

Halcyon Days

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CEO Message

One of my favorite Warren Buffett quips is: *"Price is what you pay and value is what you get"*. The price of rubber is easily obtained, provided you can record split second frames, but how are we to determine the value of rubber?

Applying a bottom-up approach, we would calculate the cost of raw material plus processing cost and logistics charges. Or, perhaps more innovatively, top down: Determining the price of a tyre, subtracting overhead and R&D costs, and then multiply the resulting material cost with the proportionate natural rubber content? Moving away from cost-based methodologies, there are other factors to compute: global inventory, seasonality, weather phenomena etc, all assist in the dynamic modelling of supply & demand, whereas macroeconomic considerations such as trade flows, fiscal and monetary policies of the major central banks as well as ongoing anticipation of geopolitical disruptions allow savvy analysts to risk-weight their fundamental conclusions.

Sadly, such analytical trade craft appears to have been forgotten, or more likely, being ignored. Today, the price of rubber is no longer determined by its value. We, the rubber industry, have our very own Pied Piper. Not an ancient German legend from the otherwise rather insignificant town of Hamelin though: Our Pied Piper is real and even has an address: 500 Pudian Road, 200122 Shanghai, China.

I have been there, and it is quite a sight. The place is called the Shanghai Futures Exchange, or SHFE, and it is an impressive venue with a large physical trading pit and a wall of screens. There

are hardly any real people there - the Pied Piper trades online - and consequently the ambient room temperature is around 18 degrees.

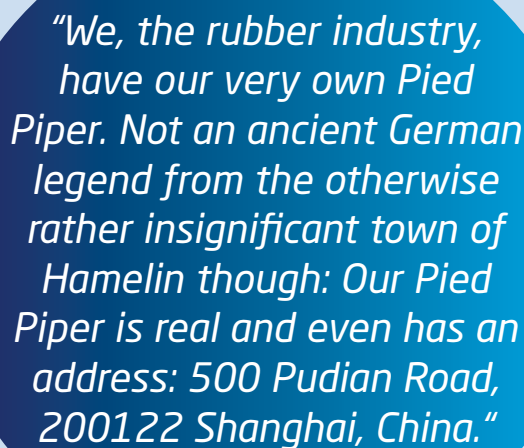
So why, you might ask, do I refer to the SHFE price discovery process as the Pied Piper, and not the Oracle of Rubber? Surely, such fantastic liquidity must yield accurate prices? Sadly, not. SHFE has very little to do with tyre, or industrial grade rubber. SHFE is a deliverable contract for obscure grades: the virtually obsolete RSS (with very tight restrictions), and the unique WF ("whole field latex") - which is a crossover between field latex coagulum and TSR - for which there is virtually no real demand. In fact, the only ready outlet for WF is SHFE, which is why on-warrant SHFE inventory has swollen to record levels (circa 400,000mT). The other sporadic buyer of WF is the Chinese government's Strategic Reserve Bureau ("SRB"), an entity that regularly confuses the markets with its stock rotation programmes and announcements thereof.

So this is where it gets interesting: Based on the fundamental data, it is inevitable that Chinese speculators in SHFE have a very bearish view: WF annual production stands at 300,000mT, its real demand at 120,000mT, so that leaves an annual surplus of 180,000mT - and then there's the combined stock of SHFE and SRB which might top in excess of 0.5 million mT. Converting the spot month SHFE price of CNY13,500 into USD and then adjusting the price for import duty and VAT, the implied CIF price of WF stands at roughly USD1,700/mt, which is a premium of USD250/mt over Qingdao bonded TSR20 cargo!

Up until 2016, the official #1 bear factor of rubber traders was the perceived glut of TSR20 and sheet rubber in the hands of the Thai government. This stockpile has since been liquidated. Erratic weather, low rubber prices and inevitable consumer price inflation has firmly put the brakes on smallholder and investor planting activities in most, if not all, major rubber origins. Consumers of rubber (tyre makers, industrial users and dipped goods manufacturers) have shortened their supply chain inventory, as deferred purchases have not only been handsomely rewarded by the falling market, they have also facilitated continuous price deflation.

In short, SHFE is leading the rubber market in a direction that is largely determined by a misallocation of domestic productive capacity in China - but which is on a direct collision course with the fundamentals of the major global origins of natural rubber. In Thailand, which is not only the biggest - but also the most expensive rubber origin - producers are condemned to losses for 9 months of the year. It is not surprising that Thai output peaked in 2014, and has been falling since. A nasty surprise may await the markets once Q4 2017 production volumes are declared in January.

Consumers, beware. The Pied Piper is leading you into the river. The SGX-ST Sicom contract has been our pricing benchmark for decades. These days, 85% of the volume traded on Sicom can be traced to Chinese speculators that are venturing abroad, playing the alluring (if you have a bias towards low prices), but ultimately lethal bear market melody of SHFE. If anything, the fundamentals of SHFE



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and Sicom suggest a convergence of prices, and ultimately an inversion, especially considering that much of the WF inventory is most likely to end up being reprocessed into TSR.

As they say, there is no better cure for low prices - than low prices. And right now, what the world is paying for rubber, is far below its value. No prizes for guessing what Warren Buffet would do.

Robert Meyer

Executive Director &
Chief Executive Officer

HEVEAPRO Conference 2017



2017 marks the next phase in HEVEAPRO's life cycle and this was showcased at our 3rd Annual HEVEAPRO Conference, held in the Rubber City of Palembang, Indonesia. It was immediately apparent that our audience had grown as our welcome was greatly extended with the inclusion of our colleagues from the GMG and Sinochem factories in China, Africa, Indonesia and Malaysia. The conference spanned 3 days with the first day reserved for opening speeches by Robert Meyer (Group CEO) and Ng Eng Kiat (Indonesia CEO and Group CFO), and presentations by management and invited guests. Day 2 included factory presentations and ended with the Annual HEVEAPRO Awards Ceremony.

This year, our African factory ITCA won the award for most improved with an increase in Quality Assurance audit score from 56.97% to 90.35% in a span of just 4 months. The overall winner with the highest Quality Assurance score went to Euroma with an audit score of 98.44%. Both factories have newly adopted the HEVEAPRO programme and to see such positive results bears testament to their hard work. Congratulations ITCA and Euroma!

We have already seen significant improvements throughout the year as all of our factories have

actively embraced HEVEAPRO. The team were looking forward to the conference to share updates on the year's accomplishments as well as present on major developments in progress.

Most notably was our partnership with TÜV, a global testing, inspection and training provider. The partnership, which commenced this year, has allowed us to validate our standards and provides 3rd party certification of our factories. Currently the certification covers 4 audit checklists, namely Quality Assurance, Health & Safety, Environment, and Security. There are a total of 722 audit points, and factories are graded with Silver, Gold or Platinum status, with minimum passing score of 75%. Hevea KB merits strong congratulations having been the first factory to be TÜV accredited in August, achieving a Gold rating with a score of 93%. Remaining factories across the Group will be audited by the end of this year.

The TÜV certified HEVEAPRO audit will be expanded with 2 main focus points. Our Quality Assurance standards will be extended by approximately 70 audit points to actively target improved process control. Examples of additions include disposition for nonconforming products, quality complaints,

standardisation of quality records, statistical process control and visual defect standards. This will be launched in Q4 this year.

The second focus point will be Corporate Social Responsibility (CSR). We are in the midst of developing and introducing extensive CSR standards which will cover approximately 90 audit points on Organisational Governance, Human Rights, Labour Practices, Environment, Fair Operating Practices, Consumer Issues and Social Investment. Implementation by factories is also scheduled for Q4 this year. Due to the significant increase in the CSR standards, TÜV will begin auditing the expanded 2 focus points in H2 2018.

HEVEAPRO is going tech savvy! We have created a HEVEAPRO Data Centre which is a web-based database system for collecting, analysing and presenting daily factory metrics. After our data centre workshop on the 3rd day of the HEVEAPRO conference, the first phase was launched on the 1 September 2017 with all factories now inputting

daily metrics. The front-end management dashboard is expected to go live on 1 November 2017. Further developments over Q4 2017 and H1 of 2018 include: sales, raw material purchases, audit results, process control and customer quality and delivery data.

HEVEAPRO is in its 3rd year and to date, the operating framework has focused on the dry rubber processing segment of the supply chain. With the Group's entry into Latex production and the significant growth we have undertaken in the plantations segment, HEVEAPRO will now be developed into these areas. The stage is set for another busy year for our HEVEAPRO team!



AFRICA WEEK 2017



The inaugural Halcyon Agri Africa Week took place in Singapore from 4- 7 September 2017. The event served as a discussion forum between the Group's Senior Management and the Senior Representatives from our Africa businesses including representatives from our Industrial Distribution and Latex division. The programme included 2 days of presentations and discussions, and a day visit to our Hevea KB factory in Ipoh, Malaysia.

Currently, Africa has a total natural rubber processing capacity of approximately 718,000 metric tonnes (mT). Ivory Coast is the largest producer, and Cameroon sits in 4th place. Since the implementation of Halcyon Agri's Global Strategy, the Group has strengthened its presence in these countries with 34,000 hectares of planted rubber and an annual processing capacity of 106,000mT. This comes at a time when demand for African natural rubber has increased significantly due to its high quality, similar pricing to other producing regions and cost benefits on freight being realized by customers in Europe and the United States.

The forum was timely given the incorporation of the Group's two country representation businesses earlier this year - Société de Développement du Caoutchouc Ivorien S.A (SDCI), and Société de Développement du Caoutchouc Camerounais S.A (SDCC). SDCI will represent the Group in Ivory Coast overseeing business development as well as the TRCI factory and plantation, and the ITCA factory. Similarly, SDCC will be the holding company in Cameroon with Hevecam S.A plantation and factory, and Sudcam S.A plantation as its subsidiaries.

SDCI's operations will continue to serve our Global Tyres business segment with tyre- grade rubber. Under Africa's rubber pricing model structure, the processing plants in Ivory Coast have enjoyed significant growth in their margins, facilitated by a booming upstream sector output. This presents opportunities for our factories to leverage and strengthen their market position and we are looking to expand our Ivory Coast operations through the expansion of existing factories and acquisitions/ development of new factories.

Hevecam and Sudcam, under the overview of SDCC will shift production to Concentrated Latex and Latex grade products for our non- tyre, Industrial Distribution and Latex business. This signifies Halcyon Agri's initial step into the production of Latex grades, which coincides with the increase in demand from our European and North American customers. Hevecam is currently undergoing re- planting on a significant portion of its mature plantation while Sudcam is still in the young phase of planting. Sudcam is expected to produce upwards of 80,000mT per annum once it reaches maturity.

On 22 June 2017 this year, the connectivity between Hevecam and our customers was further strengthened with the opening of the Port Authority of Kribi. The Medi Lisbon, a 189-metre-long bulk-carrier, chartered by Biomass Cameroon, was the first vessel to dock at the port and loaded 27,500 tonnes of rubber wood chips from Hevecam bound for Ireland. The newly established port is located just 50km from Hevecam and will soon serve as the main loading port of our Cameroonian rubber exports.

Overall, it was a fruitful discussion session at Africa Week. Our Group's Africa focus and regional integration will not only increase the efficiency of management, production and sales. In addition, it will also expand our economies of scale and enable us to accelerate investments in physical capital, technology and people. These advantages provide us with a unique framework for regional co-operation and integration. The event not only highlighted these advantages but also, enabled us as a Group to better understand and share associated macroeconomic and operational risks as we move forward with our Africa Business Development.

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Centrotrade USA

International Latex Conference

The 16th International Latex Conference (ILC) was held from 8-9 August 2017 in Akron, Ohio. For the 16th time, Team Centrotrade served as a sponsor, hosting a luncheon for all participants on the opening day. Natural and synthetic latex industry experts from around the globe converged on Akron, where 19 technical papers were presented in conjunction with various networking opportunities for customers and suppliers. This year's event presented an ideal opportunity for Centrotrade to introduce the newest member of our team - Mr. Su Xiao (Alex) - who will be transferred later this year from Halcyon Agri's headquarters in Singapore to Centrotrade's North American base located in Chesapeake, Virginia. Alex is participating in the newly established Expatriates Programme and is the first transferee hosted by Centrotrade USA, a member of the Industrial Distribution and Latex Group. Alex will serve as Sales Manager Rubber Division in his new posting. Accompanying



Alex at the ILC were Tom Marsh - President / CEO, Johnwyn Holloman - VP Latex Division, Karen Tripp - VP Administration & Accounting, Rod Blalock - Sales Manager Latex Division, Jeffrey Kearney - Sales Representative and Drew Miller - Technical Consultant.

CUSTOMS - TRADE PARTNERSHIP AGAINST TERRORISM



*In recognition of your commitment to partnership,
and in appreciation for joining with us to secure
the international supply chain and protect our country's security,*

U.S. Customs and Border Protection
is pleased to certify your membership in the



and to present this certificate to
Centrotrade Minerals & Metals, Inc.
U.S. Importer

Dating the month of **June 15, 2017**

C-TPAT Certification

In June, Centrotrade USA became a certified partner in the C-TPAT programme administered by U.S Border and Customs Protection. This certification compliments the compliance status of the HEVEAPRO factories and facilitates the movement of our goods and products into the USA.

Malaysia Social Investment

HEVEALife

"The gift of blood is the gift of Life." As part of our HEVEALife social investment programme, our Hevea KB factory in Ipoh, Malaysia organised a blood donation drive on 27 July 2017. The event, which was organised in conjunction with the General Hospital of Ipoh, saw 52 of our employees register for the donation drive. Each donation is a valuable gift, as approximately 400-500 units of blood are required in Malaysia each week. Great to see you contributing to a great cause HKB!



HEVEALearn

On 5 September 2017, the Labu Besar Primary School in Kulim, Malaysia received 5 desktop computers as part of our HEVEALearn social investment programme. This particular programme was committed under the flag of Euroma. The factory's management representatives and Environmental, Health and Safety representative, Mr. Thiben presented the computers during his visit to the school. The school's Head Master gave the team a tour of their computer labs and shared information on their Virtual Learning drive.



Company Spirit

Singapore Bowling Day

21 July 2017 saw the sporting talent of our Singapore offices come out in full force. Halcyon's Bowling Day was upon us and everyone's competitive spirit was ripe as we headed to Kallang Bowl for an evening of championship bowling. A total of 16 teams took the stage in an event where skills were showcased on a group and individual level. The top winners of the night were Gabriel Sim- Best Male Bowler and Vivian Toh- Best Female Bowler. The evening brought together sporting competitiveness, ample food and some much appreciated R&R time. Congratulations to the winners! Stay tuned for the next company challenge...

"The evening brought together sporting competitiveness, ample food and some much appreciated R&R time. Congratulations to the winners!"



Malaysia Futsal tournament

We recently welcomed Euroma to the Halcyon Family and what better way to bring people together than to hold a Futsal tournament. The event took place at the MBC Sports Hall on 21 July 2017. 16 teams sporting names such as Hevea Rockers and Rojak FC, each with a squad of 7 players, split into 4 groups of 4 teams. A round robin format followed by quarter finals, semi- finals and finals, took place with over 100 participants and about 50 spectators. After 8 fun-filled hours of entertaining and skillful football we were left with the finalists. Tak Power FC defeated Rojak FC 5-1 to claim victory while SMR- X



defeated Star- Z FC 4-0 to round off third and fourth place. Mohamad Noorazmuril Bin Azman from Tak Power FC was the big individual winner of the night having been awarded Outstanding Player of the Tournament. Congratulations to the winners!

Thank you to the team for organising such a large event including dedicated team kits, trophies and professional referees from the Football Association of Perak.





PSB Singapore

CERTIFICATE

The Certification Body
of TÜV SÜD PSB Pte Ltd

certifies that

HEVEA KB SDN. BHD.
(HL I & HL II)

Lot 177676, Kawasan Perindustrian Kanthan II,
31200 Kanthan, Perak - Malaysia

has established and applied
HEVEAPRO CORE PRINCIPLES
and achieved

GOLD STANDARD

An audit with Report No. **TSP-BA-CS-001-HKB** was performed

Proof has been furnished that the requirements
according to

 **HEVEA PRO Core Principles**

are fulfilled. The certificate is valid from **2017-08-02** to **2018-08-01**

Certificate Registration No. **17-09-001**

Date of Issue : **2017-09-12**

Chuah Choo Huat
Vice President
Customized Services
Business Assurance Division



 **HEVEA PRO**

Certified HEVEAPRO Core Principles Factory