

TESS AGRO PLC
(PQ 689PQ)
CIRCULAR TO THE SHAREHOLDERS

Dear Shareholders,

ISSUE OF ONE HUNDRED SIXTY EIGHT MILLION (168,000,000) ORDINARY VOTING SHARES TO M/S IPEK SA LIMITED BY WAY OF A PRIVATE PLACEMENT

1. Background

TESS AGRO PLC established in 1992, as the first cold chain operator ¹ in Sri Lanka and has been dedicated towards processing and distribution of superior seafood, since 2007. The Company obtained a listing by way of an IPO on the Colombo Stock Exchange in December 2002.

During the past five years the company had to face its biggest challenge as the European Union, which was Sri Lanka's most lucrative market decided to ban Sri Lankan fish being imported into the EU.

Prior to the ban imposed in January 2015, the EU accounted for nearly one-third of Sri Lanka's fish exports in terms of volume and about 40 per cent of the exports in terms of revenue. Against the total fish export earnings of \$ 267 million that year, Sri Lanka got \$ 108 million from Europe. (Source Reuters report April 21, 2016)

The Company has been incurring losses in the past 5 years continuously, as specified in the table below, due to a number of operational and non-operational challenges such as (i) adverse environmental factors and disruptive weather(inconsistent monsoons etc.) that affected fishing . , (ii) Depreciation of the rupee against the US dollar that has increased its borrowing cost (ii) exorbitant interest expenditure due to increased borrowings from banks to finance operational and statutory expenses.

2. Causes and Natures of losses

Year	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Revenues	333,494,558	310,605,504	189,524,637	6,252,055	4,991,900
Gross Margin	9.38%	13.54%	16.81%	2.7%	35.5%
Gross Profit	31,286,807	38,156,089	29,575,191	170,880	1,774,870
Net Loss for the year	(62,444,141)	(51,175,164)	(74,771,531)	(61,391,970)	(40,914,395)
Accumulated Loss C/F	(227,760,472)	(275,758,271)	(345,415,998)	(345,861,863)	(386,776,258)

The net losses were attributed to high borrowing costs

Year	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Interest bearing borrowings	146,153,772	118,151,790	209,536,952	148,714,018	67,414,563
Short term borrowings	81,331,520	86,879,262	24,124,650	19,134,168	20,206,249
Current portion borrowings	42,807,950	60,276,000	52,531,497	127,003,077	222,259,842
Bank Overdraft	8,945,163	37,831,345	56,884,346	55,503,431	61,264,703

The above financial figures are extracted from the Audited Financial Statements of the company

Note: 1 <http://archives.sundayobserver.lk/2002/10/20/bus01.html> , (accessed on 25/11/2021)
<http://archives.dailynews.lk/2007/07/13/fin02.asp> (accessed on 25/11/2021)
<http://www.fis-net.com/fis/techno/newtechno.asp?l=e&id=58331&ndb=1>, (accessed on 25/11/2021)

The company's borrowing costs increased steadily by 5% in 2019 and since the company's loans were in USD

the Exchange rate depreciation of the rupee by 20% also affected the companies bottom line.

The Board of Directors is of the view that a continuation of this trend of incurring losses, especially with the possible increase in exchange rates and the ongoing pandemic has also affected largely the supply chain including the difficulty to procure raw materials and the shortage of labor will seriously affect the company as a going concern if immediate capital infusion is not sought.

3. Issue of One Hundred and Sixty Eight Million Shares (168,000,000) ordinary voting shares of the Company to the M/S IPEK SA LTD private placement.

Accordingly, subject to the approval of the shareholders of the Company, the Board of Directors of the Company has decided to issue by way of a private placement, One Hundred and Sixty Eight Million Shares (168,000,000) ordinary voting shares of the Company ("Private Placement Shares") to IPEK SA LTD at a consideration of Sri Lankan Rupees Eighty Four Million at a price of Fifty Cents (LKR 50cts =) per Private Placement Share.

The Board of Directors has also resolved that the aforesaid consideration of Sri Lankan Rupees Fifty cents (LKR 0.50 cts/=) at which each Private Placement Share shall be issued is fair and reasonable to the Company and all existing shareholders of the Company. In forming their opinion, the Board has taken into consideration that the current net assets of the share is Rs 17 Cts and the Volume Weighted Average ("VWA") price per ordinary voting share of the Company for the 30 days immediately preceding the date of the Announcement to the Colombo Stock Exchange was Rs 40 Cts which amounted and the last traded price on the date immediately preceding the date of The Announcement which amounted to Rs 60 Cts.

Each of the Private Placement Shares will, upon the issue thereof, rank *pari passu* in all respects with the existing ordinary voting shares of the Company with a right to (i) one vote on a poll at a meeting of the Company on any resolution, (ii) an equal share in dividends paid by the Company and (iii) an equal share in the distribution of the surplus assets of the Company on liquidation.

Private placement is subject to the receipt of the waiver from SEC in terms of 5.4 (b) of CSE listing Rules.

The Private Placement Shares will, upon the issue thereof, amount to Thirty Three percent (33 %) of the Issued shares of the Company.

4. The Project

Sri Lanka imports approximately 13 million US dollars worth of empty cans, , our group company, TESS (Pvt) Ltd manufactures canned fish for the local market. Due to the short supply of empty cans as a result of the prevalent import restrictions, there is a high demand for same by various local food manufacturers, hence we are of the view there is an opportunity to start an empty can manufacturing plant which could meet the requirement of our canned fish operation and with a view to increase exports as well as having a customer base comprising of other food canning

businesses in Sri Lanka for food grade cans which are in high demand even for coconut milk exports.

In the past Sri Lanka has gone through several natural disasters such as forest fires, floods, tsunamis and now this pandemic. As we all know the COVID-19 pandemic is here to stay for awhile. Masks, sanitizers, social distancing, precautionary measures are not going to solve the problem long term. We need to build up our immune systems by consuming protein enriched foods. Canned fish is currently one of the cheapest forms of natural protein available to the average person. Given the highly perishable nature of seafood as a commodity, the process of canning (without the use of any preservatives) ensures extending the shelf-life for more than 2 years without any loss of nutritional values and is 100% natural.

- (i) The total project cost is estimated at Rs 160 Million comprising of the follows

Description	In Rs
a. Machinery ²	101 Million
b. Lease of Building	14.5 Million
c. Operational Expenses	44.5 Million
Total	160 Million

Note 2. The Machinery will be leased

- (ii) The investor funds of 84 million will utilized as follows

Description	In Rs
d. Commercial Bank of Ceylon	25 Million
e. Lease of Building	14.5 Million
f. Operational Expenses	44.5 Million
Total	84 Million

- (iii) Due to the amount of capital that can be infused in this issue is limited to 84 million rupees, the machinery equipment will be leased from a local bank. the six months lease cost until start up has been accounted for in the “other operational expenses” The operating expenses of 44.5 includes 28 million for lease payments for the 6 months until commercial production.
- (iv) The funds allocated to Commercial bank will be utilized to regularize the facilities obtained from the bank for the companies working capital requirements . the bank is not a related party and the company has complied with the relevant listing rules at the time of obtaining the loan.
- (v) The loans from Commercial Bank were obtained on the 28/11/2017 to fund the short term working capital requirements of the company.
- (vi) The company will be settling part of the loan.
- (vii) The plant is expected to be fully operational in 12 months, from the funds being invested.

- (viii) Since the estimated start time to the project, funds are likely to be dispersed immediately Only short term REPO bills will be considered.
- (ix) The funds allocated to Commercial bank will be utilized to partly to reduce the outstanding debts of the Company with Commercial Bank of Ceylon PLC and reschedule its existing facilities which will enable us to obtain the leasing facility for the machinery and equipment.
- (x) The Private Placement funds will be infused in compliance with the laws of the land and the Company Articles.
- (xi) (d), (e) Funds will be utilized immediately , while (f) will be utilized within a 6 months period during the implementation of the project at a overnight repo rate of 5.5% per annum
- (xii) The above funds will not be used to settle any related party dues or lent to any related parties.
- (xiii) The Payback period is expected to be in 1-2 years.

The project is currently being appraised by the Board of Investment. The approval process will take approx. 4 – 6 weeks upon the issue of these shares , the signing of the supplementary agreement with the BOI will be done as soon as approval is obtained . In the event the company is unable to obtain approval in the prescribed period a relevant disclosure would be made to the shareholders via a market announcement .The impact on such a delay would affect the start of the commercial operations hence extending the payback period by a corresponding time lapse.

5. Profile of IPEK SA LTD

- (i) **Name of the Investor : IPEK SA LTD**
IPEK SA LTD is a company incorporated in Cyprus and a fast-growing company focused on crude oil production, refining, international trading, waste utilization and recycling, construction of infrastructure for oil and gas industries. The company operates in eight countries and is looking to enter the food industry. IPEK SA LTD also plans to expand its trading operations in the region by investing in Sri Lanka as a long-term goal.
- (ii) The Company is Authorized to invest in the Equity of Sri Lanka by their letter dated 14th Sep 2021 and as per the Articles of the Company.
- (iii) IPEK SA LTD is not a related party of TESS AGRO PLC or its current Directors
- (iv) Date of Incorporation of the Company 11th July 2020
- (v) Name of top shareholder is Mr Farit Salikov and his shareholding is 100%
- (vi) The Board of directors consists of only One Director Mr Ilmar Salikov.
- (vii) The Company does not hold any shares of Tess Agro Plc prior to the Private placement
- (viii) Upon IPEK SA becoming a shareholder of TESS AGRO PLC , One (1) Board seat will be offered.
- (ix) We confirm that IPEK SA does not fall in the category of persons identified in Rule 7.5 D (A) 9 of the Listing rules.

6. The benefit of the private placement to the existing shareholders and the Company

The proposed private placement will result in a fresh infusion of funds into the Company as the issue of the Private Placement amounting to Sri Lankan Rupees Eighty Four Million (Rs 84,000,000)

The Company expects that the above mentioned funds will enable the company to enter into an export venture with its new partner for manufacturing tin cans, which will increase its profitability significantly once operations of the factory commence. The infusion of funds will help the company to re negotiate and obtain attractive rates from the banks that will also improve its financial position. The commencement of the project, will help generate export revenues to further improve its financial position.

7. Risks associated with the Company's business can be termed as the following.

- a) Fluctuation of foreign exchange and the current forex reserve crisis will have an impact on the company's operations that can affect import of machinery and raw materials.
- b) The company's ability to compete effectively will depend on its ability to procure goods at competitive prices. Prices are likely to vary depending on the general economic and political conditions in Sri Lanka.
- c) Increase in fuel prices and power costs affect the company's transport, freight and warehousing costs.
- d) The risk of not being able to invest the funds raised within the specific timeliness to achieve the objectives may arise due the covid 19 impact on businesses and the unprecedented threats posed by uncertainties in the political, economic, banking and finance sectors, that in turn would have an impact on the company's operations.
- e) In the event the company is unable to utilize the funds for the proposed project, mentioned herein, the company shall inform the CSE via a market announcement and obtain shareholder and other regulatory approval to extend the timeline stating the reasons as to why this extension is required.
- f) In the event The Company is unable to utilize the funds for as stated in the circular, the company will also propose another objective and it shall be done only after receiving shareholder approval.
- g) The objective of the private placement does not constitute as a major transaction.
- h) The Company does not foresee at this point a risk of not being able to invest the funds raised in the specific objectives if the funds are raised by a private placement.

8. Capital Structure

The current stated capital of the Company is Sri Lankan Rupees Four Hundred and Seven Million Eight Hundred and Five Thousand and Five Hundred and Twenty-Eight (LKR 407,805,528/=) and the issue of the Private Placement Shares as afore mentioned will result in the increase the ~~number~~ stated capital to Sri Lankan Rupees Four Hundred and Ninety One Thousand Eight Hundred and Five Thousand Five Hundred and Twenty Eight only (LKR 491,805,528/=).

The total number of Ordinary Voting Shares at present is Three Hundred and Thirty-Nine Million Seven Hundred and Ninety Seven Thousand Two Hundred and Eighty Seven Shares (339,797,287) and Fifty Million (50,000,000) Ordinary Non Voting Shares in the Company. Immediately subsequent to the issue of the Private Placement, The Number of Voting Shares will be Five Hundred and Seven Million Seven Hundred and Ninety Seven Thousand Two Hundred and Eighty Seven (507,797,287) and Fifty Million (50,000,000) Ordinary Non voting Shares.

The top twenty (20) voting shareholders of the Company as at 13th Sep 2021 are as follows:

Major Shareholders	No. of Shares	Pre %	Post %
1 IPEK SA LTD	168,000,000		33.08%
2 TESS (PRIVATE) LIMITED	105,791,456	31.13%	20.83%
3 FERNANDO S.A.MRS	24,452,499	7.20%	4.82%
4 TROPIC FROZEN FOODS LTD	7,940,733	2.34%	1.56%
5 WEERAPURA J.L.MR.	6,810,000	2.00%	1.34%
6 EGLOBAL SERVICES (PVT) LTD	5,000,000	1.47%	0.98%
7 TRANZ DOMINION,L.L.C.	4,500,045	1.32%	0.89%
8 DIALOG FINANCE PLC/M.R.A.P.C.THUSHARA	3,630,049	1.07%	0.71%
9 DE SILVA G.A.C.DR.MRS	3,545,000	1.04%	0.70%
10 ANANDAWANSA W.L.T.MR	3,200,000	0.94%	0.63%
11 PIYASIRI P.G.MR.	3,000,000	0.88%	0.59%
12 AYNKARAN S.MR.	2,900,000	0.85%	0.57%
13 THURSTAN INVESTMENTS	2,884,173	0.84%	0.57%
14 JAYASINGHE D.R. MR.	2,765,072	0.81%	0.54%
15 WALDOCK MACKENZIE LTD/MR.S.A.GULAMHUSEIN	2,741,641	0.81%	0.54%
16 DE SILVA R.C. MR.	2,250,000	0.66%	0.44%
17 PEIRIS T.A. MR.	2,162,475	0.64%	0.43%
18 BANSEI SECURITIES CAPITAL (PVT) LTD/M.A.U. GNANATI	2,000,483	0.59%	0.39%
19 NASAR H.A.MR.	2,000,400	0.59%	0.39%
20 DE SILVA G.R.U. MR.	2,000,000	0.59%	0.39%
21 KIRIMETIYAWA .P.M.R.K.MR.	1,957,620	0.58%	0.39%

9. Public Shareholding

The percentage of ordinary voting shares held by public shareholders as at date is 41% and number of

shareholders representing such public holding is 4581.

The public shareholding of the Company subsequent to the issue of the Private Placement Shares will be 28.6 % (i.e. assuming that there are no further purchases of shares by persons identified in the public holding definition in the Listing Rules).

The reduction in the public shareholding of the Company to 28.6% consequent to the issue of the Private Placement Shares, will not affect its listing on the Diri Savi Board.

Market Price of Shares

The highest, lowest and closing prices of the Company's voting shares for the preceding three (03) months are given below:

Month	Highest Price (LKR)	Lowest Price (LKR)	Closing Price (LKR)
September '21	0.80	0.50	0.60
October '21	0.70	0.50	0.70
November '21	0.70	0.50	0.60

10. Dividend History

The dividend history of the Company for the last three years is as follows:

Dividends Paid (Gross) - LKR	2019	2020	2021
Cash Dividends	NIL	NIL	NIL
Scrip Dividends	NIL	NIL	NIL
Total Dividends	NIL	NIL	NIL
Dividend Payout Ratio % (Dividends/Net Profit after Tax)			
Cash Payout Ratio	N/A	N/A	N/A
Scrip Payout Ratio	N/A	N/A	N/A
Total Payout Ratio	N/A	N/A	N/A
Dividend per share - LKR			
Cash	N/A	N/A	N/A
Scrip	N/A	N/A	N/A
Total	N/A	N/A	N/A

11. Disclosure on COVID 19 – Impact

The economic fallout from the pandemic would be significant. Sri Lanka's growth could be less than the 2.3% recorded in 2019 and possibly the worst rate in its recent development history. As the Stock market saw foreign investor net sales of large amounts take place on 2020, the closure of the stock market also had a negative impact on the overall investor outlook.

With the economy coming to a near standstill, enterprises that are dependent on export revenue and simultaneously managing debt, are going to be vulnerable. Longer-term impact will be felt by indebted companies or those with poor cash flows, those unable to remain open or afford salaries to retain employees.

Foreign outflows from local financial markets have caused the local exchange rate to depreciate significantly, reaching all time lows.

However, The Sri Lankan manufacturers and service providers expect this trend to improve with the relaxation of travel restrictions and work from home periods reduced to a bare minimum as the vaccination drive has gathered momentum.

Estimating the impact COVID-19 will have on economies is a challenge. Simply, there are too many unknowns such as rate of infection and immunity, policy response, the necessity for a booster vaccines etc.

The COVID 19 impact on the company, can cause delays in approvals and other compliance regulation approvals that may be needed to be obtained for the inflow of investment. In addition, this can affect the project start up, due to delays in government imposed health regulations during the project and have impacts in set up of the factory. The Economic impact of the COVID has caused many changes to its procurement of raw materials and high cost of airfreight making sales prices uneconomical in the general operations of the company.

12. Compliance with the Law

(i) Compliance with the provisions of the Listing Rules

- (a) The Company has taken all necessary steps to comply with all relevant provisions of Section 5 of the Listing Rules in relation to the private placement, including obtaining the approval, in principle from the Colombo Stock Exchange for the issue and listing of the Private Placement Shares.
- (b) In terms of the Listing Rules, the issue of the Private Placement Shares require the approval of the shareholders of the Company by special resolution.

(ii) Compliance with the Companies Act No 7 of 2007 (the “Companies Act”)

In terms of section 52 of the Companies Act, the Board of Directors has decided that the consideration for which the Private Placement Shares will be issued will be Sri Lankan Rupees Fifty Cents (LKR 50 Cts) per each Private Placement Share and are of the opinion that the aforesaid consideration of Sri Lankan Rupees Fifty Cents (LKR 50cts) per Private Placement Share is fair and reasonable to the Company and to all existing shareholders of the Company.

(iii) Compliance with Articles of Association

Article A1(3) of the Articles of Association of the Company stipulates that, where the Company issues shares which rank equally with or prior to existing shares, those shares must be offered to the

holders of the existing shares in a manner which would, if accepted, maintain the relative voting and distribution rights of those shareholders.

Section 99 of the Companies Act states that a company cannot take any action that would affect the rights attached to shares, unless that action has been approved by a special resolution of each interest group. The rights attached to a share, for purposes of section 99 include the pre-emptive rights of shareholders under section 53 of the Companies Act as replicated in the said Article 1(3) of the Articles of Association of the Company. Accordingly, the Company is required to obtain the approval of the holders of the ordinary voting shares of the Company by way of a special resolution, to issue the Private Placement Shares to the purchaser, without offering such shares to the existing shareholders in a manner which would, if the offer was accepted, maintain the relative voting and distribution rights of those shareholders.

Accordingly, the Company is required to obtain the approval of the holders of the ordinary voting shares of the Company by way of a special resolution, to issue the Private Placement Shares to the Purchaser, without offering such shares to the existing shareholders of the Company.

(iv) Applicability Company Take-overs and Mergers Code 1995

Given that the voting rights percentage of the Purchaser pursuant to the issue of the Private Placement is thirty three percent(33 %), the issue of the Private Placement Shares will trigger the purchaser to make a mandatory offer under Rule 31 of the Company Take-overs and Mergers Code 1995 promulgated under the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 (the "Take-overs and Mergers Code"). The purchaser will comply with the relevant law/Rules and make the relevant disclosure set forth in Rule 36 of the Take-overs and Mergers Code upon the issue of the Private Placement Shares.

The aforesaid approvals of the shareholders of the Company will be taken up at the extraordinary general meeting of the Shareholders of the Company to be held on 29 December 2021 as per the attached notice of meeting.

The Private Placement Shares will, upon the issue thereof, be directly uploaded to the securities account maintained by IPEK SA LTD with Central Depository Systems (Private) Limited.

By order of the Board

Sgd.

Prestige Secretaries and Consultants Pvt Ltd

17th December 2021