



## Creating a global natural rubber powerhouse



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# Chairman's message

It has been almost 6 years since Halcyon Agri Corporation started its journey to become a global player in the natural rubber industry. Our decision to enter this business, and our investment activity since, was then – and is now – based on the conviction that the world needs natural rubber. And we were right. Let's look at global natural rubber consumption, SGX TSR20 average prices and global GDP development since 2011:

Year	Global NR consumption growth	SGX TSR 20 Average price	Global GDP
2011	1.9%	4,504	4.2%
2012	0.1%	3,155	3.5%
2013	3.8%	2,509	3.3%
2014	6.2%	1,709	3.4%
2015	1.8%	1,370	3.1%
<b>CAGR</b>	<b>2.9%</b>	<b>(25.7%)</b>	<b>3.3%</b>

In the short timeframe under review, global consumption of natural rubber has grown by 1.35m tonnes, or 12.3%, which correlates almost perfectly to global GDP growth of 13.9% during the same period.

Clearly, the world needs natural rubber. And the human desire to grow wealth and ameliorate living standards determines that we need more natural rubber as we get wealthier. This need for natural rubber accelerates as the wealth, or GDP per capita, of emerging economies tips over the key thresholds where vehicle ownership becomes a priority.

The worrying thing is the volatility in the natural rubber prices, which moved more than 500% from 2011 high to 2015 low. Essentially a smallholder crop at source, investment flows are difficult to direct, and even more difficult to assess accurately. While there is little doubt about the demand trajectory, the industry relies on the millions of smallholder subsistence farmers to continue to invest each year. Not only to replace capacity, but to provide ever more field material, year on year. From a distance, this seems rather risky. Up close and with the benefit of one of the industry's strongest set of thoroughly analysed data, it seems almost reckless.

Natural rubber is precious: it doesn't need the volatility we have endured over the past 6 years. Given a sense of stability, I can only imagine what other wonderful innovations & applications await as the industry recovers and garners long term investment.

On 28 March 2016, Halcyon Agri Corporation signed the definitive documents to merge our business with the diverse natural rubber interests of Sinochem International Corporation and some of its subsidiaries. The transactional details may be complicated, but the mission is simple: to build a world class natural rubber supply chain business with the scale, scope and reach to deliver consistently high quality natural rubber to consumers around the world, while ensuring the long-term sustainability of this essential agricultural raw material.

This represents a huge opportunity for our customers, our shareholders, our staff and indeed, the natural rubber industry as a whole. We have found in Sinochem International Corporation a parent company that not only shares our vision, but that has been actively engaged in the natural rubber industry since the 1950's. Please join us in giving Sinochem International Corporation a heartfelt welcome as our parent. In our next issue of Halcyon Days, we'll give a detailed introduction to the expanded Halcyon Agri group.

Yours always,

Robert Meyer  
Executive Chairman &  
Chief Executive Officer





## Halcyon Agri joins forces with Sinochem International to create a global natural rubber powerhouse

We made headline news on 28 March when we jointly announced the signing of definitive agreements with Sinochem International Corporation ("Sinochem") to bring together our natural rubber assets. With the proposed transactions, we will create the world's largest and most comprehensive natural rubber supply chain manager with strong capabilities in each segment of the supply chain.

The combined businesses would give us significant landholdings in Africa and double our processing capacity to about 1.5 million tonnes across 35 processing facilities in Indonesia, Thailand, Malaysia, China and Africa. Our global distribution strength would also be unparalleled, with an extensive distribution network centred around key hubs in China, Singapore, Europe and the United States, and annual rubber and latex sales capability of more than 2 million tonnes.

Once the deal is completed, Halcyon Agri will be the holding company of the expanded group. It will remain listed on the Singapore Exchange, with Sinochem as the combined entity's majority shareholder.

Sinochem is a large state-owned holding company which engages in industrial investment, logistics, trading and distribution in fields such as natural rubber, fine chemicals, agrochemicals, chemical logistics, chemical distribution, and other sub-sectors in the international chemical business with customers in more than 100 countries.

Importantly, Sinochem has more than 60 years' experience in natural rubber and we look forward to leveraging our respective expertise to create an even greater business.





Plantation update:

## Lebir Estate – done!

We are proud to say that in just over a year, we have completed the planting of 609,000 rubber trees over 1,218 hectares of land at our Lebir Estate in Kelantan, Malaysia. We have also planted 66,546 oil palms on the estate.

Lebir is the first of four parcels of land that have been earmarked for our natural rubber plantation. The other plots of land are located in Ulu Nenggiri, Laloh and Ulu Temiang.

Our Executive Chairman & CEO, Robert Meyer, had the honour of planting the last rubber sapling which commemorated completion of the planting of Lebir Estate. We wish to thank everyone at Lebir Estate for their hard work and support in helping to make this happen.



## Did you know?

01

The word 'rubber' itself did not come into use until the 1770s when Joseph Priestley, the English chemist best known for his discovery of oxygen, noted that pencil marks could be "rubbed out" by the substance. As a result, small cubes of it were soon put on sale as erasers, which became popularly known as 'India rubbers' with reference to the material's origin in the West Indies. This was the first practical use of rubber.

02

In 1839, American inventor Charles Goodyear developed the vulcanisation process (heat-treatment) that makes rubber harder and more durable. He had spent many years as a struggling inventor, trying desperately to turn rubber into a useful product, when he accidentally dropped a mixture of rubber, white lead and sulphur on a hot stove and watched it "cook" itself into a much more useful form: the black, vulcanised material most of us know as rubber to this day.

03

In the late 1800s, Sir Henry Ridley, then Director of Singapore's Botanic Gardens, cultivated natural rubber trees across Southeast Asia and the development of the technique of tapping to allow the extraction of latex without harming the rubber tree. Sir Ridley actively promoted rubber as a commercial crop in Southeast Asia and is widely credited as the "Father" of the industry. Natural rubber has since been recognised as an important commodity in the economic life of Southeast Asia and is recognised historically as one of the principal crops of national development within the region.

04

It takes five to eight years for a rubber tree to mature to the girth at which it can be tapped. At the end of its economic life of between 20 and 30 years, rubber wood provides a valuable end product as a medium density tropical hardwood. In the wild, the rubber tree can live up to 100 years and will grow to heights of 30 to 40 meters.

05

Tyres were initially produced white because the natural colour of rubber is white. In the early 1900s, it was found that the use of carbon black in rubber manufacturing provided more desirable qualities for tyres such as durability.



# Quality Assurance Conference 2016



The second annual Quality Assurance Conference was held in Palembang, Indonesia in April this year. The event saw representatives from each factory and our corporate office travel to the city for three days of presentations and discussions on our Group's quality assurance programmes and initiatives. The annual event creates a forum for our teams to discuss total quality management (TQM) both on a factory and corporate level. This year's conference built on last year's success with the outstanding engagement by all participants, the introduction of **HEVEA PRO**, and the attendance of our invited guests.

Our Executive Chairman, Robert Meyer, and our CEO of Indonesia, Mr. Tan Chor Leng, opened the conference. Our Head of Quality Assurance (QA), Mr. Lee Chee Meng, then presented on the key initiatives undertaken by his department in 2015.

It proved to be a busy year for QA, commencing with the successful customer engagement programme. The programme involved 12 prime customers with an objective to further understand their expectations and to relay the findings to factory level. Other achievements included the successful set-up of a quality control plan with the focus on driving defect prevention, the implementation of an idea generating and sharing platform across all management levels, the introduction of statistical process control (SPC) and product audits, as well as the first companywide TQM management training involving more than 150 employees.

Our invited guests, Mr. Tetsushi Fujiki (Director & General Manager, Sumitomo Rubber Asia (Tyre) Pte. Ltd. Natural Rubber Division) and Mr. Ir. Erwin Tunas (Assistant Executive Director of Gapkindo) opened the door to in-depth discussions on hot topics such as customers' expectations and the management of raw material quality.



Each factory was tasked to present their top pick of a TQM project they had undertaken within the year. Each team also discussed the results from the implementation of strategies learned at last year's conference. The presentations had two objectives - to demonstrate the problem solving skills learned through the TQM programs, and to share their improvement ideas with the audience.

To promote the culture of excellence, the TQM projects were evaluated by a panel of judges with the results being announced on the last day. Congratulations to Hevea KB for coming out on top for their presentation on "Improvements to the packing line and checking process." During the awards ceremony, Hok Tong Pontianak and Sunan Rubber were both awarded with certificate of achievement awards for zero customer complaints in 2015 and the **HEVEA PRO** Quality Award 2015 went to Hok Tong Pontianak for its high level of performance in quality of product, quality of factory and quality of management. Congratulations to all on the outstanding results!

Thank you to our invited guests, for taking the time to further our relationship with both the Sumitomo and Gapkindo organisations and for sharing your findings on the important topics of the day. We would also like to thank the organising committee for their efforts in bringing everyone together and organising such a successful conference. We all look forward to next year's event where we will learn about the progress reports for the coming year.





# Total Quality Management



Managing quality is crucial to our success in today's highly competitive business environment. This is why we continue to remain highly committed to Total Quality Management (TQM), a comprehensive and structured approach that seeks to improve the quality of our products and services through ongoing refinements in response to our stakeholders' feedback, from both our own employees and customers. We are proud to report that we have trained more than 150 TQM Working Committee members at our most recent training programme. This included programmes conducted across five locations in Indonesia and Malaysia, involved participants from all 13 Halcyon Agri factories and took us 16 days to complete.

Each TQM training session lasted two-and-a-half days with the first session kicking off in Palembang, South Sumatra and the last in Pontianak, West Kalimantan. Other training sessions in Indonesia were held in Jambi and Medan while the one for Malaysia was held in Perak. The programme involved classroom lectures, group activities and on-site studies which covered the following topics:

- Introduction to our company
- Introduction to TQM and its masterplan
- Manufacturing process control and control plan methodology
- A Plan / Do / Check / Act approach to TQM projects

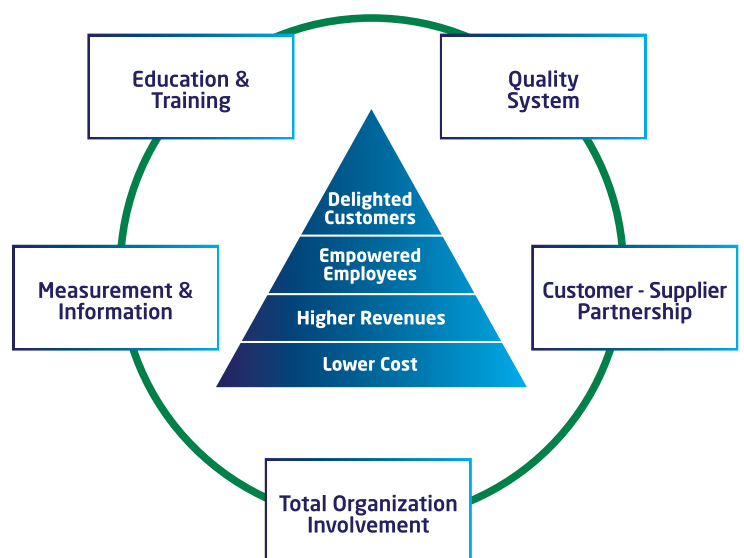




The programme was aimed at familiarising all Working Committee members with the TQM content and to equip them with the right knowledge and tools to lead TQM activities at their respective factories. We believe that all participants now have a better understanding of the company's overall business, the challenges to the natural rubber processing industry, both in terms of innovation in tyre manufacturing and the development of alternative or substitute materials.

We want to thank Mr. Lee Chee Meng and Mr. Nutricen Okvandy from our Quality Assurance Department for putting together a very comprehensive programme

Going forward, the TQM Working Committee will continue to work under the guidance of our Quality Assurance Department to drive improvement in their respective factories. In addition to serving as the catalyst for change in workplace, they will also lead the implementation of the TQM programme, thus realising our TQM goals.



# It's Gold!



Congratulations to our Hevea KB EHS team! They did us proud at the recent awards presentation held during the 11th Malaysian Occupational Safety & Health Practitioner's Association (MOSHPA) OSH National Conference in Kuala Lumpur in November last year.

Thanks to the team, Halcyon Agri was lauded with the Gold Award for OSH Management in Manufacturing of Standard Malaysian Rubber and Compound Rubber. Howard Shaw, our Head for Environment, Health & Safety, received the award on behalf of Halcyon Agri from Malaysia's Deputy Minister of Human Resources, YB. Dato Sri Haji Ismail Bin Haji Abdul Muttalib.

It was an amazing achievement considering that besides the MOSHPA award nomination audit, our EHS department also had to manage audits in October for ISO 14001/OSHAS 18001, a key Halcyon Agri customer and the LGM award nomination.

The internal MOSHPA award process was led by our dynamic duo at Hevea KB in Ipoh, namely, Mr. Lee Chestnutt, Head of Factory and Loganathan Ramah, EHS Manager. With help from colleagues Roslah Binti Awang Tahrin, EHS Coordinator and Deavan Balakrishnan, Production Manager, Loganathan was able to develop a sound solution that would improve the efficiency and accuracy of the document control system and maintain this for the purpose of OHS & Environmental regulatory and compliance status.

The team worked closely with the supervisors to ensure that ongoing briefings were carried out for everyone, and that participants fully understood audit requirements such as EHS policy and Personal Protective Equipment's requirements. They also made themselves available to answer questions during interview sessions by auditors on site visits to Halcyon Agri's facilities in Malaysia.





On the team's achievement, Loganathan said, "At the end of the day, team work really pays. Even though we were confident that we could do it, the entire team went through tremendous pressure to achieve the best outcome. The secret of our success is the strong communication and a close relationship amongst colleagues and management."

To recognise our employees' dedication and support in achieving 575,368 injury-free man hours, we held an appreciation luncheon for 300 workers at the canteen. This is but one of the many ways we recognize the good work of our people.

Keep it up Hevea KB!

## CSR Efforts - recognised!



On 7th April 2016, at the Yokohama Suppliers Appreciation event, Halcyon Agri was one of three suppliers to receive the Yokohama CSR Excellence Award 2016.

This award is presented to groups that have demonstrated a broad understanding of CSR issues and approach these in a balanced and proactive way. We look to continuously expand our involvement in CSR by engaging with all our stakeholders throughout the value chain. We are proud of this achievement and would like to thank Yokohama Rubber Co., Ltd. for recognizing our efforts.

# Partnerships for deforestation - free supply-chains

Halcyon Agri has been selected as a partner with the German Federal Ministry for Economic Cooperation and Development (BMZ) through the GIZ sector programme, 'Sustainability Governance of Global Value Chains,' to assist in the implementation of a new initiative on deforestation-free supply chains with the support of the World Wildlife Fund (WWF).

Our EHS department at Hok Tong in Pontianak met with the GIZ team on 5th April where our team presented the challenges in working with small holders in the region. Our increasing understanding of these challenges and opportunities has been derived from previous study missions into the field. Likewise GIZ provided insight into their proposed programme with key objectives to:

- Protection of tropical forests
- Support companies with the implementation of their commitments to deforestation- free supply chains
- Establish low- risk commodity sourcing regions
- Secure positive impacts of zero deforestation commitments for smallholders
- Contribute to the zero net deforestation goals by developing new instruments for their implementation on jurisdictional level

Following a lengthy yet fruitful dialogue both parties mutually agree that the issues are complex and progress will be slow, but has to be effective so that there is a high potential for replication. Halcyon Agri will assist GIZ to identify suitable local growers based on its supplier network. GIZ will then implement a pilot utilizing staff based in Kalimantan, with logistical support from Halcyon Agri. There was happy consensus that this project will not spread like a fast growing invasive weed, but akin to a sustainable tree with deep roots.



## Engaging the smallholders



In November last year, a team led by Edouard de Rostolan, CSR Manager - Senior Agronomist, SMPT/Michelin, together with Halcyon Agri staff went deep into South Sumatra to visit smallholder farmers, consolidators and dealers of natural rubber. The trip proved to be an eye opener. Through a questionnaire that reached out to at least 300 individuals many opportunities came to light. These will be fine tuned through 2016 and rolled out steadily across rubber growing regions.