

## INTRODUCING THE HALCYON GLOBAL VILLAGE



**INDONESIAN FACTORIES AWARDED**  
at Sumitomo's Suppliers Gathering

**UPSTREAM TRACEABILITY**  
takes a leap forward

# CEO Message

What do Tesla, Uber and Amazon have in common? At face value, they are changing the way we live. Simply put, Tesla is at the cusp of reconfiguring not only automotive powertrains, but also our energy grid. Electric cars typically get charged at night while its owners are sleeping - thus acting as a game-changing network of batteries that soak up energy from the grid that would otherwise be lost. Uber is a ride-hailing app that connects drivers/ car owners with consumers of mobility. It is not a taxi service. The implications are that the intensity with which vehicles are being used, increases. Anybody can be an Uber driver, and thus create additional income to amortize the cost of owning a vehicle. But the Uber cars remain private cars, not taxis. Amazon is, at its core, a fulfilment company. It owns the biggest network of "fulfilment centres" globally, from which it can deliver anything, to anyone.

Together, these three game changers are valued at circa US\$650 billion. That's S\$900 billion - or the financial equivalent *to the entire market capitalisation of all 780 or so listed companies on the Singapore Exchange.*

What else do Tesla, Uber and Amazon have in common? They rely on, what is according to [www.livescience.com](http://www.livescience.com) the most important invention or breakthrough of all time: the wheel. Fast forward from its creation in 3500 BC

to today, and human kind has yet to learn how to hover or fly. Sure, we are intrigued by the concept of personal mobility taking to the skies, but for now the practical application of drones and hoverboards remains very limited.

The wheel in the 21<sup>st</sup> century is a complex piece of material science, technology and engineering. The manufacture of a tyre presents a dilemma as its basic attributes form a "magic triangle", of mutually exclusive variables: Rolling resistance, abrasion resistance and wet grip require different formulations and yet form the most basic characteristics of a tyre. Add rolling noise reduction (important for electric cars as they have no engine noise), comfort and dry grip and we are looking at an increasingly diversified product range to satisfy a universe of requirements.

This brings us to the natural rubber industry. Plagued by the persistent misconception of being a commodity, rubber is to tyres what the microchip processor is to computers. It is the enabler. Together with its sister, synthetic rubber, natural rubber is the key ingredient to the compound that tyres are made of. No rubber. No tyres. No mobility. No Tesla, Uber or Amazon.

This is a startling concept, and one that changes the way the World should be looking at rubber: A truly sustainable forestry crop, an agricultural product that doesn't feed us, but moves us.

The rubber industry and its customers, the tyre makers, know this of course. But we don't use it. Rather, the industry and especially its prevailing pricing model, attracts the hot and cold showers of speculative money, rather than the nurturing, consistent irrigation of investment capital. We rely on smallholders to carry the capital expenditure burden, and we feign ignorance to their plight.

Not so at Halcyon Agri. It gives me great pleasure to introduce to you our Halcyon Global Village captured in a wonderful artwork that we commissioned from a leading Singaporean illustrator, Mr Kevin Tan. Our company aggregates supply from the tree to the finished product. As such, we sell globally, but we produce locally. This is not news, but our approach is different: we have compiled a list of 102 separate CSR activities that we conduct on a daily basis across our origination platforms in Asia and Africa. We shine the spotlight on the daily plight that our suppliers, our tappers, and our factory workers face, and we invite our customers, and their customers to participate in our quest to improve their livelihoods. Our

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answer to General Motors Inc.'s recent challenge to the tyre industry to produce sustainable tyres is HEVEAPRO.

As the leading global natural rubber franchise, I think it's time that we wake the world up to the importance of this critical ingredient that enables some of the World's most valuable companies to drive change. Rubber makes the World go round.

**Robert Meyer**

Executive Director &  
Chief Executive Officer

# Halcyon Global Village



We commenced 2017 as a truly global natural rubber supply chain manager having extended our footprint into Thailand, China, Cameroon and Ivory Coast. By doing so, we have created what we like to refer to as the Halcyon Global Village. Our Global Village employs approximately 15,500 personnel from different backgrounds, with a common goal to produce the best natural rubber in the most sustainable way.

Strong team participation is vital to the success of our Global Village. Across all segments, we play a dynamic role in the enrichment of our staff and the wellbeing of their families and communities in which we live. The vast majority of our workers are from rural areas, where critical services and basic daily necessities are still elusive. Our workers from these communities work hard for us, and in turn, we make every effort to support and improve their lives and living conditions.



## Streamlining Operations

The Hevea Global team have been busy adding to their production portfolio through the integration of the recently acquired GMG assets. In total, four factories, KBQ and KBM from Indonesia and ITCA and TRCI from Ivory Coast, were added to their already impressive suite.

KBQ came on stream with production intact and was shipping approximately 2,000mT a month. KBM on the other hand, needed much more rehabilitation due to its non-operative status over the past year and as such, had to be re-instated on the approved list of their regular customers. The process was managed smoothly with KBM commencing buying of new raw material at the end of February this year. Well done Team!

The addition of ITCA and TRCI, both producing approximately 2,000mT of TSR grade per month, has come at a time where demand for natural rubber from this region is substantially growing. Both factories have since been promoted and accepted by the major tyre makers and are under review for capacity expansion.

*“We were proud participants with four of our factories walking away with awards.”*

## Awards!

With the demand for intensified sustainability and quality processes, Sumitomo commenced auditing their Indonesian suppliers in 2015 and as a result, hosted a Sumitomo Suppliers Gathering in April this year. We were proud participants with four of our factories walking away with awards. The meeting which was held in Medan, saw SBG and KBQ awarded with Top Improvement awards while SCX and SGO received Top VDA6.3 Audit Performance.

Congratulations to the Hevea Global and Indonesian teams, in the midst of expansion and integration, to continue to be market leaders is a great success.



Halcyon Agri sees significant long-term growth potential in the LATEX and non-tyre global segments, all of which is handled by our Industrial Distribution and Latex division (“IDL”), under the Centrotrade Group. IDL was brought into the Halcyon family in June 2015, and is jointly helmed by Horst Sakreida and Guenter Mueller. It has formed the bedrock of our push into the LATEX and non-tyre rubber business, and the development of our distribution network into Europe and the United States. To further support the growth of this division, we have recently increased Centrotrade’s equity to €21m.

## Strengthening Dry Rubber

The IDL team has been busy over the last 6 months. The Dry Rubber Department has been significantly strengthened since the end of last year, firstly with the introduction of Dirk Hartmann in December as Head of Rubber, with the responsibility of leading the commercial and logistics business for the global non-tyre dry rubber sector. Secondly, in recognition of the large growth expectancy, Dirk has quickly strengthened his team from two to six qualified staff, who are all strategically located in Hamburg, in close proximity to our storage facilities. The team now comprises Dirk, Henning, Tobias, Monique, Nicoletta and Serpil. Dirk hasn’t stopped at internal strengthening though, as the

team has also added a new agent in Italy and Turkey, with France to follow soon and activity ramping up in Spain and South America.

## Adding Value

April 2017 was a milestone month for IDL. The Eschborn office moved from their long-standing residence to a newly furnished space at Ginnheimer Strasse 6. During this time, the team took the opportunity to incorporate the Hamburg office into the telecommunication system, further strengthening the relationship between locations. Also in April, Centrotrade assumed the marketing responsibility of our Cameroonian supplied products. The Hevecam factory, which is supplied by both the Hevecam and Sudcam plantations, is currently being upgraded to produce tailor-made products including Dry Latex grades targeted towards Centrotrade’s European and U.S. customers. The move has added substantial selling capabilities to the IDL team who can now offer self-grown and produced products to their clientele, with the benefits of customisation and traceability that this entails.

## U.S.A.

Our American Dry Rubber operations are aligning their strategy with the Group’s 2017 Customer Centric focus. The team is adding another logistical operation in Richmond, Virginia to meet the requirements of smoother access to the port, and will be increasing their frequency of customer visits as a drive to push for more producer, consumer engagement.

*“The Dry Rubber Department has been significantly strengthened since the end of last year.”*

Left to right:

*Tobias Koop & Monique Furch - both Logistics,  
Nicoletta Sereg - Office Management,  
Serpil Schlueter - Sales,  
Dirk Hartmann - Head of Dry Rubber Department  
(Henning Gabriel, Sales Manager not present)*



## Grand opening of Halcyon Agri Natural Rubber (Shanghai) Ltd

On 12 April 2017, the Grand Opening of Halcyon Agri Natural Rubber (Shanghai) Ltd (HASL) was held at Sinochem International Plaza. Mr. Liu Hongsheng, President of Sinochem International Corporation and Halcyon Agri's Non- Executive Chairman, along with Mr. Li Dajun, Executive Deputy Chairman and Mr. Robert Meyer, CEO were joined by a room full of VIP guests for the unveiling ceremony.

China, being the largest consumer of natural rubber has historically been an intermediary focused market creating a disconnect between producers and consumers. As part of Halcyon's uniquely China-focused business segment, the establishment of HASL is another step in bridging the producer and consumer relationship, in doing so, solidifying our supply chain management business model.

We extend a big welcome to the HASL family!



## Quality Control

As part of our Quality Control management, a training course on the testing and storage requirements for products being delivered to the SHFE was conducted in May this year. These events play an important role in ensuring our Quality Control programme remains up to date.

The day was held in our Jinghong factory, together with other manufacturing plants including Hainan and Guangdong State Farms and Manlie Rubber. Mr. Pan Wechun from the Shanghai Futures Exchange (SHFE) gave a speech on the development of the SHFE and how the future markets operate within the rubber industry. His speech then focused on the importance of quality management and how this affects the reputations of the producing companies.

Our second guest speaker was Mr. Zhang Zheng from the Shanghai Entry- Exit Inspection and Quarantine Bureau (SHCIQ). Mr Zhang spoke on the inspection procedure for products received. The day ended with a factory tour at which both guests expressed their positive feedback toward Jinghong's Quality Control management.



# We dream of Africa

Africa has been added as a significant region of origination and production for our Group over the last 6 months. Our Global Strategy has seen us strengthen our supply chain by establishing ourselves on the continent with 30,803 hectares of planted rubber land and an annual processing capacity of 106,000 tonnes. This could not have come at a better time with demand for the region's supply rising.

## Processing

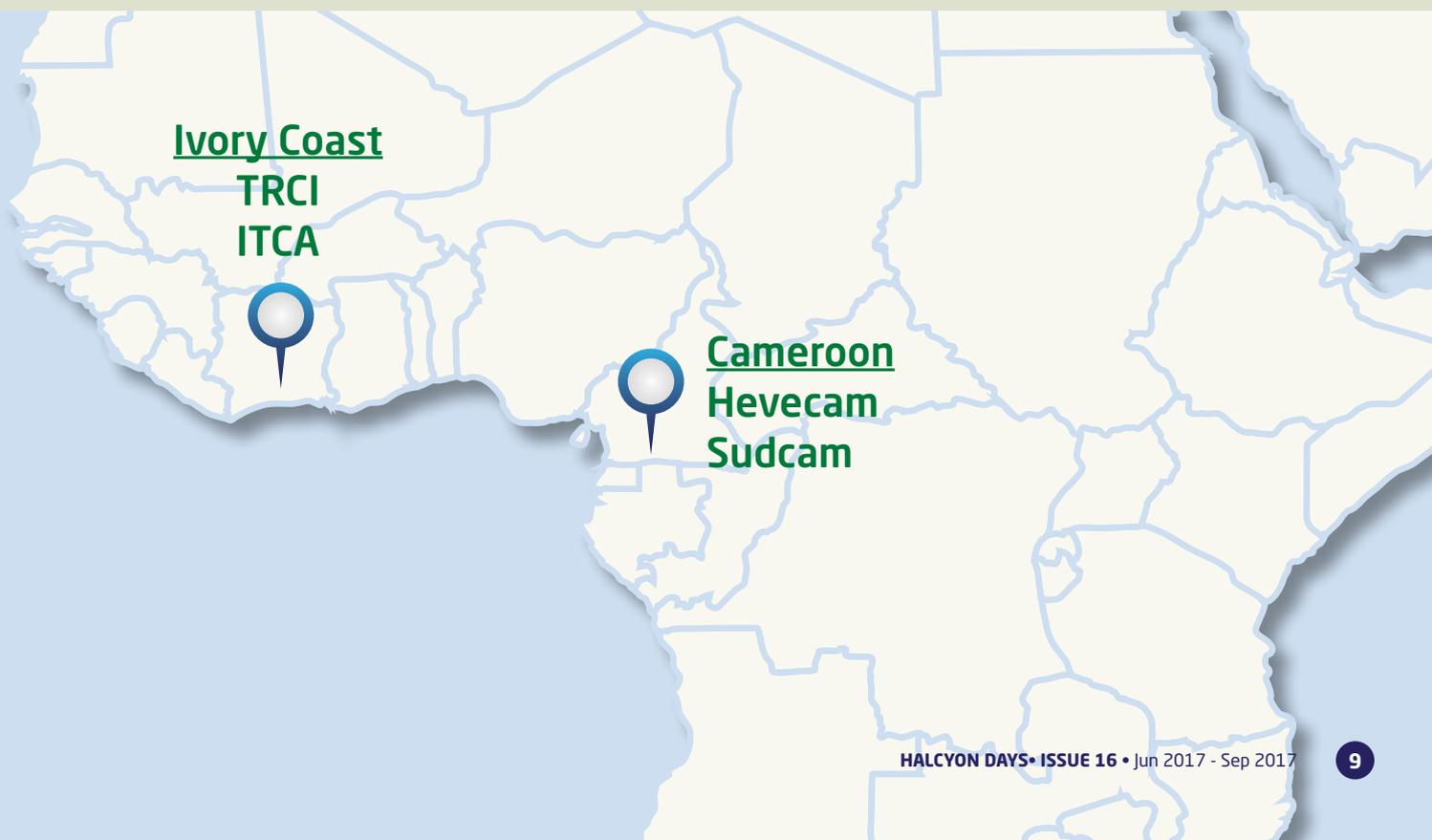
Africa's total processing capacity is currently more than 700,000 tonnes and growing. We have strategically established a business footprint in 2 of the major producing countries, namely Ivory Coast (Cote d'Ivoire) and Cameroon. Ivory Coast is currently the world's 7<sup>th</sup> largest producer of natural rubber with exports having jumped 20% in 2016 to a total volume of 473,000 tonnes, with continued projected output of more than 600,000 tonnes by 2020.

## Origination

Our origination business took a giant leap forward when we took control of Sudcam and Hevecam plantations in Cameroon and TRCI in Ivory Coast. Together, we added 113,000 hectares of (freehold and leasehold) land, of which approximately 75,000 hectares is plantable. As it stands, we currently have approximately 43,800 hectares to be planted which will be developed over the next 18

years. Agricultural resources provide long-term strategic significance, despite having a long investment horizon. On the sustainability front, this is a very important aspect to the business as we are able to trace the source of our products, and on profitability, the returns on capital are relatively higher than processing.

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# Upstream Traceability

## Rubberway Underway

*"Since January this year, the trial registered over 500 suppliers from a single Halcyon Agri factory, which cascading up the supply chain will reach out to many thousands of farmers"*

Rubber is everywhere and part of our daily lives. It keeps our vehicles moving efficiently and safely; it is part of every electrical circuit that connects us, delivering energy to build our modern society; it is used throughout the healthcare industry to control the spread of pathogens and create a more disease resilient planet. Yet with rapid growth in demand for this miracle molecule, many of us lack awareness of its origination. In a world of growing concerns over climate change, degradation of our forests, and loss of biodiversity, more questions are being asked about where our natural rubber comes from. Does the cultivation of *Hevea Brasiliensis*, commonly known as the Rubber Tree, have a negative impact on the environment? Does the industry contribute to deforestation? On a socio-economic level, is the industry sustainable? Can more be done to improve the livelihoods of those at the top of the value chain, namely the farmer?

To answer these complex questions Halcyon Agri was honoured to enter into partnership with a global leader in tyre manufacturing, Michelin, in 2015 to begin a mapping exercise of smallholder farmers in Indonesia. Then dubbed as Project Darwin our initial field outings sought to interview farmers and intermediaries to better understand



their predicaments and key issues of concern. From these trips and interviews, a questionnaire was developed which moved us into the next phase of the project, the development of a mobile application that would not only map the position of suppliers through GPS, but also present the finalised questionnaire to them. The objective of the mobile app is to reach out to farmers in the most remote regions, understand their key issues via the questionnaire, which will lead us to developing actionable programmes to improve the sustainability of the industry.

Working together with Michelin, the mobile app was successfully field tested throughout 2016 at factory level, intermediary level and farmer level. Since January this year, the trial registered over 500 suppliers from a single Halcyon Agri factory, which cascaded up the supply chain, reaching out to many thousands of farmers mapping the path from field to factory and shedding light on the many opportunities between. In April this year, SMPT's Singapore MD, Mr. Jean-Noel Quillet, together with Halcyon's CEO of

Indonesia, Ng Eng Kiat, graced the launch in Palembang Indonesia.

Moving forward 'Rubberway' will be deployed at other Halcyon factories and other rubber producers. From factory level participation, this will cascade upwards to gradually give us better insight into our supply chain and how to improve towards a greener tomorrow.





HEVEAPRO has been expanding significantly over the last 6 months with the introduction of the Quality Assurance system into the GMG and Sinochem factories. There have been major improvements across all Halcyon assets with 19 out of the 22 audited factories now achieving the minimum HEVEAPRO score of 75 and 5 factories exceeding 90%!

In March we also introduced the EHS & CSR audit system as part of the HEVEAPRO standards, with our Thailand and Malaysia factories now included and Indonesian assets to be added throughout June 2017.

This year, we will commence our third party validation and certification of all HEVEAPRO standards by TÜV. TÜV is an established and internationally recognised testing body which has become synonymous with safety and certainty, reliability and impartiality. This is a big leap forward for HEVEAPRO which will transform from an internally audited standardisation, into one that has been credited by a renowned certification board. All Indonesian factories are expected to be fully certified by October this year.

Adding to the above, the 2<sup>nd</sup> half of 2017 will be an exciting time for HEVEAPRO with the following developments in the pipeline:

- 2017 Annual HEVEAPRO Conference
- Launch of the online data centre for daily and monthly factory metrics
- Further expansion of the Quality Assurance audit system
- Development and implementation of standards to cover equipment productivity and maintenance
- Development of processing and testing guidelines

The HEVEAPRO team would like to thank all of the factory management for their continued dedication to implementing and improving the standards across all Halcyon Agri operations.

