

# DON AGRO INTERNATIONAL LIMITED

Registration No. 201835258H

(Incorporated in the Republic of Singapore)

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## RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT 2021 OF DON AGRO INTERNATIONAL LIMITED

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The Board of Directors (the “Board”) of Don Agro International Limited (the “Company”, together with its subsidiaries, the “Group”) wishes to announce its responses to the queries raised by the Securities Investors Association (Singapore) on the Company’s Annual Report for the financial year ended 31 December 2021 (released on 14 April 2022). The Company did not receive any questions from the shareholders of the Company as at the deadline stated in the Notice of Annual General Meeting.

**Q1.** The auditors have included an emphasis of matter, with respect to the uncertain financial and economic impact on the group arising from the armed conflict between Russia and Ukraine in their report on the audited financial statements of the group for the financial year ended 31 December 2021. The board has stated that there is no immediate concern to the group’s operations. Details can be found in Note 33 (pages 100 to 102 – Subsequent events). The chairman, in his statement, added that the board did not recommend a final dividend for FY2021 due to “the events associated with Russia and Ukraine”. Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

- (i) **Operations: Does the group have urgent/significant needs for capital goods/equipment in the next 12-18 months? How efficient is the current operation? Is there any impact on the current planting/seeding season? In addition, how will the group be finetuning its crop production in view of the foreseeable operational constraints, higher crop prices and higher price volatility?**
- (ii) **Major customers:** As shown in Note 29 (page 96 – Operating segments: Geographical information & major customers), the group’s customers are in the Russian Federation and the group does not see any immediate impact on the group’s financial performance given that it has minimal exposure to foreign currency risk. The top three customers account for \$23.5 million out of the \$30.9 million in revenue for FY2021. Transactions are predominantly denominated in Russian Rouble. **Are the major customers on the global sanction list or are engaged in any sanctioned activities? Are any of the group’s customers badly affected financially (by sanctions) or operationally (supply chain etc) that would cause concern to the group? Has the group been able to collect its receivables on time?**
- (iii) **Liquidity risk: Are any of the financial institution(s) that hold the group’s fixed deposits on the Specially Designated Nationals And Blocked Persons list?**

### The Company’s response:

- (i) *The Group does not have any urgent need in capital goods and equipment. The Group is planning to continue maintenance CAPEX for current operations and is looking for opportunities in M&A to expand the land bank further. The Group continues its operation in a normal way, currently the Group is performing fertilizing of the winter wheat sown past autumn and is preparing for seeding of sunflower and corn. There are no significant changes or disruptions to logistic chains and the Group does not expect any operational constraints. All of the raw materials are available and already acquired for the current agricultural (both seeding and harvesting) season. Nevertheless, the Group experienced a significant (over 50%) increase in costs of the spare parts for John Deere and New Holland machinery since March 2022. As a result of higher natural gas prices, purchase price for fertilizers increased significantly as well. The group expects significant increase in prices for its crops and is not planning to change its key agricultural crops. As the world's demand for wheat grows, the Group has increased acreage for winter wheat crops from 24,032 hectares in 2021, to 25,157 hectares in 2022. The total crops harvested in 2021 also stood at an all-time high of 97,500 tonnes. These significant expansions*

*in acreage and increased costs in boosting soil quality with better fertilizers give a promising outlook for the future harvest.*

- (ii) *Each customer undergoes a thorough check according to our sanctions compliance policy and none of the major customers of the Group are in the sanctions lists of US, UK, EU and Singapore. As far as we can conclude based on our KYC procedures, none of our customers is involved in sanctioned activities. The Group does not have any difficulties in collecting its receivables, and continues its capital management policy selling goods on prepayment basis. At the moment the Group did not notice that any of our customers is affected financially or operationally to the extent that would cause concern to the Group.*
- (iii) *All of the groups fixed-term deposits are held in Russian Roubles in Russian Agricultural Bank which is not included in the Specially Designated Nationals And Blocked Persons list.*

**Q2.** As noted in the chairman's message, since 2020, the group has increased its land bank by 26% or 14,100 hectares. It now controls an enlarged land bank of approximately 67,340 hectares, from just 3,500 hectares when the company was first incorporated in 2009.

- (i) **Is the group proceeding with land acquisitions in the current climate?**
- (ii) **For the benefit of shareholders, can the company explain what it means when the company "controls" a piece of land? Does the company acquire a lease or a land-use right?**
- (iii) **How many hectares of the group's land involve "rent-in-kind" payments to the landlords?**
- (iv) Land (under property, plant and equipment) was carried at \$4.03 million as at 31 December 2020. Following an addition of \$548,000 and an acquisition amounting to \$1.21 million, there was a revaluation gain of \$21.2 million (page 65). The carrying value of land amounted to \$26.8 million as at 31 December 2021. **Can the board help shareholders to better understand the reasons for the significant revaluation in land in FY2021?**

**The Company's response:**

- (i) *The Group continues to adhere to its main goal that was set out in the offer document – expansion of the land bank. The Group achieves it through acquisitions of land plots and agricultural companies engaged in crops cultivation. The Group intends to continue this strategy under the current circumstances. At the same time, in order to mitigate increasing geopolitical risks, the Group enhances attention to business development through mergers and acquisitions, joint ventures and strategic alliances in foreign countries.*
- (ii) *The Group controls all its land and this control is on two types of entitlement:  
1) lease of land that means term use of land which owning by other persons, and  
2) freehold of land that means use of own land.  
The Group's total controlled land bank is approximately 67,340 hectares (this includes use of both land under lease and use of own land, which is on freehold basis). The Group's land used on freehold basis is approximately 17,200 hectares.  
The Group acquires land in its ownership by entering into sale and purchase agreements and acquires term use of land by entering into lease agreements.*
- (iii) *The total of the Group's land that is involved in "rent-in-kind" payments to the landlords is about 45,000 hectares but lessors of this land have a right to receive monetary payments instead of rent-in-kind, it is the matter of their choice.*
- (iv) *During the last 5 to 7 years, the price of agricultural land in our regions of operations increased by 700-1000% and continues to grow, therefore the Company made a decision to change its accounting policy to show more representative financial statements.*

**Q3.** In the notice of annual general meeting, the company has informed that KPMG LLP would not be seeking re-appointment as auditors of the company at this coming AGM. The company is looking to appoint new auditors as soon as possible.

- (i) **Did the audit and risk committee (ARC) determine the reasons for KPMG LLP to not seek re-appointment as auditors of the company? For the benefit of shareholders, will the reasons be disclosed during the AGM?**
- (ii) **How will the ARC be evaluating and selecting the new auditors?**
- (iii) **What is the progress made by the ARC in appointing new auditors?**

**The Company's response:**

- (i) *Following conflict in Ukraine, KPMG International had announced that the KPMG practice in Russia would no longer be part of the international network. With this impending departure in the coming months, we understand that KPMG International would not have a network firm auditing Don Agro's operations in Russia for the year ending 31 December 2022; and hence based on KPMG's internal policies, KPMG LLP will not be able to seek re-appointment as auditor at the upcoming AGM.*
- (ii) *The ARC will evaluate and select the new auditors based on certain criteria like, relevant experience, independence, adequacy of resource and qualifications / track record.*
- (iii) *At the moment, the Group has commenced discussions with several auditing firms and we are waiting for commercial proposals, from which we will select based on the criteria above.*

BY ORDER OF THE BOARD

Marat Devlet-Kildeev  
Chief Executive Officer and Executive Director

24 April 2022

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This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "Exchange") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

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