

HALCYON AGRI CORPORATION LIMITED

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

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE REGULATION'S ON THE COMPANY'S CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE FIRST HALF YEAR ENDED 30 JUNE 2023 ("H1 2023")

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 4 October 2023 with regard to the Company's Condensed Interim Financial Statements for H1 2023 and wishes to reply in response to the queries as follows:

Query 1 : Please provide information on the Group's inventory turnover days.

Company's response : The Group's inventory turnover days as at 30 June 2023 were 67 days, a slight increase from 66 days as at 31 December 2022. This was disclosed on page 14 in Condensed Interim Financial Statements for H1 2023 announced on 14 August 2023.

Query 2 : In regard to the Group's loans and other receivables (with reference to note 14 of the unaudited financial statements), please disclose:

- (i) the Board's assessment of the recoverability of the loan to a third party amounting to US\$43.1 million;*
- (ii) how was the provision amount of US\$22.2 million as at 30 June 2023 for expected credit losses determined;*
- (iii) whether the Company has appointed receivers over its security; and*
- (iv) what safeguards have been employed by the Company to protect the value of its security.*

Company's response : (i) The Board had assessed the recoverability of the loan to a third party amounting to US\$43.1 million based on the binding offers received between 8 May 2023 and 22 May 2023 for the assets pledged against the loan. This was significantly lower than the non-binding offers received between 6 January 2023 and 13 January 2023, mainly due to adjustments made post-due diligence in April 2023 on:

- a) EBITDA level, taking into consideration recent macro-economic changes including but not limited to commodity prices and relevant foreign currency exchange rates.
- b) Net debt level, taking into consideration the impact of debt-like items arising from potential risk areas such as tax liabilities and other contingent commitments.

Subsequently, the borrower signed the Sale and Purchase Agreement on 29 August 2023 and a settlement agreement with the acquisition debt providers (including the Company's subsidiary HAC Capital Pte Ltd) (collectively, "**Lenders**") with a long stop date of 25 February 2024.

- (ii) The Board determined that the expected credit losses to be US\$22.2 million as at 30 June 2023 (as per Note 14 to the Condensed Interim Financial Statements for H1 2023) based on the difference between the carrying amount and the expected recoverable amount from the binding offer as mentioned in point (i) above, less expected associated transaction costs.
- (iii) The Company has not appointed receivers over its security as the sale of the secured asset was eventually proceeded with on a non-enforcement basis to minimize value destruction. That said, we have, together with the other Lenders, continued to maintain oversight over the sale process by imposing certain controls as set out in paragraph (iv) below.
- (iv) The controls and safeguards that have been employed by the Company to protect the value of its security:
 - a) The Company set up an internal project team involving the Company's CEO and CFO and functional heads from legal and finance departments (the "**Team**") to closely monitor and expedite the collection process.
 - b) The Team participated in regular meetings amongst Lenders to facilitate Lenders' decision-making process in accordance with the relevant facility and inter-creditor agreements.
 - c) The Team participated in regular meetings between Lenders and other stakeholders including the local legal advisor, M&A advisor, the borrower etc. to be updated on the latest developments, and to ensure that the transaction progresses speedily and in accordance with the relevant corporate governance requirements.
 - d) Lenders appointed a local legal advisor to provide legal advice to ensure that their legal rights are protected from pre-transaction to the completion of the sale and repayment of the loan.

Query 3 : Given the Group's significant liabilities of US\$1,418 million and cash and bank balances of only US\$111.3 million and noting that the Company recorded a net loss of US\$56.8 million for H1 2023, please disclose the Board's assessment on:

- (i) whether the Company's current assets are adequate to meet the Company's short-term liabilities of US\$1,211.8 million, including its bases of assessment; and*
- (ii) how the Company intends to fulfil its significant payment obligations in the next 12 months.*

Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's response : (i) As of 30 June 2023, the Group's consolidated net current liabilities stood at US\$340.5 million, predominantly due to the non-current portion of term loans being reclassified into current, after the completion of the Mandatory Cash Offer by China Rubber Investment Group Co., Ltd, a wholly-owned subsidiary of China Hainan Rubber Industry Group Co., Ltd. ("**HRG**") triggers the change of control clauses in the relevant facility agreements, for which the loans would need to be refinanced by the end of the respective temporary waiver periods. (Refer to our announcement dated 3 February 2023). As of the date of this

announcement, all of the loans containing the change of control clauses have been refinanced through a mix of internal resources, new bank borrowings (bridge loans) and shareholders' loans with significant involvement from both major shareholders.

The balance of US\$871.3 million relates to current assets (mainly cash, trade receivables, loans and other receivables and inventories) which are self-liquidating against the short-term liabilities (working capital loans, trade and other payables) for which they are funded. During the period, the reclassification of the long-term loan to current due to the temporary waiver as mentioned above has resulted in a mismatch of financing tenor, coupled with losses during the period and culminating in the net current liabilities position of US\$340.5 million.

HRG and Sinochem International Corporation ("**SIC**"), being the two major shareholders with a combined shareholding of 97.3%, continue to provide their full support and commitment to the Group to ensure that the Group is able to refinance and meet all of its short-term obligations when they fall due.

Based on the above factors, the Board is of the view that the Group is able to fulfil its short-term liabilities as and when they fall due.

- (ii) The Group's key plans to address its payment obligations in the next 12 months are as follows:
- a) Continue to work closely with financiers and both major shareholders to restore the financing tenor and to further improve the Group's liquidity headroom; and
 - b) The Group's two largest shareholders, HRG and SIC, have also provided their full support and commitment to the Group to complete its refinancing exercise by supporting our negotiation with the financiers, as have applied other appropriate measures (such as extension of shareholders' loan tenure and expansion of shareholder loan limits) to ensure that the Group has sufficient financial resources to meet its operational needs.

Based on the above factors, the Board has assessed that the Group is able to fulfil its significant payment obligations in the next 12 months.

Query 4 : As at 30 June 2023, the Group has significant liabilities of US\$1,418 million with cash and bank balances of US\$111.3 million. Please disclose the pro-active actions which management plans to take to ensure that the Group's financial position remains strong.

- (i) Please assess the Company's ability to operate as a going concern.*
- (ii) Please assess the Company's ability to meet its debt covenants (if any).*
- (iii) Please assess the Company's ability to meet its short-term obligations when they fall due.*

Company's response : (i) The Group has been actively working with its two largest shareholders, HRG and SIC, to address the liquidity matters since the announcement of the Pre-Conditional Mandatory Cash Offer on 16 November 2022, address the change

of control clause of relevant loans, activate the refinancing exercise, in order to ensure that the Group has the ability to operate as a going concern and meet its obligations as and when they fall due. Both shareholders have jointly extended a standby loan facility for the Group to tap on as and when required, as an interim measure while the Group finalises its fundraising activities. Refer to response to Query 3 above.

- (ii) As of 30 June 2023, the Group had complied with the financial covenants stipulated under the existing facility agreements. The management of the Company monitors the covenants closely and reports to the Board and the Audit Committee on a quarterly basis, including the plan to address potential non-compliance of such covenants, if any.
- (iii) Refer to response on Queries 3 and 4 above.

By Order of the Board

Wong Teck Kow
Company Secretary
13 October 2023