Price Increase as discussed in the section headed “3.3 Annual caps for the 2023-2025 Flour Business Transactions – (b) FFI Flour Transactions”;
- (iii) In addition, given the historical annual growth in the transacted amount, the estimated growth rate embedded in the Annual Caps are therefore, not considered excessive; and
- (iv) the Flour Buffer is considered acceptable and commercially justifiable taking into account that the IDP (Flour) Transaction is income generating in nature and the Benefits for having the Flour Buffer (Sale) as discussed in detail in paragraph headed “3.3 Annual Caps for the 2023-2025 Flour Business Transactions - (a) NIC Flour Transactions” above,

we are of the view that the Annual Caps for the IDP (Flour) Transactions are fair and reasonable as far as the Company and the Independent Shareholders are concerned.

(i) *Tarumatex Transactions*

We understand the Tarumatex Transactions commenced in 2020 and the transacted amounts for 2020 and 2021 were minimal. Under the Tarumatex Transactions, Bogasari will continue renting warehouse spaces from Tarumatex in 2023 and the corresponding rental payment between 2023 and 2025 will be paid in advance in 2023.

The Annual Caps for 2023 is determined after taking into account the proposed fixed annual rental fee of approximately Rp1.0 billion (equivalent to approximately US\$0.1 million).

Having considered that, according to a quotation from an independent property agency provided to us by the management of Indofood, the prevailing market monthly rental rate of similar industrial unit proximate to where the warehouse is located was around Rp425,000 per Sqm as at September 2022. The monthly rental rate of around Rp342,000 per Sqm under the Tarumatex Transactions is lower than the quoted market rental rates, which is considered favourable to the Indofood Group, we are therefore of the view that the Annual Caps for the Tarumatex Transactions are fair and reasonable as far as the Company and Independent Shareholders are concerned.



(j) *Conclusion*

Having considered that, in particular, the reasons and factors discussed above in relation to our assessment of the Annual Caps for each of the 2023-2025 Flour Business Transactions, we are of the view that the proposed aggregated Annual Caps for the 2023-2025 Flour Business Transactions are set by the Directors after due and careful consideration and are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of both the Company and Independent Shareholders as a whole.

4. Internal control procedures

4.1 *Monitoring of the utilisation of the Annual Caps*

As disclosed in the letter from the Board in the Circular, the Company and Indofood has in place procedures to ensure that Annual Caps in respect of continuing connected transactions are not exceeded. A specific continuing connected transactions team has been established within Indofood, which is responsible for the identification and reporting of the Indofood Group's continuing connected transactions.

As part of the reporting processes implemented by the Company and Indofood, we note that each month, Indofood's business units are required to submit a report to Indofood's continuing connected transactions team, setting out the transaction amounts and an indication of whether transaction volumes are expected to remain within the approved disclosed annual caps.

Indofood's continuing connected transactions team collates such monthly reports from all business units and compiles the data to prepare a monthly certification report, which is provided to the Company and on which the legal team and finance team of the Company provides comments to Indofood's continuing connected transactions team.

The finance team of the Company calculates the projected transaction values for the relevant year and if the Company anticipates that an annual cap might be exceeded, the Company initiates discussions with Indofood's continuing connected transactions team to establish revised annual caps as necessary.



As also disclosed in the letter from the Board in the Circular, the Company is implementing changes to its continuing connected transactions monitoring process to ensure that Annual Caps are not exceeded by:

- (i) mandating that Indofood's continuing connected transactions team provides to the Company a draft of each monthly certification report within approximately two weeks after the end of the month to which such monthly certification report relates and that the finalised monthly certification report must be signed by the designated members of the board of directors of Indofood and counter-signed by the President Director and CEO of Indofood within approximately three weeks after the end of the month to which such monthly certification report relates; and
- (ii) ensuring that instances where existing Annual Caps are forecast to be exceeded are dealt with more promptly, after having been identified, pursuant to the detailed monitoring process described above. This principally involves more rigorous enforcement of the monitoring process on Indofood's continuing connected transactions team and, in turn, the business units, and ensuring that Indofood's continuing connected transactions team promptly complies with, and procures compliance by Indofood business units with, obligations under the monitoring processes.

Please refer to the letter from the Board in the Circular for further details of the internal control procedures of the Group and the Indofood Group.

We consider the aforesaid internal procedures, including but not limited to, the submissions of reports by Indofood's business units to Indofood's continuing connected transactions team and monthly certification report from Indofood's continuing connected transactions team to the Company as well as the regular calculation of the projected transaction values for the relevant year by the finance team of the Company following receipt of the monthly certification report, all on a monthly basis, can facilitate a regular communication and reporting to the Company which shall enable the legal team and finance team of the Company to effectively monitor the utilisation of the Annual Caps on timely manner.

4.2 Pricing policies

As disclosed in the letter from the Board in the Circular, Indofood Group takes into account the following procedures and/or policies in negotiating with the connected parties to agree and determine the prices of the transactions with reference to normal commercial terms and on an arm's length basis between Indofood Group and the connected parties and are in any event no less favourable (as far as the Indofood Group is concerned) than those prevailing in the market for the relevant goods and/or services of the same type and quality and those offered to or by independent third parties.



- (1) In relation to the transactions involving sales of goods or services by Indofood Group:
- (a) in relation to products or services where there are comparable products or services in the market:
- the Sales and Marketing Department of the Indofood Group maintains a database of the market price of the products the Indofood Group sells and the services the Indofood Group provides;
 - such database tracks the historical selling price and rates of the Indofood Group, as well as competitors, for such products and services (in each case covering a period of approximately one year);
 - the information in the database is obtained from the Indofood Group's internal sources (including information in respect of transactions entered into by different divisions of the Indofood Group) and publicly available information;
 - to the extent possible the competitors' price being tracked are for the same products/services as those sold/provided by the Indofood Group; however, in some cases the products/services sold/provided by competitors would be of a slightly different specification, but in any event would be of the same type and sold/provided in the same market;
 - the proposed selling price to be quoted under a continuing connected transaction would be determined based on, among other things, production cost (raw material commodity price) and on a comparison with at least two comparable transactions (as per the market price database described above); the proposed selling price/service fee under a continuing connected transaction would be no less favourable (as far as the Indofood Group is concerned) than those in the transactions being compared; and
 - the Sales and Marketing Department of the Indofood Group reviews and updates such database on a monthly basis as required.



- (b) for products manufactured with specific specifications and operational services provided with specific scope in respect of which there are no comparable products or services in the market, the prices are determined by reference to estimates of Indofood Group's costs of production plus a profit margin, which would be no lower than the profit margin which the Indofood party to the continuing connected transaction estimates to be enjoyed by other suppliers of similar products or services, such estimates being calculated by reference to the quoted selling price of such similar products or services of the other suppliers and on the basis that the cost of production would not differ significantly between the Indofood party to the continuing connected transaction and such other suppliers. The Sales & Marketing Department of the Indofood Group maintains a database of the quoted selling prices of such other suppliers for products or services supplied in similar geographic locations. The information in the database is obtained from publicly available information. The Indofood Group's profit margins are subject to quarterly review and are consistent with the historical prices for such products or services offered to the connected parties; and
 - (c) for license or services fees charged based on a certain percentage of the net sales of the connected parties, the percentage is compared to the percentage charged to independent third parties. The terms are subject to periodic review to ensure that they are no less favourable (as far as the Indofood Group is concerned) than those offered to independent third parties.
- (2) In relation to the transactions involving purchases of goods or services by the Indofood Group, we also note that the Indofood Group conducts the following bidding process to ensure that the price and terms offered by a connected party are fair, reasonable and comparable to those offered by independent third parties:
 - (a) request and compare at least two quotations for products or services of the same type and quality from qualified suppliers; a supplier is classified as a qualified supplier if it meets the criteria set by the Central Procurement and Engineering Division of the Indofood Group (relating to the supplier's size, reputation, quality of services, capabilities (delivery, safety etc.) and track records). The Central Procurement and Engineering Division (which has in excess of fifty persons) of the Indofood Group assesses suppliers against these criteria by engaging in dialogue, and meeting with, relevant suppliers. Reviews of qualified suppliers are carried out on a quarterly basis. Most qualified suppliers are independent;
 - (b) review and evaluate each quotation to check if it meets the respective specification and scope of products or services; and
 - (c) negotiate with the suppliers to get the best price and service.



- (3) For the products or services from the sole manufacturer or sole distributor or sole service provider in respect of which substitutes are not available and there are no comparable products or services in the market, the prices are determined by reference to the price and cost analysis conducted by the Indofood Group to estimate the suppliers' costs of production with a profit margin that conforms with the profit margins that are customary for the type of products or services. When conducting a price and cost analysis, the Indofood Group:
- (a) monitors the historical price trend in the market by gathering historical price data from the relevant market through distribution channels and publicly available information, the Indofood Group's historical purchase price to date, the budgeted price and the current market price and their causes of variances;
 - (b) gathers detailed information on production cost components and the suppliers' value-added chains, especially for major materials based on the information on Indofood's own production costs from Indofood's database and an estimate of the costs of materials;
 - (c) gathers information on the supply and demand conditions in the market; and
 - (d) compares the quotation from each sole manufacturer or sole distributor or sole service provider to its other customers and the Indofood Group's historical purchase price to date.
- (4) In relation to the transactions involving leasing of real properties, the rents and terms are determined with reference to independent quotations from third party real property agency firms and the market terms of similar real properties in the same region for the same period. Alternatively, the price should be based on valuation reports on the relevant properties provided by independent valuers.

We understand that the relevant business units to which each Indofood party to a continuing connected transaction belongs conducts quarterly checks to review and assess whether the continuing connected transactions are conducted in accordance with the terms of the respective agreements, while the Sales and Marketing Department of the Indofood Group on a monthly basis updates the market price database referred to above for the purpose of considering if the price charged for a specific transaction is fair and reasonable and in accordance with the above pricing policies. In addition, as described in the sub-section headed "4.1 Monitoring of the utilisation of the Annual Caps" above, Indofood's continuing connected transactions team collates monthly reports from all business units and prepares a monthly certification report which is provided to and commented on by the Company. Further, the Company's external auditors and the Audit and Risk Management Committee conduct annual reviews on the pricing and the Annual Caps of the Group's continuing connected transactions pursuant to requirements under the Listing Rules.



Please refer to the letter from the Board in the Circular for further details of other pricing policies of the Group and the Indofood Group.

We consider that the procedures above, in particular, (i) as regards sales of products/services, the performance of a comparison with at least two comparable transactions, or if no comparable products/services available, pricing with profit margin not lower than the profit margins Indofood Group estimates to be charged for similar types of products in the market; (ii) as regards purchases of products/services, the carrying out of the bidding process and the performance of a comparison with at least two quotations for products or services of the same type and quality from qualified suppliers; (iii) the price and cost analysis conducted by the Indofood Group to estimate the suppliers' costs of production with a profit margin that conforms with the profit margins that are customary for the type of products or services; and (iv) as regards leasing transactions, the reference to independent quotations from third party real property agency firms or valuation reports by independent valuers; and (v) the respective aforesaid regular review involved, have demonstrated Indofood Group's practices of getting access to pricing information in the market and regular assessment and review on pricing of products/services being sold/purchased so as to ensure that prices and other terms of the relevant transactions with connected persons are in any event no less favourable (as far as the Indofood Group is concerned) than those prevailing in the market for the relevant goods and/or services of the same type and quality or those offered to independent third parties.

Based on the discussion above, we concur with the view of the Directors that the internal control as regards the continuing connected transactions are efficient to safeguard the interest of the Company and its Shareholders as a whole.

5. Listing Rules requirements

When the Annual Caps in respect of each of the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and the 2023-2025 Flour Business Transactions for each of 2023, 2024 and 2025 are aggregated, one or more of the applicable percentage ratios exceeds 5%. Therefore, each of those transactions and their respective aggregated Annual Caps for each of 2023, 2024 and 2025 are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Under Rule 14A.36 of the Listing Rules, any shareholder of the Company with a material interest in the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and/or the 2023-2025 Flour Business Transactions is required to abstain from voting at the SGM on the resolutions approving the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and the 2023-2025 Flour Business Transactions. Accordingly, Salerni International Limited, First Pacific Investments Limited and First Pacific Investments (B.V.I.) Limited, all being associates of Mr. Salim and which as at the Latest Practicable Date held in aggregate 1,925,474,957 shares of the Company, representing approximately 45.39% of the issued share capital of the Company, will abstain from voting at the



SGM on such resolutions. In addition, Mr. Benny Santoso, who is deemed to have a material interest in the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and the 2023-2025 Flour Business Transactions, and who as at the Latest Practicable Date is interested in 3,828,000 vested and 1,914,000 unvested share options of the Company as well as 478,500 unvested share awards of the Company (the unvested share awards representing approximately 0.01% of the issued share capital of the Company), will abstain from voting at the SGM on such resolutions.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above and in particular, the following:

- as disclosed in the Letter from the Board of the Circular, we note that over 80% of the expected annual caps for the Transactions are relevant to members of the Indofood Group selling or providing services to associates of Mr. Salim, which are revenue-generating in nature for the Group. We also note that each of the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and the 2023-2025 Flour Business Transactions will be conducted on normal commercial terms, are in line with the Indofood Group's adopted business expansion strategies and are expected to facilitate the growth of the Indofood Group's businesses;
- that the respective pricing basis as provided under the Plantations Agreements, the Distribution Agreements and the Flour Agreements is fair and reasonable;
- the control and review procedures and arrangements in place to safeguard the interests of the Company and the Shareholders in relation to the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and the 2023-2025 Flour Business Transactions as discussed under the sections namely "4. Internal control procedures" and "5. Listing Rules requirements" above; and
- that the respective Annual Caps for each of the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and the 2023-2025 Flour Business Transactions, have been set by the Directors, after careful and due considerations, at levels which are in the interests of both the Company and the Independent Shareholders, in view of the factors as discussed in detail above,



we consider that the Plantations Agreements, the Distribution Agreements and the Flour Agreements are being entered into within the ordinary and usual course of business of the Group based on normal commercial terms, and their respective terms and conditions together with the respective Annual Caps are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the 2023-2025 Plantations Business Transactions, the 2023-2025 Distribution Business Transactions and the 2023-2025 Flour Business Transactions, and the adoption of the respective Annual Caps.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley Capital Limited to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 19 years of experience in corporate finance industry (including but not limited to advising on corporate exercises as regard compliance of the Listing Rules).