HALCYON AGRI CORPORATION LIMITED

Company Registration No. 200504595D
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S ON THE COMPANY'S FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2022 ("1H2022")

The Board of Directors (the "**Board**") of Halcyon Agri Corporation Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the queries received from the Singapore Exchange Regulation (the "**SGX RegCo**") on 13 October 2022 with regard to the Company's financial statements for the half year ended 30 June 2022 ("1H2022"), wishes to reply in response to the queries as follows:

Query 1 : *In respect of the Group's non-current loans and other receivables of US$47,724,000, please disclose:-*

(i) the breakdown of the Group's non-current loan and other receivables;

(ii) how long the non-current loans and other receivables have been outstanding;

(iii) when the non-current loans and other receivables were made and the identity(ies) of the third party as mentioned in Note 14;

(iv) what were the actions taken to recover the non-current loan and other receivables; and

(v) the Board's opinion on the reasonableness of the methodologies used to determine the expected credit losses amounting to US$1,440,000 as at 30 June 2022 as mentioned in Note 14.

Company's response : The non-current loan and other receivables mature between 2024 to 2027, and are collateralised by assets of sufficient value related to these loans.

For one of such loans, which amounted to US$44,516,000, the Group has assessed the supporting collateral value to be sufficient to cover the carrying amount of the loan receivable based on the valuation performed by an independent professional valuer as at 31 December 2021. With regard to the ultimate recoverability of this significant loan, the Group together with the other syndicated lenders are presently in the process of securing a transaction to realise the pledged assets.

With regard to the provision for expected credit losses of US$1,440,000 accounted for in H1 2022 as per Note 14 to the financial statements, the Board is of view that the methodologies adopted to determine the expected credit losses, which were the Discounted Cash Flow approach and Lifetime ECL approach, were reasonable and fairly covers the inherent risk. The ECL provision was made on grounds of prudence to account for the uncertain macro-economic environment prevailing at that point in time, which may affect the overall credit risk.

The 31 December 2021 professional valuation and the provision for ECL were reviewed in detail and assessed to be reasonable by Ernst & Young LLP ("EY"), our external auditors, as part of the financial year end audit. The Board and the AC have similarly discussed with EY regarding the continuing validity of this valuation and the

ECL for the half year 30 June 2022 announcement. No further adjustment was required.

Query 2 : *In respect of the Group's current inventories of US$519,701,000, please provide information on the inventory turnover days.*

Company's response : The inventory turnover days as at 30 June 2022 were 74 days, a slight increase from 71 days as at 31 December 2021, which was in line with the key companies in the rubber industry.

Query 3 : *In respect of the Group's current loan payables of US$722,823,000, please provide:-*

(i) details of the loan, including the terms of the loan, interest on loans and maturity dates;

(ii) a breakdown of the lenders (if it is not a licensed financial institution) and their identities (and its ultimate beneficial shareholders and directors); and

(iii) when were the loans obtained and approved by the Board including the Audit Committee

Company's response : The breakdown of the current loan payables are as follows:

	Amount (US$ in 000)	**Interest rates per annum**	**Nature**
Working capital loans	649,923	c.4% - 8%	As a natural rubber supply chain manager and processor, short-term working capital loans are essential to the Group's operations as it is a market practice that rubber processors purchase raw materials from farmers on cash terms, and only bill customers upon completion of the production cycle and delivery of cargoes. Each cycle usually takes around c.90-100 days. The cycle is deemed completed after the loans are repaid upon receipt of funds from the customers. These loans are granted by various licensed banks in the countries in which the Group operates in (mainly Singapore, Indonesia, China and the Netherlands). The facilities are mainly short-term in nature, granted on an uncommitted basis and are renewable annually.

Term loans	72,900	2.50% - 7.75% (depending on currencies borrowed)	These represent the current portion of long-term loans used to fund the long-term capital investments (mainly plantations) within the Group.
Total	**722,823**		

The lenders are commercial banks licensed in their respective country of origin. Requisite and proper approvals from the Board at both Group and subsidiary levels are required by the banks prior to the completion and activation of these facilities.

Query 4 : *It is noted that the Group has a net cash used in operating activities of US$(23,530,000) and a net profit of US$4,301,000 for the financial period ended 30 June 2022. Please explain why the Group is unable to generate net cash from operating activities, despite its net profit position for the financial period.*

Company's response

The Group has recorded a cash inflow from operating activities before working capital changes of US$28,484,000, consistent with the profitability position and representing the strong cash generating capability from its core operations.

Concurrently, the Group has invested US$49,212,000 in its net working capital components (mainly inventory and trade receivables) during the period, due to the strong order book in the near term. These investments are mainly in the form of purchasing raw materials, as well as extending credit to customers. However, the delivery delays due to lockdowns in China has unfortunately contributed to the delay in billings and collection, thus extending the cash conversion days.

As a result, the Group has recorded a net cash used in operating activities of US$23.5 million during H1 2022.

Query 5

Given the Group's significant current liabilities of US$893,859,000 and cash and bank balance of only US$49,919,000, please disclose the Board's assessment on how the Group intends to fulfil its significant payment obligations in the next 12 months. Where the Group has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's response

A majority of the current liabilities relates to working capital loans, which are revolving in nature, and self-liquidating against the inventories and trade receivables for which they are funding, as described above. The following analysis highlights the funding profile for the Group which aligns with our core funding strategy:

US$ in millions	30-Jun-22	31-Dec-21
Assets partially funded by debt		
Total net working capital employed	774.8	724.1
Net working capital assets	*664.7*	*627.2*
Cash and cash equivalents	*49.9*	*33.4*
Loans receivable	*60.2*	*63.5*
Working capital loans (include non-current portion)	657.4	601.8
% Efficiency in working capital funding	**84.8%**	**83.1%**
Operational long term assets	1,009.8	1,055.7
Non-core assets	40.1	42.2
Term loans	482.8	495.9
% Fixed asset gearing	**46.0%**	**45.2%**
Total equity (excludes Perpetual Securities)	**491.9**	**531.6**
Perpetual Securities	192.6	192.6
Total equity (includes foreign currency translation reserve)	**684.5**	**724.2**

The AC and the Board at their quarterly meetings carry out a review of the cash flow and the pipeline refinancing proposals presented by management so as to ensure continuing liquidity to meet ongoing obligations.

Query 6

Please provide an explanation for the increase of US$23,946,000 in the Group's current other payables from US$96,510,000 as at 31 December 2021 to US$120,456,000 as at 30 June 2022. Please also provide the breakdown and nature of the Group's current other payables.

Company's response

The increase in other payables during H1 2022 is mainly driven by an increase of US$21,200,000 in advances from customers. This is due to the fact that the order flows from Chinese domestic customers did not slow down despite the lockdowns in certain cities in China during H1 2022, where the deliveries and order fulfilment were affected. These amounts should normalise once the lockdown situation eases in the coming months, allowing deliveries to resume.

The breakdown of the other payables as at 30 June 2022 can be analysed as follows:

	30 June 2022	**31 December 2021**
	Amount (US$ in 000)	**Amount (US$ in 000)**
Advances from customers	54,725	33,448
Accrued operating expenses	37,168	29,497
Other payables (including tax payables)	25,534	31,128
Interest payable	3,029	2,437
Total	**120,456**	**96,510**

By Order of the Board

Wong Teck Kow
Company Secretary
20 October 2022