

TESS AGRO PLC

PB 689 PQ

No 87 New Nuge Road, Kelaniya

Circular to Shareholders

THIS DOCUMENT IS OF VALUE – If you are in doubt as to the action you should take, you should consult your stockbroker or other professional adviser immediately.

Dear Shareholders,

PROPOSED RIGHTS ISSUE OF ORDINARY VOTING SHARES AND ORDINARY NON-VOTING SHARES

The Board of Directors of TESS AGRO PLC (hereinafter referred to as “the Company” or “TESS”) resolved to raise funds via a Rights Issue of Ordinary Voting Shares and Ordinary Non-Voting Shares to fulfill the funding requirements of the Company in the near future.

1.0 Terms of the Issue

In awareness of the further funding requirements into the Company to fund the immediate operational requirements and to implement the growth strategies of the Company, a Rights Issue of shares is proposed under the following terms and conditions:

(Table 1)

Type of Shares	Ratio of the Rights Issue	No. of shares to be Issued	Issue Price per Shares	Amount to be raised (LKR)
Ordinary Voting Shares	1 new for 3 Existing	169,265,762	1.00 *	169,265,762
Ordinary Non-Voting Shares	1 new for 3 existing	16,666,667	0.60 **	10,000,000

* Issue price of Ordinary Voting Shares was decided considering that the closing market price of a voting share was at Rs 1.10 on the **10th October, 2023** (being the date of the Board meeting at which to issue shares by way of a Rights was resolved), as the highest and lowest price during the last quarter being Rs.1.30 and Rs.0.90 respectively and closed at Rs.1.00 at the end of the last quarter. The Board was of the opinion that Rs.1/- per share, was the appropriate price to raise further capital, from the existing shareholders, given the future earning capacity in view of the new project being embarked upon and its negotiations with the banks regarding debt obligations the price was considered as a reasonable consideration to the Company and to the existing shareholders, as per Section 52 of the Companies Act No.7 of 2007 .

** Issue price of Ordinary Non-Voting Shares is with a discount of 25% compared to the market price of a non-Voting share issue price (i.e. 0.80) on the 10th October 2023 (being the date of the Board meeting at which to issue shares by way of Rights), the highest and lowest price during the last quarter was 1.00 and 0.60 and closed at 0.90 at the end of the last quarter. In order to make the issue attractive for non-voting shareholders, the aforesaid discount was applied considering the fact that the non-voting shares are generally traded at a discount in the CSE.

MARKET PERFORMANCE OF THE SHARES DURING THE PAST THREE MONTHS

a) Voting Shares

(Table 2)

Voting	July 23	Aug 23	Sep 23	Oct 23
High	1.20	1.30	1.10	1.10
Low	0.90	0.90	1.00	1.00
Closing	1.00	1.10	1.00	1.00
Volume Traded	13,266,905	27,472,209	12,137,722	7,825,811
Number of Trades	1169	1189	369	260

b) Non- Voting Shares

(Table 3)

Non-Voting	July 23	Aug 23	Sep 23	Oct 23
High	1.00	1.00	1.00	0.90
Low	0.60	0.70	0.80	0.70
Closing	0.80	0.90	0.90	0.70
Volume Traded	4,211,697	3,462,186	1,512,961	1,728,547
Number of Trades	326	240	138	157

In the event of a full subscription of the Rights Issue of both Ordinary Voting Shares and Ordinary Non-Voting Shares (“new shares”), a total sum of LKR 179,265,762/- will be raised. In such a scenario, Post Rights Issue capital structure is depicted in the below table.

(Table 4)

Type of shares	Pre-Rights Issue Number of Shares	Post-Rights Issue Number of Shares
Ordinary Voting Shares	507,797,287	677,063,049
Ordinary Non-Voting Shares	50,000,000	66,666,667

Upon the issue of new shares and the total amount of funds are raised assuming a full subscription of both Voting and Non-Voting Shares, the Stated Capital of the Company will increase from LKR 491,805,529 to LKR 671,071,291.

- i) In the event of the full subscription of the rights issue, it will still be inadequate to rectify the serious loss of capital, the difference being approximately 47 million LKR. This we hope to recover in terms of profit within 2 years with the additional income brought in by the tin can manufacturing project.

- ii) We are expecting that the serious loss of capital will be resolved within 2 years with the project "tin can" in operation, if not we will apply for a capital reduction to the shareholders as a next step to reduce the carried forward losses.

The Board of Directors of the Company has resolved that the aforesaid consideration per Ordinary Voting Shares and Ordinary Non-Voting Shares respectively are fair and reasonable to the Company and to all existing shareholders.

The new Ordinary Voting Shares provisionally allotted will upon due acceptance and payment, rank pari passu in all respects with the existing issued Ordinary Voting Shares of the Company and will qualify for all dividends declared, only after the final allotment which shall be after the last date of acceptance and payment.

The new Ordinary Non-Voting Shares provisionally allotted will upon due acceptance and payment, rank pari passu in all respects with the existing issued Ordinary Non-Voting Shares of the Company and will qualify for all dividends declared, only after the final allotment which shall be after the last date of acceptance and payment.

An application has been made to the Colombo Stock Exchange (CSE) for their in-principle approval for the issue and listing of new shares arising from the Rights Issue. The CSE has granted the in-principle approval for the issue and listing of the new shares subject to obtaining the Shareholder approval by way of an Ordinary Resolution at a General Meeting.

2.0 Purpose of the Rights Issue and Utilization of Proceeds.

On the 8th of January 2020, the company reported to its shareholders its plans to overcome its financial position with related to the serious loss of capital by inviting a strategic investor to infuse capital by way of private placement, however, due to the COVID Pandemic and the various lockdowns caused delays in implementing this in a timely manner.

On the 28th of April 2022, the company successfully concluded a private placement with the investing company amounting to Rs 84 million to embark on a tin can manufacturing plant.

Despite the completion of the private placement on 28th April, 2022, the prevailing economic downturn in the country throughout the year posed challenges in leasing and importing the necessary machinery quickly. We have now successfully imported the machinery and are in the process of installation, approaching the commencement of production.

However, the funds raised through the private placement were insufficient to cover the entire cost of the factory and its operations. In light of this, we are proposing a rights issue to secure additional capital, ensuring the sustained and seamless continuation of our operations.

As per the audited statement of accounts for the period ended 31st March 2023, Rs 78.9 million of this investment proceeds have been spent in purchasing the machinery and factory operational set up for the manufacture of tin cans for the export and local market. As per 30th Sept 2023 interim unaudited statements the amount spent to date is LKR 79.2 Million.

There are no material changes to the contingent liabilities, except for that which has been reported in the latest audited financial statements as at 31st March 2023 and the latest interim reports dated 30th September 2023.

To ensure the ongoing functionality of the tin can factory and the effective marketing of our tin cans, there is a requisite need for additional capital, which will be procured through a rights issue. We are confident in the substantial assistance that this capital infusion will provide.

The funds raised by the private placement and the funds to be raised via the proposed Rights Issue would be deployed in the manner given in the below table:

(Table 5)

#	Activity	Objective of Private placement	Objective of Rights issue	Amount LKR	Expected time line to complete
a)	Payment to Commercial bank of Ceylon Ltd.	X		25,000,000	Completed on 22nd April 2022
b)	Import of Machinery	X		79,152,097*	Completed on 7 th Sept 2023.
c)	Lease of Building	X		14,000,000	Ongoing using internally generated funds
d)	Operational Expenses		X	44,500,000	To be completed with rights issue funds Beginning of Q3 2023 in FY 2023/2024
e)	Import of Raw materials for the manufacture of tins		X	72,000,000	To be completed with rights issue funds Q4 of FY 2023/24
f)	Creating a Working Capital buffer to finance the regular Export business operations.		X	62,765,762	To be completed with rights issue funds Q4 of FY 2023/24

* The machinery was to be leased from The Commercial Bank however due to the prevailing economic downturn and the ban on imports due to the lack of foreign currency in the country throughout the year posed challenges in leasing and importing the necessary machinery. The equipment was successfully imported using the Private Placement funds and internally generated funds and the machinery as soon as the import restrictions were lifted and now in the process of installation, approaching the commencement of production.

AMOUNTS ALLOCATED SPECIFICALLY FOR THE RIGHTS ISSUE

(Table 6)

d)	Operational Expenses		X	44,500,000	To be completed with rights issue funds Beginning of Q3 2023 in FY 2023/2024
e)	Import of Raw materials for the manufacture of tins		X	72,000,000	To be completed with rights issue funds Q4 of FY 2023/24
f)	Creating a Working Capital buffer to finance the regular Export business operations.		X	62,765,762	To be completed with rights issue funds Q4 of FY 2023/24
	TOTAL			179,265,762	

d) Operational Expenses

In order to maintain a smooth business operation, the Company expects to utilize (LKR 44.500 Mn) of the Rights Issue funds on the project operational which was also stated in the Private placement circular to shareholders given that the private placement funds were fully utilized to import the machinery for the new project.

(Table 7)

	As at 31 st March 2023 (audited)	As at 30 th June 2023 (Un Audited)	As at 30 th Sep 2023 (Un Audited)
Working capital for operation expenses	(13,975,074)	25,230,674	58,587,183
Debt obligation	302,467,294	302,467,294	302,467,294
Total	288,492,220	327,697,967	361,054,477

The above table depicts the total working capital of the company which includes the debt obligation to the banks which are in the non-performing category hence shown as current liabilities. The company is currently in negotiation with both lending institutions in order to reschedule their facilities to pay back within a period of 4 years. The rights issue funds will not be used to settle these debts. Rs 44.5 million will be used from the rights issue and the balance 14 m from the operation of the Tin can project.

e) Import of Raw Materials for the project – “Tin can”

With the support of the major shareholder who took up the private placement of shares, we were able to import a stock of Tin plate for the first month of operations. An amount of Rs 72 million has been allocated from the Rights issue funds to import a further 3 months stock of tin plate for the project “tin can” .

We currently have imported 1 month’s stock of tin plate. With the completion of the rights issue funds, we are proposing to stock a further 3 months of stock required to operate. With cumulative of 4 months, we are confident that there would be adequate cash flow to continue to import the same with internally generated funds.

f) Creating a Working Capital buffer to finance the regular business operations.

The Company is expecting to retain part of the Rights Issue proceeds as a working capital buffer to fund the liquidity requirements for its export business. An amount of 62.7 million has been allocated for this purpose. This will mainly include purchasing of raw materials such as fish for processing and export to its European destinations.

There are no regulatory approvals required for the execution of the objectives. Until the company fully utilizes the proceeds, such amounts will be maintained in a suitable short-term investment either in government securities or in a bank deposit with a licensed commercial bank as determined by the management the expected rate of return for such deposits are expected to be ~10% annum.

The Objectives of the Rights Issue does not amount to a major transaction as defined in the Companies Act No 07 of 2007 (as amended).

The Company does not foresee any risk relating to non-achievement of the objectives or relating to

the timelines where the funds are to be utilized in the ordinary course of business. If there are unforeseen risks that could materialize in the future, it may only cause a delay in completing the planned activities and the Company will continue to complete the objectives despite such delays on a progressive manner until it achieves its objectives in the extended time line.

3.0 Other Disclosures with regard to the Rights Issue

The Rights Issue is not underwritten.

There is no minimum subscription amount. In the event the Rights Issue is undersubscribed, the funds raised would be deployed proportionately towards the objectives as described in Section 2.0 of this Circular. The Company has not entered into any arrangement with third parties to take up the unsubscribed shares (if any).

The five of the major shareholders of Ordinary Voting Shares holding up to 59.31 % of such shares has informed the Company that they would fully subscribe for their entitlement.

The Company will include information about utilization of funds in the format given below in its future Annual Reports and Interim Financial Statements from the date of raising funds.

Continuous disclosure regarding status of utilization of funds raised via the Rights Issue as at dd.mm.yy.

(Table 8)

Objective number	Objectives as per Circular	Amount allocated as per Circular in LKR	Proposed date of Utilization as per Circular	Amount allocated from proceed in LKR (A)	% of total proceeds	Amount utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilize including where the funds are invested (e.g.: whether lent to related party/s etc.)

In the event the funds raised through the Rights Issue have been fully utilized by the Company as disclosed in the Circular to shareholders between two financial periods, the Company shall disclose such a fact in the immediately succeeding Annual Report or the Interim Financial Statement, whichever is published first.

Disclosure regarding private placement made on 11th of October 2022:

"IPEK SA LTD sold 15,690,000 shares of TESS AGRO PLC to an unrelated parties in the market to keep its ownership below 30% of TESS AGRO PLC's voting control to prevent the triggering of the TOM code. The Securities and Exchange Commission (SEC) approved this divestment on 22nd September 2022, subject to specific conditions. This transaction was carried out by the 31st December 2022.

4.0 Benefits of the Rights Issue to the Company and existing shareholders

The Rights Issue funds will provide further capital to strengthen the Balance sheet whilst increasing the revenue levels through the use of new funds to ensure the ongoing functionality of the tin can factory and strengthen its export marketing activities as set out in section 2) of the objectives. The

previously concluded Private Placement (in April 2022 helped initiate the tin can manufacturing project which is expected to bring in significant revenue and strengthen the company's financial position. The Rights Issue funds will further assist to expand further and achieve the companies long term objectives.

5.0 Twenty largest Ordinary Voting shareholders of the company as at 30th Sept 2023

Ordinary Voting Shares

(Table 9)

No.	Name of Voting Share Holder	No. of shares	%
1	IPEK SA LTD	152,310,000	29.99%
2	D FERNANDO	110,514,034	21.76%
3	S A FERNANDO	24,303,719	4.79%
4	SILVER EDGE INVESTMENTS LTD	9,118,209	1.79%
5	PHANTOM INVESTMENTS PVT LTD	8,093,799	1.59%
6	MERCHANT BANK OF SRI LANKA /N S A SENEVIRATNE	5,219,976	1.02%
7	EGLOBAL SERVICES PVT LTD	5,000,000	0.98%
8	FERNANDO A S A	5,000,000	0.98%
9	FORBES AND WALKER /EXECUTIVE STAFF PROVIDENT FUND	5,000,000	0.98%
10	TRANSDOMINION LLC	4,500,054	0.88%
11	HATTON NATIONAL BANK PLC/A PETER LASANTHA FERNANDO	4,500,000	0.88%
12	S FERNANDO	4,431,402	0.87%
13	R E RAMBUKWELLE	4,000,000	0.78%
14	NATION LANKA CAPITAL LTD/K A S S PERERA	4,000,000	0.78%
15	PEOPLES LEASING & FINANCE PLC/MR.P.A. WIJERATNE	3,628,373	0.71%
16	Mr ANANDAWANSA W L T	3,200,000	0.63%
17	RANFER TEAS PRIVATE LIMITED	3,136,492	0.62%
18	DE SILVA WIJEYERATNE	2,225,377	0.44%
19	ABEYGUNAWARDENA A D DR.	2,205,209	0.43%
20	PEIRIS T A	2,162,475	0.43%

6.0 Twenty largest Ordinary Non-Voting shareholders of the company as at 30th Sept 2023

Ordinary Non-Voting Shares

(Table 10)

No.	Name of Non-Voting Share Holder	No. Of shares	%
1	ANANDAWANSA W.L.T	3,805,267	7.61%
2	MERCHANT BANK OF SRI LANKA & FINANCE PLC/N.S.A. SE	2,761,237	5.52%
3	NETHITHIKUMARA	1,726,150	3.45%
4	PEOPLE'S LEASING & FINANCE PLC/MR. R. DAHANAYAKE	1,500,000	2.70%
5	PEOPLE'S LEASING & FINANCE PLC/MR.A.B.K. WEERAMAN	1,312,500	2.62%
6	WEERASURIYA A.S.	1,312,397	2.62%
7	SHAMSUDEEN M.S.A	1,164,285	2.14%
8	ZACKIE M.N.M	1,073,180	2.14%
9	FERNANDO S.A. Mrs	1,024,992	2.04%

10	WICKRAMASINGHE S.S.L	1,000,000	2.00%
11	PERERA M. H . A	1,000,000	2.00%
12	GUNAWARDANA M.S.H	1,000,000	2.00%
13	KAMIL M H A	992,587	1.98%
14	RAMBUKWELLE R. E	935,010	1.87%
15	WILLARACHCHI J.R	700,000	1.40%
16	PADUMADASA G. S	652,020	1.30%
17	TRANZ DOMINION,L.L.C.	650,000	1.30%
18	SHAMSUDEEN F R Mrs	646,978	1.29%
19	RISVI A.M.M	550,606	1.10%
20	VISAKAN V	532,450	1.06%

7.0 Public holding pre and post Rights Issue

The public holding percentage as at 30th September 2023 is 40.69%. In the event of the full subscription of the Ordinary Voting Shares issued via the Rights Issue, the public holding percentage would remain unchanged.

8.0 Applicability of the Company Take-overs and Mergers Code (TOM Code) 1995 (as amended)

The provisions of the Company Takeovers and Mergers Code (TOM Code) 1995 (as amended) will not be applicable in the event a particular shareholder exceeds 30% or more of the voting shares due to subscribing only for his/her Rights entitlement in the event of an undersubscription of the Rights Issue. In the event a shareholder applies above his entitlement for additional shares, the TOM code will apply.

9.0 Application for Rights and Provisional Allotment

The Ordinary Voting Shares 169,265,762 and 16,666,667 Ordinary Non-Voting Shares will be provisionally allotted on the Record Date (4th market day from and excluding the date of the EGM) after the shareholders approving the relevant resolutions as set out in the attached Notices of Meeting at the EGMs to be held on 28th December 2023.

“Trading of the “Rights” shall commence on the fourth (4th) Market Day from and excluding the date of making available the Provisional Letter of Allotment. Such trading shall continue throughout the period of renunciation to the CDS.”

In the allotment of Shares, shareholding of each shareholder, as appearing in the CDS and the Shareholders Register maintained by the Company will be aggregated, in so far as the National Identity Card Number of such shareholders are available with the Company for the identification purposes.

Shareholding of fractions of shares will be ignored for the allotment of Rights and the Rights entitlement of these fractional shares will be pooled together and be allotted to the respective holders of shares who apply for additional shares. Following formula is used to calculate the Rights entitlement (in respect of both Voting and Non-Voting shareholders).

$$\frac{\text{Number of shares held by you as at end of trading on the Record Date}}{\text{Old proportion (3)}} \times \text{new proportion (1)} = \text{Your entitlement of Rights}$$

If there is a discrepancy between the CDS information given in the attached Form / Form ‘A’, Letter of Acceptance and Registration and the CDS Account Number maintained at the CDS, the number maintained at the CDS will be taken as correct.

If you do have a CDS Account and your existing shares are not lodged in the said CDS Account/ or you propose to open a CDS Account prior to 28th December 2023 (the date of EGM), you are advised to lodge your Shares prior to such date, to facilitate the direct lodgment of Rights to your CDS Account.

Considering the significant cost of printing and postage of documents for the large shareholder base of the Company that exceed 6,200 shareholders (both Voting and Non-Voting), the Company will NOT dispatch by post; the Provisional Letter of Allotment, the Acceptance and Registration Form and Form of Application for Additional Shares. Instead, said documents will be hosted on the CSE Web site (www.cse.lk) with the provision for requesting for a hard copy of the relevant documents for the shareholders who would not have the facility to download and print the relevant forms.

Instructions on the method of payment and the manner of submitting the completed forms to the Registrars will be set out in the Provisional Letter of Allotment and related forms that will be uploaded to the aforesaid websites after the Extra Ordinary General meeting. For any inquiries, shareholders will be given the opportunity to contact the company officials via telephone, email or WhatsApp where relevant instructions on subscribing for Rights Issue will be given accordingly. **(Contact Mrs. Nilanga Dulshani 0704669859– Voice or WhatsApp or email info.tessagro@gmail.com)**

Shareholders must strictly follow and adhere to the instructions provided in the Provisional Letter of Allotment in respect of acceptance renunciation and applying for additional shares.

The Rights entitlement of the Shareholders whose shares are held in the CDS, will be directly uploaded to their CDS Accounts within three (3) Market Days from and excluding the Record Date.

For further clarifications, you may contact the Registrars to the Issue, Business Intelligence (Pvt) Limited Registrars to the Issue No 8, Tickell Road, Colombo 8. Tel – 00 94 11 2015913 (dir), 2015900 (gen) Fax – 00 94 11 2015960. Email – Samanga@msl.lk

The last date for acceptance and payment shall be 31st January, 2024.

Application for additional shares will be permitted. Additional shares will be available for allotment only in the event any of the existing shareholders do not take up their rights entitlement in part or in full or if the Letter of Acceptance and Registration is rejected by the Company as being invalid. The shares not subscribed for as at the last day of acceptance specified in the Provisional Letter of Allotment will be deemed to have been declined and such declined shares, will be allotted at the same price to the shareholders applying for additional shares, on a pro rata basis to their existing shareholding. In making such further allotments of unsubscribed shares, the Company will comply with the timelines set out in Rule 5.2 of the Listing Rules.

Refunds in respect of rejected applications be paid as expeditiously as possible but not exceeding Ten (10) Market Days from the last date of acceptance and payment.

As per the Directive of the SEC made under Circular No. 08/2010 dated 22nd November, 2010, and Circular No. 13/2010 issued by the CDS dated 30th November, 2010 all shares arising from the Rights Issue shall be directly uploaded to the CDS Accounts. Accordingly, the shares arising from the Rights Issue would be directly deposited to the respective shareholder's CDS Accounts within Ten (10) market days from the last day of acceptance and payment. In the event a particular shareholder's shares are not deposited in the CDS, share certificates will not be issued in favor of such shareholders.

Please note, when uploading new shares arising from the proposed Rights Issue to your CDS Account, such Shares would be lodged based on the account details given by you to the Company in the provisional letter of Allotment. The said Form makes provision for you to indicate as to whether the

shares are to be lodged in the Trading balance/Locked balance (as applicable). If there is no indication, the shares will be lodged into the trading balance.

The shares allotted in respect of Letters of Acceptance which do not carry a valid CDS Account Number or which indicate an incorrect/inaccurate CDS Account Number will not be uploaded to the CDS Accounts on the date specified for upload as per the Rules of the CSE. Shares allotted in respect of such acceptances will be uploaded on a weekly basis when the Shareholders/Applicants forward to the Secretaries/Registrars their correct CDS Account Numbers.

Shareholders/Applicants who do not have a CDS Account are advised to open a CDS Account, prior to submitting the completed Form 'A' and Form 'C' (if applicable) in order to facilitate the uploading of the Shares allotted to them.

Non-Resident Shareholders – Non-Resident Shareholders are required to make payments for Rights through their Inward Investment Account (IIA). If the payment is not made out of an IIA, but out of an inward remittance or remittable funds, the approval of the Director, Department of Foreign Exchange, Central Bank of Sri Lanka, to make such payments must accompany the Letter of Acceptance and Registration and the Application for Additional Shares (as applicable), more details will be set out in the Provisional Letter of Allotment which will be hosted on the CSE website along with a QR code for downloading on to a mobile device, once the Rights Issue is approved by the Shareholders at the meeting of the shareholders to be convened by the Company.

10.0 Directors' recommendation

The Board of Directors of the Company recommends that the Shareholders approve the infusion of capital as contemplated in this Circular and its initial market announcement on the Rights Issue which was made by the Company on 13th October 2023.

There are no other regulatory approval(s) that are required for the issue of these shares.

The listing of the Shares by the CSE will in no way be reflective of the merits of the issue. The CSE assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports included.

The Directors of the Company collectively and individually accept full responsibility for the accuracy of the information given and confirm having made all reasonable enquiries, that to the best of their knowledge and belief, that there are no other facts the omission of which would render any statement in the Circular misleading.

By order of the Board
TESS AGRO PLC
Prestige Secretaries and Consultants
(Company Secretaries)

5th December 2023