# HALCYON

ANNUAL REPORT 2017

## HALCYON IS RUBBER

# Contents

# Macro Drivers

### Global Parcel Volumes

## 65 Billion

Global parcel volumes surged from
44 billion in 2014 to 65 billion in 2017
Growth is expected at 17%–28% annually until 2021

### USA's Repair and Rebuild Budget

## US$1.5 Trillion

The US unveils an ambitious infrastructure plan to repair and rebuild highways, bridges, airports, seaports, railroads and water systems

### Global Growth

## 3.9%

The global economy grew by 3.7% in 2017 and is expected to grow by 3.9% in 2018 and 2019

### Last-Mile Deliveries

## 214 Million km

2017 last-mile deliveries in India by Amazon equates travelling from Earth to the moon 556 times

### Germany's FTIP Record Budget

## US$325 Billion

The cost of Germany's implementation of the Federal Transport Infrastructure Plan 2030

### One Belt One Road

## US$1 Trillion

China's infrastructure project spanning over 60 countries


THINK RUBBER
THINK HALCYON

# Chairman's Statement

Dear shareholders,

2017 proved to be another difficult year for the natural rubber market, as participants faced excessive volatility, continued low prices in the second half of the year, and increasingly urgent calls for supply chain sustainability and traceability.

I am pleased to note that Halcyon Agri has made good progress in 2017. In spite of these challenges, Halcyon Agri delivered encouraging results: group revenues came in at USD1,988.4 million, generating EBITDA of USD66.7 million and net profit after tax and minority interests of USD31.7 million.

Our HEVEA*PRO* operating system is now certified by TÜV SÜD, the leading German certification and standards agency. This provides our clients with assurance that our HEVEA*PRO* certified factories act as efficient and responsible industrial operators, with the necessary hardware and software to protect and nurture the environment and the communities within which they operate. This is an important competitive advantage that will continue to play a critical role in the future development of Halcyon Agri.

Throughout the year, the management team of Halcyon Agri focused on three strategic objectives:

1) Repurchase minority interest in major operating assets at reasonable valuations;
2) Divest non-core assets thus recycling capital; and
3) Acquire strategically valuable processing and distribution assets.

Liu Hongsheng, Chairman

I am pleased to report that we have made tangible progress on all fronts. As the year progressed, we agreed on the purchase of minority interests in Ivoirenne de Traitement du Caoutchouc S.A. and Tropical Rubber Cote d'Ivoire S.A. in the Ivory Coast, in PT GMG Sentosa, PT Bumi Jaya and PT Sunan Rubber in Indonesia, in Euroma Rubber Industries Sendirian Berhad in Malaysia and in Hainan Sinochem Rubber Co., Ltd in China. We also successfully sold our interest in SIAT S.A. back to the founding family for USD225.1 million, which was the same price it was purchased at in 2012. Perhaps most exciting for the future performance of the company, we executed the definitive documents to acquire the rubber interests of the RCMA Group, as well as PT Pulau Bintan Djaya, PT Sumber Alam and PT Sumber Djantin. These acquisitions have all since been completed except for PT Sumber Alam and PT Sumber Djantin which are in the final stages of completion. I will leave it to our CEO Robert Meyer to explain their strategic relevance to you in his message.

In summary, 2017 was a year that saw both operational and strategic progress. On behalf of Sinochem International Corporation and its shareholders, I would like to thank the executive management team, my fellow directors, the entire global workforce as well as all supporters of Halcyon Agri for their positive engagement. Thank you for being part of this success story.

Liu Hongsheng
Non-Executive Chairman

# Chief Executive's Review

2017, for the natural rubber market, is best summarised as a "tale of two halves, and two markets".

**Robert Meyer**
Executive Director and Chief Executive Officer

Dear fellow shareholders,

2017, for the natural rubber market, is best summarised as a "tale of two halves, and two markets". The first half of 2017 saw prices, which had strengthened in Q4 2016, hijacked by speculative forces in January and February and pushed to highs not seen since 2014 of c.USD2,300/mT for Technically Specified Rubber 20 (TSR20). The rate of ascent ultimately gave away the contrived nature of this rally and prices collapsed after Chinese New Year, subsequently drifted to the low of c.USD1,344/mT for TSR20 in October.

Volatility then abated, and the rubber market appeared quiet for most of the second half. Thai floods in Q1 had lifted water tables such that the peak production season of 2017 started early and lasted longer than usual. This bumper crop facilitated the flattening of the SGX TSR20 forward curve in Q4, as Thai processors hedged their production forward through 2018. The commercial twin of the Thai processors, Chinese importers, made good use of the relative value offered by Standard Thai Rubber 20 (STR20) to put on the classic arbitrage: short the forward by the Shanghai Futures Exchange (SHFE) futures contract against physical TSR20 inventory. As a result of the arbitraging activities, physical inventory levels have risen, for example in Qingdao's bonded warehouses (Figure 2), and have since become the dominating headline for rubber market analysts.

Now we come to the second tale: that of two markets. While Thailand and China, the world's largest producer and consumer respectively, drove the price development of 2017 and thus hogged most of the headlines, the rest of the rubber world's producers and consumers made solid progress, albeit with less publicity. The automobile sector, responsible for more than 75% of global demand in rubber, had another record year. Driven miles, the most critical measure of ultimate rubber consumption, grew steadily and tyre makers continued to announce the establishments of new plants around the world.

The bifurcation in global rubber markets is also taking place at origin. Increasingly, rubber producers from Thailand and Malaysia find their fates tethered to the price of rubber as determined by the SHFE: when the arbitrage traders build their positions, they pay the best spot prices to secure physical rubber. This is a short-term benefit, considering that the targeted profit of this arbitrage trade comes not from reselling the physical with a margin but of repurchasing the corresponding paper–short at a profit. Chinese tyre makers tend to secure less rubber on long-term accumulation contracts, often being active speculators themselves looking to time the market.

Indonesian producers on the other hand, who supply most of the tyre-grade rubber into the global (non-Chinese) market, typically sell more than half of their production on long-term contracts. While this helps to smoothen out volumes, the pricing formula of these contracts also leaves them exposed to the vagaries of the rubber futures markets and their daily price movements.

Figure 1

**SICOM TSR20 1st Position 2017**

Source: SGX

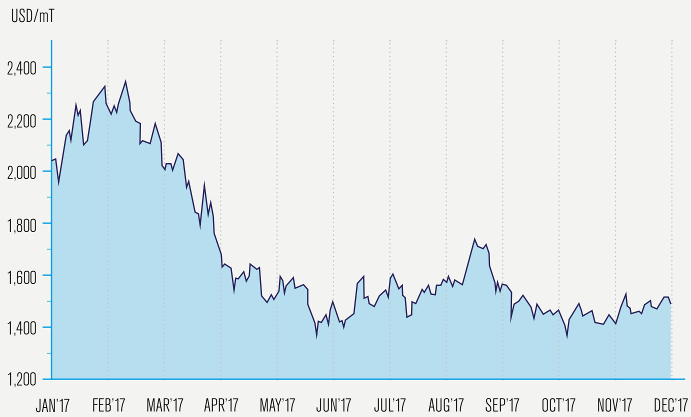
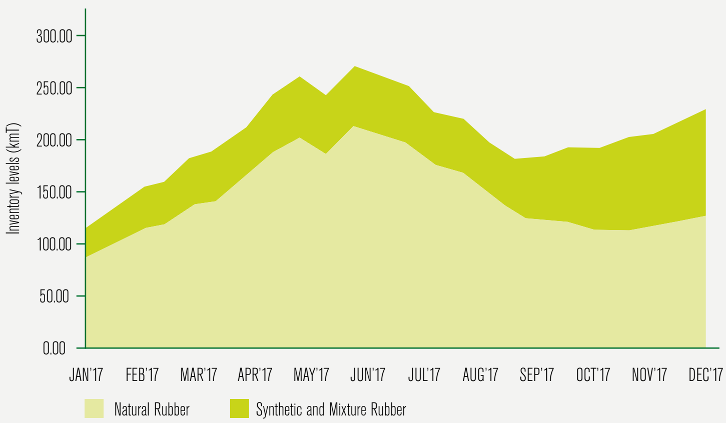



Figure 2

**Qingdao Bonded Area Stock Change in 2017**

Source: Company Estimates



# Streamlining our Operations

In recognition of the separation of the Chinese rubber market from the rest of the world, Halcyon Agri has streamlined its operating structure to form three business units: 1) Global Tyre Majors, 2) Global Non-Tyre & Specialty Tyre and 3) PRC Tyre Majors.

**1. Global Tyre Majors**

Our Global Tyre Majors business unit sits at the core of Halcyon and is legally organised under the intermediate holding entity Halcyon Rubber Company Pte Ltd (HRC). We started out as a listed company in 2013 with two factories in Indonesia supplying 67,000mT of natural rubber into the global marketplace of tyre producers. By the end of 2017, we had expanded our Standard Indonesian Rubber (SIR) portfolio to 14 manufacturing plants. At the time of publication, we have completed the acquisitions of PT Pulau Bintan Djaya (one factory in Bintan), and are in the final steps to complete the acquisitions of PT Sumber Djantin and PT Sumber Alam (total four factories in Kalimantan).

Table 1: Halcyon's Natural Rubber Share of Export Volume (Indonesia)

| 2017 (in k mT) | HAC's Export Volume* | Total Indonesia Export Volume | % |
|---|---|---|---|
| Palembang | 318 | 1,242 | 26% |
| Other Regions | 195 | 1,876 | 10% |
| **Total** | **513** | **3,118** | **16%** |

** Includes the export volume of our completed acquisition of PT Pulau Bintan Djaya on pro forma basis for 2017*

*Source: Internal Estimates*

In addition to Indonesia, another important origin for the global tyre market is Ivory Coast where we have two factories with a combined annual output of 65,000mT.

**2. Global Non-Tyre & Specialty Tyre**

In January 2018, we fortified our Global Non-Tyre & Specialty Tyre franchise by acquiring the polymer assets of the RCMA Group, which included the trade-names of Wurfbain (The Netherlands), Alan L Grant (USA) and Corrie MacColl (UK).

Complementing our Centrotrade franchise, these new members of our corporate family round off our global sales and distribution plaform catering to this exciting market segment. The applications we cater to include dipped goods (condoms, balloons, gloves), the adhesive tape industry, roofing and paving, anti-vibration systems, mattresses and other foam products, shoes, carpets and many more.

To support the diverse requirements of our clients, we also purchased Kelvin Terminals B.V., a leading latex tank storage in Terneuzen, The Netherlands, and took over operations of Momentum Technologies International, a specialty polymer distributor coupled with a full-scale laboratory and testing facility, located in Akron, Ohio, USA.

Pro forma for the recent acquisitions, our Global Non-Tyre & Specialty Tyre platform outlined above sold almost 400,000mT in 2017, which places it far ahead of any other competitors in this market segment.

On the origination side, we have structured our Cameroon plantation assets to form part of this business unit. Cameroon Holdings Pte Ltd, as the legal entity is called, consists of a total of 112,000 hectares of plantation land in Cameroon, split between the Hevecam (53,000 hectares) and Sudcam (59,000 hectares) operations. In total, we have planted 29,000 hectares out of a total plantable area of 73,000. Taken as one, these two operations represent the single largest rubber plantation in the world. In 2017, Hevecam produced 18,000mT of rubber, of which 6,000mT were produced as concentrated latex. We will start tapping in Sudcam in April 2018, and the combined output of both assets is expected to reach 100,000mT in 15 years' time.

Combining our formidable client reach in this segment with the ability to change outcomes at source, i.e. to customise production, certification, logistics and other parameters in the plantation, has created a truly unique asset: a plantation that exclusively serves the most premium segment of our industry, where the holistically sustainable product that we offer out of our plantations creates unrivalled value for our customers.

Currently, the legal entity that holds our Global Non-Tyre & Specialty Tyre assets is Halcyon Rubber & Plantations Pte Ltd, formerly known as GMG Global Ltd. We have some exciting ideas about rebranding this business unit, more about that a little further - on page 35.

### 3. PRC Tyre Majors

While the above units cater to global demand, our third business unit focuses exclusively on the People's Republic of China (PRC). In 2017, China imported c.5.7 million mT of natural rubber, making it not only the world's biggest consumer in absolute terms, but also accounting for no less than 44% of global demand. New Continent Enterprises Pte Ltd (NCE) in Singapore manages the commercial affairs of this business unit, fulfilling the triple roles of procurement, hedging and sales. The physical distribution into China is handled by NCE's subsidiary, Halcyon Agri Natural Rubber (Shanghai) Limited.

In terms of origination, we have allocated our Malaysian facilities, our Thai platform (Teck Bee Hang) as well as our seven domestic Chinese factories into this unit. This business unit is held under Sinochem International Natural Rubber Investments (Overseas) Pte Ltd, or simply SINRIO. We are still weighing potential strategic options as to our interest in Teck Bee Hang, and thus we have classified it as an asset held for sale. In the data provided in Table 2, it has been grouped into the SINRIO business unit.

Table 2: Financial Overview

| | Halcyon Rubber & Plantations Pte Ltd | Halcyon Rubber Company Pte Ltd | SINRIO Pte Ltd | | | |
|---|---|---|---|---|---|---|
| Market Segment | Global Non-Tyre & Specialty Tyre | Global Tyre Majors | PRC Tyre Majors | Corporate | Elimination | Consolidated |
| **FY2017 (US$ 000)** | | | | | | |
| Revenue to 3rd Parties | 388,408 | 683,152 | 916,879 | - | - | 1,988,439 |
| Inter-Segment Revenue | 32,872 | 377,865 | 39,685 | 10,140 | (460,562) | - |
| **Total Revenue** | **421,280** | **1,061,017** | **956,564** | **10,140** | **(460,562)** | **1,988,439** |
| Gross Profit | 25,868 | 88,737 | 25,881 | 10,140 | (10,140) | 140,486 |
| Operating Profit / (Loss) | 9,169 | 45,423 | (4,981) | 14,887 | - | 64,498 |
| Profit for the Financial Year | n/a | n/a | n/a | n/a | n/a | 35,251 |
| **Total Sales Volume (Tonnes)** | **247,702** | **625,991** | **532,157** | **-** | **(272,999)** | **1,132,851** |
| Segment Assets | 915,516 | 661,887 | 464,188 | 1,326,362 | (1,735,200) | 1,632,753 |
| Segment Liabilities | 472,484 | 543,782 | 402,350 | 510,606 | (1,134,300) | 794,922 |

# Looking at the Numbers

HRC has matured into a market leading franchise with strong cash flows, generating an operating return on equity of 38% in 2017. This will be further enhanced by the purchase of five additional SIR factories, as discussed previously. Capital expenditures for maintenance and upkeep are modest. HRC generated c.USD57.9 million EBITDA in 2017, or USD92 per mT.

Our Global Non-Tyre & Specialty Tyre business unit had a tough year in 2017. The pricing benchmark for latex grade rubber was uncharacteristically high throughout the year; which rendered long-term accumulation contracts, on which we rely on for externally-sourced cargo, only marginally profitable or even loss-making. The result was further impacted by year-end demurrage charges incurred in the USA, caused by shipment delays.

On the bright side, our management team in Africa was able to improve production efficiency in Hevecam, both at the tree and in the factory. This was a wonderful thing: costs down, yield up, profits up, morale up. It goes to show that leadership and management make all the difference, especially when operating in remote locations.

Looking at China, 2017 was a difficult year as well. The extreme volatility in the first half of the year, coupled with shipment delays from Thailand, created a difficult environment for our team there. Client defaults, unnecessary swings in inventory volumes and marked-to-market valuations, and the associated hedging expenses caused this business unit to dip into the red for the year. While this is unfortunate, I view this as a one-off situation. The management team of the SINRIO group is first-rate, and our business architecture is designed to outperform. Success in selling rubber in China is largely determined by being able to sell physical cargo to the right buyers at the right time. While this may sound mundane, the benefits of this "cash and carry" model become clear in the context of the volatility created by the arbitrage strategy I outlined previously. Consequently, a successful Chinese rubber business must involve a skilled trading outfit that can originate cargo, hedge price and currency risk, and efficiently deliver such cargo to traders, dealers and end-users in China. Looking at the PRC marketplace today, my sense is that while we may not be the biggest in this market, we are certainly one of the best.

**Future-Proofing**

The all-important question is what shareholders can expect from us going forward — how are we going to monetise the extensive investments we have made in this sector over the last seven years? In short, we will improve the returns on capital invested, and return excess funds to shareholders whenever this is prudently possible.

In 2017, we divested our 35% interest in SIAT, for a total consideration of EUR192.56 million (approximately USD225.1 million). We also tapped the capital markets and issued USD150 million of perpetual securities with a headline yield of 4.5%. This is a very interesting paper as it features a 500bps step-up margin at the end of 24 months, in end-April 2019. At today's bid-offer spread, it seems that the market did not take full notice of the appeal of this short-dated USD paper.

Such balance sheet rationalisation will continue, with an operational view to focus our asset pool on activities that benefit from sufficient barriers to entry and offer sustainable returns, and to tap markets from time to time when liquidity is available at attractive terms.

For 2017, the board has recommended an ordinary dividend of SGD0.01 and an additional special dividend of SGD0.01 per share. The ordinary dividend equates to a payout ratio of approximately 30% of our net profit, and the special dividend is an additional reward arising out of the successful divestment of SIAT.

**Rubber Price Outlook**

Finally, I would like to address the elephant in the room: my take on the outlook for the price for natural rubber.

Rubber prices have been declining since February 2011. Prior to that, they had enjoyed several years of significant price inflation, which in turn encouraged new plantings. Fundamental analysts blame this supply of new trees for the continued low prices.

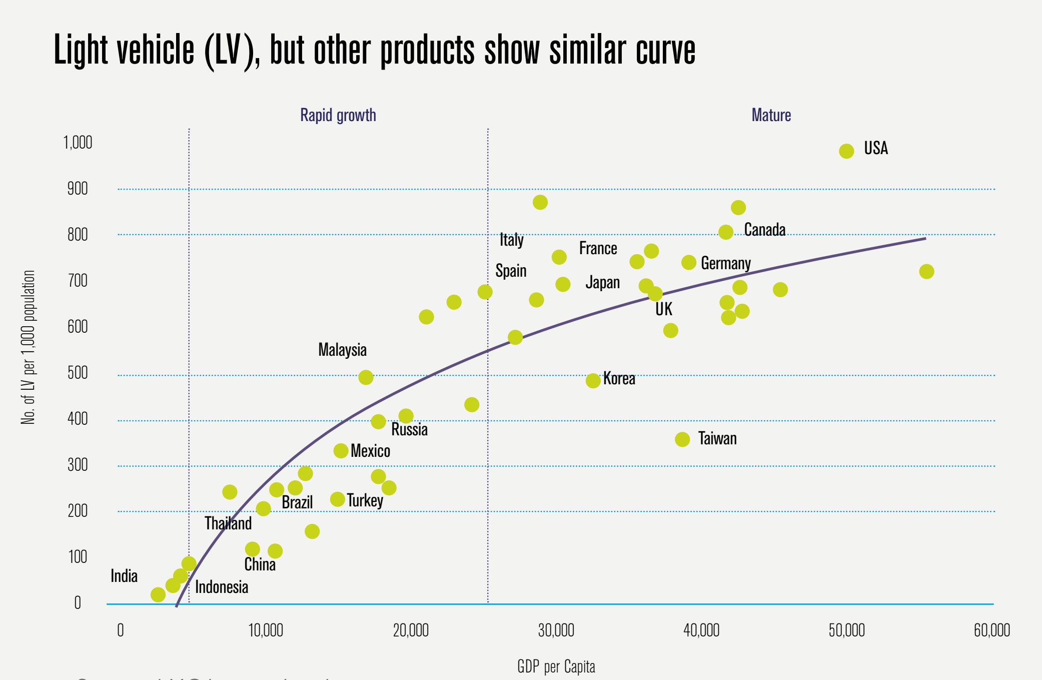
My view is slightly different, as I have realised that there no longer is "one rubber market", but two.

The global marketplace for natural rubber, global meaning "ex-China", is currently less concerned with the absolute price level, than with the sustainability of supply. Traditional origins such as Indonesia, Thailand and Malaysia have been facing domestic inflation for many years. The cost of living, which equates to the cost of production for a subsistence farmer (or smallholder), has invariably risen while rubber prices have fallen. The incentive to plant new trees has long disappeared, and the question is whether to replace existing trees. This has pushed non-traditional origins into the forefront: Indochina, Myanmar and West Africa. Here, the issue is a different one. New plantings imply deforestation and bring up the issue of indigenous land ownership rights; both are topics that have since captured the attention of many interest groups and NGOs.

The demand for rubber is largely driven by Gross Domestic Product (GDP) growth – and the world is currently growing at 3.7%. Assuming that present-day smallholders continue to tap as they have been, we will need an additional 400,000 to 500,000mT every year to cater to GDP growth-driven demand. Mind you, such projections do not take into account disruptive developments like electric cars (maximum engine torque at zero rpm means more abrasion and thus reduces the lifespan of tyres), increased vehicle utilisation (car sharing and ride-hailing apps increase vehicle utilisation), and the world's most ambitious road development plan in history (One Belt One Road). Nor do the demand projections compute a step-up in mobility consumption as large parts of the global population cross the relevant GDP per capita thresholds.

History has shown a marked increase in vehicle penetration as economies surpass USD10,000 per capita GDP, as depicted below (Figure 3).

Figure 3: Vehicle Penetration against GDP per Capita




*Source: LMC International*

Putting both halves together, we have more reasons to be worried about supply than demand. There are factions that suggest that synthetic rubber will fill the gap, but that seems unlikely for several reasons. Firstly, the global sustainability trend runs contrary to the idea of increased consumption of a fossil fuel derivative. Secondly, synthetic rubber cannot replicate the plasticity and elasticity properties provided by natural rubber's double-bond isoprene molecular structure, and finally, the price for synthetic rubber has been at a premium to natural rubber for much of 2017 and all of 2018 to date.

For Halcyon Agri, our task is clear: we must continue to develop our natural rubber business with the goal to deliver sustainable and attractive returns on capital and reliable cash flows, regardless of the market price. We cannot direct the way the wind blows, and with the recent rise in macro-risk and trade barriers, there might be some stormy weather ahead – but we can adjust our sails when required. The new business unit structure of Halcyon Agri is designed to provide us with timely alerts to both threats and opportunities, be it on the supply or demand side. We are both an operating business, as well as an investment platform, which allow us to engage in the markets in a counter-cyclical manner.

I thank my excellent team, all 15,000 of the Halcyon Agri global workforce, our esteemed board of directors, our shareholders, partners, bankers and all other internal and external stakeholders for supporting us in 2017. Without you, our journey over the past eight years since incorporation would certainly not have been possible.

Robert Meyer
Executive Director and Chief Executive Officer

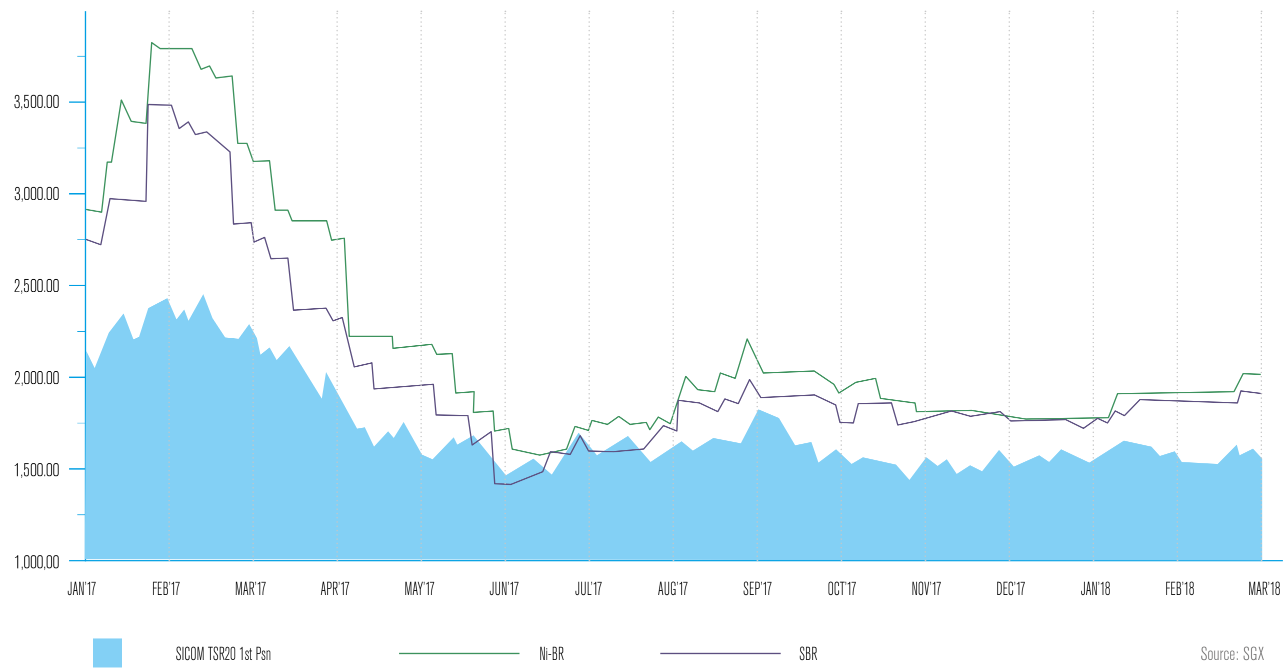
## Headline Financials

**Revenue**
2017
# US$1,988.4m
Compared to US$970.5m in 2016
▲ 104.9%

**Gross Profit**
2017
# US$140.5m
Compared to US$51.5m in 2016
▲ 172.8%

**Sales Volume**
2017
# 1,132,851mT
Compared to 713,481mT in 2016
▲ 58.8%

## Natural Rubber vs Synthetic Rubber Prices (Jan 2017 – Mar 2018)




*Abbreviations: Ni-BR – Nickel Butadiene Rubber; SBR: Styrene Butadiene Rubber*

## Significant Events

Completed strategic review of incoming assets from **GMG and Sinochem**, and established new operating structure

**Issuance of US$150m** 4.5% senior perpetual securities, mainly for repayment of S$125m, 6.5% fixed rate notes and also for working capital purposes

Completion of disposal of our minority shareholding in SIAT and received proceeds of **US$225.1m** on 31 October 2017

**Acquisition of RCMA's Polymer business** announced on 21 November 2017 and completed on 8 January 2018 for final purchase price of **US$31.7m**

Announced proposed acquisition of **five factories** producing Standard Indonesian Rubber

Announcement on 26 February 2018 of **cash dividend** of 2 SG cents, made up of 1 SG cent final dividend and 1 SG cent **special dividend**

# Board of Directors

*(Front row from left to right) Jeremy Goon, Liu Hongsheng, Liew Choon Wei, Alan Nisbet and Qin Jinke*
*(Back row from left to right) Raymond Ferguson, Robert Meyer, Pascal Demierre and Randolph Khoo*

*Absent: Wang Wei*

Our Board of Directors includes respected lawyers, bankers, accountants, investors and experts in sustainability, agriculture, human resources, chemicals and logistics – all of the components that are needed to ensure that a global company in the rubber industry is well-run and prepared for the future.

Our directors have collectively more than a century's worth of corporate experience, and several of them have held or continue to hold senior positions overseeing the operations of multinational companies. Several of our directors also hold roles in government, government-linked or regulatory bodies, adding to the breadth and depth of knowledge that they bring to Halcyon Agri. Our board's expertise in sustainability issues also enables us to do good while doing well.

As we continue to our next phase of development, the guidance and expertise of our board members will be more critical than ever.

Having a diversity of skills, knowledge and attributes in a company's board is essential to its success and long-term planning, especially in an era of disruptive start-ups and globalised business.

## Alan Nisbet
Lead Independent Director

Mr Alan Nisbet is a highly experienced accountant and serves as Lead Independent Director and Chairman of the Audit Committee. He joined the Board in 2013 and is also in the Remuneration, Nominating, and Strategy and Investment Committees. His other current roles include:

- Principal at Kanni Advisory, a consultancy firm
- Board member of the Accounting and Corporate Regulatory Authority (ACRA) and member of its Audit and Risk Committee
- Vice Chairman of Singapore's Public Accountants Oversight Committee
- Director and Chairman of the Audit Committee of Ascendas Property Trustee Pte Ltd (the Trustee-Manager of Ascendas India Trust)
- Director and a member of the Audit Committee and Remuneration Committee at KrisEnergy Limited
- Independent Director at Standard Chartered Bank (Singapore) Limited and Chairman of its Audit Committee

Mr Nisbet was a member of the Institute of Singapore Chartered Accountants until his retirement. He graduated with a Diploma of Business Studies (Accounting) from the Caulfield Institute of Technology, Melbourne, Australia.

Political shocks, rapid technological changes and economic volatility have contributed to an uncertain operating environment for businesses today. A robust and nimble risk identification and management system is vital.

## Randolph Khoo
Independent Director

One of Singapore's foremost lawyers, Mr Randolph Khoo is Independent Director and Chairman of the Nominating Committee. He joined the Board in 2013 and is also part of the Audit and Remuneration Committees.

He is currently a Director at Drew & Napier LLC and heads the dispute resolution practices of its China, India and International Trade Desks and Private Client Services Group. His other current roles include:

- Advocate and Solicitor of the Supreme Court Singapore, a Notary Public and a Commissioner for Oaths
- Panel Arbitrator, Singapore Institute of Arbitrators and Law Society of Singapore Arbitration Scheme
- Panel Arbitrator, Shanghai Arbitration Commission, Shanghai International Economic And Trade Arbitration Commission and Shenzhen Court of International Arbitration
- Panel Arbitrator, Kuala Lumpur Regional Centre for Arbitration and the Malaysian Institute of Arbitrators
- Panel Arbitrator, Chinese Arbitration Association, Taipei
- Panel Arbitrator, Institute of Modern Arbitration of the Russian Federation
- Panel Arbitrator (Foreign National), Indian Council of Arbitration
- Fellow of arbitral institutes of Singapore, Malaysia, Hong Kong, the UK, India and New Zealand
- Member of the International Bar Association, Society of International Law (Singapore), Law Society of Singapore and the Singapore Academy of Law

Mr Khoo graduated with a Bachelor of Law from the National University of Singapore with various academic prizes.

A company must have a clear vision of its mid- to long-term goals and strategies to achieve them. These provide the foundation upon which investment, acquisition and disposal decisions are made.

## Liew Choon Wei
Independent Director

Mr Liew Choon Wei is Independent Director and Chairman of the Remuneration Committee. He was appointed to the Board in 2014 and also sits on the Audit and Nominating Committees.

He joined Ernst & Young LLP in Singapore in 1979 and was Audit Partner for its largest real estate, banking, media, hospitality and retail clients before retiring in 2013. His current roles include:

- Chairman of the Internal Audit Committee of Kuok (Singapore) Ltd
- Independent Director at Frasers Hospitality Asset Management Pte Ltd (manager of Frasers Hospitality Real Estate Investment Trust) and Frasers Hospitality Trust Management Pte Ltd (trustee-manager of Frasers Hospitality Business Trust)
- Independent Director, Chairman of the Nominating Committee and member of the Audit Committee of F J Benjamin Holdings Ltd
- Independent Director at The Hour Glass Limited and member of its Audit and Remuneration Committees
- Fellow Chartered Accountant of the Institute of Singapore Chartered Accountants

Assessing the right level of executive remuneration is key to securing and retaining the best industry talents in the market.

## Raymond Ferguson
Independent Director

An international banker with more than 20 years of senior management experience, Mr Raymond Ferguson is Independent Director and Co-Chairman of the Strategy and Investment Committee. He joined the Board in 2016.

He is also Founder and Chief Executive at Caber Partners Pte Ltd, a Singapore licensed fund manager, Chairman of Singapore Life Pte Ltd, a Singapore life insurance company, and Chairman of Youtap Ltd, a global mobile payments firm. He previously served as:

- Regional Chief Executive Officer, Southeast Asia at Standard Chartered Bank
- Chief Executive Officer at Standard Chartered Bank (Singapore) Limited
- Chairman and Director of several Standard Chartered Bank's subsidiary boards
- Executive Vice President and Group Chief Officer at Arab Banking Corporation, B.S.C.

Mr Ferguson is also:
- Associate of the Chartered Institute of Bankers in Scotland
- Distinguished Fellow of the Institute of Banking and Finance Singapore
- Member of the Singapore Institute of Directors

Mr Ferguson holds a master's degree in Business Administration from Henley Management College and Brunel University.

## Jeremy Goon

Independent Director

Mr Jeremy Goon contributes his extensive experience in sustainability issues in his role as an Independent Director. He was appointed to the Board in 2017. He is Chief Sustainability Officer at Wilmar International Limited and Executive Director of their Plantation Division.

He is also a Council Member of the Malaysian Palm Oil Association (MPOA) and the Board of Trustees of the Malaysian Palm Oil Certification Council (MPOCC) as well as a member of the Steering Committee of the Tropical Forest Alliance 2020. He was also previously:

- Head of European Operations for Kuok Oils and Grains Pte Ltd in Germany and The Netherlands
- Vice President of the Executive Board of the Roundtable for Sustainable Palm Oil (RSPO), where he represented the MPOA
- Co-Chair of the RSPO Greenhouse Gas Working Committee

Mr Goon graduated with a Bachelor of Arts in Law and Management Science from Keele University in the United Kingdom.

## Liu Hongsheng

Non-Executive Chairman

Mr Liu Hongsheng brings decades of experience in business and human resources to his roles as Halcyon Agri's Non-Executive Chairman and Co-Chairman of the Strategy and Investment Committee. He joined the Board in 2017.

He is currently also Executive Director and President of Sinochem International Corporation Ltd. His previous posts include:

- Vice President at Sinochem International Corporation Ltd
- Senior Vice President at Sinochem International Corporation Ltd, Chemicals Segment
- General Manager at Sinochem International Corporation Ltd, Logistics Business Division
- Deputy Head of Human Resources at China's Ministry of Foreign Trade and Economic Cooperation
- First Secretary of the Economic and Commercial Counsellor's Office at the Chinese Embassy in Thailand

Mr Liu holds a bachelor's degree in Philosophy from Peking University and an executive master's degree in Business Administration from Shanghai Maritime University.

## Robert Meyer

Executive Director and Chief Executive Officer

Mr Robert Meyer is Halcyon Agri's Chief Executive Officer. He also serves as an Executive Director and sits on the Strategy and Investment Committee. He founded Halcyon Management Partners Pte Ltd, the precursor to Halcyon Investment Corporation Pte Ltd, in 2004. In 2010, Mr Meyer co-founded Halcyon Agri.

As Chief Executive Officer, Mr Meyer is in charge of formulating and executing the business strategy of the Group, and of overseeing its day-to-day management.

Mr Meyer's previous appointments include:

- Committee member of the Government of Singapore's Economic Strategies Committee
- Non-Executive Chairman at NH Ceramics Limited (now known as BlackGold Natural Resources Limited)

Mr Meyer graduated with a Bachelor of Arts in Business Management from the European Business School, Schloss Reichartshausen in 1999. Prior to his business studies, Mr Meyer completed a commercial banking apprenticeship with Dresdner Bank AG in Hamburg, Germany.

## Pascal Demierre

Executive Director

Mr Pascal Demierre is Halcyon Agri's Executive Director and a member of the Audit and Remuneration Committees. He co-founded Halcyon Agri and joined the Board in 2010.

He is responsible for all corporate matters, including mergers and acquisitions, legal, corporate governance, corporate structuring, information technology, human resources and general administration. He also holds appointments in other organisations, including:

- Independent Director at The Hour Glass Limited
- Treasurer and Board Member at Alliance Française, Singapore

Mr Demierre graduated with a Bachelor of Law (Upper Second) from King's College London, in the United Kingdom, in 1998. He also obtained a graduate diploma in Law from the National University of Singapore in 2002.

## Qin Jinke
Non-Executive Director

Mr Qin Jinke joined the Board in 2018 and is a Non-Executive Director. He has been with Sinochem International Corporation for nearly 20 years and is now its Chief Financial Officer.

He joined Sinochem in 2001 and has held senior positions in its auditing, finance and accounting departments, including:

- Deputy Chief Financial Officer at Sinochem International Corporation
- Chief Financial Officer at Sinochem Zhengjiang and its Metallurgy and Energy Division
- General Manager of the Accounting and Tax Office
- Vice General Manager of the Finance Department
- Assistant General Manager of the Auditing Department

## Wang Wei
Non-Executive Director

Mr Wang Wei is a seasoned investor and investment analyst who was appointed to the Board in 2017 as a Non-Executive Director. He serves as Executive Director of the China-Africa Development Fund's (CADFund) Infrastructure and Energy Investment Department. He is presently Director at HNA & CADF Logistics, Nanjing Ocean (CM) Co. Ltd and Ansogli Power (Ghana) Ltd.

His previous roles include:

- Consultant with APCO Worldwide LLC (Beijing)
- Consultant with KPMG Huazhen LLP

Mr Wang holds a master's degree in International Relations, and a Bachelor of Arts in International Economics and Trade, from the China Foreign Affairs University. He is also an alumnus of Johns Hopkins University-Nanjing University, Center for Chinese and American Studies, having graduated in 2004.

# About Us


## Think Rubber, Think Halcyon

Rubber is everywhere from transportation and healthcare, to industrial uses and consumer goods. It is an integral part of our lives and keeps the world moving.

As the world's leading rubber franchise, our integrated global network gives us control over the entire value chain of how rubber is grown, sourced, produced, and distributed. The Group owns 33 processing factories in most major rubber producing origins and produces sustainable natural rubber under its proprietary HEVEA*PRO* brand. The Group leverages its extensive network of warehouses, terminals, laboratories and sales offices across the world to distribute a range of natural rubber grades, latex and specialty rubber for the tyre and non-tyre industries.

Our dynamic management team has the foresight and ambition to leverage our scale and expertise to future-proof the rubber industry. We are the trusted partner to work with to capitalise on the immense potential of this ubiquitous and irreplaceable resource.

## Growth over the Past Year

2017 was an eventful year for Halcyon Agri as we undertook several strategic acquisitions, financial decisions and an operational review to strengthen our market position. We announced our acquisition of some of the world's oldest trading houses; we expanded our storage facilities in Europe as well as our laboratory and testing facility in the United States. These acquisitions, completed in 2018, give us an immediate foothold in the synthetic rubber business, while also making the Group the leading latex and specialised rubber distributor in the world.


## Quick Facts

**15,000+**
**Dedicated Employees**

**100+ Locations**
Headquartered in Singapore, we have regional and sales offices, warehouses, terminals, laboratories, factories and plantations across the world

**33**
**Production Facilities**
We have factories in most of the world's major rubber-producing countries – Cameroon, China, Indonesia, Ivory Coast, Malaysia and Thailand

**82,000ha**
**Plantable Area**
Our plantation land area in West Africa and Malaysia is 123,000ha of which 33,000ha has been planted

**1.5 Million mT**
**Production Capacity**
This represents 13% of global natural rubber consumption

# Senior Management

Our Senior Management charts the course of our long-term strategies and enables the smooth day-to-day running of our operations. They have spent decades in the natural rubber industry bringing a wealth of experience to their roles. Their expertise spans the gamut from factory operations to plantation management, merchandising, trading, risk management, to stakeholder communications, mergers and acquisitions, investments and financing.

## Andrew Trevatt
Chief Commercial Officer

Mr Andrew Trevatt is a co-founder of Halcyon Agri and oversees the daily commercial affairs of the company. He has 31 years of experience in the natural rubber industry, having worked in the United Kingdom, The Netherlands, the United States of America and Singapore.

## James Bugansky
Managing Director
– Global Plantations

Mr James Bugansky joined Halcyon Agri in 2013, and is in charge of all our plantation assets globally, such as JFL Plantations in Kelantan, Malaysia and the Hevecam and Sudcam estates in Cameroon. He brings with him more than 40 years of experience.

## Kashimoto Michikazu
Deputy Managing Director
– SINRIO

Mr Kashimoto Michikazu joined Halcyon Agri in 2015 bringing with him more than 30 years of experience in the natural rubber industry. He supports the Managing Director - SINRIO by managing all merchandising and risk management activities within that platform.

## Tan Poh Tee
Managing Director
– Halcyon Rubber Company (HRC)

Mr Tan Poh Tee joined Halcyon Agri in 2017 and is in charge of the HRC business unit. His responsibilities include the merchandising and risk management functions, as well as oversight of the Indonesian factory operations. He has over 32 years of experience in the natural rubber industry including supervising natural rubber operations across the world.

## Ng Eng Kiat
Chief Financial Officer
Managing Director - SINRIO

Mr Ng Eng Kiat joined Halcyon Agri in 2013 as Chief Financial Officer. He is in charge of corporate finance, treasury, and tax and capital management. As Managing Director – SINRIO, he is responsible for the management of the Group's SINRIO platform, which includes distribution assets and processing factories in China, Malaysia and Thailand.

## Leonard Beschizza
Deputy Managing Director
– SINRIO

Mr Leonard Beschizza co-founded Halcyon Agri in 2010 and today runs all processing assets attached to the SINRIO platform. He supports the Managing Director – SINRIO, in particular with regards to the day-to-day running of our operations in China, Malaysia and Thailand. He draws from more than four decades of in-depth knowledge of the agricultural industry. He is also an expert in the palm oil and cocoa industries.

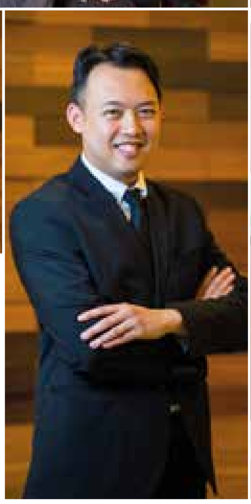
## Horst Sakreida
Managing Director
– Centrotrade Holdings (IDL)

Mr Horst Sakreida joined Halcyon Agri in 2015, having spent 40 years in the rubber industry. He has extensive natural rubber and latex distribution experience and is responsible for the commercial and risk management of our Global Non-Tyre & Specialty Tyre segment, also referred to as our IDL platform (Industrial Distribution and Latex). This unit includes Centrotrade, Wurfbain Polymer, Alan L Grant Polymer, Corrie MacColl Rubber, Kelvin Terminals and Momentum Technologies International.

## Daniel Thong
Global Head
– Strategic Development

Mr Daniel Thong joined Halcyon Agri in 2017 and manages the Group's strategic development and stakeholder communication. He is also in charge of HAC Capital, the Group's newly formed investment unit that specialises in non-equity, non-control and venture capital investments. Mr Thong has more than two decades of experience in investment management.

# The Lighter Side **of Halcyon**



# Rubber is Everywhere

## A Universal Resource

Rubber is essential to modern life and natural rubber, in particular, is highly sought-after because of its high strength, resistance, elasticity and plasticity. Between 2000 and 2016, global demand for natural rubber nearly doubled to 12.6 million mT, and the upward consumption trend shows no signs of stopping.

Compared to synthetic rubbers, natural rubber has several advantages. Its higher molecular weight and stereoregular microstructure means that it has higher tensile strength, excellent cut and tear resistance, and is slow to heat up during repeated stress deformation – a critical property needed for tyres, particularly for large or industrial vehicles.

Unlike synthetic rubbers which are derived from oil, its price is not affected by the continual rise of oil prices. Furthermore, as natural rubber comes from trees, it is a natural, sustainable and renewable resource.

# Rubber Applications

From tyres to shoe soles to medical gloves to seals and gaskets, natural rubber is used in countless products spanning every sector. Here are some examples.

**Tyres**

Tyres make up the largest use of natural rubber, accounting for about three-quarters of all demand. All tyres contain natural rubber because of its higher strength and resistance compared to synthetic rubbers. In passenger car tyres, natural rubber makes up about 15 to 20 percent of the materials used.

Tyres for trucks, buses, airplanes and other heavy or specialty vehicles need even more natural rubber – about 35% or more by content – because of the high stresses and changing temperatures of their operating environments. Natural rubber builds up less heat from flexing and does not tear as easily as synthetic rubbers at high temperatures.

Three global trends are expected to cause radical changes in the tyre industry leading to greater use of natural rubber: the world's transition from fossil fuels to alternative energy sources, which will improve sales of electric vehicles; and the rise of autonomous vehicles and growing shared ownership of cars, both of which will put automobiles on the road more often and trigger more frequent tyre replacements.

**Seals and gaskets**

Besides being able to withstand temperatures ranging from about minus 50 to 105 degrees celsius, natural rubber is also resistant to water and abrasion, tolerant of alcohols, acids and alkalis and has very good compression set resistance – it bounces back to its original shape after a force is applied to it.

**Tubes, hoses and pipes**

Natural rubber is also commonly used to make tubes, hoses and pipes because of its resistance and tolerance qualities. The material is resistant to creeping, sagging and stretching, so tubes, hoses and pipes made of it are especially useful for vacuum applications.

**Coats, linings and pads**

Natural rubber compounds are also used to line machines used in the chemical industry because of their resistance to a wide variety of chemical solutions. Natural rubber is also used to make pads and mounts for machines to cushion and protect them against vibrations. The material can also be sprayed onto surfaces to provide a coating that prevents electrical shock and resists moisture, acids, corrosion and slipping.

**Films**

Latex films form an excellent barrier against pathogens, including viruses, which is why they are used to make condoms and gloves. Many sectors require the use of natural rubber gloves to handle delicate or potentially hazardous objects such as scientific samples, drugs, foodstuffs and electronic components.

**Adhesives**

Many adhesive tapes use natural rubber as the glue because of its advantageous chemical structure. It consists of long polymer chains, so mixing it with resin to make it sticky creates an adhesive that is both extremely flexible and mobile even at low temperatures where other substances would become solid and brittle.

**Flooring**

Many gyms, commercial kitchens, playgrounds and other facilities pave their floors with natural rubber pads because the material is shock-absorbent, slip-resistant and water-proof. It is also long-lasting and easy to maintain.

**Moulds**

Natural rubber is also the material of choice when it comes to making moulds because of its high tensile strength. It can withstand up to 3,500 pounds per square inch (PSI), whereas synthetic silicone rubbers can handle at most 1,400 PSI.

# A Bright Future for Rubber

The demand for natural rubber closely tracks the performance of the economy. As global GDP grows, consumption and hence the need for natural rubber grow too. The recent economic surge worldwide therefore predicts a bright future for natural rubber demand.

Furthermore, major developed economies are spending more on infrastructure, which will increase the use of rubber in construction and other sectors. Germany plans to spend a record USD325 billion on transport infrastructure alone between 2016 and 2030, while the United States is considering a USD1.5 trillion infrastructure investment plan.

Continued urbanisation in developing countries also means that about two-thirds of the world's population will live in cities by 2050, necessitating the use of more rubber. In parts of India and Malaysia, governments are paving roads with a combination of natural rubber and asphalt to produce better quality roads and reduce maintenance costs.

Other emerging trends, as discussed here, have added extra engines to the accelerating use of natural rubber.

**As the World Economy Grows**

In 2017, every major country and region in the world grew economically, from China to Europe to the United States to Latin America. Globally, the economy grew by 3.7%, its fastest pace since 2010. In January 2018, the International Monetary Fund also revised its global growth forecast for 2018 and 2019 to a higher 3.9%.

This booming health is expected to spur greater demand for natural rubber. The International Rubber Study Group projected that the demand for natural rubber will grow by up to 3.3% annually by 2020. This does not reflect the recent revised global growth forecast as mentioned above.

**With the Rise of E-Commerce**

Any improvement in the economy is usually followed by an even larger increase in the demand for the material, because it is used not only in goods and the machines to make those goods, but also in the tyres for vehicles to deliver those goods.

The rise of online shopping has further intensified the link between consumption and natural rubber demand. Where a person might have driven to a shopping centre to purchase a few items previously, he or she can now go online and order items from around the world, necessitating multiple vehicles to deliver them.

In 2017, e-commerce giant Amazon clocked 214 million km in last-mile delivery trips in India alone. This distance is equivalent to that of 556 trips from Earth to the moon.

In addition, parcel volumes surged almost 50% globally from 44 billion in 2014 to 65 billion in 2016, and are expected to continue to grow at rates of 17 to 28 percent annually until 2021. These trends will create an ever-rising demand for natural rubber.

**Driven by the Evolution of Transport**

The evolution of transport is another driver for natural rubber demand. Governments across the world are experimenting with car-sharing schemes and autonomous vehicles to solve the first- and last-mile problem in public transport, encouraging more people to use public transport and maximising the use of vehicles and roads.

While these efforts may eventually reduce vehicle populations, the remaining ones will be used more intensively, resulting in more frequent tyre replacements and thus greater demand for natural rubber. The growing market share of ride-sharing companies such as Uber and Grab will accelerate this trend.

In Singapore, for instance, the total vehicle population shrank by about 2% between 2013 and 2017, but the number of private hire cars quadrupled to 55,000 in the same period. These cars clock about 400 km each day on average, double that of a single-shift taxi and nine times more than an average family car.

The proliferation of the private hire cars means that the total amount of petrol used by vehicles in Singapore – a proxy for car usage – is expected to increase despite the smaller vehicle population. More tyre replacements will be needed.

Meanwhile, in February 2018, automaker Daimler AG and automotive supplier Robert Bosch GmbH announced that they will start testing self-driving taxis soon, joining other similar trials that are ongoing or planned. The United States-based firm nuTonomy also plans to launch a driverless taxi service in Singapore in 2018 before expanding it to 10 cities worldwide by 2020.

In 2017, General Motors became the first automaker to announce that it will commit to using sustainable natural rubber for all of its tyres. Since then, many major tyre manufacturers have established policies to ensure that their supply chain for natural rubber is sustainable. The demand for natural rubber, already strong now, can only grow stronger.

Many governments and automobile corporations are also focusing their efforts on electric cars and buses. Electric vehicles have remarkable torque, so they require tyres with more grip. Their heavy batteries and unusual vertical load distribution also produces more stress on tyres during acceleration and cornering, so the tyres have to be more resilient. Natural rubber can meet these needs.

Finally, the increasingly bright spotlight on climate change and sustainability has consequences for the rubber industry too. Natural rubber is renewable, unlike synthetic rubbers derived from oil.

## Halcyon Rubber Industry Usage

### Household

Condoms, rubber gloves, rubber bands, duct tape, pet toys, battery components, waterproof boots, adhesives, sealants, door & window seals, rubber stamps, snow mobile treads, building waterproofing, hand tool grips, roofing material, garden hoses, balloons, exercise bands, carpet backing

### Industrial

Expansion joints for highways & bridges, paving components, chemical boiler seals, submarine seals, electrical insulation, electrical protection gloves, o-rings, gaskets, hydraulic seals, hydraulic hoses

### Transportation

Tyres, anti-vibration dampers, vehicle window & door seals, hoses

### Medical

Urinary catheters, needle sheath covers, medical tubing, breather bags, ultrasound probe covers, medical gloves

# Halcyon Is Rubber

Halcyon Agri is rubber.
Since 2013 when our company was listed on the Singapore Exchange as a rubber producer with two factories in Indonesia, we have grown into a world leader in the rubber industry with an extensive portfolio of assets across the supply chain and a global distribution network.

We can now produce 1.5 million mT of rubber after completing a series of acquisitions announced in late 2017. Our factories and plantations span all of the world's major natural rubber producing areas, namely West Africa, Indonesia, Malaysia, Thailand and China, making our company the only one in the rubber industry with such a global presence. We also have sales offices and logistical assets in more than 80 locations in Asia, Europe, Africa and North America.

In 2017, we completed a strategic review and restructured our business into three standalone units, each with its own origination, processing and distribution capabilities, to better serve our three target customer segments.

# Business Units

**Global Non-Tyre & Specialty Tyre**

From large industrial users in Europe to independent compounders in the United States, non-tyre applications of rubber account for a quarter of all rubber consumption and typically require high levels of customisation.

Our Centrotrade franchise has developed a leading role in the global supply of natural latex. In 2017, we modified our plantation collection system in Hevecam, Cameroon, to prioritise the production of liquid latex over dry rubber. This tactical shift extends the benefits of Centrotrade's global market reach to our core plantation asset. Going forward, Centrotrade will exclusively handle the global merchandising of our Cameroonian plantation output.

In January 2018, we completed the acquisition of some of the oldest and most reputable trading names in natural and synthetic rubber, latex and ancillary chemicals: Wurfbain (The Netherlands), Alan L Grant (USA) and Corrie MacColl (UK). The acquisition of these regional champions complements Centrotrade's global speciality distribution franchise by adding a full-suite distributor and provider of logistics solutions to our clients in the key markets of Europe and the United States.

Two other recent acquisitions, Kelvin Terminals, which owns and operates tank storage facilities in The Netherlands, and Momentum Technologies International, which provides a global distribution and laboratory services, will further enhance the seamless value proposition offered to our clients in this sector.

Together, all the above operations form our Industrial Distribution and Latex platform or IDL in short.

**Global Tyre Majors**

Our merchandising arm dedicated to the global marketplace for tyre-grade rubber is Hevea Global Pte Ltd. Here we supply Technically Specified Rubber from our factories in Indonesia and two factories in Ivory Coast to the world's major tyre manufacturers, such as Bridgestone, Continental, Goodyear, Michelin and Sumitomo Tire to name but a few.

At the end of 2017, our combined installed capacity for servicing this market segment was 690,000mT annually.

In addition to our formidable portfolio of factories, we benefit from our HEVEA*PRO* operating system of providing audited sustainable rubber. With this framework, we are committed to producing, in a socially responsible and ethical way, rubber that meets the highest industrial and quality standards (see "HEVEA*PRO*: Our Commitment To Customers And Communities" in this chapter).

**PRC Tyre Majors**

China is the largest consuming nation of natural rubber in the world, accounting for more than 40% of the global demand, reaching 5.7 million mT in 2017, up from 4.89 million mT a year prior.

China's permanent urban population reached 813.47 million in 2017. Its cities and urbanised centres are expanding rapidly as its government aims to have 60% of the population living in cities by 2020. It has more than 772 million Internet users and accounts for 40% of all e-commerce on the planet, and experts predict that the trade volume will only continue to rise alongside rising incomes and the size of the middle class. The Chinese government's One Belt One Road initiative is the single most ambitious road and infrastructure development concept in the history of our planet.

Such rapid development points to a larger vehicle population and greater use of vehicles in the near future. The country's nascent electric vehicle market will also increase its demand for natural rubber: sales of the vehicles surpassed 700,000 in 2017 and are geared to rise to more than two million by 2020, and seven million in 2025.

Our subsidiary, New Continent Enterprises Pte Ltd, distributes natural rubber from our processing factories in China, Malaysia and Thailand, as well as from reputable third-party producers, directly to our Chinese customers through a countrywide logistics network that offers just-in-time delivery. This removes the need for intermediaries, eliminates our customers' sourcing risk and leverages our supply chain management business model.

# Products

## Halcyon Agri produces Technically Specified Rubber, Mixture Rubber and Latex at our processing facilities for our customers globally.

**HEVEA*PRO*: Our Commitment to Customers and Communities**

Our HEVEA*PRO* brand of natural rubber represents our commitment to producing in an ethical, sustainable and responsible way to the highest industrial and quality standards.

We focus on four key areas: industrial and quality standards; occupational health and safety; supply chain security; and the tenets of our Halcyon Global Village philosophy (see page 41).

Our HEVEA*PRO* factories have dedicated quality assurance managers and go beyond the standard product tests. Each factory is ISO 9001-certified and audited annually by TÜV SÜD, a renowned German product and safety testing company.

We conduct safety training for all employees, address health and safety issues throughout the supply chain, monitor key metrics and publish them annually.

Our checklist for supply chain security spans more than 100 points, and each factory has perimeter barriers and trained security personnel. If necessary, our HEVEA*PRO* factories are certified as compliant with the United States Customs: Trade Partnership Against Terrorism (C-TPAT) programme.

The Halcyon Global Village commitment requires us to monitor our impact on the environment, conduct a full review on this biannually, publish key metrics annually, prohibit discriminatory behaviour and practices, formally contract workers to ensure appropriate wages and working hours, engage farmers regularly and develop programmes to improve productivity and minimise risks.

Our HEVEA*PRO* Data Centre, a web-based database system, collects, analyses and presents daily factory metrics. It provides live data for reporting and benchmarking so that we can continue to improve ourselves. The next phase of development will include a real-time Statistical Process Control system that will link our factories with our HEVEA*PRO* Data Centre 24 hours a day.

**CENTEX: The Best in Latex**

CENTEX is our natural latex merchandising standard. While the material typically may not originate from a Halcyon factory, our deep market knowledge and understanding of consumer requirements have enabled us to define the three core attributes of CENTEX: quality assurance, certified management and global logistical expertise.

Natural latex is sourced from leading producers worldwide, from factories that we regularly audit and with whom we have developed tailor-made procedures and product parameters. All Centex producers are ISO 2004 or ASTM D1076-certified.

# Our Operating Structure

| | HALCYON RUBBER & PLANTATIONS | HALCYON RUBBER COMPANY |
|---|---|---|
| | GLOBAL NON-TYRE & SPECIALTY TYRE | GLOBAL TYRE MAJORS |
| PLANTATIONS | 112,000ha / 73,000ha[1]<br>Cameroon | 1,600ha / 1,400ha[1]<br>Ivory Coast |
| PROCESSING | TOTAL CAPACITY: 55,000mT<br>Cameroon | TOTAL CAPACITY: 750,000mT<br>Indonesia<br>Ivory Coast |
| DISTRIBUTION | • Alan L Grant Polymer<br>• Centrotrade<br>• Corrie MacColl Rubber<br>• Kelvin Terminals<br>• Momentum Technologies International<br>• Wurfbain Polymer | • Hevea Global |

Global Marketplace

[1] Plantable Areas

## SINRIO

## PRC TYRE MAJORS

10,000ha / 8,000ha[1]

Malaysia

TOTAL CAPACITY: 675,000mT

Malaysia

Thailand

China

- New Continent Enterprises
- Halcyon Agri Shanghai

China

### 3 Quick Facts

1. Halcyon Rubber & Plantations

112,000ha

Our plantations produce crumb rubber and latex which are processed at our Hevecam factory and distributed to our customers worldwide through our distribution houses

2. Halcyon Rubber Company

750,000mT

Production Capacity

Our HEVEA*PRO* framework represents our commitment to uphold the highest standard of quality, responsibility and sustainability in global rubber production. Supported by our production capacity of factories in Indonesia and Africa, and one plantation in Ivory Coast

3. SINRIO

675,000mT

Production Capacity

We provide end-to-end supply chain services for TSR products to Chinese tyre manufacturers from our HEVEA*PRO* audited factories in Malaysia, Thailand and China

## Corrie MacColl

# REINVESTING IN A BUSINESS WITH 238 YEARS OF HERITAGE

**Our Heritage**

Corrie MacColl first opened its doors in 1780 in Liverpool, then known to be a booming city and a marvel of the commercial world. Throughout its history in the United Kingdom, the company traded in corn and other commodities like cotton and then rubber. The company gained its knowledge and experience from trading in the Far East and then with commodities originating in Southeast Asia, and developed a strong circle of suppliers and business relationships that exist today.

Halcyon Agri acquired Corrie MacColl and the associated trademarks in 2017 and will continue that tradition into the 21st century and beyond.

**Our Brand**

As a stalwart of the industry, we take our responsibility to all stakeholders and the environment seriously. That is why we take a long-term view by adopting a triple bottom line approach. We have built on our foundation and invested in developing traceability of natural rubber from plantation to production to distribution. As part of Halcyon, we have the expertise and resources to continue doing what is right and ensure you are getting this essential resource in responsible and sustainable ways.

> It's not every day you get asked to develop a brand identity for a company that can trace its history back to 1780. With the Corrie MacColl identity, I wanted to capture the theme of heritage with a contemporary style because Corrie MacColl has a long legacy, but it is also a progressive and responsible rubber company taking a sustainable approach. The modernised shield features two white-throated kingfishers (Halcyon smyrnensis), celebrating the linkage back to Halcyon Agri (the parent company). The monogram within the shield, logotype, and date of incorporation all reinforce a tradition that we hope will endure for centuries to come.

– Charlie Scott, Founder and Creative Director, Tangible

# Sustainable rubber to ensure long-term viability

# The Bottom Line

## 2017 was a busy year for Halcyon Agri

It was our first full year of operations as the world's leading natural rubber supply chain manager after the completion of the acquisition of GMG Global and SINRIO in late 2016. As part of the integration, we completed a strategic review of the incoming assets and established a new operating structure, as introduced in Chapter Four of this report.

Throughout 2017, we also achieved several corporate milestones:

- Issued USD150 million of 4.5% senior perpetual securities in April 2017, with the majority of the proceeds used to repay the SGD125 million–6.5% fixed rate note
- Completed disposal of our 35% shareholding in SIAT for net consideration of USD225.1 million
- Announced acquisition of Wurfbain, Alan L Grant, Corrie MacColl, Momentum Technologies International and Kelvin Terminals on 21 November 2017, completed on 8 January 2018
- Announced acquisition of five Standard Indonesian Rubber factories in December 2017
- Announced on 26 February 2018, cash dividend of SGD0.02, comprising final dividend of SGD0.01 and special dividend of SGD0.01 respectively

**Income Statement**

Despite the challenging price levels for most of 2017, we managed to more than doubled our revenue to USD1,988.4 million in 2017, from USD970.5 million in 2016, mainly due to the increase in sales volume from 713,481 mT in 2016 to 1,132,851 mT in 2017, as a result of the full year contribution and integration of the enlarged group.

Our gross profits also increased in tandem with the higher revenue, from USD51.5 million in 2016 to USD140.5 million in 2017, due to increased average selling price.

Our operating profits, however, declined slightly from USD76.3 million in 2016 to USD64.5 million in 2017, mainly due to the absence of a one-off gain on net bargain purchase amounting to USD90.3 million. Excluding one-off gains from business acquisitions and divestments, the operating profits would have been USD43.0 million in 2017, in contrast with the USD14.0 million operating loss in 2016. The improvement is a testament to the Group's improved performance as well as post-merger synergy.

Finance costs decreased from USD28.0 million in 2016 to USD23.8 million in 2017 as a result of the improved gearing, which allows us access to cheaper financing options.

EBITDA turned around strongly from a USD1.5 million loss position in the previous year to USD66.7 million in the current year.

Earnings per share declined from 5.65 US cents in 2016 to 2.24 US cents in 2017 mainly due to the absence of the one-off gain as mentioned earlier.

### Balance Sheet

Our net assets improved from USD622.1 million in 2016 to USD837.8 million in 2017 mainly due to these factors:

- Issuance of USD150 million senior perpetual securities as mentioned earlier
- Strengthening of local currency versus US Dollars
- Accretion of 2017 profits

With share capital base remaining the same throughout 2017, our net asset value per share improved further from 39.0 US cents in 2016 to 52.5 US cents in 2017.

Our net current assets position also improved significantly from USD156.6 million in 2016 to USD459.9 million in 2017, mainly due to the successful monetisation of SIAT, and replacement of SGD125 million notes with perpetual securities that is equity in nature. Our current ratio now stands at 2.33x, up from 1.38x a year ago.

The two events mentioned above also contributed to the improvement in our net gearing from 0.4x in 2016 to 0.1x in 2017*.

### Cash Flows

Our cash inflows from operations (before working capital changes) of USD58.4 million in 2017 represent the sustainable cash flow levels that our operations can generate. Net working capital of USD85.0 million during the year is funded by cheaper financing resources, mainly coming from the perpetual securities as well as working capital loans.

Our net cash inflows from investing activities also increased to USD113.4 million in 2017, from USD37.8 million a year ago. The fund inflows were mainly due to the divestment of non-core operations. The funds raised from the divestment will be recycled for future acquisitions, as well as used to fund existing operations.

Net cash inflows from financing activities improved slightly from USD7.4 million in 2016 to USD11.2 million in 2017, due to additional net drawdown of banking facilities to fund the expanded operations of the Group.

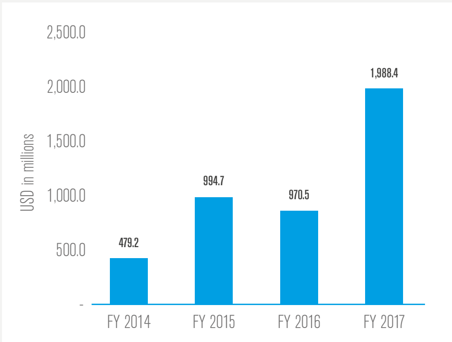
As a result of the above, the Group's cash and bank balances increased from USD66.6 million in 2016 to USD152.2 million in 2017.

| | Plantations | | Processing | | Distribution | | Total | |
|---|---|---|---|---|---|---|---|---|
| USD in Mil | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Sales Volume (k mT) | 17 | 3 | 797 | 456 | 640 | 364 | 1,133 | 713 |
| Revenue | 28.2 | 4.9 | 1,391.5 | 628.8 | 1,122.8 | 496.9 | 1,988.4 | 970.5 |
| Gross Profit | 7.8 | 0.1 | 114.8 | 30.9 | 18.2 | 21.5 | 140.5 | 51.5 |
| Operating Profit/(Loss) | (3.2) | 1.0 | 61.3 | (1.1) | (16.0) | 7.2 | 64.5 | 76.3 |
| EBITDA | 2.3 | 2.5 | 78.5 | 9.2 | (15.7) | 7.4 | 66.7 | (1.5) |

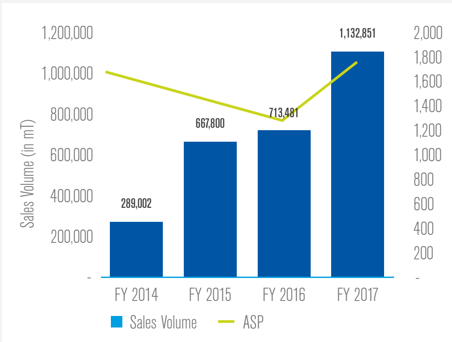
*Note: Intragroup elimination column and corporate segment not displayed separately. Please refer to Note 33 in the consolidated financial statements for details where relevant*

* *Please refer to Note 36 of our Financial Statements for the detailed calculations of our net gearing ratio*

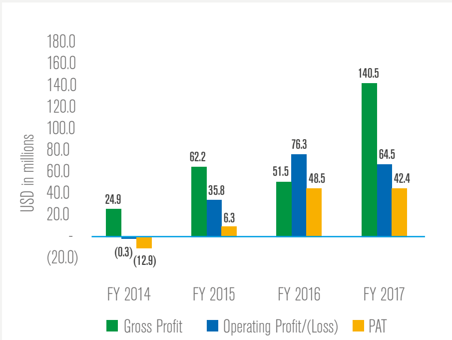
## Chart 1 : Revenue



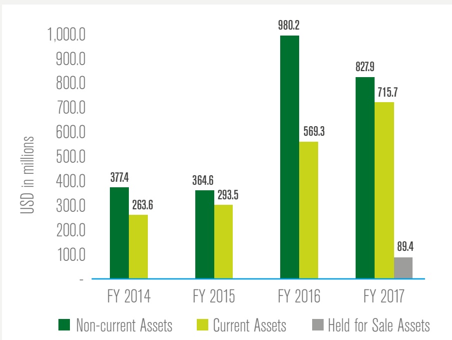

## Chart 2 : Sales Volume (and ASP)




## Chart 3 : Profitability




## Chart 4 : Asset Base



**Plantations** – Our plantation financial results recorded a gross profit margin of 28% for the sale of harvesting which is largely represented by Hevecam. The visibility of the latex from the point of tapping all the way to the customers through distribution outlets has also provided the management with better clarity on earnings.

**Processing** – Improved performance in 2017 was due to standardisation of operating protocols across the existing factories as well as the contributions of the assets from the acquisition of GMG Global and SINRIO. The improvement in earnings was also attributed to overall improvement in market environment, as well as a realisation of synergy post-merger.

**Distribution** – Traditionally a high volume business, our profitability has been eroded due to market volatility and market competition especially in the China market.

The above represents how the Group has been monitoring our operations up to 2017. Effective 1 January 2018, we have established our new operating structure and our financial results will be reported in this manner.

# Segmental Review – New Perspective

You would have read our introduction to the new operating structure at length in Chapter Four. The figures as shown on the right summarises our 2017 performance of the new segments.

A brief overview of performance by each segment is as follows:

**Global Non-Tyre & Specialty Tyre** – This segment is well positioned to capture the margin across the value chain all the way from plantation to distribution of the most premium grades of natural rubber. The unique proposition of low volume, high margin and high operating leverage means the business is highly scalable. One key priority in 2018 for this segment is to seek an avenue to unlock its value to our shareholders.

**Global Tyre Majors** – This segment is expected to capitalise on the strength of our leading position in the Indonesian market to generate consistent profit for the Group. Gross profit of USD142 per mT on the back of 2017's average selling price of USD1,695 per mT demonstrates the management's commitment to security of earnings by consistently locking raw material and processing margins, regardless of price levels. This segment is our main profit generator and our priority in 2018 is to continue investing in upgrading and upscaling of the factories and focus on improving operating efficiency.

**PRC Tyre Majors** – China, the world's single largest natural rubber market, brings about big supply and big demand and it also means it is a highly volatile market. Our 2017 results suffered due to margin compression by competitors. The management's key priority for this segment in 2018 is to improve margins by way of cost reduction as well as proactively managing our market price risk.

## Sales Volume

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | 248 k mT |
| Global Tyre Majors | 626 k mT |
| PRC Tyre Majors | 532 k mT |

## Revenue

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | US$ 421.3m |
| Global Tyre Majors | US$ 1,061.0m |
| PRC Tyre Majors | US$ 956.6m |

## Gross Profit

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | US$ 25.9m |
| Global Tyre Majors | US$ 88.7m |
| PRC Tyre Majors | US$ 25.9m |

## Operating Profit/(Loss)

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | US$ 9.2m |
| Global Tyre Majors | US$ 45.4m |
| PRC Tyre Majors | US$ (5.0)m |

## EBITDA

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | US$ 15.0m |
| Global Tyre Majors | US$ 57.9m |
| PRC Tyre Majors | Breakeven |

## Total Assets

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | US$ 915.5m |
| Global Tyre Majors | US$ 661.9m |
| PRC Tyre Majors | US$ 464.2m |

## Total Equity

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | US$ 443.0m |
| Global Tyre Majors | US$ 118.1m |
| PRC Tyre Majors | US$ 61.8m |

## Operating Return on Assets

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | 1.0% |
| Global Tyre Majors | 6.9% |
| PRC Tyre Majors | (1.1%) |

## Operating Return on Total Equity

| | |
|---|---|
| Global Non-Tyre & Specialty Tyre | 2.1% |
| Global Tyre Majors | 38.5% |
| PRC Tyre Majors | (8.1%) |

# Risk Management

Risk is intrinsic to our business and risk management is imperative to business sustainability. The Group proactively manages risks by embedding the risk management process into its planning, decision-making process, as well as its day-to-day operations. Our risk registers are reviewed continuously to ensure any necessary risk treatments are addressed and updated.

The risk registers are presented to the company's Audit Committee, highlighting significant risks, measures taken by the management and residual risk exposures that have an impact on the Group. Our risk management policy is enhanced on an ongoing basis to match the expanded scale and scope of our business.

## How We Manage Risk at Halcyon Agri

| Risk | Causes | Impact | Mitigation Measures |
|---|---|---|---|
| **Price Risk**<br>Fluctuations in the price of natural rubber and rubber products | Weather, currency movements, future market activities, market interventions, political and geopolitical disruptions | Exposure to price volatility directly impacts the Group's profitability | • Utilise different futures markets and physical markets to mitigate<br>• Daily reports on market positioning to facilitate management's decision-making process |
| **Credit and Counter Party Risk**<br>Customer defaults and counterparty's failure to meet contractual obligations | • Unforeseen operating challenges<br>• Inadequate screening of the customer and counterparty | • Customer defaults resulting in loss of revenue<br>• Breach of counterparty obligation resulting in additional costs | • Transact only with creditworthy customers or counterparties<br>• Periodic review of credit terms granted<br>• Credit insurance to protect against potential default |
| **Liquidity Risk**<br>Insufficient liquidity to consistently meet obligations as well as cater to changing business needs | Longer lead time for working capital as payment for raw materials purchase takes less than two weeks, while collection from customers takes months | Insufficient working capital resulting in inability of the Group to meet its obligations on time which impacts the Group's reputation | • Manage liquidity by matching fund's sources and usages<br>• Maintain sufficient headroom on unutilised committed banking facilities at all times |
| **Interest Rate Risk**<br>Fluctuation in interest rate for loans and borrowings | Macroeconomic outlook, currency movement, political and geopolitical disruptions | Interest rate hikes could increase the Group's financing costs, which would negatively impact the Group's results as well as liquidity | • Matching of cash availability with the repayment terms of facilities<br>• Actively monitor interest rate trends |
| **Foreign Exchange Risk**<br>Fluctuation in forex rates | The Group's reporting currency and sales are denominated in USD whereas the costs are denominated in local currency where the operations are located | Unfavourable movements in exchange rates resulting in FX losses | • Monitor exchange rate movements on an ongoing basis<br>• Employ hedging instruments to manage the exposure if required |
| **Biological Assets Risk**<br>Suboptimal performance of biological assets | Unpredictable planting/ replanting conditions (e.g. soil and weather conditions, plant diseases and pests) | Inefficient asset utilisation and lost profits as the Group would have to procure from third-party sources to make up for the suboptimal yield of existing trees | In-house team of experienced plantation staff, supported by the services of qualified professionals as required for planting/replanting matters |
| **Social and Political Risk**<br>Uncertainties in socio-economic and political climate | Socio-economic and political development (e.g. issues of labour laws, human rights, environmental protection) that have serious impact on local population | Improper management of such issues could tarnish the Group's reputation and cause disruption to operations | • Leverage the expertise and knowledge of local management and consultants to actively monitor the social and political risks<br>• Ensure effective risk mitigation measures are implemented in a timely manner |
| **Legal and Compliance Risk**<br>The Group operates in many different geographic locations with diverse cultures and local customs | Different legal and regulatory requirements in different geographies | Failure to comply with local laws and regulations may result in the Group being involved in litigations pertaining to claims and disputes | • Consult with internal and external legal advisors<br>• Proactively engage in discussions with local governments, regulators and industry leaders |

# Halcyon Global Village

The year 2017 saw an increased focus on sustainability in natural rubber. Some of our customers in the Global Tyre Majors business enacted sustainable natural rubber sourcing policies, and we expect all of the global tyre manufacturers to do the same in 2018.

Several industry groups such as the Chinese Chamber of Commerce of Metals, Minerals and Chemicals Importers & Exporters (CCCMC) and the Tire Industry Project (TIP) also took the initiative to tackle this complex subject. CCCMC came up with its own sustainable natural rubber policy guidelines, while TIP, which represents 11 of the major global tyre manufacturers, is currently conducting a study with the intent of making recommendations to its members.

The key issue of any sustainable natural rubber policy is the practicality of implementation with regards to the smallholder, who represent 90% of the supply of raw material to the tyre industry. World Wildlife Fund (WWF) estimates that there are about six million smallholders farming rubber throughout the world, and any policy must address the livelihood concerns of these farmers, individuals and families. The current market pricing of USD1,450 (at time of writing) does not even achieve minimum wage for the smallholder in Indonesia, the main geographic source of natural rubber for the global tyre industry. Unless these livelihoods are protected by allowing these farmers to earn at the very least, the minimum wage, the long-term supply of natural rubber will be under pressure due to the possibility of these farmers moving away from natural rubber into other more lucrative cash crops.

> "Our global footprint has created what we refer to as our "Halcyon Global Village". We respect the people in the communities in which we operate and the environment that is their livelihood. It is about empowering these communities and minimising the environmental impact."

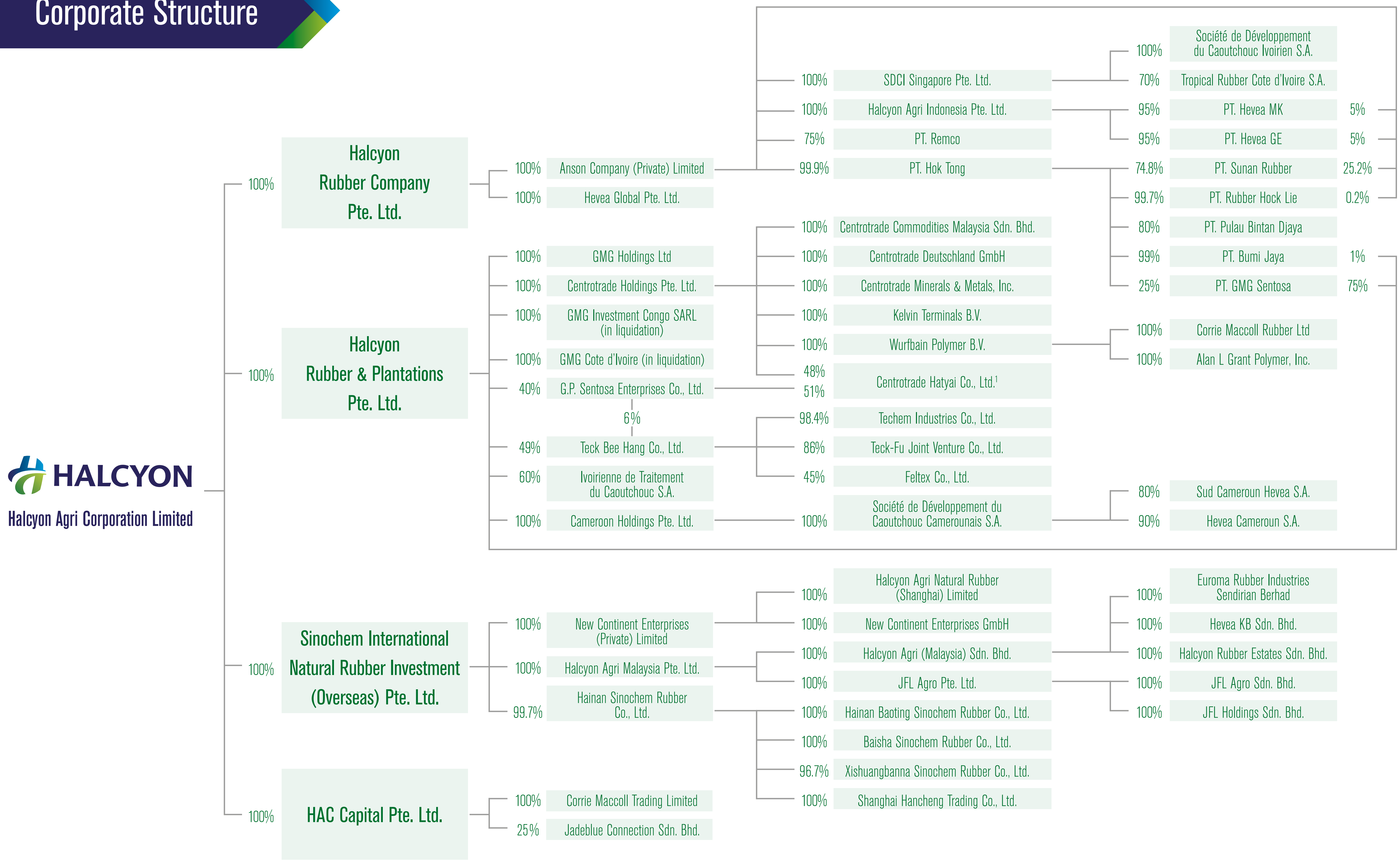
We have initiated several sustainable natural rubber programmes to help improve the livelihoods of the smallholders in our supply chain. From conducting training programmes for the community around our factories, to working with our customers and NGOs on specific programmes to improve the livelihoods of specific communities, and enacting Rubberway (an app for supply chain mapping for smallholders) with Michelin at six of our factories in 2017, we at Halcyon are committed to rolling out programmes and initiatives to tackle this complex issue.

For 2018, we are focusing our efforts on improving the traceability of natural rubber through our smallholder and agency networks, further rolling out Rubberway throughout Indonesia and Ivory Coast in our continued efforts to understand the issues facing our smallholders, and working with our customers and NGOs on specific sustainability programmes. Our 2017 Sustainability Report (soon to be published) will have more details.

If we can work together with the farmers, our customers and the NGOs, we can help the six million smallholders achieve a reasonable standard of living throughout the communities in which Halcyon operates.

HALCYON

# Corporate Structure




[1] 1% is owned by Centrotrade Commodities Malaysia Sdn. Bhd.

# Corporate Information

## Board of Directors

| | |
|---|---|
| Liu Hongsheng | (Non-Executive Chairman) |
| Robert Meyer | (Executive Director and CEO) |
| Pascal Demierre | (Executive Director) |
| Alan Nisbet | (Lead Independent Director) |
| Randolph Khoo | (Independent Director) |
| Liew Choon Wei | (Independent Director) |
| Raymond Ferguson | (Independent Director) |
| Wang Wei | (Non-Executive Director) |
| Jeremy Goon | (Independent Director) |
| Qin Jinke | (Non-Executive Director) |

## Audit Committee

| | |
|---|---|
| Alan Nisbet | (Chairman) |
| Randolph Khoo | |
| Liew Choon Wei | |
| Pascal Demierre | |

## Remuneration Committee

| | |
|---|---|
| Liew Choon Wei | (Chairman) |
| Alan Nisbet | |
| Randolph Khoo | |
| Pascal Demierre | |

## Nominating Committee

| | |
|---|---|
| Randolph Khoo | (Chairman) |
| Alan Nisbet | |
| Liew Choon Wei | |

## Strategy and Investment Committee

| | |
|---|---|
| Liu Hongsheng | (Co-Chairman) |
| Raymond Ferguson | (Co-Chairman) |
| Alan Nisbet | |
| Robert Meyer | |

## Company Secretary

Liew Guat Yi

## Registered Office

250 North Bridge Road
#12-01 Raffles City Tower
Singapore 179101
Tel: +65 6430 9270
Fax: +65 6430 9272

## Corporate Headquarters

180 Clemenceau Avenue
#05-02 Haw Par Centre
Singapore 239922
Tel: +65 6460 0200
Fax: +65 6440 0417

## Auditor

Ernst & Young LLP
One Raffles Quay
North Tower Level 18
Singapore 048583
Tel: +65 6535 7777
Fax: +65 6532 7662
Partner-in-charge: Lee Lai Hiang
(since financial year ended 31 Dec 2014)

## Principal Bankers

China Construction Bank Corporation
DBS Bank Ltd
United Overseas Bank
Deutsche Bank AG
Bank of China
PT Bank Central Asia
Afriland First Bank
BNP Paribas
Rabobank International
ING Bank N.V.
Industrial and Commercial Bank of China
Banque Internationale Du Cameroun Pour L'epargne Et Le Credit

# Corporate Governance Report

Halcyon Agri Corporation Limited (the "Company" or "HAC" and together with its subsidiaries, the "Group") continues to pursue sustainable development by adopting a business approach that focuses on creating and maximising long-term shareholder value, and emphasis on the interests of its stakeholders. We believe that a high standard of corporate governance is the answer to corporate sustainability. The Company, its board of directors (the "Board") and its management are committed, and devoted, to discovering new ways of creating and adding value to the Group, through a high standard of corporate governance practices within the Group.

This report describes the Group's ongoing efforts on observing the corporate governance framework, and the practices implemented throughout the financial year ended 31 December 2017 ("FY2017"). The Board is pleased to report that the Group has adhered to all material principles and guidelines of the Code of Corporate Governance 2012 (the "Code"), the disclosure guide developed by the Singapore Exchange Securities Trading Limited ("SGX-ST") in January 2015, together with other applicable laws, rules and regulations, including the Listing Manual (the "Listing Rules") of the SGX-ST.

The disclosure of corporate governance framework and practices in this report has been approved by the Board. To provide shareholders of the Company (the "Shareholders") a quick access to particular area(s) of interest, a summary disclosure on the Company's compliance with the Code can be found on pages 62 to 64 of this annual report.

## KEY FEATURES OF THE BOARD

### Overview of Board Composition

**1 Non-executive Non-independent Chairman**
- Liu Hongsheng

**2 Executive Directors**
- Robert Meyer
- Pascal Demierre

**5 Independent and Non-executive Directors (the "Independent Directors")**
- Alan Nisbet
- Randolph Khoo
- Liew Choon Wei
- Raymond Ferguson
- Jeremy Goon

**2 Non-executive and Non-independent Directors**
- Wang Wei
- Qin Jinke

- Separation of the role of Chairman and Chief Executive Officer ("CEO")
- Chairman and CEO are not related to each other nor of the same immediate family
- Independent Directors make up 50% of the Board
- No Director has served for more than nine (9) years
- Diversity of skills, knowledge and broad range of experience – the Board comprises Directors ranging from lawyers, retired audit firm partners, a finance industry veteran, an experienced sustainability officer from public listed agricultural business and Directors who have years of experience in formulating corporate strategy and have in-depth knowledge of the rubber business
- Collectively they possess extensive regional experience in multiple countries
- None of the Directors hold more than six (6) directorships (without other executive roles) or four (4) directorships (with other executive roles) in listed companies
- No alternate directors appointed
- Each Director has been submitted for re-nomination and re-appointment at least once during the past three (3) years

# Corporate Governance Report

## Overview of Board Committees

| Board Committee | Composition | Key Areas of Oversight Delegated to it by the Board (Not exhaustive) |
|---|---|---|
| Audit Committee ("AC") | **Four (4) members:**<br>• Alan Nisbet (Chairman)<br>• Randolph Khoo<br>• Liew Choon Wei<br>• Pascal Demierre<br>Three (3) out of four (4) members are Independent Directors | • Financial reporting<br>• Internal and external audits processes<br>• Interested person transactions<br>• Risk management and internal controls<br>• Whistleblowing arrangements |
| Nominating Committee ("NC") | **Three (3) members:**<br>• Randolph Khoo (Chairman)<br>• Alan Nisbet<br>• Liew Choon Wei<br>All members are Independent Directors | • Appointment and re-appointment of Directors and key management personnel<br>• Performance of the Board<br>• Board and Director independence<br>• Board orientation and training |
| Remuneration Committee ("RC") | **Four (4) members:**<br>• Liew Choon Wei (Chairman)<br>• Alan Nisbet<br>• Randolph Khoo<br>• Pascal Demierre<br>Three (3) out of four (4) members are Independent Directors | • Remuneration policies and framework<br>• Remuneration for executive Directors and key management personnel<br>• Remuneration for non-executive Directors |
| Strategy and Investment Committee ("StraCom") | **Four (4) members:**<br>• Liu Hongsheng (Co-Chairman)<br>• Raymond Ferguson (Co-Chairman)<br>• Alan Nisbet<br>• Robert Meyer<br>Two (2) out of four (4) members are Independent Directors | • Development and strategy direction<br>• Major investment or divestment plans<br>• Capital and assets management |

# Corporate Governance Report

## Key Information of Director

| DIRECTOR<br>• Age<br>• Position and Appointment date<br>• Last re-elected date (if applicable)<br>• Present and past three (3) years Directorships in other listed companies (if any) | MEETING ATTENDANCE (1 January to 31 December 2017) | | | | | | TOTAL REMUNERATION (SGD) (FY2017) | | |
|---|---|---|---|---|---|---|---|---|---|
| | General Meeting | Board | AC | NC | RC | Stra-Com | Basic/ Fixed Salary | Directors' Fee | Other Variable |
| (Number of scheduled meetings held) | 1 | 4 | 4 | 1 | 1 | 1 | | | |
| **Liu Hongsheng**<br>• 52<br>• Non-executive Non-independent Chairman since 16 January 2017<br>• Last re-elected on 28 April 2017<br>• Executive Director of Sinochem International Corporation Co., Ltd. | 1 | 4 | – | – | – | 1 | **Total: 106,083**<br>NA[3] | 106,083 | NA[3] |
| **Robert Meyer**<br>• 45<br>• Executive Director and CEO since 8 July 2010<br>• Last re-elected on 28 April 2017 | 1 | 4 | 2[1] | 1 | – | 1 | **Total: 3,374,455**<br>900,000 | NA[2] | 2,474,455 |
| **Pascal Demierre**<br>• 45<br>• Executive Director since 8 July 2010<br>• Last re-elected on 26 April 2016<br>• Independent Director of The Hour Glass Limited | 1 | 4 | 4 | 1[1] | 1 | – | **Total: 1,587,921**<br>660,000 | NA[2] | 927,921 |

## Key Information of Director

| DIRECTOR<br>• Age<br>• Position and Appointment date<br>• Last re-elected date (if applicable)<br>• Present and past three (3) years Directorships in other listed companies (if any) | MEETING ATTENDANCE (1 January to 31 December 2017) | | | | | | TOTAL REMUNERATION (SGD) (FY2017) | | |
|---|---|---|---|---|---|---|---|---|---|
| | General Meeting | Board | AC | NC | RC | Stra-Com | Basic/ Fixed Salary | Directors' Fee | Other Variable |
| | (Number of scheduled meetings held) | | | | | | | | |
| | 1 | 4 | 4 | 1 | 1 | 1 | | | |
| **Alan Nisbet**<br>• 67<br>• Lead Independent Director since 7 January 2013<br>• Last re-elected on 26 April 2016<br>• Independent Director of KrisEnergy Ltd, Standard Chartered Bank (Singapore) Limited, Ascendas Property Fund Trustee Pte Ltd (trustee-manager of Ascendas India Trust) and Keppel REIT Management Limited (manager of Keppel REIT) | 1 | 4 | 4 | 1 | 1 | 1 | **Total: 107,125**<br>NA(3) | 107,125 | NA(3) |
| **Randolph Khoo**<br>• 54<br>• Independent Director since 7 January 2013<br>• Last re-elected on 23 April 2015 | 1 | 4 | 4 | 1 | 1 | – | **Total: 85,250**<br>NA(3) | 85,250 | NA(3 |
| **Liew Choon Wei**<br>• 64<br>• Independent Director since 1 October 2014<br>• Last re-elected on 28 April 2017<br>• Independent Director of F J Benjamin Holdings Ltd, The Hour Glass Limited, Frasers Hospitality Asset Management Pte Ltd (manager of Frasers Hospitality Real Estate Investment Trust) and Frasers Hospitality Trust Management Pte Ltd (trustee-manager of Frasers Hospitality Business Trust) | 1 | 3 | 3 | 1 | 1 | – | **Total: 84,250**<br>NA(3) | 84,250 | NA(3) |

# Corporate Governance Report

## Key Information of Director

| DIRECTOR<br>• Age<br>• Position and Appointment date<br>• Last re-elected date (if applicable)<br>• Present and past three (3) years Directorships in other listed companies (if any) | MEETING ATTENDANCE (1 January to 31 December 2017) | | | | | | TOTAL REMUNERATION (SGD) (FY2017) | | |
|---|---|---|---|---|---|---|---|---|---|
| | General Meeting | Board | AC | NC | RC | Stra-Com | Basic/ Fixed Salary | Directors' Fee | Other Variable |
| | (Number of scheduled meetings held) | | | | | | | | |
| | 1 | 4 | 4 | 1 | 1 | 1 | | | |
| **Raymond Ferguson**<br>• 55<br>• Independent Director since 15 November 2016<br>• Last re-elected on 28 April 2017 | 1 | 4 | – | 1[(1)] | 1[(1)] | 1 | **Total: 60,250** | | |
| | | | | | | | NA[(3)] | 60,250 | NA[(3)] |
| **Wang Wei**<br>• 39<br>• Non-executive Non-independent Director since 3 May 2017 | – | 3 | – | – | – | – | **Total: 36,333** | | |
| | | | | | | | NA[(3)] | 36,333 | NA[(3)] |
| **Jeremy Goon**<br>• 46<br>• Independent Director since 2 November 2017 | – | 1 | – | – | – | – | **Total: 9,333** | | |
| | | | | | | | NA[(3)] | 9,333 | NA[(3)] |
| **Qin Jinke**<br>• 48<br>• Non-executive Non-independent Director since 1 January 2018 | – | – | – | – | – | – | **Total: Nil** | | |
| | | | | | | | Nil | Nil | Nil |
| **Li Dajun**<br>• 54<br>• Executive Deputy Chairman for the period from 15 November 2016 to 31 December 2017 | 1 | 4 | – | – | – | – | **Total: 667,577** | | |
| | | | | | | | 660,000 | NA[(2)] | 7,577 |

*Notes:*
*(1) Attendance by invitation*
*(2) Executive Directors are not paid director's fee*
*(3) Non-executive Directors are not paid salary, allowance and bonus*

The aggregate remuneration of S$488,624 paid to the non-executive Directors (the "Directors' Fees") for FY2017 is within the threshold limit of S$750,000 approved by Shareholders on 28 April 2017. The Directors' Fees were remunerated according to the Directors' Fee structure disclosed in the annual report for the financial year ended 31 December 2016.

Remuneration of each of the executive Directors comprising basic salary as well as a variable bonus that is computed based on the Group's consolidated profit before tax, is subject to review by the RC and the Company's Board, and is paid in accordance with his service agreement with the Company.

The profile of each Director (including academic and professional qualifications) is presented in this annual report under the section "Our Board of Directors". For shareholdings of Directors in the Company and its related corporations (if any), please refer to page 66 of this annual report.

# Corporate Governance Report

## BOARD MATTERS

The Company's Board is effective, comprising professionals with a broad range of experience and industry expertise, who discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company. The Board recognised the importance of value creation, innovation and sustainability and has embedded them in setting the strategic objectives of the Company.

### The Board's Conduct of Affairs

**Duties of the Board.** The principal functions of the Board are to:

(a) oversee the business performance and affairs of the Group and provide entrepreneurial leadership;

(b) set the strategic direction for the Group, maintain the policy and decision making framework in which the strategy is implemented;

(c) supervise, monitor and review the function and performance of the Group's management and ensure that necessary financial and human resources are in place for the Company to meet its objectives;

(d) review and approve annual budgets, financial plans, major acquisitions and divestment plans, funding and investment proposals;

(e) ensure compliance with relevant laws and regulations and the adequacy of internal controls, risk management and financial reporting;

(f) review and approve the appointment of Directors and key management personnel; and

(g) promote sustainable development.

**Delegation of Authority.** The Board capitalises on the expertise of Independent Directors and benefits from delegating certain functions and authority of the Board to the four (4) board committees, namely, the AC, NC, RC and StraCom (collectively the "Board Committees"). Each Board Committee functions within clearly defined formalised terms of references which have been approved by the Board. While these Board Committees are tasked with certain responsibilities, all major decision-making remains the ultimate responsibility of the Board as a whole. Except for a co-chairman of StraCom who is not an independent Director, all other Board Committees (AC, NC and RC) are led by an Independent Director, to encourage independent oversight and enable the Board to discharge its obligations more effectively. Detailed functions and involvements of the Board Committees are described on pages 52 to 60 of this annual report.

The Board embraces the principle of empowerment - that governance and management are more effective and efficient when they are separated. Executive Directors and the management of the Group (collectively, the "Management") are responsible for the day-to-day management, operation and administration of the Group, and are accountable to the Board for their performance.

During the year, the Board approved and adopted a written Policy on Board Delegations of Authority (the "Delegation Policy"). The Delegation Policy is aimed at balancing the need for empowering and devolving decision-making to appropriate levels for operational efficiency and ensuring that proper systems of control are in place. The Delegation Policy serves as the internal framework and mechanism by which the Board delegates specific standing powers and limits of authority to specified positions, and provides clear directions to Management on matters that must be approved by the Board. Material transactions, including but not limited to the matters set out below, are reserved for the Board's decision and approval:

(a) overall Group business and budget strategies;

(b) capital expenditures, investments or divestments exceeding certain material limits;

(c) all capital-related matters including capital issuance and redemption;

(d) significant policies governing the operations of the Company;

(e) corporate strategic development and restructuring;

(f) material interested person transactions which fall within the meaning of the Listing Rules; and

(g) risk management strategies.

All major approvals are reserved for the Board's decision in consultation with the Board as a whole, without any individual or group of individuals exercising any considerable concentration of power or influence, or being allowed to dominate the Board's decision making.

**Board Meetings.** Four (4) meetings were scheduled and held at regular intervals in FY2017 to review, among others, the Group's financial performance, annual budget, corporate strategy, business plans, potential acquisitions, risk management policies, executive remuneration and significant operational matters. Besides the scheduled Board meetings, the Board meets on an ad-hoc basis as warranted by particular circumstances, including meeting candidates for appointment as Directors of the Company as well as to discuss and receive updates from Management on the development of acquisitions that took place during the year.

The Chairman oversees the setting of Board meeting agendas and Directors are encouraged to propose any topic that is deemed appropriate to be discussed. Draft meeting agendas are circulated to the Chairmen of the Board and Board Committees in advance for comments, to ensure that all material topics are attended to.

To ensure meetings are held with maximum Director participation, all Board meetings are planned and scheduled in advance after consultation with Directors. In addition, Directors who are not able to be present physically in the Board meetings may participate in the Board and Board Committee meetings by telephonic conference, as permitted under the Company's Constitution (the "Constitution"). The Constitution also provides that the Board may make decisions and grant approval by way of written resolutions. A list of written resolutions approved by the Board and Board Committees is compiled and circulated during Board and Board Committee meetings. In the event any member of the Board or Board Committees has an interest in a matter being deliberated upon by the Directors, he will recuse himself from the discussion and abstain from participating in the approval process relating to that matter.

In line with the Company's commitment to business sustainability, conservation of the environment and technological advancement, the Board has done away with voluminous hard-copy Board papers since 2014 and continues to employ board portal technologies to facilitate meeting proceedings. All materials for Board and Board Committees meetings are provided in a timely manner and uploaded onto the encrypted, secure board portal which is readily accessible on Directors' tablet devices, laptops or desktop computers. The board portal enhances effectiveness in the boardroom and helps to improve information flow to and amongst Board members.

The record of Directors' attendance at the Board and Board Committee meetings for FY2017 is set out in pages 47 to 49 of this annual report.

**Board Access to Information.** Relevant documents and information relating to meeting agenda items, including background and explanatory statements, financial statements, budgets, forecasts and progress reports of the Group's business operations and internal audit reports are circulated at least one week prior to each Board and/or Board Committee meeting through the board portal, to allow sufficient time for Directors to comprehensively understand the issues to be deliberated upon and make informed decisions thereon. Senior management personnel who can provide additional insights into the matters at hand, if required, will be invited to attend the meetings to address queries from the Directors. Monthly summaries of the Group's performance, financial position, market environment, corporate activities and prospects are provided to the Board, to ensure that Directors are fully cognisant of the decisions and actions of Management.

Directors have direct access to the Management, and each member of the Board may request for information regarding the Group that is required for the discharge of his duties and responsibilities. The Directors also have separate and independent access to the Company Secretary at all times. The Company Secretary or her colleague attends all Board and Board Committees meetings to ensure that Board procedures are followed and that the applicable rules and regulations are complied with. The Company Secretary also ensures good information flow within the Board and Board Committees, and between Management and the Independent Directors. The appointment and removal of the Company Secretary are subject to the approval of the Board as a whole.

Where necessary, a Director may also seek independent legal and other professional advice concerning any aspect of the Group's operations or undertakings at the Company's expense.

## Board Composition and Balance

**Board Composition.** The Board's size has gradually increased since it was listed on the SGX-ST in February 2013, in conjunction with the growth of the Group's business under its expansion strategy. It presently consists of ten (10) members: a non-executive non-independent Chairman, two (2) executive Directors, five (5) Independent Directors and two (2) non-executive non-independent Directors. A majority of the Board comprise Directors with no management or business relationship with the Company. The requirement of the Code that mandates independent directors constituting at least 50% of the board of directors for companies where, amongst others, the chairman of the board is not an independent director, is also met. There is a strong and independent element on the Board, with the Independent Directors constructively challenging and independently assisting in developing proposals on strategies. The Board continued to function effectively during the year and was able to exercise objective judgement on corporate affairs independently.

The Company has a well-diversified Board which consists of a pool of qualified Directors with different or diverse educational backgrounds, professional qualifications, business experiences, age and ethnicity, comprising longtime audit partners retired from CPA firms, a finance industry veteran, senior lawyers, an experienced sustainability officer from public listed agricultural business and Directors who have years of experience in formulating corporate strategy and with in-depth knowledge of the rubber business. While there have been many rigorous studies of board gender diversity which suggest that the average correlation between board gender diversity and a company's market performance is relatively small, the Board recognises the potential benefits of gender diversity in the boardroom and welcomes female directors on board. The Board continues to actively review any opportunity to appoint credible and suitable female board members.

Taking into account the scope and nature of the Group's operations as well as its strategic direction, the Board is satisfied that it is of an appropriate size for effective decision-making, has the right mix of expertise and collectively possesses the necessary core competencies in diverse areas including accounting, finance, law, business and management, strategic planning and global business experience, for the Board to effectively discharge its duties. Notwithstanding this, the Board will regularly and continually review its structure, size and composition and plan for new appointments to the Board where it deems it necessary or appropriate to do so.

## Chairman and Chief Executive Officer

**Separation of the Role of Chairman and the CEO.** There is a clear division of responsibilities between the leadership of the Board and the executive responsible for managing the Company's business. The roles of Chairman and the CEO who leads the management team, are held by separate persons. The Chairman and CEO are not related to each other nor of the same immediate family. The two (2) key roles have disparate responsibilities and functions, but complement each other in the overall objective of creating value for Shareholders, and play vital roles in providing the Group with strong leadership and vision.

As the Chairman of the Board, Mr Liu Hongsheng is responsible for leading all general meetings and Board meetings, and steering effective, productive and comprehensive discussions between members of the Board and Management on strategic, business and other issues pertinent to the Group, as well as ensuring effective communication with Shareholders and other stakeholders. The Chairman takes a leading role in the Company's drive to achieve and maintain a high standard of corporate governance with the support of the Board, Management and Company Secretary.

Mr Robert Meyer, the CEO since 2013, has developed the Group's business to become a well-diversified, leading industrial operator in the natural rubber industry, with activities that span the globe. He possesses in-depth industry knowledge and understands the current market, which supports the formulation of the Group's strategic direction. Assisted by the management team, the CEO oversees the day-to-day management, leads and implements all major initiatives (such as expansion related strategies, acquisitions and capital investments of the Group), and plays an instrumental role in developing and growing the business of the Group.

**Lead Independent Director.** Mr Alan Nisbet has been the Lead Independent Director since 2013 and continues to avail himself to address Shareholders' concerns and acts as a counter-balance in the decision-making process. The Lead Independent Director will convene and chair meetings with Independent Directors without the involvement of the Management, at least once a year, to aid and facilitate provision of well-balanced viewpoints to the Board, in order to enhance the capacity of the Board for independent decision making. The Board believes that meetings between the Independent Directors who do not hold executive positions in the Group will encourage and promote greater openness in reviewing the performance of Management.

## Board Membership and Performance Evaluation

The NC comprises three (3) members and has been chaired by Mr Randolph Khoo since its inception. All members of the NC (including its chairman) are Independent Directors. The Lead Independent Director, Mr Nisbet, is also a member of the NC. Mr Li Dajun was a NC member (in place of Mr Meyer) from 27 February 2017 until his departure on 31 December 2017. The NC makes as well as reviews recommendations to the Board on all nominations for appointments and re-appointments to the Board, the appointment of key management personnel, and is responsible for the annual evaluation of Board performance.

The NC functions within clearly written terms of reference approved by the Board and its principal activities are as follows:

**Board Appointment and Composition.** The process of nomination starts with the review of the structure, size and composition of the Board to identify the balance of skills, knowledge and experience required for the Board to discharge its responsibilities effectively. Where appropriate, or if circumstances suggest that additional skills or experience is required and that a new appointment is beneficial to the Board, the NC will propose a new appointment or review and evaluate the competencies of candidates proposed by the Management. The NC has a formal and written guide to conduct due diligence checks to assess the suitability of a candidate for appointment as a Director of the Company. The evaluation of Board appointments takes into consideration, among others, the ability of prospective candidates to contribute to discussions, deliberations and activities of the Board as well as the balance of Independent Directors on the Board, to ensure any new director fulfils the needed and desired competencies, and supplements the Board's existing attributes. Each appointment of a new Director as well as key management personnel which has been recommended by the NC will be deliberated by the Board as a whole, and the Board has the sole authority to approve a new appointment. The Constitution also spells out the procedures for the appointment of new Directors, along with the re-election and removal of Directors.

The NC is also tasked to recommend and review succession plans for the Company's Directors and senior management, in particular for the Chairman and CEO. The Company integrates executive development programs into CEO and senior management succession planning, and builds talent internally through training, so that the best internal candidates are identified early and flagged at the Board level. Where necessary or appropriate, the NC may tap on its networks and/or engage external professional headhunters to assist with identifying and shortlisting candidates. The NC can also approach relevant institutions such as the Singapore Institute of Directors, professional organisations or business federations to source for suitable candidates.

**Review of Board Independence.** The NC reviews and determines whether a Director is independent on an annual basis, and as and when circumstances require. Each of the Independent Directors is required to submit a declaration form confirming that he is to be considered as independent under the guidelines set out in the Code. Taking into consideration the declarations submitted by the Independent Directors, as well as the length that the Director has served on the Board, the NC has determined that each of the Independent Directors is independent in conduct, character and judgement, and has no relationship with the Company, its related corporations, its substantial shareholders or its officers, and there has been no element that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment in the best interests of the Group. It was also noted that none of the members of the Board have served for a continuous period of nine (9) years or more, and none of them or their family members received significant payment from or provided material services to the Group, in FY2017 or in any of the past three (3) financial years.

# Corporate Governance Report

**Board Orientation and Training.** The NC oversees and makes recommendations to the Board for training and professional development programs available to Directors, as well as induction for newly appointed Directors. A Policy on Induction of New Directors (the "Induction Policy") setting out a formal induction process which applies to Directors who are appointed to the Board for the first time, is in place. The Induction Policy serves to ensure that new Directors gain an understanding of his or her role as a Director of the Company, as well as the framework within which the Group operates, including information about the Group, its operations, business, practices, governance systems and all other details necessary to enable the new Director to perform his or her roles. A formal letter of appointment setting out the duties and obligations of a Director and the time commitment required, is issued to each newly appointed Director.

The induction programme is tailored for each new Director (depending on his or her requirements, skills, qualifications and experience) and will, as a minimum, include an arrangement for a new Director who has no prior experience as a director of a listed company to attend relevant training to familiarise himself or herself with the roles and responsibilities of a director of a public listed company, such as seminars conducted by the Singapore Institute of Directors. New Directors would be offered the opportunity to visit the Group's major operational sites and meet with any of the senior executives of the Group.

As part of the Company's continuing efforts to keep the Directors abreast of changes to the regulatory environment and to refresh their knowledge and skills, Directors are also encouraged to attend, at the Company's expense, courses which are relevant to the Directors in discharging their roles and responsibilities. The list of available seminars and courses is circulated to Directors through the board portal. Reading materials in connection with professional developments and applicable regulatory updates or amendments to relevant laws, rules and regulations are also disseminated to Directors through the board portal. Comprehensive and useful information covering the duties and obligations of a Director, terms of reference of Board Committees, Group business activities, strategic directions, policies and key areas of operations of the Group, are also provided in the resource centre under the board portal, and is accessible to all Directors.

The CEO and Management regularly update the Board and provide insights on business and strategic developments at meetings. The Group's external auditors, Ernst & Young LLP, regularly brief the AC members on changes to and new developments of accounting and reporting standards.

**Commitment to the Board.** Directors of the Company are required to notify the Board of any new appointment of directorships to listed companies or other executive commitments, for the Board or NC to consider and to evaluate whether such Director is able to and has adequately carried out his duties as a Director of the Company.

To ensure that each Director is able to devote sufficient time and attention to carrying out his role in accordance with his duties, the Board has determined that the maximum number of listed company board representations each Director of the Company is allowed to hold is as follows:

(a) directorships without other executive roles – Six (6)
(b) directorships with other executive roles – Four (4)

**Rotation and Re-election of Directors.** At each annual general meeting ("AGM"), Directors constitution not less than one-third of the Board are required to retire from office by rotation, and a Director shall submit himself for re-nomination and re-election at regular intervals of at least once every three (3) years. These requirements are clearly stated in the Company's Constitution and Mr Pascal Demierre, Mr Nisbet and Mr Khoo, being Directors who have been longest in office since their last election, will submit themselves for re-nomination and re-election at the forthcoming AGM.

Directors appointed after the Company's AGM in 2017, namely Mr Wang Wei, Mr Jeremy Goon and Mr Qin Jinke, shall hold office only until the forthcoming AGM. Pursuant to the Constitution, they are eligible and will submit themselves for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at the forthcoming AGM.

Each of the Directors subjected to re-election at the forthcoming AGM has abstained himself from making any recommendation and/or participating in any deliberation in respect of the assessment of his own re-election as the Directors. At the recommendation of the NC and with the approval of the Board, resolutions for the re-appointment of Mr Wang, Mr Goon, Mr Qin, Mr Demierre, Mr Nisbet and Mr Khoo as Directors of the Company will be tabled at the forthcoming AGM for Shareholders' approval.

The NC has reviewed and noted that Mr Nisbet, Mr Khoo and Mr Goon, being Independent Directors, do not have any relationship including immediate family relationships with the other Directors, the Company or its substantial shareholders, and they will be considered independent for the purposes of Rule 704(7) of the Listing Rules (where applicable).

Each of the Directors subject to re-election at the forthcoming AGM, will, upon re-appointment as a Director, hold the same office in the Board and Board Committees immediately held before his re-appointment.

Each member of the Board has submitted himself for re-nomination and re-appointment at least once, during the past three (3) years.

**Board Performance Evaluation.** The NC continues to take charge of the annual assessment of the effectiveness of the Board as a whole and its Board Committees, as well as the contribution by each Director to the effectiveness of the Board. The performance of the Board is assessed by the NC on its overall effectiveness in accomplishing its goals and discharging its responsibilities based upon the following criteria:

(a) Board size and composition;

(b) Board governance processes;

(c) Board information and accountability;

(d) Board's performance in relation to discharging its principal functions;

(e) where practical, financial references which include return on capital employed, return on equity, debt/equity ratio, dividend pay-out ratio, economic value added, earnings per share, and total shareholder return (i.e. dividend plus share price increase over the year); and

(f) Board Committee performance and effectiveness in relation to discharging their responsibilities set out in their respective terms of reference.

A formal evaluation questionnaire was tabulated and circulated to all Directors via the board portal, for Directors to rate and provide feedback on the performance of the Board and where appropriate, the Board Committees for FY2017. The assessment provides insights into the functioning of the Board, whilst identifying areas that might need strengthening and development. Directors are invited to provide their views and suggestions for any specific areas where improvements may be made to improve Board effectiveness. Each Director is also encouraged to complete a self-assessment form to assess his individual contributions to the effectiveness of the Board, which may aid awareness or function as an indicator for any training required.

The findings of the Board evaluation (including feedback and comments received from the Directors) are analysed and discussed by the NC, in consultation with the Chairman of the Board to identify areas for improvement and to further enhance the effectiveness of the Board. The Board will then review feedback from the NC collectively and will decide and agree on action plans.

Following the review for FY2017, the NC and the Board are satisfied that each Director has been devoting sufficient attention and has contributed to the overall effectiveness of the Board, and that the Board and its Board Committees operate effectively and have met their respective performance objectives. Notwithstanding that certain Directors have multiple board representations, these multiple directorships are not in conflict with the interests of the Company, and are within the maximum number of listed company board representations each Director of the Company is allowed to hold. No external facilitator was used in the evaluation process.

### Strategy and Investment Committee

The StraCom consists of four (4) members, co-chaired by the Board's Chairman, Mr Liu and an Independent Director, Mr Raymond Ferguson. StraCom's governing processes, duties and responsibilities have been documented under written terms of reference approved by the Board in FY2017. StraCom supports the Board in the following areas:

(a) defining and monitoring the Company's strategic direction;

(b) reviewing and evaluating significant capital deployment and asset management; and

(c) working with the Management to oversee and review significant strategic decisions as well as major investment or divestment plans.

## REMUNERATION MATTERS

The Company's remuneration policy seeks to drive business strategy and create long-term shareholder value by attracting and motivating employees who are committed to long-term career growth with the Company. Oversight of the Group's remuneration matters including the remuneration policy is the key function of the RC. The RC ensures that the remuneration framework is in line with the Group's business strategy, objectives, values and long-term sustainability of the business. The RC promotes transparency of the remuneration setting process and recommends specific remuneration packages for each executive Director and the CEO (or executives of equivalent rank) as well as key management personnel. When recommending senior management's remuneration structure, the RC aims to align the interests of such individuals with the interests of Shareholders. The remuneration of each individual Director is explicitly disclosed on a named basis, on pages 47 to 49 of this annual report.

### Remuneration Committee

The RC is chaired by an Independent Director, Mr Liew Choon Wei, and comprises Mr Nisbet, Mr Khoo and Mr Demierre. The RC is of the view that an executive Director would have a better understanding of the job duties and levels of responsibilities for each senior executive, and including an executive Director on the RC is valuable in ensuring that the remuneration packages are commensurate with the job duties and responsibilities of senior executives. Retaining an RC member who is also in an executive position will not lead to a conflict of interest or impede the independence of the RC as no Director or member of the RC is allowed to participate in the deliberation, and has to abstain from voting on any resolution, relating to his own remuneration or that of employees related to him.

The key responsibilities and authorities of the RC are as follows:

**Developing Group Remuneration Policies.** The RC is responsible for recommending the terms of the Group's long-term incentive plans, severance policies and for agreeing individual remuneration packages for the Board and key management personnel. In respect of long-term incentive schemes (if any, including share schemes as may be implemented), the RC is responsible for considering whether Directors should be eligible for benefits under such long-term incentive schemes. Any recommendation of the RC will be submitted for approval by the entire Board. The Board is ultimately accountable for all remuneration decisions.

# Corporate Governance Report

The RC considers all aspects of remuneration (including directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, benefits in kind and termination clauses and payments) and aims to be fair and avoid rewarding poor performance. It may from time to time, and where necessary or required, seek advice from external consultants in framing its remuneration policy and determining the level and mix of remuneration for Directors and key management personnel, so that the Company remains competitive. The Company has engaged Mercer (Singapore) Pte Ltd ("Mercer"), an independent professional firm to benchmark the remuneration of the CEO, Executive Director and Chief Financial Officer ("CFO") for FY2017 against comparable peer groups. Mercer is also tasked to review the setting of key performance indicators for the Company's senior management. Save for the aforementioned assignments, Mercer does not have any other relationship with the Company and its independence and objectivity are not affected.

Where applicable, the RC will also review annually the remuneration of employees related to the Directors, the CEO and substantial shareholders to ensure that their remuneration packages are in line with the staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. The RC will also review and approve any bonuses, pay increases and/or promotions for these employees.

Other than the service contracts for the CEO and the Executive Director, the Company currently does not impose contractual provisions to reclaim incentive components of remuneration paid in prior years in the service agreements or employment agreements of the key management personnel. Notwithstanding this, the Company is not precluded from exercising the right to reclaim such incentives in exceptional circumstances of misstatement of financial results or of misconduct resulting in financial loss to the Group.

**Agreeing the Level and Mix of Remuneration.** The key considerations of the RC in recommending the level and mix of remuneration are:

(a) to link rewards with performance and offer appropriate remuneration and employment conditions to build, motivate and retain Directors, key management personnel and talent;

(b) to align the interests of Directors and key management personnel with the interests of Shareholders; and

(c) country-specific practices including the pay and employment conditions within the industry.

Remuneration framework to determine specific remuneration packages for the Directors and key management personnel, including the CEO, were reviewed and discussed in the RC meeting. In its recommendation on the remuneration package to the Board, the RC had taken into consideration the strategic direction of the Group, industry practice and benchmarks against relevant industry players to ensure that adequate and competitive remuneration policies and practices are in place to draw in and motivate high-performing executives. Specific remuneration packages for each Director and key management personnel in respect of FY2017 have been approved by the Board.

**Remuneration of Non-executive Directors.** Directors' Fees - which comprise a basic fee and attendance fees, are reviewed annually by the RC to benchmark such fees against the amounts paid by other listed companies of similar size. No changes were proposed to the Directors' Fees structure, and the Directors' Fees structure for the financial year ending 31 December 2018 ("FY2018") remains the same as FY2017, and is as follows:

| | Basic Fee per annum (SGD) | | | | | Attendance Fee (SGD) |
|---|---|---|---|---|---|---|
| Position | Board | Audit Committee | Nominating Committee | Remuneration Committee | Strategy and Investment Committee | Board and Board Committees |
| Chairman | 100,000 | 37,500 | 12,500 | 12,500 | 6,250 | 1,000 for each day of attending any Board or Board Committee meeting |
| Member | 50,000 | 12,500 | 6,250 | 6,250 | 3,125 | |

The Company submits the quantum of Directors' Fees of each financial year, which is to be paid quarterly in arrears, to Shareholders for approval at its AGM. Shareholders' approval will be sought at the forthcoming AGM of the Company on 23 April 2018 in respect of the proposed payment of Directors' fees of up to S$750,000 (payable quarterly in arrears) for FY2018. The Executive Directors are remunerated under their respective service contracts and will not be paid a director's fee. Information of each Director's remuneration in respect of FY2017 is set out in pages 47 to 49 of this annual report.

**Remuneration of Key Management Personnel.** Due to its management structure, the Company has only two (2) key management personnel (who are not Directors or the CEO) for FY2017. Disclosure of their remuneration pursuant to the Code is as follows:

| Name | Position | Salary (%) | Allowance/ Benefit (%) | Variable Bonus (%) | Remuneration Band[1] |
|---|---|---|---|---|---|
| Andrew Trevatt | Chief Commercial Officer | 73 | – | 27 | Band 2 |
| Ng Eng Kiat | Chief Financial Officer and Chief Executive Officer - Indonesia[2] | 35 | – | 65 | Band 3 |

*Note:*
*(1) Remuneration Bands are as follows:*
*Band 1: From S$500,000 up to S$750,000*
*Band 2: From S$750,001 up to S$1,000,000*
*Band 3: From S$1,000,001 up to S$1,250,000*

*(2) Designation in FY2017*

The total remuneration paid to the two (2) key management personnel (who are not Directors or the CEO) was approximately S$2,100,000 for FY2017, and has been approved by the Board. The Company maintains that publication of the exact details of the remuneration of the key management personnel should not be made, given the sensitivity and confidentiality of remuneration matters and due to strong competition within the industry for key talent. Such disclosure is disadvantageous to the interests of the Group.

**Summary of RC Observations for FY2017.** The Group Remuneration Policies are appropriate, effective, meet the commercial requirements to remain competitive, are sensitive to the time horizon of risks and allow flexibility in response to prevailing circumstances. There are currently no employee share schemes provided by the Company or the Group, and the Company has yet to introduce any long-term incentive plans. None of the Directors and Management received any termination, retirement and post-employment benefits, and all Directors and the key management personnel are remunerated on an earned basis. The remuneration packages for Directors and key management personnel are commensurate with their contributions and performance, taking into consideration the substantial scope of work and responsibilities arising from the Company's expansion strategy. Qualitative evaluation, such as vocational competence, responsibility at work and activity in the workplace, as well as the quality of work in relation to the demands and goals of duties, has been used to evaluate and assess Management's performance in FY2017. The Board is of the view that the current level and structure of remuneration aligns with the long-term interests and risk management policy of the Company and it is satisfied that the Management devoted the necessary time and energy to fulfilling its commitments, and have met the aforementioned performance conditions in FY2017. There is no employee in the Group who is a substantial shareholder of the Company or immediate family member of a Director or the CEO or substantial shareholders.

# Corporate Governance Report

## ACCOUNTABILITY AND AUDIT

The Board is accountable and answerable to the Shareholders for all aspects of the Company. It endeavours to ensure that Shareholders are furnished with timely information, full disclosure of material information and aims to present a balanced and understandable assessment of the Company's performance, position and prospects to the Shareholders. The Board is responsible for the governance of risks and ensuring that effective risk management and controls are in place. Its function relating to overseeing both internal and external audits is delegated to the AC.

### Accountability

The Company's financial results are prepared and presented in compliance with statutory requirements including applicable accounting standards and Listing Rules. The AC reviews, deliberates the Company's quarterly and full-year financial results, and recommends the release of such results to the SGX-ST for the Board's approval. The Company's quarterly and full year financial results are provided to Shareholders within the timeline stipulated under the Listing Rules, after they are approved by the Board.

The Board aims to ensure that appropriate information is disseminated to Shareholders. Accordingly, to assist the Board to make a balanced and informed assessment of the Company's performance, position and prospects, the Management provides monthly reports to the Board covering operational performance, financial results, marketing and business development and other relevant information. Such regular updates and timely reports allow the Board to monitor the Group's performance as well as Management's performance, and relates them to the goals and objectives set by the Board.

### Stakeholder Engagement

The Board remains committed to working with stakeholders and engages them at all levels including customers, competitors, industry associations, employees, regulators, and suppliers. Ethical and ecologically sustainable business practices are fundamental in the Company's strategy for long-term growth. Information on the Group's corporate social responsibility initiatives and activities is set out in this annual report.

### Risk Management and Internal Controls

The Board as a whole is responsible for the governance of risk and provides oversight in the design, implementation and monitoring of the risk management framework and the system of internal controls. The Board also ensures that Management puts in place action plans to mitigate the risks identified. It devotes significant attention to maintaining an effective system of risk management and internal controls, so that risks are managed in the best interests of the Group.

In assessing the effectiveness of the Group's internal controls, the Board focusses on identifying control gaps in the business process, areas for improvement and areas where controls can be strengthened. This process assists in ensuring that primary key objectives are met, material assets are properly safeguarded, fraud or errors in the accounting records are prevented or detected, accounting records are accurate and complete, and reliable financial information is prepared in compliance with applicable internal policies, laws and regulations.

The Company has a dedicated team which is responsible for developing, monitoring and maintaining risk management controls and reporting any key issues to Management. A risk management committee ("RMC") formed by the Management which comprises the CEO, Chief Financial Officer (CFO"), the Chief Commercial Officer and Deputy CFO, is responsible to assess and determine the nature and extent of the financial risks which the Company is allowed to take. Under the initiative of RMC, a Group Risk Management Policy which imposed appropriate measures to minimise and mitigate risk exposures has been approved by the Board and adopted by the Group.

The internal controls practice of each of the Group's departments or functions is reviewed annually or when circumstances warrant the review process, such as during the integration process after completion of an acquisition, to ensure the newly acquired business is fully compliant with the Group's policies and procedures.

### Internal Audit

Nexia TS Risk Advisory Pte Ltd ("Nexia") has been the Group's internal auditor since May 2013. The Board believes that outsourcing the internal audit function to a professional firm is beneficial as the professional service provider has a broad range of expertise, resources, advanced degrees and technological specialisation to undertake the internal audit of the Group, especially for the Group's business which has global presence.

To ensure that the review on internal controls is conducted effectively, Nexia has access to the AC and is granted unfettered access to all the Company's documents, records, properties and personnel. It reviews, then evaluates and tests the effectiveness of the material internal controls on business process including financial, operational, compliance and information technology controls that are in place in each of the Group's key operating units. The primary functions of the internal audit function are to:

(a) assess the relevant risks related to the Group's business operations and evaluate if an adequate system of internal controls is in place to protect the funds and assets of the Group;

(b) assess if operations of the business processes under review are conducted efficiently and effectively and to ensure control procedures are complied with; and

(c) identify and recommend improvement to internal control procedures, where required.

Nexia reports functionally and administratively to the AC and AC Chairman, although it also reports administratively to the CFO on matters concerning internal communications and information flows, as well as the administration and implementation of the Group's internal policies and procedures.

## Audit Committee

The AC is chaired by the Lead Independent Director, Mr Nisbet, and comprises Mr Liew, Mr Khoo and Mr Demierre. The members of the AC are professionals who have extensive experience in senior management positions, including retired audit partners from Big-four accounting firms with extensive accounting and financial management expertise, a reputable lawyer from a well-known law firm, as well as an executive Director who knows the business and contributes to a constructive relationship between Management and the AC. The AC members are therefore appropriately qualified to discharge their responsibilities. None of the AC members were previous partners or directors of the Company's external audit firm within the last two (2) years and none of the AC members hold any financial interest in such external audit firm.

The main responsibility and objective of the AC is to assist the Board in fulfilling its financial and other oversight responsibilities by serving as an independent and objective party to oversee, monitor and appraise the integrity of the Company's financial reporting process, the internal controls system, the audit process and also risk management. Significant findings in the course of its reviews are reported to the Board.

Pursuant to the written terms of reference endorsed by the Board, AC has the following key functions:

(a) oversight of financial reporting;

(b) review and evaluate with internal and external auditors, scope of the audit and reporting obligation, the adequacy and effectiveness of the internal control system, including financial, operational, compliance and information technology controls, and risk management policies and framework;

(c) review and consider the appointment or re-appointment of the external and internal auditors and matters relating to their resignation or dismissal thereof;

(d) report to the Board at least annually on the effectiveness and adequacy of the Company's internal controls, including financial, operational, compliance and information technology controls;

(e) review interested person transactions (within the definition of the Listing Rules) involving the Group in accordance with the Listing Rules;

(f) review and approve future hedging policy, instruments used for hedging and foreign exchange policy and practice of the Group;

(g) review whistleblowing investigations within the Group and ensure appropriate follow-up actions, if any; and

(h) generally undertake such other functions and duties as may be required by the Listing Rules.

To ensure it could discharge its functions properly, AC has the explicit authority to investigate any matters within its terms of reference and has full access to and the cooperation of Management. The AC has full discretion to invite any Director or executive officer to attend an AC meeting to answer questions which the AC may have. It also has direct access to the Company's external auditors and is conferred the authority to source external resources including obtaining legal or other professional advice and services.

The AC performed, among others, the following core duties and activities in FY2017:

**Financial Reporting.** The AC safeguards the integrity in financial reporting and ensures such reporting is in compliance with the requirements of the Singapore Financial Reporting Standards ("SFRS"). It reviews the quarterly and full year financial results and related announcements, and oversees significant financial reporting issues and assessments. The AC, when satisfied that the financial results and related announcements meet statutory requirements, would submit and recommend the release of the financial results and related announcements to the Board. Any significant issues and judgement that AC considered in relation to the financial statements and the actions to address such concerns will also be reported to the Board.

**External and Internal Audits.** AC reviews the overall scope of external and internal audits prior to each audit process, to ensure material areas are covered and sufficient attention is paid to higher risk areas.

The scope and results of auditing by the Company's external auditors, Ernst & Young LLP ("EY"), its cost effectiveness, as well as its independence and objectivity are reviewed by the AC annually. EY keeps the AC abreast of changes to accounting standards and presents to the AC, any issues which have direct impact on the Group's financial statements.

During the course of review of the Company's financial statements for FY2017, the AC has reviewed and discussed each of the key audit matters ("KAMs") with the Management as well as EY. The AC has assessed and considered the Management's approach, methodology and assumptions applied to each of the KAMs, and was satisfied with the appropriateness of the analyses performed by the Management. The AC agrees and concurs with the basis and conclusions included in EY's report with respect to the KAMs. For more information on the KAMs, please refer to pages 68 and 69 of this annual report.

Internal audits are performed accordingly to the audit plan and scope agreed between Nexia and the AC. Nexia presented the internal audit reports, which compile the detailed findings relevant to the Group's key operating units which it had reviewed, to the AC during quarterly meetings. Any material non-compliance or failure in internal controls, recommendations for improvements and remedial actions taken by Management are reported to the AC. If action plans to mitigate the risks are required, the AC would instruct and ensure that Management undertakes follow-up actions.

# Corporate Governance Report

The AC reviews the adequacy, effectiveness and independence of the internal audit function annually, and believes that the internal audit conducted by Nexia for FY2017 attained professional standards, including those promulgated by The Institute of Internal Auditors. The AC is satisfied that the internal audit function has adequate resources given that there is a team of eight (8) members assigned to the Company's internal audits, led by Mr Gary Ng who has 13 years of relevant experience, and Nexia has appropriate standing within the Group during FY2017, and that the quantum of fee paid or payable to Nexia should not put its objectivity at risk.

The AC (excluding Mr Demierre) meets with the internal and external auditors without the presence of Management at least once a year, to obtain feedback on the competency and adequacy of the finance function and to ascertain if there are any material weaknesses or control deficiencies in the Group's financial reporting and operational systems. Mr Demierre, being an Executive Director, has been excluded from the aforesaid meeting(s) to ensure that the AC remains a platform for external and internal auditors to provide their independent opinions without the influence of Management. This safeguard is essential to ensure that the presence of an Executive Director on the AC will not lead to any conflict of interest or impede the independence of the AC.

**Governance of Risk.** The AC is tasked to assist the Board to oversee Management in the formulation, updating and maintenance of an adequate and effective risk management framework. Any material changes to the key risks areas are required to be reported to the AC as soon as they are identified. AC has reviewed the up-to-date risk register, the implementation and execution of standard operating procedures, as well as remedial actions recommended by the internal auditor and implemented by Management. The AC reports annually to the Board, its view on the effectiveness and adequacy of the Group's internal controls, including financial, operational, compliance and information technology controls.

**Whistleblowing Framework.** The Group has in place and has published on its website, a channel to raise concerns about any suspected improprieties. Its whistleblowing policy provides employees and third-parties a direct channel to the AC for the raising of concerns about any improprieties in matters of financial reporting, or other aspects in confidence and in good faith, without fear of reprisal. All whistleblowing matters come under the purview of the AC, to ensure independent investigation of such matters and for appropriate follow-up action. The whistleblowing policy and its effectiveness will be reviewed by the AC periodically, with any recommendations regarding updates or amendments being made to the Board as required.

**Interested Person Transactions ("IPT").** The AC reviews IPTs (if any) at its quarterly meetings and annually with the Company's external auditors, to ensure that established procedures for monitoring the IPTs have been complied with. The AC is satisfied that the guidelines and review procedures established to review IPTs have been complied with in FY2017. Further information relating to the IPTs during FY2017 is provided under the section "Interested Person Transactions".

## Summary of the Board and AC's Observations for FY2017

The Board is of the view that the AC comprises members with requisite qualifications and sufficient financial management expertise to discharge the AC's functions competently. It has received assurances from the CEO and CFO that for FY2017:

(a) the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and

(b) the Group's risk management and internal controls systems are adequate and effective in addressing the financial, operational, compliance and information technology risks of the Group.

With the assurances from the CEO together with the CFO, and following its assessment on the following:

(a) the reviews of the reports of Nexia;

(b) internal controls established and maintained by the Group;

(c) actions taken by the Management according to internal auditor's recommendations; and

(d) reports from EY,

the Board, with the concurrence of the AC, is of the opinion that the Group's risk management and internal controls systems are adequate and effective in addressing the financial, operational, compliance and information technology risks of the Group in respect of FY2017. However, the Board notes that the risk management and internal controls provide reasonable, but not absolute, assurance against material misstatements of loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk. The Board also notes that all internal control systems contain inherent limitations and no system of internal controls can provide absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error losses, fraud or other irregularities.

The AC and the Board are satisfied that the aggregate amount of audit fees paid and/or payable to EY in connection with the audit as well as non-audit services for FY2017 is appropriate. Having considered the relevant provisions under the applicable regulations, the cooperation extended by the Management and the fact that the non-audit services were provided by a separate team from EY and that the non-audit fees comprise less than 50% of EY's fees, AC is of the view that the independence or objectivity of EY is not impaired. For details of fees paid and/or payable to EY in respect of audit and non-audit services, please refer to Note 8 of the Notes to the Financial Statements on page 98 of this annual report. Taking into consideration all relevant factors including the adequacy of resources, experience of supervisory and professional staff to be assigned to the audit process, the quality of work carried out by EY, the size and complexity of the Group, its businesses and operations, AC has recommended that EY be re-appointed as the Company's external auditors for FY2018. The appointment of external auditors of the Group complies with Rules 712 and 715 of the Listing Rules.

## SHAREHOLDER RIGHTS AND RESPONSIBILITIES

### Shareholder Rights

Shareholders, as the owners of the Company, are entitled to attend and vote at general meetings, to a share of the Company's profits and all other rights pursuant to The Companies Act (Chapter 50) of Singapore (the "Companies Act") as well as the provisions of the Company's Constitution. The Company's corporate governance practices promote fair and equitable treatment of all Shareholders. The Companies (Amendment) Act 2014 and The Companies (Amendment) Act 2017 (collectively the "Amendment Acts") have introduced wide-ranging amendments to the Companies Act previously in force, aim to improve corporate governance for companies in Singapore, reduce the regulatory burden on companies and provide for greater business flexibility. The key changes under Amendment Acts include, among others, the introduction of a multiple proxies regime to enfranchise indirect investors and CPF investors, as well as provisions to facilitate the electronic transmission of notices and documents.

The Board welcomes the new provisions under the Amendment Acts and believes that these enhance corporate governance and encourage more active shareholder participation. Accordingly, the Board has proposed to update the Company's Constitution in alignment with the Companies Act. An extraordinary general meeting will be convened immediately after the conclusion or adjournment of the forthcoming AGM, to seek the approval of Shareholders for the adoption of a new Constitution, which consists of the applicable regulations under the existing Constitution, and incorporates amendments to take into account the changes to the Companies Act.

**Disclosure of Information.** It is the policy of the Board that all Shareholders are informed in a comprehensive and timely manner on all major or material developments that have an impact on the Group. To facilitate Shareholders' rights and to ensure fair communication with the Shareholders, all information about the Company's new initiatives which would be likely to materially affect the price or value of the Company's shares are promptly disseminated to Shareholders through the following platforms:

(a) SGXnet announcements and news release;

(b) Annual Report and notice of general meetings issued to all shareholders;

(c) press releases on major developments of the Group;

(d) the Company's general meeting; and

(e) the current corporate website (http://www.halcyonagri.com) maintained by the Company that allows all stakeholders to stay informed of material updates in a timely manner.

Apart from statutory announcements, the Company also produces presentation materials and a newsletter – Halcyon Days – which publishes the Group's achievements, updates to business operations, important dates and recapitulate any big announcements periodically. Halcyon Days is available on the Company website and the latest version is made available to Shareholders at the Company's general meeting. Materials relating to financial results, press releases, annual reports and the Group profile and various other investor-related information on the Group are also available on the Company's website.

**Dividend Policy.** The Company currently does not have a fixed dividend policy. Notwithstanding a considerable amount of non-recurring transaction-related costs were incurred for FY2017 due to the Company's expansion strategy, the Board has proposed to distribute a dividend at an aggregate amount of S$0.02 per share (comprising of a S$0.01 final dividend and a S$0.01 special dividend), subject to Shareholders' approval at the forthcoming AGM. The Board believes that the dividend is an appropriate way to reward Shareholders for their support.

### Conduct of Shareholder Meetings

General meetings remain the Company's principal forum for dialogue with Shareholders. The Board supports and encourages active shareholder participation at general meetings. The participation of Shareholders was encouraging and Shareholders actively communicated their views during the AGM which was held in FY2017.

The Company's general meetings provide an opportune forum for Shareholders to meet the Board and senior management and to interact with them. The Directors and Management actively engage Shareholders before and after general meetings, to understand the view of Shareholders, to gather inputs and address their concerns. General meetings are attended by all Directors and would normally be chaired by the Chairman of the Board. Chairmen of the Board Committees are also available at the meetings to answer any questions relating to the operations of the Board Committees. The Company's external auditors are also present to assist the Directors in addressing any relevant queries by the Shareholders.

# Corporate Governance Report

Shareholders are properly informed of the meeting schedule and the agenda of meeting at least 14 or 21 days (as the case may be) prior to the date appointed for the general meeting. The notice of general meeting issued to all Shareholders is advertised in newspapers and disseminated through SGXnet, as well as published on the Company's website.

Rules (including the appointment of proxy(ies) and voting procedures) that govern the attendance for general meetings are clearly set out in the notice of general meeting as well as the proxy form. Pursuant to the Constitution, every Shareholder is entitled to attend and vote at the general meetings of the Company and is allowed to appoint not more than two proxies to vote on his/her behalf at the general meetings during his/her absence. Notwithstanding, specified intermediaries such as CPF, banks and capital market services license holders which provide custodial services have been able to appoint multiple proxies under the Companies (Amendment) Act 2014 with effect from 3 January 2016.

Sufficient and necessary information required for Shareholders to make informed decisions is provided or accompanied by the notice convening each general meeting. At general meetings, each distinct issue is proposed as a separate resolution and Shareholders are given the right to express their views and exercise their voting rights on each resolution to be debated and decided upon. The Company has mandated poll voting since 2014. The polling agent appointed by the Company will explain the rules and tabulation procedures used for poll voting at the Company's general meetings, before the polling starts. At each general meeting, an independent scrutineer is appointed to count and validate the votes prior to declaration of poll results by the Chairman. Details on voting outcomes including the number of votes cast for and against each resolution together with the respective percentages are announced in the general meeting, and to the public through SGXnet in accordance with the format prescribed under the Listing Rules.

The proceedings of general meetings, including significant comments or queries from Shareholders relating to the agenda of the meeting, and responses from the Board and Management are properly recorded. Minutes of general meetings are available to Shareholders upon request.

## DEALING IN SECURITIES

The Company observes and complies with Rule 1207(19) of the Listing Rules on dealings in securities and issues quarterly notices to its Directors, officers and employees on the restrictions in dealing in the Company's securities during the period commencing two (2) weeks before the announcement of the Company's financial results for each of the first three quarters of its financial year, and one (1) month before the announcement of the Company's full-year financial results, and ending on the date of the announcement of the relevant results. Notices prohibiting dealing in Company securities will also be sent to the Group's Directors, officers and employees as and when circumstances are deemed appropriate, such as when a discussion relating to an acquisition is expected to take a long period of time before it achieves certainty.

Directors, officers and employees are reminded periodically not to trade in the Company's securities at any time while in possession of unpublished price sensitive information, and to refrain from dealing in the Company's securities on short-term considerations. They are also advised to be mindful of the laws on insider-trading at all times even when dealing in securities within the permitted trading period.

## INTERESTED PERSON TRANSACTIONS

The Group does not have a general mandate from Shareholders for IPTs. The assessment of IPTs is under the purview of the AC, to ensure that any transaction to be entered into with interested persons (as defined in the Listing Rules) will be assessed independently, and that the transaction is carried out on normal commercial terms and are not prejudicial to the interests of the Company or its minority Shareholders.

Any contract to be made with an interested person will not be proceeded with unless the pricing is determined in accordance with the Group's usual business practices and policies, consistent with the usual margin given or price received by the Group for the same or substantially similar type of transactions with the unrelated parties, and that the terms are not more favourable to the interested person than those extended to or received from unrelated parties. Where it is impractical or not possible to compare against the terms of other transactions with unrelated third parties or in situations where the products or services may be purchased only from an interested person, such IPT must be reviewed and approved by the AC, and the AC member who is perceived to be related to the interest person is refrained from deliberating, reviewing and approving that particular transaction. A review on all IPTs entered into by the Group (if any), will be incorporated into the Group's internal audit plan.

During FY2017, there were no IPTs which were more than S$100,000 entered into by the Group or subject to Listing Rules 905, 906 and 907.

## MATERIAL CONTRACTS

Other than the service agreements entered into with the CEO and the Executive Director, there were no material contracts (including loans) entered into by the Company or any of its subsidiaries involving the interest of the CEO, any Directors, or controlling shareholders which are either still subsisting at the end of FY2017 or if not then subsisting, entered into since the end of the previous financial year ended 31 December 2016.

# Corporate Governance Report

## DISCLOSURE ON COMPLIANCE WITH THE CODE

Express disclosure requirements pursuant to the Corporate Governance Disclosure Guide issued by the SGX-ST on 29 January 2015.

| Principle and Guidelines | Page reference in this Annual Report |
|---|---|
| **General**<br>Compliance with all the principles and guidelines of the Code | Yes. Page 45 |
| **Guideline 1.3**<br>Delegation of authority, by the Board to any board committee, to make decisions on certain board matters | Page 50 |
| **Guideline 1.4**<br>The number of meetings of the Board and board committees held in the year, as well as the attendance of every board member at these meetings | Pages 47 to 49 |
| **Guideline 1.5**<br>The type of material transactions that require board approval under guidelines | Page 50 |
| **Guideline 1.6**<br>The induction, orientation and training provided to new and existing directors | Page 53 |
| **Guideline 2.1**<br>Compliance with the guideline on the proportion of independent directors on the Board | Page 51 |
| **Guideline 2.3**<br>The Board should identify in the company's Annual Report each director it considers to be independent. Where the Board considers a director to be independent in spite of the existence of a relationship as stated in the Code that would otherwise deem a director not to be independent, the nature of the director's relationship and the reasons for considering him as independent should be disclosed | Page 52 |
| **Guideline 2.4**<br>Where the Board considers an independent director, who has served on the Board for more than nine years from the date of his first appointment, to be independent, the reasons for considering him as independent should be disclosed | Not Applicable |
| **Guideline 2.6**<br>(a) The Board's policy with regard to diversity in identifying director nominees<br>(b) Whether the current composition of the Board provides diversity on each of the following – skills, experience, gender and knowledge of the Company, and elaborate with numerical data where appropriate<br>(c) Steps that the Board has taken to achieve the balance and diversity necessary to maximise its effectiveness | Page 51 |
| **Guideline 3.1**<br>Relationship between the Chairman and the CEO where they are immediate family members | Not Applicable |

# Corporate Governance Report

| Principle and Guidelines | Page reference in this Annual Report |
|---|---|
| **Guideline 4.1**<br>Names of the members of the NC and the key terms of reference of the NC, explaining its role and the authority delegated to it by the Board | Pages 46, and 52 to 54 |
| **Guideline 4.4**<br>(a) Maximum number of listed company board representations which directors may hold, and the reasons for this number should be disclosed<br>(b) Specific considerations in deciding on the capacity of directors | Page 53 |
| **Guideline 4.6**<br>Process for the selection, appointment and re-appointment of new directors to the Board, including the search and nomination process | Page 52 |
| **Guideline 4.7**<br>Key information regarding directors, including which directors are executive, non-executive or considered by the NC to be independent | Pages 47 to 49, and 52 |
| **Guideline 5.1**<br>The Board should state in the company's Annual Report how assessment of the Board, its board committees and each director has been conducted | Pages 53 and 54 |
| **Guideline 6.1**<br>Types of information which the Company provides to independent directors to enable them to understand its business, the business and financial environment as well as the risks faced by the Company, and the frequency of such information provided | Pages 51, 53 and 57 |
| **Guideline 7.1**<br>Names of the members of the RC and the key terms of reference of the RC, explaining its role and the authority delegated to it by the Board | Pages 46, and 54 to 56 |
| **Guideline 7.3**<br>Names and firms of the remuneration consultants (if any) should be disclosed in the annual remuneration report, including a statement on whether the remuneration consultants have any relationships with the company | Page 55 |
| **Principle 9**<br>Clear disclosure of remuneration policies, level and mix of remuneration, and procedure for setting remuneration | Pages 55 and 56 |
| **Guideline 9.1**<br>Remuneration of directors, the CEO and at least the top five key management personnel (who are not also directors or the CEO) of the company. The annual remuneration report should include the aggregate amount of any termination, retirement and post-employment benefits that may be granted to directors, the CEO and the top five key management personnel (who are not directors or the CEO) | Pages 47 to 49, and 56 |
| **Guideline 9.2**<br>Fully disclose the remuneration of each individual director and the CEO on a named basis. There will be a breakdown (in percentage or dollar terms) of each director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives | Pages 47 to 49 |
| **Guideline 9.3**<br>Name and disclose the remuneration of at least the top five key management personnel (who are not directors or the CEO) in bands of S$250,000. There will be a breakdown (in percentage or dollar terms) of each key management personnel's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, stock options granted, share-based incentives and awards, and other long-term incentives. In addition, the company should disclose in aggregate the total remuneration paid to the top five key management personnel (who are not directors or the CEO). As best practice, companies are also encouraged to fully disclose the remuneration of the said top five key management personnel | Page 56 |

# Corporate Governance Report

| Principle and Guidelines | Page reference in this Annual Report |
|---|---|
| **Guideline 9.4**<br>Details of the remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds S$50,000 during the year. This will be done on a named basis with clear indication of the employee's relationship with the relevant director or the CEO. Disclosure of remuneration should be in incremental bands of S$50,000 | Not Applicable |
| **Guideline 9.5**<br>Details and important terms of employee share schemes | Page 56 |
| **Guideline 9.6**<br>For greater transparency, companies should disclose more information on the link between remuneration paid to the executive directors and key management personnel, and performance. The annual remuneration report should set out a description of performance conditions to which entitlement to short-term and long-term incentive schemes are subject, an explanation on why such performance conditions were chosen, and a statement of whether such performance conditions are met | Page 56 |
| **Guideline 11.3**<br>The Board should comment on the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems<br>The commentary should include information needed by stakeholders to make an informed assessment of the company's internal control and risk management systems<br>The Board should also comment on whether it has received assurance from the CEO and the CFO: (a) that the financial records have been properly maintained and the financial statements give true and fair view of the company's operations and finances; and (b) regarding the effectiveness of the company's risk management and internal control systems | Page 59 |
| **Guideline 12.1**<br>Names of the members of the AC and the key terms of reference of the AC, explaining its role and the authority delegated to it by the Board | Pages 46, and 58 to 60 |
| **Guideline 12.6**<br>Aggregate amount of fees paid to the external auditors for that financial year, and breakdown of fees paid in total for audit and non-audit services respectively, or an appropriate negative statement | Pages 59 and 60 |
| **Guideline 12.7**<br>The existence of a whistle-blowing policy should be disclosed in the company's Annual Report | Page 59 |
| **Guideline 12.8**<br>Summary of the AC's activities and measures taken to keep abreast of changes to accounting standards and issues which have a direct impact on financial statements | Pages 58 to 60 |
| **Guideline 13.1**<br>Whether the Company have an internal audit function | Pages 57 and 58 |
| **Guideline 15.4**<br>The steps the Board has taken to solicit and understand the views of the shareholders e.g. through analyst briefings, investor roadshows or Investors' Day briefings | Pages 60 and 61 |
| **Guideline 15.5**<br>Where dividends are not paid, companies should disclose their reasons | Not Applicable |

## Financial Contents

# Directors' Statement

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of Halcyon Agri Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group") and the statements of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2017.

**1. Opinion of the directors**

In the opinion of the directors,

(i) the consolidated financial statements of the Group and the statements of financial position and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; and

(ii) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

**2. Directors**

The directors of the Company in office at the date of this statement are:

Liu Hongsheng
Robert Meyer
Pascal Demierre
Alan Nisbet
Randolph Khoo
Liew Choon Wei
Raymond Ferguson
Wang Wei (appointed on 3 May 2017)
Jeremy Goon (appointed on 2 November 2017)
Qin Jinke (appointed on 1 January 2018)

**3. Arrangements to enable directors to acquire shares or debentures**

Except as described in paragraph five below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

**4. Directors' interest in shares or debentures**

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 50, an interest in the shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

| | Direct interest | | Deemed interest | |
|---|---|---|---|---|
| **Name of director** | **At the beginning of financial year** | **At the end of financial year** | **At the beginning of financial year** | **At the end of financial year** |
| **Ordinary shares of the Company** | | | | |
| Robert Meyer [1] | – | – | 55,000,000 | 55,400,000 |
| Pascal Demierre [1] | 10,550,000 | 11,200,000 | 24,825 | 24,825 |
| Alan Nisbet | – | – | 200,000 | 400,000 |
| **4.5% senior perpetual securities issued by the Company in denominations of US$200,000** | | | | |
| Robert Meyer [1] | – | US$800,000 | – | – |

[1] By virtue of section 7 of the Singapore Companies Act, these directors are deemed to have an interest in all the related corporations of the Company.

There was no change in any of the above-mentioned interests in the Company between the end of the financial year and 21 January 2018.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

# Directors' Statement

5. **Share options**

   **(a) Options to take up unissued shares**

   During the financial year, no option to take up unissued shares of the Company or any corporation in the Group were granted.

   **(b) Options exercised**

   During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

   **(c) Unissued shares under option**

   At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

6. **Audit committee**

   The Company's audit committee (AC) carried out its functions in accordance with section 201B (5) of the Singapore Companies Act, Chapter 50, and it had performed the following core duties and activities (not exhaustive) during the financial year ended 31 December 2017:

   a) Reviewed the audit plans, scope of audit and reporting obligation of the internal and external auditors;

   b) Reviewed the quarterly and full year financial statements as well as the auditor's report, before their submission to the board of directors (the "Board");

   c) Assessed and concluded the key audit matters with external auditor;

   d) Reviewed the effectiveness of the internal control systems, including financial, operational, compliance and information technology controls;

   e) Held a private discussion with the internal and external auditors to discuss matters which would be more appropriately deliberated without the presence of the Company's management, such as the cooperation of and assistance given by the Company's management to the internal and external auditors;

   f) Reviewed legal and regulatory matters that may have a material impact on the financial statements;

   g) Reviewed and evaluated the services of external auditor including the amount of fees paid and/or payable to the external auditor as well as their independence and objectivity;

   h) Reviewed the nature and extent of non-audit services provided by the external auditor;

   i) Recommended the re-appointment of the external auditor to the Board;

   j) Reported to the Board, the material matters deliberated by the AC with appropriate recommendations (as the case may be);

   k) Reviewed interested person transactions which fall under the scope of the Listing Manual of the Singapore Exchange Securities Trading Limited.

   The AC, having reviewed all non-audit services provided by the external auditor, is satisfied that the nature and extent of such services would not affect the independence of the external auditor.

   During the year, four AC meetings were held. The AC also had a private discussion with internal and external auditors, without the presence of the Company's management.

   Further details regarding the AC are disclosed in the Corporate Governance Report.

7. **Auditor**

   Ernst & Young LLP have expressed their willingness to accept re-appointment as auditor.

On behalf of the Board of Directors:

Robert Meyer
Director

Pascal Demierre
Director

Singapore
19 March 2018

# Independent Auditor's Report

## To the members of Halcyon Agri Corporation Limited

## Opinion

We have audited the financial statements of Halcyon Agri Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2017, the consolidated statement of comprehensive income and consolidated cash flow statement of the Group and the statements of changes in equity of the Group and the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards ("FRS") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year then ended.

## Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSA"s). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

1. **Impairment of goodwill and process know-how**

   As at 31 December 2017, the Group's goodwill and process know-how amounted to US$189,887,000 and US$10,000,000 respectively. These represent approximately 23.9% of the Group's net assets.

   We focused on the impairment assessment of goodwill and process know-how because the impairment testing of the cash generating units ("CGUs") attributable to these intangibles rely on estimates of value-in-use ("VIU") based on the CGU's expected future cash flows. We considered audit of these cash flow projections to be a key audit matter as these involved significant management judgement,and are based on assumptions that are affected by expected future market and economic conditions.

   The Group uses assumptions in respect of future market and economic conditions such as forecasted rubber price, forecasted sales volume, growth rates and pre-tax discount rates. We assessed and tested these assumptions which the outcome of the impairment test is most sensitive, the methodologies and data used by comparing them to historical performance of the CGU and industry outlook reports. We engaged our valuation specialists to assist us with the audit of the reasonableness of management's valuation methodologies and certain assumptions used.

   We obtained and evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions and we performed our own independent sensitivity calculations to quantify the downside changes to management's models required to result in an impairment.

   We also assessed the adequacy of the disclosures concerning those key assumptions to which the outcome of the impairment test is most sensitive. The disclosures on goodwill and process know-how and key assumptions are included in Note 11.

**2. Purchase Price Allocation adjustments**

In prior financial year, the Group acquired controlling interest in Halcyon Rubber & Plantations Pte Ltd (formerly known as GMG Global Limited) ("GMG Group") and Sinochem International Natural Rubber Investment (Overseas) Pte Ltd ("SINRIO Group"). The purchase price allocation ("PPA") review was not completed by 31 December 2016 and as a result purchase price were allocated to the assets and liabilities acquired on a provisional basis in the prior year financial statements.

In the current financial year, the Group completed the allocation of the purchase price to the assets and liabilities acquired. Consequently, the net bargain purchase recognized in the prior year has been adjusted downwards by US$26,632,000 to US$90,321,000.

We have identified the finalisation of the PPA and the resulting adjustments to the provisional purchase price allocation as a key audit matter given the magnitude of the amount and significant management judgement required to determine the fair value of the assets and liabilities acquired.

Our audit procedures, amongst others, included review of the appropriateness of the adjustments and determine if they reflect new information obtained about facts and circumstances that existed as of the acquisition date, reviewed management's basis and significant judgement applied in determining and estimating the quantum of adjustments, and compared management's basis to external evidence.

We also assessed the adequacy of the disclosures in the financial statements regarding these acquisitions and adjustments in Note 14(a).

**3. Accounting for discontinued operations and asset held-for-sale**

During the financial year ended 31 December 2017, one of the Group's subsidiaries, Teck Bee Hang Co., Ltd and its subsidiaries ("TBH Group"), had been classified as asset-held-for-sale under FRS105 Non-current Assets Held for Sale and Discontinued Operations, following the Group's strategic review undertaken in the first half of 2017.

We considered the audit of discontinued operations and asset-held-for-sale to be a key audit matter as this is a significant transaction and involves judgement made by management in determining the fair value less costs to sell and estimated timing of completing the planned disposal.

Our audit procedures, amongst other, included review of management's basis in classifying assets and liabilities of TBH Group as held-for-sale as at year-end by checking to board's approval for the planned disposal, management assessment relating to probability of completing the transaction within one year from the date of classifying TBH Group as a disposal group. We have also reviewed management's assessment to assess whether the disposal group is measured at the lower of carrying amount and fair value less costs to sell. We reviewed the presentation of discontinued operations and also considered the adequacy of the disclosures in Note 22 in the financial statements.

## Other information

Management is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

# Independent Auditor's Report

## To the members of Halcyon Agri Corporation Limited

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Lee Lai Hiang.

Ernst & Young LLP

Public Accountants and
Chartered Accountants
Singapore

19 March 2018

# Consolidated Income Statement

## For the financial year ended 31 December 2017

| | Note | 2017<br>US$'000 | 2016<br>US$'000<br>(Restated) |
|---|---|---|---|
| **Revenue** | 4 | 1,988,439 | 970,478 |
| Cost of sales | | (1,847,953) | (918,980) |
| **Gross profit** | | 140,486 | 51,498 |
| Other income | 5 | 24,776 | 94,787 |
| Selling expenses | | (37,457) | (15,094) |
| Administrative expenses | | (63,307) | (54,890) |
| **Operating profit** | | 64,498 | 76,301 |
| Finance income | | 2,922 | 1,735 |
| Finance costs | 6 | (23,800) | (28,012) |
| Share of profit of associates | | 9,899 | 1,686 |
| Profit before tax from continuing operations | 8 | 53,519 | 51,710 |
| Income tax expense | 7 | (11,076) | (3,238) |
| Profit from continuing operations, net of tax | | 42,443 | 48,472 |
| **Discontinued operations** | | | |
| Loss from discontinued operations, net of tax | 22 | (7,192) | (3,162) |
| **Profit for the financial year** | | 35,251 | 45,310 |
| **Profit/(loss) attributable to:** | | | |
| Owners of the Company | | | |
| – From continuing operations | | 35,705 | 49,487 |
| – From discontinued operations | | (3,957) | (1,739) |
| | | 31,748 | 47,748 |
| Non-controlling interests | | | |
| – From continuing operations | | 6,738 | (1,015) |
| – From discontinued operations | | (3,235) | (1,423) |
| | | 3,503 | (2,438) |
| | | 35,251 | 45,310 |
| **Earnings/(Loss) per share ("EPS/LPS"):** | | | |
| Basic and diluted (cents per share) | | | |
| – From continuing operations | 10 | 2.24 | 5.65 |
| – From discontinued operations | 10 | (0.25) | (0.20) |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Consolidated Statement of Comprehensive Income

## For the financial year ended 31 December 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | US$'000 | US$'000 (Restated) |
| **Profit for the financial year** | | 35,251 | 45,310 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Exchange differences on translation of foreign operations | | 45,723 | (19,634) |
| Recognised in the profit and loss accounts on occurrence of hedged transactions | | – | 2,189 |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| Share of associates' other comprehensive loss | | – | (2,783) |
| Actuarial loss on retirement benefit obligation (net of tax) | | (1,197) | (965) |
| **Other comprehensive income/(loss) for the financial year** | | 44,526 | (21,193) |
| **Total comprehensive income for the financial year** | | 79,777 | 24,117 |
| | | | |
| **Attributable to:** | | | |
| – Owners of the Company | | 73,446 | 26,786 |
| – Non-controlling interests | | 6,331 | (2,669) |
| **Total comprehensive income for the financial year** | | 79,777 | 24,117 |
| | | | |
| **Attributable to:** | | | |
| **Owners of the Company** | | | |
| – Total comprehensive income from continuing operations, net of tax | | 73,399 | 27,180 |
| – Total comprehensive income/(loss) from discontinued operations, net of tax | | 47 | (394) |
| **Total comprehensive income for the financial year attributable to owners of the Company** | | 73,446 | 26,786 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Financial Position

## As at 31 December 2017

| | Note | Group 2017 US$'000 | Group 2016 US$'000 (Restated) | Company 2017 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 11 | 200,416 | 200,496 | – | – |
| Property, plant and equipment | 12 | 244,929 | 244,781 | 1,025 | 207 |
| Plantation related properties | 16 | 328,164 | 281,703 | – | – |
| Biological assets | 16 | 8,861 | 6,821 | – | – |
| Investment properties | 13 | 25,256 | 39,791 | – | – |
| Deferred tax assets | 15 | 14,346 | 13,227 | – | – |
| Deferred charges | | 531 | 207 | – | – |
| Other assets | | 1,793 | 259 | – | – |
| Loans and other receivables | 19 | 3,641 | 3,209 | – | – |
| Investment in subsidiaries | 14(a) | – | – | 600,824 | 615,640 |
| Investment in associates | 14(b) | – | 189,700 | – | – |
| Total non-current assets | | 827,937 | 980,194 | 601,849 | 615,847 |
| **Current assets** | | | | | |
| Cash and bank balances | 17 | 152,229 | 66,625 | 706 | 430 |
| Trade receivables | 18 | 121,689 | 98,066 | – | – |
| Loans and other receivables | 19 | 111,058 | 51,874 | 671,089 | 372,056 |
| Tax receivables | | 2,175 | 1,767 | – | – |
| Derivative financial instruments | 20 | 22,885 | 30,889 | – | – |
| Inventories | 21 | 305,347 | 319,973 | – | – |
| Consumable biological assets | 16 | 49 | 134 | – | – |
| | | 715,432 | 569,328 | 671,795 | 372,486 |
| Assets of disposal group classified as held-for-sale | 22 | 89,384 | – | – | – |
| Total current assets | | 804,816 | 569,328 | 671,795 | 372,486 |
| **Total assets** | | 1,632,753 | 1,549,522 | 1,273,644 | 988,333 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Derivative financial instruments | 20 | 145 | 58,786 | – | – |
| Trade payables | 23 | 38,757 | 46,265 | – | – |
| Other payables | 24 | 60,443 | 42,699 | 155,335 | 33,776 |
| Loan payables | 25 | 207,551 | 244,645 | 2,750 | 2,750 |
| Provision for taxation | | 21,040 | 19,813 | 412 | 412 |
| Finance lease obligation | 30(b) | 496 | 497 | 496 | 465 |
| | | 328,432 | 412,705 | 158,993 | 37,403 |
| Liabilities of disposal group classified as held-for-sale | 22 | 16,463 | – | – | – |
| Total current liabilities | | 344,895 | 412,705 | 158,993 | 37,403 |
| **Net current assets** | | 459,921 | 156,623 | 512,802 | 335,083 |

# Statements of Financial Position

## As at 31 December 2017

| | Note | Group 2017 US$'000 | Group 2016 US$'000 (Restated) | Company 2017 US$'000 | Company 2016 US$'000 |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Loan payables | 25 | 402,960 | 460,372 | 299,367 | 357,654 |
| Retirement benefit obligations | 26 | 19,024 | 17,153 | – | – |
| Deferred tax liabilities | 15 | 26,114 | 34,763 | 25 | 25 |
| Finance lease obligation | 30(b) | 86 | 600 | 86 | 581 |
| Other payables | 24 | 1,843 | 1,850 | – | – |
| Total non-current liabilities | | 450,027 | 514,738 | 299,478 | 358,260 |
| **Net assets** | | 837,831 | 622,079 | 815,173 | 592,670 |
| **Capital and reserves** | | | | | |
| Share capital | 27 | 603,874 | 603,874 | 603,874 | 603,874 |
| Perpetual securities | 28 | 148,690 | – | 148,690 | – |
| Capital reserves | 29(a) | 711 | 455 | – | – |
| Accumulated profits/(losses) | | 76,422 | 48,116 | 62,609 | (11,204) |
| Foreign currency translation reserve | 29(c) | (34,776) | (77,448) | – | – |
| **Equity attributable to owners of the Company** | | 794,921 | 574,997 | 815,173 | 592,670 |
| Non-controlling interests | | 42,910 | 47,082 | – | – |
| Total equity | | 837,831 | 622,079 | 815,173 | 592,670 |
| **Total liabilities and equity** | | 1,632,753 | 1,549,522 | 1,273,644 | 988,333 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Changes in Equity

## For the financial year ended 31 December 2017

| | Note | Share capital | Perpetual securities | Capital reserve | Accumulated profits | Foreign currency translation reserve | Hedging reserve | Total equity attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | | |
| | | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Group** | | | | | | | | | | |
| **At 1 January 2017 (As restated)** | | 603,874 | – | 455 | 48,116 | (77,448) | – | (28,877) | 47,082 | 622,079 |
| Profit for the year | | – | – | – | 31,748 | – | – | 31,748 | 3,503 | 35,251 |
| Other comprehensive (loss)/income | | – | – | – | (1,042) | 42,740 | – | 41,698 | 2,828 | 44,526 |
| Total comprehensive income for the year | | – | – | – | 30,706 | 42,740 | – | 73,446 | 6,331 | 79,777 |
| Contributions by and distributions to owners | | | | | | | | | | |
| Issuance of perpetual securities (net of transaction costs) | 28 | – | 148,690 | – | – | – | – | 148,690 | – | 148,690 |
| Dividend paid to non-controlling interests | | – | – | – | – | – | – | – | (183) | (183) |
| Statutory reserve fund | | – | – | 256 | (256) | – | – | – | – | – |
| Distribution to perpetual securities holders | 28 | – | – | – | (3,375) | – | – | (3,375) | – | (3,375) |
| Disposal of a group of subsidiaries | 14(a) | – | – | – | – | (68) | – | (68) | (1,082) | (1,150) |
| **Total contributions by and distributions to owner** | | – | 148,690 | 256 | (3,631) | (68) | – | 145,247 | (1,265) | 143,982 |
| Changes in ownership interests in subsidiaries | | | | | | | | | | |
| Acquisition of non-controlling interests without a change in control | 14(a) | – | – | – | 1,746 | – | – | 1,746 | (9,753) | (8,007) |
| Effect of additional investment in a subsidiary | 14(a) | – | – | – | (515) | – | – | (515) | 515 | – |
| **Total changes in ownership interests in subsidiaries** | | – | – | – | 1,231 | – | – | 1,231 | (9,238) | (8,007) |
| **At 31 December 2017** | | 603,874 | 148,690 | 711 | 76,422 | (34,776) | – | 191,047 | 42,910 | 837,831 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Statements of Changes in Equity

## For the financial year ended 31 December 2017

| | Note | Share capital | Perpetual securities | Capital reserve | Accumulated profits | Foreign currency translation reserve | Hedging reserve | Total equity attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | | | |
| | | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Group** | | | | | | | | | | |
| **At 1 January 2016** | | 156,551 | – | 143 | 4,363 | (57,980) | (2,189) | (55,663) | 24,238 | 125,126 |
| Profit for the year, as restated | 37 | – | – | – | 47,748 | – | – | 47,748 | (2,438) | 45,310 |
| Other comprehensive income/(loss), as restated | | – | – | – | (3,683) | (19,468) | 2,189 | (20,962) | (231) | (21,193) |
| Total comprehensive income/(loss) for the year, as restated | | – | – | – | 44,065 | (19,468) | 2,189 | 26,786 | (2,669) | 24,117 |
| Contributions by and distributions to owners | | | | | | | | | | |
| Dividend paid to non-controlling interests | | – | – | – | – | – | – | – | (180) | (180) |
| Statutory reserve fund | | – | – | 312 | (312) | – | – | – | – | – |
| Non-controlling interests arising from acquisition of subsidiaries | | – | – | – | – | – | – | – | 25,693 | 25,693 |
| Issuance of Company's shares (net of share issuance cost) | 27 | 447,323 | – | – | – | – | – | – | – | 447,323 |
| **Total transactions with owners in their capacity as owners** | | 447,323 | – | 312 | (312) | – | – | – | 25,513 | 472,836 |
| **At 31 December 2016 (As restated)** | | 603,874 | – | 455 | 48,116 | (77,448) | – | (28,877) | 47,082 | 622,079 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statement

# Statements of Changes in Equity

## For the financial year ended 31 December 2017

| | Note | Share capital | Perpetual securities | Accumulated profits/(losses) | Total equity |
|---|---|---|---|---|---|
| | | US$'000 | US$'000 | US$'000 | US$'000 |
| **Company** | | | | | |
| **At 1 January 2016** | | 156,551 | – | 1,249 | 157,800 |
| Loss for the year representing total comprehensive income for the year | | – | – | (12,453) | (12,453) |
| Contributions by and distributions to owners | | | | | |
| Issuance of share capital (net of share issuance cost) | 27 | 447,323 | – | – | 447,323 |
| **Total transactions with owners in their capacity as owners** | | 447,323 | – | – | 447,323 |
| **At 31 December 2016 and 1 January 2017** | | 603,874 | – | (11,204) | 592,670 |
| Profit for the year representing total comprehensive income for the year | | – | – | 77,188 | 77,188 |
| Contributions by and distributions to owners | | | | | |
| Issuance of perpetual securities (net of transaction costs) | 28 | – | 148,690 | – | 148,690 |
| Distribution to perpetual securities holders | 28 | – | – | (3,375) | (3,375) |
| **Total transactions with owners in their capacity as owners** | | – | 148,690 | (3,375) | 145,315 |
| **At 31 December 2017** | | 603,874 | 148,690 | 62,609 | 815,173 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Consolidated Cash Flow Statement

## For the financial year ended 31 December 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | US$'000 | US$'000 (Restated) |
| **Operating activities** | | | |
| Profit before tax from continuing operations | | 53,519 | 51,710 |
| Loss before tax from discontinued operations | 22 | (6,951) | (3,067) |
| Profit before taxation | | 46,568 | 48,643 |
| Adjustments for: | | | |
| Depreciation expense | | 26,792 | 12,303 |
| Amortisation of intangible assets | | 79 | 72 |
| Retirement benefit expense | | 3,521 | 2,390 |
| Interest income | | (2,950) | (1,735) |
| Interest expense | | 25,674 | 28,442 |
| Fair value loss/(gain) on open forward commodities contracts and inventories, unrealised | | 2,026 | (11,598) |
| Fair value gain on investment properties | 5 | (1,258) | (1,717) |
| Fair value gain on biological assets | 5 | (259) | (2,374) |
| Net bargain purchase on acquisition of subsidiaries | 5 | – | (90,321) |
| Unrealised foreign exchange (gain)/loss | | (10,508) | 356 |
| Amortisation fee for syndicated loan facility | | – | 11,748 |
| Loss on disposal of property, plant and equipment and investment properties and write off of property, plant and equipment | | 268 | 417 |
| Gain on disposal of an associate | 14(b) | (18,130) | – |
| Gain on disposal of a group of subsidiaries | 14(a)(i) | (3,406) | – |
| Share of profit of associates | | (10,043) | (1,581) |
| **Operating cash flow before changes in working capital** | | 58,374 | (4,955) |
| Trade and other receivables | | (44,780) | 44,067 |
| Inventories | | (49,839) | (81,574) |
| Trade and other payables | | 10,029 | 423 |
| **Cash used in operations** | | (26,216) | (42,039) |
| Interest received | | 2,407 | 1,735 |
| Interest paid | | (9,641) | (9,297) |
| Tax paid | | (9,229) | (13) |
| **Net cash used in operating activities** | | (42,679) | (49,614) |
| **Investing activities** | | | |
| Proceeds from disposal of property, plant and equipment and investment properties | | 708 | 746 |
| Acquisition of subsidiaries (net of cash acquired) | | – | 53,090 |
| Acquisition of non-controlling interests | | (8,007) | – |
| Proceeds from disposal of subsidiaries | | 10 | – |
| Proceeds from disposal of an associate | | 225,053 | – |
| Loan extended to a third party | | (49,911) | – |
| Capital expenditure on property, plant and equipment and plantation assets | | (54,493) | (16,060) |
| **Net cash generated from investing activities** | | 113,360 | 37,776 |

# Consolidated Cash Flow Statement

## For the financial year ended 31 December 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | US$'000 | US$'000 (Restated) |
| **Financing activities** | | | |
| Net proceeds from issuance of perpetual securities | 28 | 148,690 | – |
| Net proceeds/(repayment) of term loans and syndicated loan facility | | 19,427 | (88,927) |
| Net (repayment)/proceeds of other working capital loans | | (45,446) | 118,588 |
| Net repayment of Medium Term Notes ("MTN") | | (87,291) | – |
| Interest paid on term loans and syndicated facility | | (9,727) | (12,440) |
| Interest paid on MTN and advance to MTN Trust Account | | (5,820) | (8,878) |
| Dividend distributed to perpetual securities holders | 28 | (3,375) | – |
| Share issuance expense | | – | (309) |
| Repayment of obligation under finance lease arrangement | | (568) | (444) |
| Dividend paid to non-controlling interests | | (183) | (180) |
| Increase in pledged deposits | | (4,480) | – |
| **Net cash generated from financing activities** | | 11,227 | 7,410 |
| **Net increase/(decrease) in cash and cash equivalents** | | 81,908 | (4,428) |
| Cash and cash equivalents at the beginning of year | | 66,625 | 70,541 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | 4,839 | 512 |
| **Cash and cash equivalents at the end of year** | | 153,372 | 66,625 |
| | | | |
| **Cash and cash equivalents:** | | | |
| – from continuing operations | 17 | 149,056 | 66,625 |
| – from disposal group classified as held-for-sale | | 4,316 | – |
| **Cash and cash equivalents at the end of year** | | 153,372 | 66,625 |
| | | | |
| **Fixed deposits – pledged:** | | | |
| – from continuing operations | 17 | 3,173 | – |
| – from disposal group classified as held-for-sale | | 1,516 | – |
| **Fixed deposits – pledged at the end of year** | | 4,689 | – |
| | | 158,061 | 66,625 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 1. Corporate information

Halcyon Agri Corporation Limited (the "Company") is a public limited liability company incorporated and domiciled in Singapore and is listed on the Main Board of the Singapore Exchange Securities Trading Limited (the "SGX-ST").

The registered office of the Company is located at 250 North Bridge Road, #12-01 Raffles City Tower, Singapore 179101.

As at 31 December 2017, the Company is 54.99% owned by Sinochem International (Overseas) Pte. Ltd, a company incorporated and domiciled in Singapore. The penultimate holding company is Sinochem International Corporation Co., Ltd. ("SIC"), which is domiciled in the People's Republic of China and listed on the Shanghai Stock Exchange. SIC is 55.76% indirectly owned by 中国中化集团公司 (also known as Sinochem Group), a state-owned enterprise of the People's Republic of China.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries and associates are disclosed in Note 14(a) and Note 14(b) to the financial statements respectively.

### 2. Summary of significant accounting policies

#### 2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in United States Dollars ("USD" or "US$") and all values in the tables are rounded to the nearest thousand ("US$'000") unless otherwise indicated.

<u>Convergence with International Financial Reporting Standards</u>

The Accounting Standards Council announced on 29 May 2014 that Singapore-incorporated companies listed on the Singapore Exchange will apply a new financial reporting framework identical to the International Financial Reporting Standards. The Group will adopt the new financial reporting framework on 1 January 2018.

i) Exemption for cumulative translation differences

On transition to the new financial reporting framework, the Group expects to elect the option to deem cumulative translation differences for foreign operations to be zero on 1 January 2017, and accordingly, the gain or loss that will be recognised on a subsequent disposal of the foreign operations will exclude cumulative translation differences that arose before 1 January 2017. The Group expects to reclassify an amount of US$77,448,000 of foreign currency translation reserve to the opening retained earnings as at 1 January 2017.

ii) Deferred tax on unremitted foreign sourced income

With the adoption of IFRS by the Group from 1 January 2018 onwards, the Group will no longer be able to apply the Recommended Accounting Practice 8 exemption of not providing deferred tax liability for unremitted foreign sourced income which it has no intention of remitting into Singapore. As at 31 December 2017, the Group has approximately US$32,000,000 of unremitted interest income of which no deferred tax liabilities are recognised. The deferred tax liabilities is estimated at US$5,500,000 upon remittance of the unremitted income.

Consequently, the Group is required to account for temporary differences arising from such unremitted foreign sourced income upon adoption of IFRS.

Other than the effect of the matters as described above and the adoption of the new standards that are effective on 1 January 2018, the Group expects that the adoption of the new financial reporting framework will have no material impact on the financial statements in the year of initial application.

#### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group has adopted all the new and revised standards which are effective for annual financial periods beginning on or after 1 January 2017. The adoption of these standards did not have any effect on the financial performance or position of the Group and the Company.

**2. Summary of significant accounting policies (cont'd)**

**2.3 Standards issued but not yet effective**

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

| Description | Effective for annual periods beginning on or after |
|---|---|
| Improvements of FRSs (December 2016) | |
| – Amendments to FRS 28: Measuring and Associate or Joint Venture at fair value | 1 January 2018 |
| FRS 115 *Revenue from Contracts with Customers* | 1 January 2018 |
| Amendments to FRS 102 *Classification and Measurement of Share-based Payment Transactions* | 1 January 2018 |
| Amendments to FRS 40 *Transfers of investment property* | 1 January 2018 |
| INT FRS 122 *Foreign Currency Transactions and Advance Consideration* | 1 January 2018 |
| FRS 109 *Financial Instruments* | 1 January 2018 |
| FRS 116 *Leases* | 1 January 2019 |
| INT FRS 123 *Uncertainty over Income tax Treatments* | 1 January 2019 |
| Amendments to FRS 110 & FRS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | To be determined |

Except for FRS 109, FRS 115 and FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 109, FRS 115 and FRS 116 are described below.

<u>FRS 115 Revenue from Contracts with Customers</u>

FRS 115 establishes a five-step model to account for revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard is effective for annual periods beginning on or after 1 January 2018.

The Group has performed a preliminary assessment of adopting FRS 115 based on currently available information and expects the financial impact to be immaterial.

<u>FRS 109 Financial Instruments</u>

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

The Group plans to adopt the new standard on the required effective date without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings.

The Group has performed a preliminary impact assessment of adopting FRS 109 based on currently available information. This assessment may be subject to changes arising from ongoing analysis, until the Group adopts FRS 109 in 2018.

(a) Impairment

FRS 109 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. Upon application of the expected credit loss model, the Group does not expect a significant impact based on historical experience and customers' profile, but it will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of impact.

## 2. Summary of significant accounting policies (cont'd)

### 2.3 Standards issued but not yet effective (cont'd)

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on balance sheets to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees – leases of 'low value' assets and short term leases. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Group expects that the adoption of FRS 116 will result in increase in total assets and total liabilities, EBITDA and gearing ratio.

The Group plans to adopt the new standard on the required effective date by applying FRS 116 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of the retained earnings as at 1 January 2019.

The Group is currently in the process of analysing the transitional approaches and practical expedients to be elected on transition to FRS 116 and assessing the possible impact of adoption.

### 2.4 Basis of consolidation and business combinations

(A) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(B) Business combinations and goodwill

Where a business combination involves entities or businesses under common control, it is outside the scope of FRS 103 and may be accounted for using the pooling of interest method or the acquisition method. Acquisition method is applied when the transaction has substance from the perspective of the Group.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

## 2. Summary of significant accounting policies (cont'd)

### 2.4 Basis of consolidation and business combinations (cont'd)

(B) Business combinations and goodwill (cont'd)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.11(a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates.

### 2.5 Transactions with non-controlling interests

Non-controlling interests represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

### 2.6 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

### 2.7 Associates

An associate is an entity over which the Group has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control of those policies.

The Group account for its investments in associates using the equity method from the date on which it becomes an associate. On acquisition of the investment, any excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired.

## 2. Summary of significant accounting policies (cont'd)

### 2.7 Associates (cont'd)

Under the equity method, the investment in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The profit or loss reflects the share of results of the operations of the associate. Distributions received from associates reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and associate are eliminated to the extent of the interest in the associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in associate. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

The financial statements of the associates are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

### 2.8 Foreign currency

The financial statements are presented in United States Dollar ("USD"), which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling as at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

(b) Consolidated financial statements

For consolidation purpose, the assets and liabilities of foreign operations are translated into USD at the rate of exchange ruling at the balance sheet date and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

### 2.9 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.19. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

## 2. Summary of significant accounting policies (cont'd)

### 2.9 Property, plant and equipment (cont'd)

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | | |
|---|---|---|
| Leasehold improvements and renovation | – | 10 years |
| Office equipment | – | 2 years |
| Computers and software | – | 1 to 5 years |
| Leasehold buildings | – | 20 years |
| Plant and machinery | – | 10 years |
| Vehicles | – | 4 to 10 years |
| Leasehold land | – | 20 to 95 years |

Freehold land is not depreciated.

Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

Plantation establishment costs, consisting of costs directly incurred during the period of plantation development, are not depreciated. The establishment costs will be transferred to plantation assets and will be subject to depreciation upon commencement of rubber tapping activities.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

### 2.10 Investment properties

Investment properties are properties that are owned by the Group that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Properties held under operating leases are classified as investment properties when the definition of an investment property is met.

Investment properties are initially measured at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

## 2. Summary of significant accounting policies (cont'd)

### 2.11 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating units to which goodwill have been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(b) Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(i) Process know-how

The useful life of the process know-how was estimated to be indefinite because based on the current demand for rubber, management believes there is no foreseeable limit to the period over which the process know-how are expected to generate net cash inflows for the Group.

(ii) Customer relationship

Customer relationship acquired was initially recognised at cost and was subsequently carried at cost less accumulated amortization and accumulated impairment losses. These costs are amortised to the income statement using the straight line method over 10 years.

## 2. Summary of significant accounting policies (cont'd)

### 2.12 Land use rights

Certain plantation lands in Cameroon were given land use rights by the State of Cameroon in 1996 for a period of 50 years plus 50 years, renewable at a nominal value to the Group. With the Group's continuing investment in replanting and extension on the plantation land, the Group is of the view that it is not likely that the land use rights will not be renewed at the expiry of its current term. As such, land use rights for those lands are deemed to have a perpetual life and no depreciation has been provided.

### 2.13 Bearer plants and biological assets

The classification of rubber trees as bearer plant or non-bearer plant depends on the business plan for respective rubber plantations, pertinent facts and circumstances surrounding the trees, plantation and relevant local market or industry considerations. Rubber trees are not considered bearer plant when there is commercial viable plan to sell the rubber tree as lumber at the end of the rubber production life to an established market.

Bearer plants consist of rubber trees in African plantations and the oil palm trees. Cultivation of seedlings is stated at cost. The accumulated cost will be classified to immature plantations at the time of planting. Mature plantations are stated at cost less accumulated depreciation and impairment, and depreciated over its estimated useful life of 25 years, upon commencement of commercial production. The useful life is reviewed at each financial year to ensure that the period of method is consistent with previous estimate and the expected pattern of consumption of the future economic benefits. The carrying value of bearer plants are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. A bearer plant is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the bearer plant is included in the profit or loss when the bearer plant is derecognised.

Biological assets consist of rubber trees in the Malaysia plantations and produce that grows on oil palm trees in the Malaysia plantations and rubber latex in the African plantation. These are measured at fair value less estimate costs to sell. Gains or losses arising on initial recognition of plantations at fair value less estimated costs to sell and from the changes in fair value less estimated costs to sell of plantations at each reporting date are included in profit or loss for the period in which they arise.

### 2.14 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in profit or loss.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously.

## 2. Summary of significant accounting policies (cont'd)

### 2.15 Financial instruments

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(ii) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

## 2. Summary of significant accounting policies (cont'd)

### 2.15 Financial instruments (cont'd)

(c) Gain/loss on commodity contracts

Commodity contracts to buy and sell natural rubber commodities can be subject to net settlement if market conditions are favourable. Such commodity contracts and derivative financial instruments are marked to market at market rates prevailing at the end of the reporting period. Unrealised gains or losses are taken to profit or loss. Market value is generally based on listed market prices. If listed market prices are not available, market value is determined based on relevant factors, including trade price quotations, time value and volatility factors underlying the commodities and price quotations for similar commodities traded in different markets, including markets located in different geographical areas.

### 2.16 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost had been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

### 2.17 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and demand deposits that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

## 2. Summary of significant accounting policies (cont'd)

### 2.18 Inventories

Inventories except consumables are carried at the fair market value at the end of each reporting period, whereby the resulting unrealised gain or loss is recognised in profit or loss. This is an alternative policy allowed by FRS 2 Inventories for commodity broker or trader, as this better reflect the performance of the Group. The Group's operating activities, including procurement of raw materials, selling of finished goods and entering into forward commodity (natural rubber) contracts are subject to movements in the market prices of natural rubber. The Group has two main types of sales contracts and purchase contracts; long term contracts ("LTCs") and spot contracts ("Spot"). The prices for LTCs are usually determined based on the average market price for certain delivery months, whereas the prices for Spot contracts are usually agreed on the day the Spot contracts are entered. In addition to the management of the price risk between the sales and purchase activities, which are the key driver and contributor to the Group's profitability, the Group also provided other ancillary services such as processing and distribution. The profit for these ancillary services is recognised in the profit or loss only when these services are performed by the Group.

Consumables are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### 2.19 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 2.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 2.21 Employee benefits

(a) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

## 2. Summary of significant accounting policies (cont'd)

### 2.21 Employee benefits (cont'd)

(a) Retirement benefit costs (cont'd)

Defined benefit costs are categorised as follows:
- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income of the net retirement benefit obligation; and
- Re-measurements of net retirement benefit obligation

The Group presents the first two components of defined benefit costs in profit or loss in the line item 'Employee benefit expense'. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

(b) Employee leave entitlement

Employees' entitlement to annual leave is recognised as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the reporting period is recognised for services rendered by employees up to the end of the reporting period.

### 2.22 Leases

(a) As lessee

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) As lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.24(c). Contingent rents are recognised as revenue in the period in which they are earned.

### 2.23 Non-current assets held-for-sale and discontinued operations

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. A component of the Group is classified as a 'discontinued operation' when the criteria to be classified as held-for-sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Property, plant and equipment and intangible assets once classified as held-for-sale are not depreciated or amortised.

## 2. Summary of significant accounting policies (cont'd)

### 2.24 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

### 2.25 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 2. Summary of significant accounting policies (cont'd)

### 2.25 Taxes (cont'd)

(b) Deferred tax (cont'd)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

(c) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other receivables or other payables in the balance sheet.

### 2.26 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

Fair valuation of shares are based on the prevailing market price as at the date of issuance.

### 2.27 Perpetual securities

The perpetual capital securities do not have a maturity date and the Company is able to elect to defer making a distribution subject to the terms and conditions of the securities issue. Accordingly, the Company is not considered to have a contractual obligation to make principal repayments or distributions in respect of its perpetual capital securities issue and the perpetual capital securities are presented within equity. Distributions are treated as dividends which will be directly debited from equity. Costs directly attributable to the issue of the perpetual capital securities are deducted against the proceeds from the issue.

On the election of the Company to repay the perpetual securities, the perpetual securities will be reclassified as a financial liability under FRS 39. The financial liability is initially recognised at fair value and any difference between the carrying amount of the liability and the previously recognised equity instrument is recognised in equity.

No gain or loss is recognised in the profit or loss on the reclassification.

## 2. Summary of significant accounting policies (cont'd)

### 2.28 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

### 2.29 Segment reporting

For management purposes, the Group is organised into operating segments based on their business units. Management regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 33, including the factors used to identify the reportable segments and the measurement basis of segment information.

## 3. Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

### 3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

*(a) Finalisation of purchase price allocation review ("PPA")*

In prior year, the Group completed the acquisitions of GMG Group and SINRIO Group. The PPA exercise was deemed to be provisional as at 31 December 2016. During the year, the Group has finalized the PPA and made certain adjustments ("PPA adjustments") retrospectively against the net bargain purchase previously recorded.

Significant judgement has been made by the Group to determine if the new information obtained within the PPA measurement period triggers PPA adjustments. In addition, certain judgement has also been made in determining the fair value of the assets and liabilities of the acquirees in light of the new information obtained.

Please refer to Section 3.2(b) for the estimate made by the Group for the PPA adjustments.

*(b) Classification of rubber trees as bearer plants or non-bearer plants*

The Group has rubber plantations in Malaysia and Africa.

The classification of rubber trees as bearer plant or non-bearer plant depends on the business plan for respective rubber plantations, pertinent facts and circumstances surrounding the trees, plantation and relevant local market or industry considerations. Rubber trees are not considered bearer plant when there is commercially viable plan to sell the rubber tree as lumber to an established market.

The Group has assessed that there is an established lumber market for rubber trees in Malaysian plantation and it is the Group's business plan to sell the rubber trees as lumber at the end of the rubber production life.

**3. Significant accounting judgements and estimates (cont'd)**

**3.1 Judgements made in applying accounting policies (cont'd)**

*(b) Classification of rubber trees as bearer plants or non-bearer plants (cont'd)*

Therefore, the Group has accounted for:

(i) the rubber trees in the Malaysian plantations as biological assets, which is within the scope of FRS 41, and are stated at fair value less estimated costs to sell; and

(ii) the rubber trees in the African plantations as bearer plant which is measured under FRS 16 at accumulated cost (before maturity) and using cost model (after maturity).

*(c) Impairment of goodwill and process know-how*

Judgement has been made by the Group to identify the cash-generating units and assess the future market and economic assumptions, such as: forecasted rubber price, forecasted sales volume, growth rate and pre-tax discount rates. The Group has estimated the recoverable amounts of cash-generating units to which goodwill and/or process know-how has been allocated to, based on value-in-use approach.

Estimation has been made in deriving the value-in-use, as disclosed in Note 3.2(a).

*(d) Accounting for assets held-for-sale and discontinued operations*

As disclosed in Note 22, the Group has classified its interest in Teck Bee Hang Co., Ltd and its subsidiaries ("TBH Group") as assets and liabilities held-for-sale in accordance with FRS 105 *Non-Current Assets Held for Sale and Discontinued Operation* during the year. Significant judgement has been made by the Group, including: likelihood of disposing the interest within one year from the classification date, the disposal group is measured at the lower of carrying amount and fair value less costs to sell.

**3.2 Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*(a) Impairment of goodwill and process know-how*

Determining whether intangible asset is impaired requires an estimation of the value in use of the cash-generating-unit to which the goodwill and/or process know-how have been allocated.

The value in use calculation requires the Group to estimate the future cash flows expected to arise and a suitable discount rate in order to calculate present value. The Group's carrying amount of intangible asset at 31 December 2017 is US$199,887,000 (2016: US$199,887,000) (Note 11).

*(b) Finalisation of purchase price allocation review*

Purchase accounting requires extensive use of accounting estimates to allocate the purchase price to the fair values of the assets and liabilities acquired.

As mentioned in 3.1(a) above, the Group has exercised judgement to determine the fair value adjustments required during the purchase price allocation review. Significant estimates have been made to determine the fair value adjustments amount.

## 4. Revenue

| | Group 2017 US$'000 | Group 2016 US$'000 (Restated) |
|---|---|---|
| Sale of goods | 1,988,439 | 970,478 |

## 5. Other income

| | Group 2017 US$'000 | Group 2016 US$'000 (Restated) |
|---|---|---|
| Fair value gain on investment properties (Note 13) | 1,258 | 1,717 |
| Fair value gain on biological assets (Note 16) | 259 | 2,374 |
| Net bargain purchase on acquisition of subsidiaries (Note 14a) | – | 90,321 |
| Gain on disposal of an associate (Note 14b) | 18,130 | – |
| Gain on disposal of subsidiaries (Note 14a) | 3,406 | – |
| Others | 1,723 | 375 |
| | 24,776 | 94,787 |

## 6. Finance costs

| | Group 2017 US$'000 | Group 2016 US$'000 (Restated) |
|---|---|---|
| Interest expense on: | | |
| – Term loans | 11,956 | 13,156 |
| – MTN | 4,951 | 6,501 |
| – Working capital loans | 6,841 | 8,273 |
| – Finance lease obligation | 52 | 82 |
| | 23,800 | 28,012 |

## 7. Income tax expense

| | Group 2017 US$'000 | Group 2016 US$'000 (Restated) |
|---|---|---|
| **Consolidated income statement** | | |
| ***Current tax*** | | |
| Current tax expense | 13,370 | 3,279 |
| Under provision in prior years | 51 | 1,103 |
| ***Deferred tax*** | | |
| Deferred tax credit relating to the origination and reversal of temporary differences (Note 15) | (2,104) | (1,049) |
| Income tax expense recognised in profit or loss | 11,317 | 3,333 |

## 7. Income tax expense (cont'd)

| | Group 2017 US$'000 | Group 2016 US$'000 (Restated) |
|---|---|---|
| Tax expense is attributable to: | | |
| – Continuing operations | 11,076 | 3,238 |
| – Discontinued operations (Note 22) | 241 | 95 |
| | 11,317 | 3,333 |
| **Statement of comprehensive income (continuing operations)** | | |
| Deferred tax credit related to other comprehensive income | | |
| – Actuarial movements on defined benefits plan | 328 | 290 |

**Relationship between tax expense and accounting profit**

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2017 and 31 December 2016 are as follows:

| | Group 2017 US$'000 | Group 2016 US$'000 (Restated) |
|---|---|---|
| Profit before tax from continuing operations | 53,519 | 51,710 |
| Loss before tax from discontinued operations | (6,951) | (3,067) |
| Profit before taxation | 46,568 | 48,643 |
| Tax at the domestic income tax rate of 17% (2016: 17%) | 7,917 | 8,269 |
| Effect of non-deductible expenses | 4,434 | 6,922 |
| Effect of non-taxable income | (3,886) | (14,937) |
| Effect of tax exempt income | (83) | (18) |
| Interest income deducted at source | (286) | (167) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 2,385 | (63) |
| Deferred tax asset not recognised | 3,435 | 2,527 |
| Utilisation of previously unrecognised deferred tax asset | (2,858) | (405) |
| Effect of tax incentive at lower rate | 189 | (48) |
| Under provision in prior years | 51 | 1,103 |
| Share of net profit of associates | – | (269) |
| Others | 19 | 419 |
| Income tax expense recognised in profit or loss | 11,317 | 3,333 |

Three of the subsidiaries within the Group, Hevea Global Pte Ltd ("HG"), New Continent Enterprises (Private) Limited ("NCE") and Cameroon Holdings Pte Ltd (formerly known as GMG Investment (S) Pte Ltd) ("CH") were granted the Global Trader Programme ("GTP") Incentive subject to the fulfilment of certain conditions. The GTP award was granted to HG from 1 July 2016 for a period of 4 years and 6 months, NCE from 1 July 2014 for a period of 4 years and 6 months and CH from 1 January 2013 for a period of 5 years. The qualifying income of HG and NCE shall be taxed at the concessionary tax rate of 10% and CH at concessionary tax rate of 5%.

## 8. Profit before taxation

| | Group 2017 US$'000 | Group 2016 US$'000 (Restated) |
|---|---|---|
| **Continuing operations** | | |
| (a) Profit before taxation from continuing operations have been arrived at after charging/(crediting): | | |
| Non-recurring expenses (included within administrative expenses): | | |
| – Acquisition related expenses | 764 | 4,767 |
| – Expenses incurred on business integration and restructuring | – | 2,161 |
| – Expense on Consent Solicitation Exercise ("CSE") | – | 920 |
| – Amortisation of fee incurred for the syndicated loan facility | – | 11,706 |
| – Others | – | 2,233 |
| | 764 | 21,787 |
| Depreciation of property, plant and equipment and plantation related properties included in: | | |
| – Cost of sales | 18,075 | 9,948 |
| – Selling expenses | 98 | 92 |
| – Administrative expenses | 5,179 | 2,003 |
| | 23,352 | 12,043 |
| Foreign exchange loss/(gain) included in: | | |
| – Cost of sales | 482 | 2,530 |
| – Administrative expenses | 12,190 | (167) |
| | 12,672 | 2,363 |
| Amortisation of intangible assets (Note 11) | 79 | 72 |
| Professional fees | 4,971 | 2,460 |
| Directors' remuneration | 4,093 | 2,808 |
| Directors' fees (Note 32) | 355 | 144 |
| Audit fees: | | |
| – paid to auditors of the Company | 880 | 560 |
| – paid to other auditors | 106 | 172 |
| Non-audit fees: | | |
| – paid to auditors of the Company | 124 | 197 |
| Operating lease expense (Note 30) | 2,659 | 1,523 |
| Fair value gain/(loss) on open forward commodities contracts and inventories, unrealised | 2,026 | (11,598) |
| Loss on disposal of property, plant and equipment and investment properties and write off of property, plant and equipment | 268 | 417 |
| Inventories recognised as an expense in cost of sales | 1,847,953 | 918,980 |

### 8. Profit before taxation (cont'd)

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 (Restated) |
| **Continuing operations (cont'd)** | | |
| (b) Employee benefits expenses (including directors' remuneration): | | |
| – Defined benefit plan | 3,293 | 2,390 |
| – Defined contribution plans | 1,915 | 2,081 |
| – Staff welfare | 3,783 | 1,933 |
| – Staff salaries | 82,322 | 40,058 |
| | 91,313 | 46,462 |
| Included in: | | |
| – Cost of sales | 45,409 | 23,756 |
| – Selling expenses | 5,982 | 4,387 |
| – Administrative expenses | 39,922 | 18,319 |
| | 91,313 | 46,462 |

### 9. Earnings before interest, tax, depreciation and amortisation ("EBITDA")

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 (Restated) |
| **Continuing operations** | | |
| Profit before taxation | 53,519 | 51,710 |
| Adjustments for: | | |
| Depreciation expense (Note 8) | 23,352 | 12,043 |
| Finance costs (Note 6) | 23,800 | 28,012 |
| Loss on disposal of investment properties and property, plant and equipment and write off of property, plant and equipment | 268 | 417 |
| Interest income | (2,922) | (1,735) |
| Amortisation of intangible assets (Note 8) | 79 | 72 |
| Share of profit of associates | (9,899) | (1,686) |
| Net bargain purchase on acquisition of subsidiaries (Note 5) | – | (90,321) |
| Gain on disposal of an associate (Note 5) | (18,130) | – |
| Gain on disposal of subsidiaries (Note 5) | (3,406) | – |
| EBITDA | 66,661 | (1,488) |
| Add: Non-recurring expenses (Note 8) | 764 | 21,787 |
| Less: Fair value gain on investment properties (Note 5) | (1,258) | (1,717) |
| Adjusted EBITDA | 66,167 | 18,582 |

## 10. Earnings/(Loss) per share ("EPS/LPS")

| | Group Basic and diluted | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 (Restated) |
| Profit for the year attributable to owners of the Company from continuing operations | 35,705 | 49,487 |
| Loss for the year attributable to owners of the Company from discontinued operations | (3,957) | (1,739) |
| | **Number of ordinary shares '000 Basic and diluted** | |
| | | (Restated) |
| Weighted average number of ordinary shares used to compute earnings/(loss) per share | 1,595,012 | 876,275 |
| Earnings/(Loss) per share ("EPS/LPS") (US Cents): | | |
| -Continuing operations | 2.24 | 5.65 |
| -Discontinued operations | (0.25) | (0.20) |

## 11. Intangible assets

The amortisation of customer related intangibles and trademark is included in administrative expenses in the consolidated income statement.

| **Group** | **Process know-how** | **Goodwill** | **Customer related intangibles** | **Trademark** | **Total** |
|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Cost:** | | | | | |
| At 1 January 2016 | 10,000 | 189,887 | 700 | – | 200,587 |
| Addition: | | | | | |
| – Acquisition of subsidiaries (Note 14a(i)) | – | – | – | 36 | 36 |
| Exchange difference | – | – | – | (2) | (2) |
| At 31 December 2016 and 1 January 2017 | 10,000 | 189,887 | 700 | 34 | 200,621 |
| Exchange difference | – | – | – | (1) | (1) |
| At 31 December 2017 | 10,000 | 189,887 | 700 | 33 | 200,620 |
| **Accumulated amortisation:** | | | | | |
| At 1 January 2016 | – | – | 53 | – | 53 |
| Amortisation for the year | – | – | 70 | 2 | 72 |
| As at 31 December 2016 and 1 January 2017 | – | – | 123 | 2 | 125 |
| Amortisation for the year | – | – | 70 | 9 | 79 |
| At 31 December 2017 | – | – | 193 | 11 | 204 |
| **Net carrying amount:** | | | | | |
| At 31 December 2016 | 10,000 | 189,887 | 577 | 32 | 200,496 |
| At 31 December 2017 | 10,000 | 189,887 | 507 | 22 | 200,416 |

The amortisation of customer related intangibles and trademark is included in administrative expenses in the consolidated income statement.

**11. Intangible assets (cont'd)**

**Process know-how**

Process know-how relates to the production of a certain grade of rubber and has been allocated to the Processing segment. The intangible asset has indefinite life so long as there is a demand for such rubber.

**Goodwill**

Goodwill acquired through business combinations have been allocated to cash-generating units ("CGU"), which are also the reportable segments, for impairment testing.

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Processing segment | 183,282 | 183,282 |
| Distribution segment | 6,605 | 6,605 |
| | 189,887 | 189,887 |

**Customer related intangibles**

Customer related intangibles relates to non-contractual customer relationships acquired through business combination. The intangible asset has an average remaining amortisation period of 7 years (2016: 8).

**Impairment testing of goodwill and process know-how with indefinite life**

The above goodwill and process know-how was tested for impairment as at 31 December 2017. No impairment loss was recognised as at 31 December 2017 as the recoverable amounts of the respective CGU to which goodwill and process know-how have been allocated to were in excess of their respective carrying values. The recoverable amount of the CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a 5-year period.

11. Intangible assets (cont'd)

Key assumptions used in the value in use calculations

| Cash generating units/intangible assets | Carrying amount as at 31 December 2017 | Discount rate (pre-tax) | Growth rate |
|---|---|---|---|
| | US$'000 | | |
| Processing segment: | | | |
| -Goodwill | 183,282 | 10% | 2% |
| -Process know-how | 10,000 | 10% | 2% |
| Distribution segment: | | | |
| -Goodwill | 6,605 | 10% | 5% |
| Total | 199,887 | | |

| Cash generating units/intangible assets | Carrying amount as at 31 December 2016 | Discount rate (pre-tax) | Growth rate |
|---|---|---|---|
| | US$'000 | | |
| Processing segment: | | | |
| -Goodwill | 183,282 | 10% | 1% to 2% |
| -Process know-how | 10,000 | 10% | 2% |
| Distribution segment: | | | |
| -Goodwill | 6,605 | 10% | 2% to 3% |
| Total | 199,887 | | |

The calculations of value in use for the CGUs are most sensitive to the following assumptions:

*Growth rates* – The forecasted growth rates are based on published industry research and do not exceed the long term average growth rate for the industries relevant to the CGUs.

*Pre-tax discount rates* – Discount rates represent the current market assessment of the risks specific to each CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates.

**Sensitivity to changes in assumptions**

Changes to the assumptions used by management to determine the recoverable value, in particular the pre-tax discount rate and growth rate, can have significant impact on the results of the assessment. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying amount of the unit to materially exceed its recoverable amount.

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 12. Property, plant and equipment

| Group | Leasehold improvements and renovation | Office equipment | Computers and software |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| **Cost:** | | | |
| At 1 January 2016 | 4,156 | 2,170 | 1,166 |
| Acquisition of subsidiaries, as previously reported | 3,244 | 5,619 | 3,071 |
| Finalisation of purchase price allocation (Note 14(a)(ii)) | (31) | (17) | – |
| Acquisition of subsidiaries, as restated | 3,213 | 5,602 | 3,071 |
| Additions | 174 | 868 | 199 |
| Disposals | (8) | (10) | – |
| Write off | (207) | (51) | (100) |
| Transfer to plantation related properties (Note 16) | 37 | (703) | 63 |
| Reclassification | (407) | 21 | – |
| Exchange difference | 74 | (139) | (127) |
| At 31 December 2016 and 1 January 2017 (As restated) | 7,032 | 7,758 | 4,272 |
| Additions | 120 | 1,222 | 367 |
| Disposals | – | (414) | (122) |
| Write off | (761) | (513) | – |
| Transfer from plantation related properties (Note 16) | – | – | – |
| Reclassification | 21,411 | 4,106 | 109 |
| Reclassification to assets of disposal group classified as held-for-sale (Note 22) | – | (149) | (269) |
| Exchange difference | 633 | 877 | 268 |
| At 31 December 2017 | 28,435 | 12,887 | 4,625 |
| **Accumulated depreciation and impairment:** | | | |
| At 1 January 2016 | 955 | 948 | 730 |
| Disposals | – | (7) | – |
| Depreciation for the year | (330) | 1,754 | 384 |
| Write off | (82) | (21) | (94) |
| Reclassification | (31) | – | – |
| Exchange difference | 40 | (41) | (11) |
| At 31 December 2016 and 1 January 2017 | 552 | 2,633 | 1,009 |
| Disposals | – | (350) | (121) |
| Depreciation for the year | 793 | 1,516 | 726 |
| Write off | (715) | (487) | – |
| Reclassification to assets of disposal group classified as held-for-sale (Note 22) | – | (54) | (62) |
| Exchange difference | (470) | 191 | 39 |
| At 31 December 2017 | 160 | 3,449 | 1,591 |
| **Net carrying amount:** | | | |
| At 31 December 2016 | 6,480 | 5,125 | 3,263 |
| At 31 December 2017 | 28,275 | 9,438 | 3,034 |

| Leasehold buildings | Plant and machinery | Vehicles | Leasehold land | Freehold land | Asset under construction | Total |
|---|---|---|---|---|---|---|
| US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| 34,360 | 31,249 | 2,783 | 33,333 | – | 5,181 | 114,398 |
| 62,437 | 40,445 | 3,771 | 23,989 | 8,029 | 5,062 | 155,667 |
| – | – | – | – | – | – | (48) |
| 62,437 | 40,445 | 3,771 | 23,989 | 8,029 | 5,062 | 155,619 |
| 1,924 | 1,017 | 344 | – | 457 | 3,118 | 8,101 |
| (98) | (109) | (30) | – | – | – | (255) |
| – | – | – | – | – | – | (358) |
| – | (684) | (147) | – | – | (1,203) | (2,637) |
| – | 802 | – | – | – | (416) | – |
| (1,270) | (847) | (35) | (434) | (186) | (686) | (3,650) |
| 97,353 | 71,873 | 6,686 | 56,888 | 8,300 | 11,056 | 271,218 |
| 4,545 | 3,645 | 2,123 | – | – | 5,908 | 17,930 |
| (731) | (2,611) | (2,936) | – | – | (7) | (6,821) |
| (1) | (47) | – | – | – | (10) | (1,332) |
| 14,566 | – | – | – | – | 5,934 | 20,500 |
| (18,298) | 3,606 | 2 | 28 | – | (10,964) | – |
| (9,483) | (7,631) | (166) | (2,773) | (8,981) | (297) | (29,749) |
| 7,874 | 3,346 | 640 | 1,484 | 681 | 1,250 | 17,053 |
| 95,825 | 72,181 | 6,349 | 55,627 | – | 12,870 | 288,799 |
| | | | | | | |
| 3,293 | 5,405 | 1,140 | 2,438 | – | – | 14,909 |
| (14) | (91) | (24) | – | – | – | (136) |
| 3,858 | 3,687 | 728 | 1,779 | – | – | 11,860 |
| – | – | – | – | – | – | (197) |
| – | 31 | – | – | – | – | – |
| (148) | 101 | 7 | 53 | – | – | 1 |
| 6,989 | 9,133 | 1,851 | 4,270 | – | – | 26,437 |
| (498) | (2,610) | (2,775) | – | – | – | (6,354) |
| 7,109 | 11,472 | 1,237 | 2,189 | – | – | 25,042 |
| – | (35) | – | – | – | – | (1,237) |
| (227) | (2,175) | (44) | – | – | – | (2,562) |
| 2,377 | 179 | 246 | (18) | – | – | 2,544 |
| 15,750 | 15,964 | 515 | 6,441 | – | – | 43,870 |
| | | | | | | |
| 90,364 | 62,740 | 4,835 | 52,618 | 8,300 | 11,056 | 244,781 |
| 80,075 | 56,217 | 5,834 | 49,186 | – | 12,870 | 244,929 |

## 12. Property, plant and equipment (cont'd)

| Company | Renovation | Computers | Office equipment | Assets under construction | Total |
|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Cost:** | | | | | |
| At 1 January 2016 | 53 | 191 | 11 | – | 255 |
| Additions | 146 | 8 | – | – | 154 |
| Disposal | (10) | – | – | – | (10) |
| At 31 December 2016 and 1 January 2017 | 189 | 199 | 11 | – | 399 |
| Additions | 12 | 11 | 7 | 856 | 886 |
| At 31 December 2017 | 201 | 210 | 18 | 856 | 1,285 |
| **Accumulated depreciation:** | | | | | |
| At 1 January 2016 | 16 | 108 | 9 | – | 133 |
| Depreciation for the year | 16 | 43 | 2 | – | 61 |
| Disposal | (2) | – | – | – | (2) |
| At 31 December 2016 and 1 January 2017 | 30 | 151 | 11 | – | 192 |
| Depreciation for the year | 33 | 35 | – | – | 68 |
| At 31 December 2017 | 63 | 186 | 11 | – | 260 |
| **Net carrying amount:** | | | | | |
| At 31 December 2016 | 159 | 48 | – | – | 207 |
| At 31 December 2017 | 138 | 24 | 7 | 856 | 1,025 |

Assets held under finance lease

The Company pledged machineries and equipment with an aggregate cost of US$2,200,000 under a finance lease agreement. These machineries and equipment were subsequently sub-leased to a subsidiary in Indonesia for use in the natural rubber processing. The carrying amount of the plant and equipment held under finance lease at the end of the financial year was US$931,000 (2016: US$1,097,000).

Assets pledged as security

In addition to assets held under finance lease, the Group has pledged certain property, plant and equipment with a carrying amount of US$38,702,000 (2016: US$30,764,000) to secure the Group's and the Company's loans and borrowings (Note 25).

## 13. Investment properties

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| **Balance sheet:** | | |
| At 1 January | 39,791 | 21,420 |
| Fair value gain recognised in profit or loss (Note 5) | 1,258 | 1,717 |
| Acquisition of subsidiaries (Note 14a(ii)) | – | 17,465 |
| Disposal | (414) | (884) |
| Reclassification to assets of disposal group classified as held-for-sale (Note 22) | (16,656) | – |
| Exchange difference | 1,277 | 73 |
| At 31 December | 25,256 | 39,791 |
| **Income statement:** | | |
| Rental income from investment properties: | | |
| – Minimum lease payments | 27 | 25 |
| Direct operating expenses (including repairs and maintenance) arising from: | | |
| – Rental generating properties | 27 | 15 |

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Valuation of investment properties

Investment properties are stated at fair value, which has been determined based on valuations performed as at 31 December 2017 and 31 December 2016. The valuations were performed by independent valuers with a recognised and relevant professional qualification and with recent experience in the location and category of the properties being valued. Details of valuation techniques and inputs used are disclosed in Note 34.

The investment properties held by the Group as at 31 December 2017 are as follows:

| Description and Location | Existing Use | Tenure | Unexpired lease term |
|---|---|---|---|
| Residential houses in Palembang, Indonesia | Residential | Leasehold | 2 - 26 years |
| Lands in Palembang, Indonesia | Vacant land | Leasehold | 1 – 17 years |
| Offices in Palembang, Indonesia | Offices | Leasehold | 2 - 16 years |
| Shophouses in Medan, Indonesia | Shophouse | Leasehold | 4 years |
| Offices in Medan, Indonesia | Offices | Leasehold | 5 years |
| Shophouse in Jakarta, Indonesia | Shophouse | Leasehold | 5 years |
| Residential house in Banjarmasin, Indonesia | Residential | Leasehold | 12 years |
| Land in Medan, Indonesia | Vacant land | Leasehold | 4 years |
| Shophouse in Jambi, Indonesia | Shophouse | Leasehold | 2 years |
| Land in Pontianak, Indonesia | Vacant land | Leasehold | 20 years |
| Shophouse in Rantau, Indonesia | Shophouse | Leasehold | 14 years |
| Residential house in Rantau, Indonesia | Residential house | Leasehold | 14 years |
| Land in Siak, Indonesia | Vacant land | Leasehold | 6 years |
| Commercial offices in Hainan, China | Commercial office | Leasehold | 19 - 20 years |

# Notes to the Financial Statements
## For the financial year ended 31 December 2017

### 14. Investment in subsidiaries and associates

#### (a) Investment in subsidiaries

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| At 1 January | 615,640 | 168,008 |
| Acquisition of subsidiaries | 1,184 | 447,632 |
| Disposal of subsidiaries | (16,000) | – |
| At 31 December | 600,824 | 615,640 |

The Company has disposed its equity interest in Hevea Global Pte Ltd to Halcyon Rubber Company Pte Ltd, a wholly owned subsidiary of the Company.

Details of the subsidiaries are as follows:

| Name | Country of incorporation | Principal activities | Proportion (%) of Group effective ownership interest 2017 | 2016 |
|---|---|---|---|---|
| **Held by the Company** | | | | |
| Halcyon Rubber Company Pte Ltd (1) | Singapore | Investment holding | 100.00 | 100.00 |
| Halcyon Rubber & Plantations Pte Ltd (formerly known as GMG Global Ltd) (1) | Singapore | Investment holding | 100.00 | 100.00 |
| Sinochem International Natural Rubber Investment (Overseas) Pte Ltd (1) | Singapore | Natural rubber trading and investment holding | 100.00 | 100.00 |
| HAC Capital Pte Ltd (formerly known as Centrotrade Singapore Pte Ltd) (1) (6) | Singapore | Investment holding | 100.00 | – |
| Hevea Global Pte Ltd (1) (6) | Singapore | Natural rubber trading | – | 100.00 |
| Halcyon Agri Indonesia Pte Ltd (1) (6) | Singapore | Investment holding | – | 100.00 |
| Halcyon Agri Malaysia Pte Ltd (1) (6) | Singapore | Investment holding | – | 100.00 |
| **Subsidiaries of Halcyon Rubber Company Pte Ltd** | | | | |
| Hevea Global Pte Ltd (1) (6) | Singapore | Natural rubber trading | 100.00 | – |
| Anson Company (Private) Limited (1) | Singapore | Investment holding | 100.00 | 100.00 |
| Halcyon Agri Indonesia Pte Ltd (1) (6) | Singapore | Investment holding | 100.00 | – |

**14. Investment in subsidiaries and associates (cont'd)**

**(a) Investment in subsidiaries (cont'd)**

| Name | Country of incorporation | Principal activities | Proportion (%) of Group effective ownership interest 2017 | 2016 |
|---|---|---|---|---|
| **Subsidiaries of Anson Company (Private) Limited** | | | | |
| SDCI Singapore Pte Ltd (1) (5) | Singapore | Investment holding | 100.00 | – |
| PT Hok Tong (2) | Indonesia | Natural rubber processing | 99.99 | 99.99 |
| PT Remco (2) | Indonesia | Natural rubber processing | 75.00 | 75.00 |
| PT Sunan Rubber (2) | Indonesia | Natural rubber processing | 53.75 | 53.75 |
| PT Rubber Hock Lie (2) | Indonesia | Natural rubber processing | 99.91 | 77.78 |
| **Subsidiary of Hevea Global Pte Ltd** | | | | |
| Centrotrade Holdings Pte Ltd (formerly known as Hevea International Pte Ltd) (1) (6) | Singapore | Investment holding | – | 100.00 |
| **Subsidiaries of SDCI Singapore Pte Ltd** | | | | |
| Societe de Development du Caoutchouc Ivoirien S.A. (2) (5) | Ivory Coast | Investment holding | 100.00 | – |
| Tropical Rubber Cote d'Ivorie (2) (6) | Ivory Coast | Natural rubber processing | 70.00 | – |
| **Subsidiary of PT Hok Tong** | | | | |
| PT Bumi Jaya (2) (6) | Indonesia | Natural rubber processing | 100.00 | – |
| **Subsidiaries of Halcyon Agri Indonesia Pte Ltd** | | | | |
| PT Hevea MK (2) | Indonesia | Natural rubber processing | 100.00 | 95.00 |
| PT Hevea GE (2) | Indonesia | Natural rubber processing | 100.00 | 95.00 |

**14. Investment in subsidiaries and associates (cont'd)**

**(a) Investment in subsidiaries (cont'd)**

| Name | Country of incorporaton | Principal activities | Proportion (%) of Group effective ownership interest 2017 | 2016 |
|---|---|---|---|---|
| **Subsidiaries of Halcyon Rubber & Plantations Pte Ltd (formerly known as GMG Global Ltd)** | | | | |
| Centrotrade Holdings Pte Ltd (formerly known as Hevea International Pte Ltd) (1) (6) | Singapore | Investment holding | 100.00 | – |
| GMG Holdings Ltd | Singapore | Dormant | 100.00 | 100.00 |
| PT Bumi Jaya (2) (6) | Indonesia | Natural rubber processing | – | 95.00 |
| PT GMG Sentosa (2) | Indonesia | Natural rubber processing | 75.00 | 75.00 |
| Ivoirienne de Traitement de Caoutchouc (2) | Ivory Coast | Natural rubber processing | 60.00 | 60.00 |
| G.P. Sentosa Enterprises Co., Ltd (3) | Thailand | Investment holding | 100.00 | 100.00 |
| Teck Bee Hang Co., Ltd (3) | Thailand | Natural rubber processing | 55.00 | 55.00 |
| Cameroon Holdings Pte Ltd (formerly known as GMG Investment (S) Pte Ltd) (1) | Singapore | Investment holding | 100.00 | 100.00 |
| Inobonto Holdings Pte Ltd | Singapore | Disposed during the year | – | 95.45 |
| GMG Investment Congo SPRL (3) | Democratic Republic of Congo | In liquidation | 100.00 | 100.00 |
| GMG Cote d'Ivorie (3) | Ivory Coast | In liquidation | 100.00 | 100.00 |
| **Subsidiaries of Centrotrade Holdings Pte Ltd (formerly known as Hevea International Pte Ltd)** | | | | |
| New Continent Enterprises (Private) Limited (1) (6) | Singapore | Natural rubber trading and distribution | – | 100.00 |
| Centrotrade Minerals & Metals, Inc (3) | United States | Natural rubber trading and distribution | 100.00 | 100.00 |
| Centrotrade Malaysia Commodities Sdn Bhd (2) | Malaysia | Natural rubber trading and distribution | 100.00 | 100.00 |

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

### 14. Investment in subsidiaries and associates (cont'd)

#### (a) Investment in subsidiaries (cont'd)

| Name | Country of incorporaton | Principal activities | Proportion (%) of Group effective ownership interest 2017 | 2016 |
|---|---|---|---|---|
| **Subsidiaries of Centrotrade Holdings Pte Ltd (formerly known as Hevea International Pte Ltd) (cont'd)** | | | | |
| Centrotrade Deutschland GmbH [2] | Germany | Natural rubber trading and distribution | 100.00 | 100.00 |
| HAC Capital Pte Ltd (formerly known as Centrotrade Singapore Pte Ltd) [1] [6] | Singapore | Investment holding | – | 100.00 |
| Wurfbain Polymer B.V. [4] [5] | The Netherlands | Investment holding, trading and distribution of natural rubber and latex | 100.00 | – |
| **Subsidiaries of Cameroon Holdings Pte Ltd (formerly known as GMG Investment (S) Pte Ltd)** | | | | |
| Societe de Development Du Caoutchouc Camerounais S.A. [2] | Cameroon | Investment holding | 100.00 | 100.00 |
| Tropical Rubber Cote d'Ivorie [2] [6] | Ivory Coast | Natural rubber processing | – | 51.20 |
| Green Ventures Cameroon S.A. | Cameroon | Liquidated | – | 100.00 |
| **Subsidiaries of Société de Développement du Caoutchouc Camerounais S.A.** | | | | |
| Hevea Cameroun S.A. [2] | Cameroon | Natural rubber plantation and processing | 90.00 | 90.00 |
| Sud Cameroun Hevea S.A. [2] | Cameroon | Natural rubber plantation and processing | 80.00 | 80.00 |
| **Subsidiaries of Wurfbain Polymer B.V.** | | | | |
| Alan L Grant Polymer, Inc [4] [5] | United States | Trading and distribution of natural rubber, latex and synthetic rubber | 100.00 | – |
| Corrie Maccoll Rubber Ltd [4] [5] | United Kingdom | Trading and distribution of natural rubber and latex | 100.00 | – |
| **Subsidiary of Inobonto Holdings Pte Ltd** | | | | |
| PT Inobonto Indah Perkasa | Indonesia | Disposed during the year | – | 76.40 |

14. Investment in subsidiaries and associates (cont'd)

(a) Investment in subsidiaries (cont'd)

| Name | Country of incorporaton | Principal activities | Proportion (%) of Group effective ownership interest 2017 | 2016 |
|---|---|---|---|---|
| **Subsidiaries of Teck Bee Hang Co., Ltd** | | | | |
| Techem Industries Co., Ltd [3] | Thailand | Manufacture & distribution of plastic products | 54.10 | 54.10 |
| Teck Fu Joint Venture Co., Ltd [3] | Thailand | Natural rubber processing | 47.30 | 47.30 |
| **Subsidiaries of Sinochem International Natural Rubber Investment (Overseas) Pte Ltd** | | | | |
| New Continent Enterprises (Private) Limited [1] [6] | Singapore | Natural rubber trading and distribution | 100.00 | – |
| Halcyon Agri Malaysia Pte Ltd [1] [6] | Singapore | Investment holding | 100.00 | – |
| Euroma Rubber Industries Sendirian Berhad [2] [6] | Malaysia | Natural rubber processing | – | 97.50 |
| Hainan Sinochem Rubber Co., Ltd [2] | People's Republic of China | Natural rubber processing | 99.71 | 97.37 |
| **Subsidiaries of New Continent Enterprises (Private) Limited** | | | | |
| New Continent Enterprises GmbH [4] | Germany | Dormant | 100.00 | 100.00 |
| New Continent Enterprises B.V. [4] | Netherlands | Dormant | 100.00 | 100.00 |
| Halcyon Agri Natural Rubber (Shanghai) Limited [2] | People's Republic of China | Natural rubber trading and distribution | 100.00 | 100.00 |
| **Subsidiary of New Continent Enterprises B.V.** | | | | |
| New Continent Enterprises Inc. [4] | United States | Dormant | 100.00 | 100.00 |
| **Subsidiaries of Halcyon Agri Malaysia Pte Ltd** | | | | |
| Halcyon Agri (Malaysia) Sdn Bhd [2] | Malaysia | Investment holding | 100.00 | 100.00 |
| JFL Agro Pte Ltd [1] | Singapore | Investment holding | 100.00 | 100.00 |
| **Subsidiaries of Halcyon Agri (Malaysia) Sdn Bhd** | | | | |
| Halcyon Rubber Estate Sdn Bhd [2] | Malaysia | Dormant | 100.00 | 100.00 |
| Hevea KB Sdn Bhd [2] | Malaysia | Natural rubber processing | 100.00 | 100.00 |
| Euroma Rubber Industries Sendirian Berhad [2] [6] | Malaysia | Natural rubber processing | 100.00 | 100.00 |

# Notes to the Financial Statements
## For the financial year ended 31 December 2017

**14. Investment in subsidiaries and associates (cont'd)**

**(a) Investment in subsidiaries (cont'd)**

| Name | Country of incorporaton | Principal activities | Proportion (%) of Group effective ownership interest 2017 | 2016 |
|---|---|---|---|---|
| **Subsidiaries of JFL Agro Pte Ltd** | | | | |
| JFL Agro Sdn Bhd [(2)] | Malaysia | Dormant | 100.00 | 100.00 |
| JFL Holdings Sdn Bhd [(2)] | Malaysia | Natural rubber and oil palm plantation | 100.00 | 100.00 |
| **Subsidiaries of Hainan Sinochem Rubber Co., Ltd** | | | | |
| Xishuangbanna Sinochem Rubber Co., Ltd [(2)] | People's Republic of China | Natural rubber processing | 96.67 | 96.67 |
| Baisha Sinochem Rubber Co., Ltd [(2)] | People's Republic of China | Natural rubber processing | 100.00 | 100.00 |
| Hainan Baoting Rubber Co., Ltd [(2)] | People's Republic of China | Dormant | 100.00 | 100.00 |
| Shanghai Hancheng Trading Co., Ltd [(2)] | People's Republic of China | Dormant | 100.00 | 100.00 |

[(1)] Audited by Ernst & Young LLP, Singapore.

[(2)] Audited by member firms of EY Global in the respective countries.

[(3)] Audited by other firms of Certified Public Accountants.

[(4)] Not required for statutory audit in the country of incorporation.

[(5)] Newly incorporated during the year.

[(6)] Intra-group transfer of shareholding.

**14. Investment in subsidiaries and associates (cont'd)**

**(a) Investment in subsidiaries (cont'd)**

(i) Disposal of a group of subsidiaries

During the financial year ended 31 December 2017, the Group disposed off its interest in Inobonto Holdings Pte Ltd and its subsidiary, PT Inobonto Indah Perkasa (collectively known as "Inobonto Group"), for a cash consideration of US$200,000.

The value of assets and liabilities of this group of subsidiaries recorded in the consolidated financial statements as at the date of disposal, and the effects of the disposal were as follows:

| | **Group** |
|---|---|
| | US$'000 |
| Other working capital assets | 162 |
| Total assets | 162 |
| Other tax payables | 118 |
| Working capital liabilities | 2,100 |
| Total liabilities | 2,218 |
| Net liabilities derecognised | 2,056 |
| Add: Non-controlling interest | 1,082 |
| Net liabilities disposed off | 3,138 |

| | **Effects on cash flows of the Group** |
|---|---|
| | US$'000 |
| Disposal consideration | 200 |
| Less: Consideration not yet received | (190) |
| Net cash inflow on disposal of subsidiaries | 10 |

| | **Group** |
|---|---|
| | US$'000 |
| Disposal consideration | 200 |
| Add: Net liabilities disposed off | 3,138 |
| Add: Reclassification of foreign currency translation reserve from equity on disposal of subsidiaries | 68 |
| Gain on disposal | 3,406 |

The gain on disposal attributable to measuring the retained interest amounted to US$3,406,000 was included in other income (Note 5).

(ii) Acquisition of subsidiaries

Halcyon Rubber & Plantations Pte Ltd and its subsidiaries (formerly known as GMG Global Ltd) (the "GMG Group")

The Group completed the acquisition of Halcyon Rubber & Plantations Pte Ltd ("GMG acquisition") upon the close of voluntary general offer ("VGO exercise") on 11 November 2016. Following the completion of GMG acquisition, GMG Group became subsidiaries of the Group.

Sinochem International Natural Rubber Investment (Overseas) Pte Ltd and its subsidiaries ("SINRIO Group")

On 3 October 2016, the Group completed the acquisition of SINRIO Group. Following the completion of SINRIO Group acquisition, SINRIO Group became subsidiaries of the Group.

The Group has carried out purchase price allocation review ("PPA review") for the acquisitions of GMG Group and SINRIO Group with the assistance of an independent valuer. The PPA was deemed to be provisional as at 31 December 2016.

**14. Investment in subsidiaries and associates (cont'd)**

**(a) Investment in subsidiaries (cont'd)**

(ii) Acquisition of subsidiaries (cont'd)

During the year, the Group has finalised the PPA review for the acquisitions of GMG Group and SINRIO Group. Adjustments have been made for new information obtained about the facts and circumstances relating to the fair value of the assets and liabilities acquired as at the acquisition date. The net bargain purchase arising from the provisional PPA review has therefore been adjusted accordingly to US$90,321,000 following the completion of the PPA to reflect the uncertainty in recovering certain other receivables, potential under-recognition of tax liabilities and under accrual of other liabilities. The retrospective adjustments to the provisional purchase price allocation were as follows:

| | Group | | |
|---|---|---|---|
| | **Previously reported** | **Adjustments** | **As restated 2016** |
| | US$'000 | US$'000 | US$'000 |
| Intangible asset | 36 | – | 36 |
| Property, plant and equipment | 155,667 | (48) | 155,619 |
| Plantation related properties | 247,125 | – | 247,125 |
| Investment properties | 17,465 | – | 17,465 |
| Deferred tax assets | 7,408 | – | 7,408 |
| Other non-current assets | 3,610 | – | 3,610 |
| Investment in associates | 197,960 | – | 197,960 |
| Cash and bank balances | 53,090 | – | 53,090 |
| Trade and other receivables | 109,519 | (9,016) | 100,503 |
| Derivative financial instruments - assets | 958 | – | 958 |
| Inventories | 85,075 | – | 85,075 |
| Consumable biological assets | 119 | – | 119 |
| Derivative financial instruments - liabilities | (3,830) | – | (3,830) |
| Trade and other payables | (57,366) | 1,579 (1) | (55,787) |
| Borrowings | (206,675) | – | (206,675) |
| Current tax liabilities | (2,186) | (16,272) | (18,458) |
| Finance lease | (60) | – | (60) |
| Retirement benefit obligations | (2,307) | (2,875) (1) | (5,182) |
| Deferred tax liabilities | (13,132) | – | (13,132) |
| Other non-current liabilities | (1,953) | – | (1,953) |
| Total identifiable net assets at fair value | 590,523 | (26,632) | 563,891 |
| Non-controlling interest measured at the non-controlling interest's proportionate share of GMG Group/SINRIO Group's net identifiable assets | (25,938) | – | (25,938) |
| Bargain purchase arising from acquisition (Note 5) | (116,953) | 26,632 | (90,321) |
| Total purchase consideration | 447,632 | – | 447,632 |

| | **Group** |
|---|---|
| | US$'000 |
| Consideration transferred | |
| Equity instruments issued (GMG: 714,919,941 ordinary shares of HACL), (SINRIO: 280,000,000 ordinary shares of HACL) | 447,632 |
| Total purchase consideration | 447,632 |

(1) Includes reclassification adjustment of US$2,355,000 from other payables to retirement benefit obligation.

**14. Investment in subsidiaries and associates (cont'd)**

**(a) Investment in subsidiaries (cont'd)**

(iii) Acquisition of ownership interest in subsidiary, without change in control

During the financial year, the Group has increased in its shareholding in the following subsidiaries:

1) PT Bumi Jaya ("Bumi Jaya")

In June 2017, PT Hok Tong ("Hok Tong") has acquired 5% of the issued and paid-up share capital in Bumi Jaya for a total cash consideration of US$1,250,000. Subsequently, the Group's total equity interest in Bumi Jaya has increased from 95% to 100%.

2) PT Hevea MK ("HMK") and PT Hevea GE ("HGE")

In August 2017, Anson Company (Private) Limited has acquired 5% equity interest in HMK and HGE respectively for a total consideration of US$287,000. As a result of this acquisition, the Group's total equity interest in HMK and HGE has increased to 100% respectively for both HMK and HGE.

3) Hainan Sinochem Rubber Co., Ltd. ("Hainan")

In August 2017, Sinochem International Natural Rubber Investment (Overseas) Pte Ltd has acquired additional 2.34% stake in Hainan for a total cash consideration of approximately US$1,321,000. Subsequent to the acquisition, the Group's total equity interest in Hainan has increased from 97.37% to 99.71%.

4) Tropical Rubber Côte d'Ivoire S.A. ("TRCI")

In December 2017, SDCI Singapore Pte. Ltd. ("SDCI Singapore") has acquired 18.8% of the issued and paid-up share capital in TRCI, for a total cash consideration of approximately US$5,076,000. Subsequently, the Group's total equity interest in TRCI has increased from 51.2% to 70.0%.

5) Euroma Rubber Industries Sendirian Berhad ("Euroma")

In December 2017, Halcyon Agri (Malaysia) Sdn. Bhd. has acquired 2.5% of the issued and paid-up share capital in Euroma, for a total cash consideration of approximately US$73,000. The Group's total equity interest in Euroma has increased from 97.5% to 100%.

Summary of the effect of change in the Group's ownership interest in the above subsidiaries on the equity attributable to owners of the Company are as follow:

| | Consideration paid for acquisition of non-controlling interests | Increase/(Decrease) in equity attributable to non-controlling interests | Increase/(Decrease) in equity attributable to owners of the Company |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| Bumi Jaya | 1,250 | (622) | (628) |
| HMK and HGE | 287 | (265) | (22) |
| Hainan | 1,321 | (1,544) | 223 |
| TRCI | 5,076 | (7,319) | 2,243 |
| Euroma | 73 | (3) | (70) |
| Total | 8,007 | (9,753) | 1,746 |

## 14. Investment in subsidiaries and associates (cont'd)

### (a) Investment in subsidiaries (cont'd)

(iv) Additional investment in a subsidiary

On 16 May 2017, Hok Tong, has increased its investment in PT Rubber Hock Lie ("Hock Lie") through the subscription of 1,635,000 new shares in the share capital of Hock Lie for a total subscription amount of IDR133,252,500,000 (equivalent to approximately US$10,018,000). Subsequent to the subscription, the Company's total equity interest in Hock Lie has increased from 77.78% to 99.91%. As a result of the additional investment, equity attributable to owners of the Company has decreased by US$515,000 and equity attributable to non-controlling interests has increased by US$515,000.

### (b) Investment in associates

The Group's material investment in associates are summarised below:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| SIAT S.A. | – | 188,605 |
| Feltex Co., Ltd | – | 1,095 |
| | – | 189,700 |

In 2017, the Group has disposed of its investment in an associate, SIAT S.A. and its subsidiaries ("SIAT") for a net purchase consideration of US$223,653,000. The carrying amount of the investment in SIAT as date of disposal was US$205,523,000. The resulting gain on disposal of US$18,130,000 was included in other income (Note 5).

Investment in Feltex Co., Ltd amounting to US$1,348,000 which is held through Teck Bee Hang Co., Ltd has been reclassified to assets of disposal group classified as held-for-sale (Note 22).

| Name | Country of incorporation | Principal activities | Proportion (%) of ownership interest 2017 | Proportion (%) of ownership interest 2016 |
|---|---|---|---|---|
| **Held through subsidiaries** | | | | |
| SIAT S.A. (2) | Belgium | Investment holding | – | 35.00 |
| Feltex Co., Ltd (1) (3) | Thailand | Natural rubber processing | 24.80 | 24.80 |
| **Subsidiaries of SIAT S.A.** | | | | |
| Compagnie Heveicole De Cavally (2) | Ivory Coast | Natural rubber plantation, processing and trading | – | 35.00 |
| Ghana Oil Palm Development Co., Ltd (2) | Ghana | Oil palm plantation, processing and trading | – | 35.00 |
| Presco Plc (2) | Nigeria | Oil palm plantation, processing and trading | – | 21.00 |
| Siat Gabon (2) | Gabon | Natural rubber plantation, processing and trading | – | 34.76 |
| Siat Nigeria Ltd (2) | Nigeria | Oil palm plantation, processing and trading | – | 35.00 |
| Siat Cambodge (2) | Cambodia | Dormant | – | 35.00 |

## 14. Investment in subsidiaries and associates (cont'd)

### (b) Investment in associates (cont'd)

| Name | Country of incorporation | Principal activities | Proportion (%) of ownership interest 2017 | Proportion (%) of ownership interest 2016 |
|---|---|---|---|---|
| **Subsidiaries of SIAT S.A. (cont'd)** | | | | |
| Compagnie Hévéicole de Prikro (CHP) [2] | Ivory Coast | Natural rubber plantation | – | 35.00 |
| Swift Rubber Singapore [2] | Singapore | Investment holding | – | 35.00 |
| Swift Rubber (Cambodge) [2] | Cambodia | Natural rubber plantation, processing and trading | – | 31.50 |
| Deroose Plant NV [2] | Belgium | Breeding, growing and selling of ornamental and industrial plant | – | 28.48 |
| Deroose Plant Inc [2] | USA | Breeding, growing and selling of ornamental and industrial plant | – | 28.48 |
| SFD-DRP Co. Ltd [2] | China | Breeding, growing and selling of ornamental and industrial plant | – | 28.48 |

[1] Audited by other firms of Certified Public Accountants.

[2] SIAT S.A. and its subsidiaries were disposed on 31 October 2017.

[3] Reclassified to assets of disposal group classified as held-for-sale.

**15. Deferred tax**

Deferred tax as at 31 December relates to the following:

| | Group | | | | Company | |
|---|---|---|---|---|---|---|
| | Statement of financial position | | Consolidated income statement | | Statement of financial position | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| Differences in depreciation for tax purposes | 1,728 | 358 | 266 | (1,276) | (25) | (25) |
| Tax losses carry forward | 5,558 | 2,763 | 876 | 2,739 | – | – |
| Retirement benefit liabilities | 3,960 | 2,961 | 528 | 194 | – | – |
| Fair value uplift of biological assets | (1,299) | (717) | (89) | (559) | – | – |
| Fair value uplift of investment properties acquired in business combination | (1,135) | (2,004) | (158) | (794) | – | – |
| Fair value uplift of property, plant and equipment acquired in business combination | (20,534) | (20,141) | 951 | 844 | – | – |
| Others | (46) | (4,756) | (270) | (99) | – | – |
| Deferred tax credit | | | 2,104 | 1,049 | | |
| Net deferred tax liabilities | (11,768) | (21,536) | | | (25) | (25) |
| **Reflected in the statement of financial position as follows:** | | | | | | |
| Deferred tax assets | 14,346 | 13,227 | | | – | – |
| Deferred tax liabilities | (26,114) | (34,763) | | | (25) | (25) |
| Deferred tax liabilities, net | (11,768) | (21,536) | | | (25) | (25) |

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| **Reconciliation of deferred tax liabilities, net** | | |
| At 1 January | (21,536) | (16,829) |
| Tax credit during the year recognised in profit or loss | 2,104 | 1,049 |
| Tax credit during the year recognised in other comprehensive income | 328 | 290 |
| Reclassification of net deferred tax liabilities of disposal group classified as held-for-sale | 6,858 | – |
| Deferred taxes arising from business combinations (Note 14(a)(ii)) | – | (5,724) |
| Exchange difference | 478 | (322) |
| At 31 December | (11,768) | (21,536) |

## 15. Deferred tax (cont'd)

### Unrecognised tax losses and unabsorbed capital allowances

At the end of reporting period, the Group has tax losses and unabsorbed capital allowances amounting to US$49,914,000 and US$7,269,000 (2016: US$43,892,000 and US$3,308,000) respectively that are available for offset against future taxable profits. The related deferred tax benefits of US$11,524,000 (2016: US$10,820,000) were not recognised as the recoverability was considered not probable.

### Unrecognised temporary differences relating to investments in subsidiaries

A deferred tax liability of US$32,403,000 (2016: US$22,950,000) that could arise upon the distribution of profit at certain subsidiaries has not been provided for as at 31 December 2017 as the distributable profits is controlled and there is currently no intention for the profits to be remitted to Singapore.

## 16. Plantation assets

| | Plantation related properties | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Prepaid land leases | Land use rights | Plantation | Plantation establistment costs | Total plantation related properties | Non-current biological assets | Consumable biological assets | Total |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Group** | | | | | | | | |
| **Cost** | | | | | | | | |
| At 1 January 2016 | 32,521 | – | – | 3,911 | 36,432 | 4,054 | – | 40,486 |
| Acquisition of subsidiaries | – | 105,581 | 38,602 | 102,942 | 247,125 | – | 119 | 247,244 |
| Additions | – | – | 1,855 | 5,270 | 7,125 | 834 | – | 7,959 |
| Capitalisation of depreciation | – | – | – | 347 | 347 | – | – | 347 |
| Transfer from property, plant and equipment (Note 12) | – | – | 1,204 | 1,433 | 2,637 | – | – | 2,637 |
| Fair value adjustment (Note 5) | – | – | – | – | – | 2,353 | 21 | 2,374 |
| Exchange difference | (1,404) | (3,942) | (1,385) | (3,873) | (10,604) | (420) | (6) | (11,030) |
| At 31 December 2016 | 31,117 | 101,639 | 40,276 | 110,030 | 283,062 | 6,821 | 134 | 290,017 |
| | | | | | | | | |
| Additions | – | – | 816 | 34,857 | 35,673 | 890 | – | 36,563 |
| Capitalisation of depreciation | – | – | – | 336 | 336 | – | – | 336 |
| Transfer to property, plant and equipment (Note 12) | – | – | (14,222) | (6,278) | (20,500) | – | – | (20,500) |
| Reclassification | – | – | 1,045 | (1,045) | – | – | – | – |
| Fair value adjustment (Note 5) | – | – | – | – | – | 370 | (111) | 259 |
| Exchange difference | 3,243 | 8,342 | 4,333 | 17,617 | 33,535 | 780 | 26 | 34,341 |
| At 31 December 2017 | 34,360 | 109,981 | 32,248 | 155,517 | 332,106 | 8,861 | 49 | 341,016 |

**16. Plantation assets (cont'd)**

| | Plantation related properties | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Prepaid land leases | Land use rights | Plantation | Plantation establistment costs | Total plantation related properties | Non-current biological assets | Consumable biological assets | Total |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Accumulated depreciation** | | | | | | | | |
| At 1 January 2016 | 643 | – | – | – | 643 | – | – | 643 |
| Depreciation for the year | 347 | – | 443 | – | 790 | – | – | 790 |
| Exchange difference | (53) | – | (21) | – | (74) | – | – | (74) |
| At 31 December 2016 | 937 | – | 422 | – | 1,359 | – | – | 1,359 |
| Depreciation for the year | 336 | – | 1,750 | – | 2,086 | – | – | 2,086 |
| Exchange difference | 116 | – | 381 | – | 497 | – | – | 497 |
| At 31 December 2017 | 1,389 | – | 2,553 | – | 3,942 | – | – | 3,942 |
| **Carrying amount** | | | | | | | | |
| At 31 December 2016 | 30,180 | 101,639 | 39,854 | 110,030 | 281,703 | 6,821 | 134 | 288,658 |
| At 31 December 2017 | 32,971 | 109,981 | 29,695 | 155,517 | 328,164 | 8,861 | 49 | 337,074 |

The basis of classification of rubber trees is disclosed in Note 2.13 and Note 3.1(b).

Details of the Group's plantation assets are summarised as follows:

| | | | | |
|---|---|---|---|---|
| **Country** | Malaysia | Cameroon | Cameroon | Ivory Coast |
| **Type of ownership** | Leasehold | Freehold | Land use rights | Land use rights |
| **Total land area (hectares)** | 9,844 | 45,200 | 66,339 | 1,581 |

The Group's biological assets mainly consist of rubber trees in Malaysia plantations and produce that grows on oil palm trees in Malaysia plantation and latex in trees in Africa plantation, all of which are grown for commercial sales as part of normal business operations.

Interest expense amounting to US$6,475,000 was capitalised in 2017 (2016: US$749,000).

A review of the recoverable amount for the plantation in Cameroon was determined based on the value in use calculation and the discount rate used is 15.4% (2016: 15.4%).

## 17. Cash and bank balances

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Cash at bank and on hand | 112,461 | 58,532 | 706 | 430 |
| Short term deposits | 36,595 | 8,093 | – | – |
| Cash and cash equivalents | 149,056 | 66,625 | 706 | 430 |
| Short term deposits – pledged | 3,173 | – | – | – |
| Total cash and bank balances | 152,229 | 66,625 | 706 | 430 |

Cash and bank balances comprise cash held by the Group and Company and short term bank deposits. The carrying amounts of these assets approximate their fair value.

Fixed deposits were made for varying periods of between one to twelve months, depending on immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The weighted average effective interest rate as at 31 December 2017 for the Group is 5.05% per annum (2016: 2.84%).

Cash and bank balances of US$3,173,000 (2016: US$1,618,000) of the Group have been charged as security for the Group's general banking facilities (Note 25) and performance guarantee.

Cash and bank balances denominated in foreign currencies at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Indonesian Rupiah | 45,088 | 9,157 | – | – |
| Singapore Dollar | 1,468 | 1,969 | – | – |
| Euro | 61,633 | 2,417 | 29 | – |
| Chinese Yuan Renminbi | 4,068 | 3,022 | 10 | – |
| Malaysian Ringgit | 2,976 | 1,541 | – | – |
| Thai Baht | 42 | 5,407 | – | – |
| CFA Franc | 12,277 | 12,497 | – | – |

## 18. Trade receivables

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 |
| External parties | 121,689 | 98,066 |

Trade receivables are repayable within the normal trade credit terms of 2 days to 90 days.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was granted up to the end of the reporting period.

In 2016, the Group had trade receivables amounting to US$19,020,000 charged as security for a trade financing facility. This has been discharged in 2017.

**18. Trade receivables (cont'd)**

Trade receivables denominated in foreign currencies at 31 December are as follows:

| | Group 2017 | Group 2016 |
|---|---|---|
| | US$'000 | US$'000 |
| Euro | 10,070 | 9,928 |
| Indonesian Rupiah | 673 | 429 |
| Chinese Yuan Renminbi | 18,976 | 775 |
| CFA Franc | 96 | 2,571 |
| Malaysian Ringgit | 2,775 | 1,563 |
| Thai Baht | – | 1,889 |

The table below is an analysis of trade receivables as at 31 December:

| | Note | Group 2017 | Group 2016 |
|---|---|---|---|
| | | US$'000 | US$'000 |
| Current | | 102,425 | 69,777 |
| Past due but not impaired | (a) | 19,264 | 28,289 |
| Impaired | | 911 | 752 |
| Total gross trade receivables | | 122,600 | 98,818 |
| Allowance for impairment | (b) | (911) | (752) |
| Trade receivables, net | | 121,689 | 98,066 |

(a) Receivables that are past due but not impaired

The Groups has trade receivables amounting to US$19,264,000 (2016: US$28,289,000) that are past due at the end of reporting period but not impaired. These receivables are mainly secured with credit enhancement and the analysis of their aging at the balance sheet date is as follows:

| | Group 2017 | Group 2016 |
|---|---|---|
| | US$'000 | US$'000 |
| Trade receivables past due but not impaired: | | |
| Lesser than 30 days | 17,984 | 24,157 |
| 30 to 60 days | 696 | 3,245 |
| More than 61 days | 584 | 887 |
| | 19,264 | 28,289 |

**18. Trade receivables (cont'd)**

(b) Receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movement of the allowance accounts used to record the impairment are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Trade receivables – nominal amounts | 911 | 752 |
| Less: Allowance for impairment | (911) | (752) |
| | – | – |
| Movement in allowance for impairment accounts: | | |
| At 1 January | 752 | 44 |
| Acquisition of subsidiaries | – | 708 |
| Allowance made during the financial year | 107 | – |
| Allowance written off during the financial year | (42) | – |
| Exchange difference | 94 | – |
| At 31 December | 911 | 752 |

**19. Loans and other receivables**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | US$'000 | US$'000 (Restated) | US$'000 | US$'000 |
| **Financial assets** | | | | |
| Non-current: | | | | |
| Loan to non-controlling interests of a subsidiary | 3,641 | 3,209 | – | – |
| Current: | | | | |
| Amount due from an associate | – | 318 | – | – |
| Loan to an associate | – | 3,684 | – | – |
| Loan to a third party | 51,603 | – | – | – |
| Other receivables | 7,226 | 4,134 | 94 | 2 |
| Amounts due from subsidiaries | – | – | 670,440 | 368,317 |
| Deposits | 20,854 | 18,730 | 278 | 3,406 |
| | 79,683 | 26,866 | 670,812 | 371,725 |
| **Non-financial assets** | | | | |
| Current: | | | | |
| Prepayments | 16,193 | 10,704 | 232 | 256 |
| Other tax receivables | 15,182 | 14,304 | 45 | 75 |
| Total non-financial assets | 31,375 | 25,008 | 277 | 331 |
| Total current loan and other receivables | 111,058 | 51,874 | 671,089 | 372,056 |
| Total non-current loan and other receivables | 3,641 | 3,209 | – | – |

## 19. Loans and other receivables (cont'd)

The loan to non-controlling interests of a subsidiary is unsecured, repayable after 2018 and earns interest at 5% per annum.

In 2016, the loan to an associate was unsecured, earns interest at 3% per annum and repayable on demand.

The loan to a third party was secured by the borrower's equity interest in a company, and receivables and bank balances of the borrower; with interest at 5.5% per annum and repayable within one year. This loan is subject to an option for extension on repayment, of up to twelve months.

Amounts due from subsidiaries are unsecured, non-interest bearing, repayable on demand and are expected to be settled in cash.

Included in total current loan and other receivables is value added tax receivables in certain subsidiaries amounting to US$26,053,000 for which the Group has made a fair value downward adjustment of US$16,449,000.

The Group's and the Company's loans and other receivables that are denominated in foreign currencies at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Indonesian Rupiah | 11,632 | 7,584 | – | – |
| Chinese Yuan Renminbi | 16,034 | 7,318 | – | – |
| Singapore Dollar | 5,856 | 5,481 | 45 | 75 |
| Malaysian Ringgit | 1,962 | 1,586 | – | – |
| Euro | 52,506 | 827 | – | – |
| Thai Baht | – | 2,087 | – | – |
| CFA Franc | 16,950 | 9,439 | – | – |

## 20. Derivative financial instruments

| | Group | | | |
|---|---|---|---|---|
| | **2017** | | **2016** | |
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Forward currency contracts | 32 | (145) | 626 | (577) |
| Forward commodity (natural rubber) contracts | 22,853 | – | 30,263 | (58,209) |
| Total | 22,885 | (145) | 30,889 | (58,786) |

## 20. Derivative financial instruments (cont'd)

The Group utilises forward commodity (natural rubber) contracts and forward currency contracts to manage the fluctuations in world rubber prices.

At the end of the reporting period, the total notional amounts of derivative financial instruments to which the Group is committed to are as follows:

| | Notional amount | | Positive fair value | | Negative fair value | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| Forward contracts on commodity (natural rubber): | | | | | | |
| – Sales | 516,687 | 429,396 | 6,934 | – | – | (58,209) |
| – Purchases | 233,093 | 207,606 | 15,919 | 30,263 | – | – |
| Forward currency contracts | 118,925 | 85,432 | 32 | 626 | (145) | (577) |
| | | | 22,885 | 30,889 | (145) | (58,786) |

The average maturity period for forward commodity (natural rubber) contracts ranges from one to twelve months.

## 21. Inventories

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| At cost: | | |
| – Consumables | 23,796 | 20,580 |
| At fair value: | | |
| – Raw materials | 91,717 | 128,141 |
| – Work-in-progress | 25,114 | 36,749 |
| – Finished goods held for resale | 164,720 | 134,503 |
| | 281,551 | 299,393 |
| | 305,347 | 319,973 |

The inventories as at the end of each reporting period in 2017 and 2016 include fair value upward adjustments of US$4,311,000 and US$56,452,000 respectively.

Inventories with carrying amount of US$53,389,000 (2016: US$4,006,000) has been pledged as security for a trade financing facility (Note 25).

## 22. Assets and liabilities of disposal group classified as held-for-sale

Discontinued operation refers to the Group's processing business in Thailand, Teck Bee Hang Co., Ltd and its subsidiaries ("TBH Group"), which has been classified as asset held-for-sale under FRS 105 *Non-Current Assets Held for Sale and Discontinued Operations*, following the Group's strategic review undertaken during the financial year ended 31 December 2017.

As at 31 December 2017, the assets and liabilities of TBH Group have been presented in the Statement of Financial Position as "Assets of disposal group classified as held-for-sale" and "Liabilities of disposal group classified as held-for sale" respectively during the year.

The income statement comparative figures for financial year ended 31 December 2016 have been re-presented to reflect TBH Group as discontinued operations.

Statement of financial position disclosures

The major classes of assets and liabilities of TBH Group classified as held-for-sale as at 31 December are as follows:

| | **Group** |
|---|---|
| | **2017** |
| | US$'000 |
| **Assets:** | |
| Investment in associate | 1,348 |
| Property, plant and equipment | 27,187 |
| Investment properties | 16,656 |
| Deferred tax assets | 636 |
| Cash and bank balances | 5,832 |
| Other working capital assets | 37,725 |
| Assets of disposal group classified as held-for-sale | 89,384 |
| **Liabilities:** | |
| Working capital liabilities | 8,969 |
| Deferred tax liabilities | 7,494 |
| Liabilities of disposal group classified as held-for-sale | 16,463 |
| Net assets of disposal group classified as held-for-sale | 72,921 |

**22. Assets and liabilities of disposal group classified as held-for-sale (cont'd)**

Income statement disclosures

The results of TBH Group for the years ended 31 December are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Revenue | 169,944 | 39,832 |
| Cost of sales | (159,873) | (40,388) |
| Gross profit/(loss) | 10,071 | (556) |
| Other income | 143 | 710 |
| Selling expenses | (11,837) | (2,528) |
| Administrative expenses | (3,626) | (158) |
| Operating loss | (5,249) | (2,532) |
| Finance costs | (1,846) | (430) |
| Share of loss of associate | 144 | (105) |
| Loss before tax from discontinued operations | (6,951) | (3,067) |
| Income tax expense | (241) | (95) |
| Loss from discontinued operations, net of tax | (7,192) | (3,162) |

Cash flow statement disclosures

The cash flows attributable to TBH Group are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Operating | 431 | (9,411) |
| Investing | (981) | (823) |
| Financing | (6,378) | 5,934 |
| Net cash outflows | (6,928) | (4,300) |

**23. Trade payables**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| External parties | 38,757 | 46,265 |

These amounts are non-interest bearing. Trade payables are normally settled on 60 days term.

Trade payables denominated in foreign currencies as at 31 December are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Euro | 7 | 4,247 |
| Indonesian Rupiah | 297 | 744 |
| Malaysian Ringgit | 1,890 | 3,444 |
| Chinese Yuan Renminbi | 3,728 | 18,416 |
| CFA Franc | 13,809 | 8,496 |

## 24. Other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 (Restated) | US$'000 | US$'000 |
| **Financial liabilities** | | | | |
| Current: | | | | |
| Other payables | 24,357 | 17,849 | 914 | 910 |
| Accrued operating expenses | 26,041 | 16,393 | 4,109 | 2,020 |
| Accrued interest expense | 2,995 | 4,789 | 554 | 2,817 |
| Amounts due to subsidiaries | – | – | 149,590 | 27,873 |
| Amounts due to non-controlling interests of a subsidiary | – | 1,585 | – | – |
| | 53,393 | 40,616 | 155,167 | 33,620 |
| **Non-financial liabilities** | | | | |
| Current: | | | | |
| Other tax payables | 5,043 | 1,773 | 168 | 156 |
| Advances from customers | 2,007 | 310 | – | – |
| | 7,050 | 2,083 | 168 | 156 |
| Non-current: | | | | |
| Other payables | 1,843 | 1,850 | – | – |
| Total current other payables | 60,443 | 42,699 | 155,335 | 33,776 |
| Total non-current other payables | 1,843 | 1,850 | – | – |

Other payables are non-interest bearing and have an average term of six months.

Certain amounts due to subsidiaries amounting to US$138,825,000 are non-trade related, unsecured, bears an average interest of 3.61% per annum and repayable on demand. The remaining amounts due to subsidiaries are non-trade related, unsecured, non-interest bearing and repayable on demand.

Amounts due to non-controlling interests of a subsidiary arose mainly from payments made on behalf of a subsidiary and are unsecured, interest-free and repayable on demand.

Other payables denominated in foreign currencies as at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Indonesian Rupiah | 9,817 | 5,846 | – | – |
| Malaysian Ringgit | 3,790 | 2,058 | – | – |
| Singapore Dollar | 4,691 | 5,645 | 168 | 156 |
| Euro | 131 | 521 | – | – |
| Chinese Yuan Renminbi | 9,964 | 1,837 | – | – |
| CFA Franc | 14,266 | 9,889 | – | – |
| Thai Baht | 230 | 2,392 | – | – |

**25. Loan payables**

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Current: | | | | |
| – Working capital loans | 196,585 | 234,165 | 2,750 | 2,750 |
| – Term loans | 10,966 | 10,480 | – | – |
| | 207,551 | 244,645 | 2,750 | 2,750 |
| Non-current: | | | | |
| – Working capital loans | 4,125 | 6,875 | 4,125 | 6,875 |
| – Term loans | 397,785 | 366,790 | 295,242 | 265,042 |
| – MTN | – | 85,737 | – | 85,737 |
| – Loan from non-controlling interest of a subsidiary | 1,050 | 970 | – | – |
| | 402,960 | 460,372 | 299,367 | 357,654 |
| Total loan payables | 610,511 | 705,017 | 302,117 | 360,404 |

Loan payables denominated in foreign currencies as at 31 December are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Singapore Dollar | 1,050 | 88,531 | – | 85,737 |
| Malaysian Ringgit | 7,071 | 10,755 | – | – |
| Euro | 5,877 | 949 | – | – |
| Chinese Yuan Renminbi | 39,871 | – | – | – |
| CFA Franc | 109,047 | 97,278 | – | – |
| Indonesian Rupiah | – | 3,368 | – | – |
| Thai Baht | – | 6,112 | – | – |

Working capital loans bear average interest rates ranging from 1.80% to 7.50% (2016: 1.40% to 8.00%) per annum. Certain working capital loans amounting to US$18,988,000 are secured by a charge over certain of the Group's inventories (Note 21), property, plant and equipment (Note 12), and certain cash and bank balances (Note 17).

The MTN with a face value of S$125 million was issued on 31 July 2014, unsecured and bear a fixed interest rate of 6.5% per annum. The MTN has been fully repaid during the year.

Loan from non-controlling interests of a subsidiary is unsecured and bears an average interest rate of 4.00%. This amount has been repaid in February 2018.

**25. Loan payables (cont'd)**

The Group has the following term loans:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Current | | |
| Loan A | 9,136 | 9,960 |
| Loan B | 920 | 520 |
| Loan C | 910 | – |
| | 10,966 | 10,480 |
| Non-current | | |
| Loan A | 3,322 | 12,450 |
| Loan B | – | 1,039 |
| Loan C | 26,398 | 24,070 |
| Loan D | 295,241 | 265,042 |
| Loan E | 72,824 | 64,189 |
| | 397,785 | 366,790 |

Details of the Group's term loans are as follow:

a) Loan A bears average effective interest rate of 3.61% (2016: 3.61%) per annum and repayable on monthly instalments till March 2019. This loan is unsecured.

b) Loan B bears an average effective interest rate of 8.25% (2016: 8.25%) per annum and repayable on semi-annual instalments till July 2018. This loan is secured by a charge over certain of the Group's property, plant and equipment (Note 12).

c) Loan C bears average effective interest of 6.00% (2016: 6.00%) per annum. Repayment will commence in 2018 and continue until 2026. This loan is unsecured.

d) Loan D bears an effective interest rate of 3.21% in 2017 (2016: 2.69%) and is repayable in 2021. This loan is unsecured.

e) Loan E bears average effective interest rate of 7.15% (2016: 7.15%) per annum. Repayment will commence in 2019 on semi-annual instalments until 2027. This loan is unsecured.

## 26. Retirement benefit obligations

The Group provides defined post-employment benefits for its qualifying employees in accordance with relevant labor laws and regulations in Indonesia, Thailand, Cameroon and Ivory Coast.

Changes in retirement benefit obligations are as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 (Restated) |
| At 1 January | 17,153 | 10,703 |
| Acquisition of subsidiaries | – | 5,182 |
| Benefit paid for the year | (1,500) | (2,145) |
| Changes charged to profit or loss | | |
| – Current service costs | 2,034 | 1,272 |
| – Interest cost on benefit obligations | 1,091 | 986 |
| – Past service costs | (5) | – |
| – Net actuarial gain recognised during the year | – | (153) |
| – Re-measurement of other long term employee benefits | 124 | (36) |
| – Excess benefit | 277 | 321 |
| Re-measurement losses/(gain) in other comprehensive income | | |
| – Actuarial changes arising from changes in demographic assumptions | 548 | (1) |
| – Actuarial changes arising from changes in financial assumptions | 1,171 | 538 |
| – Experience adjustments | (195) | 712 |
| Exchange difference | 404 | (226) |
| Capitalised to plantation assets | 39 | – |
| | 21,141 | 17,153 |
| Reclassification to assets of disposal group classified as held-for-sale (Note 22) | (2,117) | – |
| At 31 December | 19,024 | 17,153 |
| Changes charged to profit or loss: | | |
| –Continuing operations | 3,293 | 2,442 |
| –Discontinued operations | 228 | (52) |
| | 3,521 | 2,390 |
| Re-measurement losses in other comprehensive income: | | |
| –Continuing operations | 1,464 | 756 |
| –Discontinued operations | 60 | 493 |
| | 1,524 | 1,249 |

**26. Retirement benefit obligations (cont'd)**

The cost of providing post-employment benefits is calculated by an independent actuary. The actuarial valuation was carried out using the following key assumptions:

| | 2017 | 2016 |
|---|---|---|
| | % | % |
| Indonesia (Headcount: 2017- 3,805 , 2016- 3,727) | | |
| Discount rate | 7.03 | 8.38 |
| Future salary increment rate | 8.00 – 10.00 | 8.25 - 10.00 |
| Thailand (Headcount: 2017- 987, 2016- 1,195) | | |
| Discount rate | 2.06 | 1.92 |
| Future salary increment rate | 1.00 – 4.00 | 1.60 – 3.00 |
| Cameroon (Headcount: 2017- 5,576, 2016- 4,637) | | |
| Discount rate | 3.50 | 3.50 |
| Future salary increment rate | 2.90 – 9.67 | 5.84 |
| Ivory Coast (Headcount: 2017- 1,003, 2016- 967) | | |
| Discount rate | 3.50 – 5.95 | 3.50 – 5.90 |
| Future salary increment rate | 2.00 – 3.50 | 2.00 – 3.50 |

Three other assumptions: mortality rate, disability rate and voluntary resignation rate are not significant assumptions for these plans as there are insignificant changes in retirement benefit obligations arising from them.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is as follows:

| | Increase in assumption | Decrease in assumption | Increase in assumption | Decrease in assumption |
|---|---|---|---|---|
| | 2017 | 2017 | 2016 | 2016 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Group** | | | | |
| One percentage point change in the assumed discount rate: | | | | |
| – (Decrease)/Increase on the aggregate current service cost and interest cost | (417) | 400 | (606) | 660 |
| – (Decrease)/Increase on retirement benefit obligation | (1,601) | 1,994 | (1,603) | 1,828 |
| One percentage point change in the salary growth rate: | | | | |
| – Increase/(Decrease) on the aggregate current service cost and interest cost | 432 | (372) | 741 | (631) |
| – Increase/(Decrease) on retirement benefit obligation | 1,921 | (1,660) | 1,858 | (1,601) |

**26. Retirement benefit obligations (cont'd)**

The above sensitivity analysis is based on a change in an assumption while holding other assumptions constant. Changes in some of the assumptions may be correlated. When calculating the sensitivity of the retirement benefit obligations to significant actuarial assumptions, the same method (present value of the retirement benefit obligations calculated with the Projected Unit Credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligations recognised within the statement of financial position.

Through its retirement benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed as below:

*Changes in bond yields*
A decrease in government bond yield will increase plan liabilities.

*Inflation risk*
The majority of the plan's benefit obligations are linked to inflation which higher inflation will lead to higher liabilities.

The weighted average duration of the retirement benefits obligation is 16.9 years (2016: 15.0 years).

**27. Share capital**

| | Group and Company | | | |
|---|---|---|---|---|
| | **2017** | | **2016** | |
| | No. of shares '000 | US$'000 | No. of shares '000 | US$'000 |
| **Issued and fully paid ordinary shares** | | | | |
| At 1 January | 1,595,012 | 603,874 | 600,092 | 156,551 |
| Issue of shares | – | – | 994,920 | 447,323 |
| At 31 December | 1,595,012 | 603,874 | 1,595,012 | 603,874 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. The ordinary shares of the Company have no par value.

**28. Perpetual securities**

During the year, the Company issued perpetual securities with principal amount of US$150,000,000 bearing distributions at rate of 4.5% per annum. An amount of US$148,690,000 net of issuance costs, was recognised in equity.

The perpetual securities bear distributions which are payable semi-annually. Subject to the relevant terms and conditions of the perpetual securities, the Company may elect to defer making distributions on the perpetual securities and is not subject to any limits as to the number of times a distribution can be deferred.

The perpetual securities is presented within equity and distributions are treated as dividends. This is due to the reason that the Company has no contractual obligations to repay its principal or to pay any distributions, which means the instrument does not meet the definition as a financial liability under FRS 32 *Financial Instruments: Disclosure and Presentation*.

During the financial year, the Board of Directors have approved to distribute payment amounting to US$3,375,000 to the holders of the securities.

**29. Other reserves**

a) **Capital reserve**

Capital reserves pertain to the excess of capital paid by a shareholder for the shares in the subsidiary over the capital received from the same shareholder for the swap of the shares in the Company.

Capital reserve also includes funds arising from the Group's People's Republic of China ("PRC") subsidiaries which are required to transfer 10% of the net income to the reserve fund in accordance with PRC Articles of Association.

b) **Hedging reserve**

Hedging reserve represented the cumulative fair value changes, of those hedged instruments designated as cash flow hedges.

c) **Foreign currency translation reserve**

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

**30. Commitments and contingencies**

(a) **Operating lease commitments – as lessee**

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Minimum lease payments under operating leases recognised as an expense during the year (Note 8) | 2,659 | 1,523 |

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Not later than one year | 2,112 | 1,109 |
| Later than one year but not later than five years | 2,225 | 1,965 |
| | 4,337 | 3,074 |

Operating lease payments mainly represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

(b) **Finance lease commitments – as lessee**

The Group and the Company has finance leases for certain items of plant and equipment and furniture and fixtures. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

| | Group | | | |
|---|---|---|---|---|
| | **2017** | | **2016** | |
| | **Minimum lease payments** US$'000 | **Present value of payments** US$'000 | **Minimum lease payments** US$'000 | **Present value of payments** US$'000 |
| Not later than one year | 517 | 496 | 553 | 497 |
| Later than one year but not later than five years | 86 | 86 | 625 | 600 |
| Total minimum lease payments | 603 | 582 | 1,178 | 1,097 |
| Less: Amounts representing finance charges | (21) | – | (81) | – |
| Present value of minimum lease payments | 582 | 582 | 1,097 | 1,097 |

| | Company | | | |
|---|---|---|---|---|
| | **2017** | | **2016** | |
| | **Minimum lease payments** US$'000 | **Present value of payments** US$'000 | **Minimum lease payments** US$'000 | **Present value of payments** US$'000 |
| Not later than one year | 517 | 496 | 517 | 465 |
| Later than one year but not later than five years | 86 | 86 | 603 | 581 |
| Total minimum lease payments | 603 | 582 | 1,120 | 1,046 |
| Less: Amounts representing finance charges | (21) | – | (74) | – |
| Present value of minimum lease payments | 582 | 582 | 1,046 | 1,046 |

This obligation is secured by a charge over the leased assets (Note 12).

## 30. Commitments and contingencies (cont'd)

### (c) Commitment for sales and purchases contracts

The Group has committed sales and purchases contracts that are entered into for the use of the Group. The contractual or notional amounts of the committed contracts with fixed pricing terms that was outstanding as at 31 December 2017 and 31 December 2016 are as disclosed in Note 20.

### (d) Corporate guarantees

The following are the corporate guarantees given by the Company for the credit facilities extended by banks to:

| | Company | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Subsidiaries | 229,312 | 135,000 |

## 31. Financial risks and management

### (a) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2017** | **2016** | **2017** | **2016** |
| | | US$'000 | US$'000 (Restated) | US$'000 | US$'000 |
| **Financial assets** | | | | | |
| Cash and bank balances | 17 | 152,229 | 66,625 | 706 | 430 |
| Trade receivables | 18 | 121,689 | 98,066 | – | – |
| Loans and other receivables | 19 | 83,324 | 30,075 | 670,812 | 371,725 |
| Derivative financial instruments | 20 | 22,885 | 30,889 | – | – |
| | | 380,127 | 225,655 | 671,518 | 372,155 |
| **Financial liabilities** | | | | | |
| Trade payables | 23 | 38,757 | 46,265 | – | – |
| Other payables | 24 | 53,393 | 40,616 | 155,167 | 33,620 |
| Loan payables | 25 | 610,511 | 705,017 | 302,117 | 360,404 |
| Finance lease obligation | 30(b) | 582 | 1,097 | 582 | 1,046 |
| Derivative financial instruments | 20 | 145 | 58,786 | – | – |
| | | 703,388 | 851,781 | 457,866 | 395,070 |

### (b) Financial risk management policies and objectives

The Group and the Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include foreign currency risk, interest rate risk, credit risk, liquidity risk and commodity price risk. The Group has documented financial risk management policies. These policies set out the Group's overall business strategies and its risk management philosophy. The Group's overall financial risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

The Group does not hold or issue derivative financial instruments for speculative purposes.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk

As disclosed in Note 2.8 of the financial statements, the functional currency of the Company is the United States Dollars.

The Group faces foreign exchange risk as its borrowings, export sales and the costs of certain purchases are denominated in a currency other than the respective functional currencies of the Group entities, primarily Singapore Dollar, Euro, Indonesian Rupiah, Malaysian Ringgit, Chinese Yuan Renminbi, CFA Franc and Thai Baht. The Group also holds cash and short-term deposits denominated in foreign currencies for working capital purposes.

**31. Financial risks and management (cont'd)**

(b) **Financial risk management policies and objectives (cont'd)**

(i) Foreign currency risk (cont'd)

As at the end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective Group entities' functional currencies are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | US$'000 | US$'000 (Restated) | US$'000 | US$'000 (Restated) |
| **Group** | | | | |
| Singapore Dollars | 5,741 | 94,206 | 7,324 | 7,450 |
| Euro | 6,015 | 5,717 | 124,209 | 13,172 |
| Indonesian Rupiah | 10,114 | 9,958 | 57,392 | 17,170 |
| Malaysian Ringgit | 12,751 | 16,257 | 7,713 | 4,690 |
| Chinese Yuan Renminbi | 53,563 | 20,253 | 39,078 | 11,115 |
| CFA Franc | 137,122 | 115,664 | 29,322 | 24,507 |
| Thai Baht | 233 | 8,504 | 42 | 9,382 |
| **Company** | | | | |
| Singapore Dollars | 168 | 85,895 | 45 | 75 |

Foreign currency sensitivity

The following table details the sensitivity to a 10% increase and decrease in the relevant foreign currencies against the functional currency of each Group entity. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where they gave rise to an impact on the Group's profit or loss and/or equity.

If the relevant foreign currency strengthens by 10% against the functional currency of each Group entity, income will increase/(decrease) by:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | US$'000 | US$'000 (Restated) | US$'000 | US$'000 |
| Singapore Dollars | 158 | (8,676) | (12) | (8,582) |
| Euro | 11,819 | 746 | 3 | – |
| Indonesian Rupiah | 4,728 | 721 | – | – |
| Malaysian Ringgit | (504) | (1,157) | – | – |
| Chinese Yuan Renminbi | (1,449) | (914) | 1 | – |
| CFA Franc | (10,780) | (9,116) | – | – |
| Thai Baht | (19) | 88 | – | – |

**31. Financial risks and management (cont'd)**

(b) **Financial risk management policies and objectives (cont'd)**

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's primary interest rate risk arises from its loan payables.

The Group's exposures to interest rates are set out below.

<u>Interest rate sensitivity</u>

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's income for the financial year would decrease/increase by US$2,004,000 (2016: decrease/increase by US$2,438,000). This is mainly attributable to the Group's exposure to interest rates on its balance due to the bank and financial institutions, and certain loan receivables.

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are creditworthy entities.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

**31. Financial risks and management (cont'd)**

(b) **Financial risk management policies and objectives (cont'd)**

(iii) Credit risk (cont'd)

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables (net of allowance for doubtful receivables) at the balance sheet date is as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| **By country:** | | |
| Singapore | 3,459 | 12,457 |
| Asia (excluding Singapore and China) | 30,141 | 21,901 |
| China | 15,885 | 18,140 |
| United States of America ("USA")/Canada | 30,406 | 16,683 |
| Europe | 33,840 | 25,061 |
| Others | 7,958 | 3,824 |
| | 121,689 | 98,066 |

Further details of credit risks on trade receivables are disclosed in Note 18 to the financial statements.

(iv) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities.

The Group maintains sufficient liquidity at all times by efficient cash and working capital management.

The Group's ability to meet its obligations is managed by maintaining appropriate level of cash balance and working capital balances.

Non-derivative financial instruments

The following tables detail the remaining contractual maturity for non-derivative financial instruments.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

# Notes to the Financial Statements

## For the financial year ended 31 December 2017

**31. Financial risks and management (cont'd)**

(b) Financial risk management policies and objectives (cont'd)

(iv) Liquidity risk (cont'd)

Non-derivative financial instruments

| | Weighted average effective interest rate | On demand or within one year | One to three years | Over three years |
|---|---|---|---|---|
| | | **2017** US$'000 | | |
| | % | | | |
| **Group** | | | | |
| **Financial assets:** | | | | |
| Trade and other receivables-interest bearing | 5.50 | 54,441 | – | – |
| Trade and other receivables-non-interest bearing | | 149,769 | 3,641 | – |
| Cash at banks and in hand | | 112,461 | – | – |
| Short term deposits | 5.05 | 38,442 | – | – |
| Total undiscounted financial assets | | 355,113 | 3,641 | – |
| **Financial liabilities:** | | | | |
| Trade and other payables | | 92,150 | – | – |
| Finance lease creditors | 3.50 | 517 | 86 | – |
| Loan payables- variable rate | 3.10 | 205,001 | 22,901 | 309,341 |
| Loan payables- fixed rate | 5.92 | 25,295 | 31,114 | 102,200 |
| Total undiscounted financial liabilities | | 322,963 | 54,101 | 411,541 |
| **Company** | | | | |
| **Financial assets:** | | | | |
| Trade and other receivables | | 670,812 | – | – |
| Cash at banks and in hand | | 706 | – | – |
| | | 671,518 | – | – |
| **Financial liabilities:** | | | | |
| Trade and other payables | | 155,167 | – | – |
| Finance lease creditors | 3.50 | 517 | 86 | – |
| Loan payables- variable rate | 3.08 | 12,280 | 22,901 | 309,341 |
| Loan payables- fixed rate | | – | – | – |
| | | 167,964 | 22,987 | 309,341 |

| | | 2016<br>US$'000<br>(Restated) | | | | | |
|---|---|---|---|---|---|---|---|
| Adjustment | Total | Weighted average effective interest rate<br>% | On demand or within one year | One to three years | Over three years | Adjustment | Total |
| (2,838) | 51,603 | | – | – | – | – | – |
| – | 153,410 | | 124,932 | 3,209 | – | – | 128,141 |
| – | 112,461 | | 58,532 | – | – | – | 58,532 |
| (1,847) | 36,595 | 2.84 | 8,322 | – | – | (229) | 8,093 |
| (4,685) | 354,069 | | 191,786 | 3,209 | – | (229) | 194,766 |
| – | 92,150 | | 86,881 | – | – | – | 86,881 |
| (21) | 582 | 3.50 | 553 | 625 | – | (81) | 1,097 |
| (48,261) | 488,982 | 2.49 | 236,179 | 19,978 | 280,694 | (41,191) | 495,660 |
| (37,080) | 121,529 | 5.80 | 28,447 | 116,033 | 123,228 | (58,351) | 209,357 |
| (85,362) | 703,243 | | 352,060 | 136,636 | 403,922 | (99,623) | 792,995 |
| – | 670,812 | | 371,725 | – | – | – | 371,725 |
| – | 706 | | 430 | – | – | – | 430 |
| – | 671,518 | | 372,155 | – | – | – | 372,155 |
| – | 155,167 | | 33,620 | – | – | – | 33,620 |
| (21) | 582 | 3.50 | 517 | 603 | – | (74) | 1,046 |
| (42,406) | 302,116 | 2.64 | 2,965 | 5,705 | 302,104 | (36,107) | 274,667 |
| – | – | 8.05 | 6,287 | 97,276 | – | (17,826) | 85,737 |
| (42,427) | 457,865 | | 43,389 | 103,584 | 302,104 | (54,007) | 395,070 |

**31. Financial risks and management (cont'd)**

(b) **Financial risk management policies and objectives (cont'd)**

(iv) Liquidity risk (cont'd)

Derivative financial instruments

The liquidity analysis for derivative financial instruments has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

Please refer to Note 20 for more details.

(v) Commodity price risk

Due to the nature of the Group's operations, the Group is exposed to changes in agricultural commodity prices.

At the end of the reporting period, a 5% increase/decrease of the commodities price index, with all other variables held constant, would have increased/decreased profit before income tax by US$834,000 (2016: increased/decreased profit before tax by US$2,647,000) and increased/decreased equity by US$834,000 (2016: increased/decreased equity by US$2,647,000).

**32. Related party transactions**

Some of the Company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements.

During the year, Group entities entered into the following transactions with related parties:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Sale of goods to penultimate holding company | 78,169 | 65,251 |
| Purchase of goods from penultimate holding company | (4,001) | (5,768) |
| Acquisition of 51.12% equity interest in GMG Group and 100% equity interest in SINRIO Group from immediate holding company | – | (311,131) |

**Compensation of directors and key management personnel**

The remuneration of directors and other members of key management personnel during the year were as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| Directors' fees | 355 | 144 |
| Short-term benefits | 5,619 | 3,464 |
| | 5,974 | 3,608 |

### 33. Segment information

The Group is a global leader in natural rubber, supporting the world's growing mobility needs through the origination, production and distribution of natural rubber. The Group sources a broad range of grades from all major origins globally, operates 33 natural rubber processing facilities in Indonesia, Malaysia, Thailand, China and Africa, and distributes to an international customer base through its network of warehouses and sales offices in South East Asia, China, the United States of America and Europe.

The Group's supply chain model is designed to capture adjacent margins along the natural rubber value chain, as follows:

Plantation segment

- the management of natural rubber estates, both owned by the Group and external third parties, employing latest agronomical models and best ecological practices to achieve world-leading sustainable yields. Revenue was mainly arising from the oil palm and rubber harvest from the Group's plantation.

Processing segment

- the procurement and processing of raw materials into high quality technically specified rubber ("TSR') in our 33 processing factories, with a strong focus on Corporate Social Responsibility ("CSR") and the development of premium grades.

Distribution segment

- the merchandising and distribution of natural rubber and latex from the Group's own factories as well as selected third party origins and grades.

Corporate segment

- covers group strategic management, corporate finance, group administration and legal matters, treasury, taxation and investment properties.

The results of the operating segments are reviewed continuously by the Group's executive team to optimise allocation of resources between the segments. Segmental performance is evaluated based on operating profit or loss which, in certain aspects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on reasonable basis.

# Notes to the Financial Statements
## For the financial year ended 31 December 2017

### 33. Segment information (cont'd)

| | Plantation | | Processing | | Distribution | | Corporate | | Elimination | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 (Restated) | 2017 | 2016 (Restated) | 2017 | 2016 (Restated) | 2017 | 2016 (Restated) | 2017 | 2016 (Restated) | 2017 | 2016 (Restated) |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| Revenue to third party | 242 | 64 | 893,161 | 496,064 | 1,095,036 | 474,350 | – | – | – | – | 1,988,439 | 970,478 |
| Inter-segment revenue | 27,921 | 4,870 | 498,369 | 132,718 | 27,742 | 22,537 | 10,140 | 8,727 | (564,172) | (168,852) | – | – |
| Total revenue | 28,163 | 4,934 | 1,391,530 | 628,782 | 1,122,778 | 496,887 | 10,140 | 8,727 | (564,172) | (168,852) | 1,988,439 | 970,478 |
| Gross profit | 7,836 | 122 | 114,817 | 30,942 | 18,233 | 21,529 | 10,140 | 8,727 | (10,540) | (9,822) | 140,486 | 51,498 |
| Operating profit/(loss) | (3,212) | 1,005 | 61,273 | (1,079) | (16,009) | 7,220 | 23,061 | (18,292) | (615) | 87,447 | 64,498 | 76,301 |
| Finance income | | | | | | | | | | | 2,922 | 1,735 |
| Finance costs | | | | | | | | | | | (23,800) | (28,012) |
| Share of profit of associates | | | | | | | | | | | 9,899 | 1,686 |
| Profit before taxation | | | | | | | | | | | 53,519 | 51,710 |
| Income tax expense | | | | | | | | | | | (11,076) | (3,238) |
| Profit from continuing operations, net of tax | | | | | | | | | | | 42,443 | 48,472 |
| Loss from discontinuing operations, net of tax | | | | | | | | | | | (7,192) | (3,162) |
| Profit for the financial year | | | | | | | | | | | 35,251 | 45,310 |
| Segment assets | 503,532 | 373,749 | 980,433 | 824,176 | 340,888 | 351,626 | 1,700,546 | 1,655,727 | (1,892,646) | (1,655,756) | 1,632,753 | 1,549,522 |
| Segment liabilities | 179,312 | 147,606 | 766,311 | 492,751 | 233,643 | 229,717 | 562,011 | 649,612 | (946,355) | (592,243) | 794,922 | 927,443 |
| Other information: (continuing operations) | | | | | | | | | | | | |
| Depreciation expense | 5,474 | 1,454 | 17,196 | 10,321 | 284 | 202 | 398 | 66 | – | – | 23,352 | 12,043 |
| Capital expenditure | 42,614 | 7,627 | 9,457 | 7,946 | 587 | 333 | 908 | 154 | – | – | 53,566 | 16,060 |

## 33. Segment information (cont'd)

### Geographical information

The Group's revenue from external customers and information about its segment assets (non-current assets including intangible assets, property, plant and equipment, plantation related properties, biological assets, investment properties, deferred charges and other assets) by geographical location are detailed below:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 (Restated) |
| **Sales of natural rubber** | | |
| Singapore | 92,747 | 189,322 |
| Asia (excluding Singapore and China) | 507,709 | 266,303 |
| China | 659,291 | 178,970 |
| USA/Canada | 208,080 | 136,256 |
| Europe | 464,069 | 165,453 |
| Others | 56,543 | 34,174 |
| | 1,988,439 | 970,478 |

The table above shows the Group's revenue by geographical locations based on the origin of the customers' ultimate parent company.

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | US$'000 | US$'000 (Restated) |
| **Non-current assets** | | |
| Asia | 439,255 | 469,003 |
| Africa | 370,621 | 309,022 |
| Europe | 3,472 | 188,882 |
| Others | 197 | 60 |
| | 813,545 | 966,967 |

Non-current assets presented above includes intangible assets, property, plant and equipment, plantation related properties, biological assets, investment properties, deferred charges and other assets as presented in the consolidated statement of financial position.

**34. Fair value of assets and liabilities**

(a) ***Fair value hierarchies***

The Group categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

Level 1

– Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,

Level 2

– Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

Level 3

– Unobservable inputs for the asset or liability.

(b) ***Assets and liabilities measured at fair value***

The following table shows an analysis of each class of assets and liabilities measured at fair value at the end of the reporting period:

| | Group | | | |
|---|---|---|---|---|
| | 2017 | | | |
| | Fair value measurements at the end of the reporting period using | | | |
| | **Quoted prices in active markets for identical instruments (Level 1)** | **Significant observable inputs other than quoted prices (Level 2)** | **Significant un-observable inputs (Level 3)** | **Total** |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Assets measured at fair value** | | | | |
| **Financial assets:** | | | | |
| Derivative financial instruments | 22,885 | – | – | 22,885 |
| **Financial assets as at 31 December 2017** | **22,885** | **–** | **–** | **22,885** |
| **Non-financial assets:** | | | | |
| Inventories | – | 281,551 | – | 281,551 |
| Biological assets | – | – | 8,910 | 8,910 |
| Investment properties | – | – | 25,256 | 25,256 |
| **Non-financial assets as at 31 December 2017** | **–** | **281,551** | **34,166** | **315,717** |
| **Liabilities measured at fair value** | | | | |
| **Financial liabilities:** | | | | |
| Derivative financial instruments | 145 | – | – | 145 |
| **Financial liabilities as at 31 December 2017** | **145** | **–** | **–** | **145** |

**34. Fair value of assets and liabilities (cont'd)**

(b) ***Assets and liabilities measured at fair value***

| | Group 2016 Fair value measurements at the end of the reporting period using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets for identical instruments (Level 1)** | **Significant observable inputs other than quoted prices (Level 2)** | **Significant un-observable inputs (Level 3)** | **Total** |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Assets measured at fair value** | | | | |
| **Financial assets:** | | | | |
| Derivative financial instruments | 30,889 | – | – | 30,889 |
| **Financial assets as at 31 December 2016** | **30,889** | – | – | **30,889** |
| **Non-financial assets:** | | | | |
| Inventories | – | 299,393 | – | 299,393 |
| Biological assets | – | – | 6,955 | 6,955 |
| Investment properties | – | – | 39,791 | 39,791 |
| **Non-financial assets as at 31 December 2016** | – | **299,393** | **46,746** | **346,139** |
| **Liabilities measured at fair value** | | | | |
| **Financial liabilities:** | | | | |
| Derivative financial instruments | 58,786 | – | – | 58,786 |
| **Financial liabilities as at 31 December 2016** | **58,786** | – | – | **58,786** |

(c) ***Level 2 fair value measurements***

The fair value of inventories (except consumables) are calculated using quoted prices in relevant commodity exchanges at the end of the reporting period, making adjustments according to the stage of production of the inventories, port of loading, and grades of products. Where such prices are not available, the Group uses valuation models to determine the fair values based on relevant factors, including trade price quotations, time value and volatility factors underlying the commodities and commodity exchange price quotations and dealer quotations for similar commodities traded in different markets and geographical areas, existing at the end of the reporting period.

**34. Fair value of assets and liabilities (cont'd)**

(d) ***Level 3 fair value measurements***

(i) Information about significant unobservable inputs used in Level 3 fair value measurements

Biological assets

The fair value of the Group's major biological assets has been determined based on valuations by an independent professional valuer using the discounted cash flow valuation approach. The most significant inputs into the discounted cash flow valuation approach are the average annual yield and discount rate. The fair value of biological assets is computed using average annual yield of 1.6 metric tonne per hectare, and discount rate of 11% (2016: 11%) for oil palm and rubber trees in Malaysia plantation, average yield per tapping cycle of 0.07 metric tonne per hectare (2016: 0.03 metric tonne per hectare) and 0.01 metric tonne per hectare (2016: 0.01 metric tonne per hectare) for oil palm in Malaysia and rubber latex in Africa plantation respectively.

An increase in average annual yield per hectare will result in an increase to the fair value of biological assets, while an increase in discount rate will result in a decrease of estimated fair value.

Investment properties

The fair value of the Group's investment properties have been derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property location, accessibility, topography, facilities and utilities, size and date of transaction.

(ii) Movements in Level 3 assets measured at fair value

The following table presents the reconciliation for all assets measured at fair value based on significant unobservable inputs (Level 3):

| | | 2017 | |
|---|---|---|---|
| | **Biological assets** | **Investment properties** | **Total** |
| | US$'000 | US$'000 | US$'000 |
| **Group** | | | |
| Opening balance | 6,955 | 39,791 | 46,746 |
| Fair value gain recognised in profit or loss | 259 | 1,258 | 1,517 |
| Additions | 890 | – | 890 |
| Disposal | – | (413) | (413) |
| Reclassification to assets of disposal group classified as held-for-sale (Note 22) | – | (16,656) | (16,656) |
| Exchange differences | 806 | 1,276 | 2,082 |
| Closing balance | 8,910 | 25,256 | 34,166 |

| | | 2016 | |
|---|---|---|---|
| | **Biological assets** | **Investment properties** | **Total** |
| | US$'000 | US$'000 | US$'000 |
| **Group** | | | |
| Opening balance | 4,054 | 21,420 | 25,474 |
| Fair value gain recognised in profit or loss | 2,374 | 1,717 | 4,091 |
| Acquisition of subsidiaries | 119 | 17,465 | 17,584 |
| Additions | 834 | – | 834 |
| Disposal | – | (884) | (884) |
| Exchange differences | (426) | 73 | (353) |
| Closing balance | 6,955 | 39,791 | 46,746 |

There has been no transfer from Level 1 and Level 2 to Level 3 for the financial years ended 31 December 2017 and 31 December 2016.

**34. Fair value of assets and liabilities (cont'd)**

(d) ***Level 3 fair value measurements (cont'd)***

(iii) Valuation policies and procedures

It is the Group's policy to engage external valuation experts to perform valuation of biological assets and investment properties. The management is responsible for selecting and engaging valuation experts that possess the relevant credentials and knowledge on the subject of valuation, valuation methodologies, and FRS 113 fair value measurement guidance.

Management reviews the appropriateness of the valuation methodologies and assumptions adopted, and the reliability of the inputs used in the valuations.

(e) ***Fair value of financial instruments not measured at fair value and whose carrying amounts are reasonable approximation of fair value***

The carrying amounts of cash and bank balances (Note 17), trade receivable (Note 18), loans and other receivables (Note 19), trade payables (Note 23), other payables (Note 24), and loan payables other than MTN (Note 25) approximate their respective fair values due to the relatively short-term maturity of these financial instruments or that they are floating rate instruments that are re-priced to market interest rates on or near the balance sheet date.

(f) ***Assets and liabilities not carried at fair value but for which fair value is disclosed***

The fair value of liability of the Group and the Company not measured at fair value was based on Level 1 inputs and presented in the following table:

| | | Group and Company | | | |
|---|---|---|---|---|---|
| | | 2017 | | 2016 | |
| | **Note** | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| | | US$'000 | US$'000 | US$'000 | US$'000 |
| Financial liability: | | | | | |
| MTN | 25 | – | – | 85,737 | 86,427 |

**35. Dividends on ordinary shares**

| | Group and Company | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| **Proposed but not recognised as a liability as at 31 December** | | |
| Dividends on ordinary shares, subject to shareholders' approval at the AGM: | | |
| – Final exempt (one-tier) dividend for 2017: S$0.01 (2016: Nil) per share | 11,933 | – |
| – Special exempt (one-tier) dividend for 2017: S$0.01 (2016: Nil) per share | 11,933 | – |
| Total | 23,866 | – |

**36. Capital management**

The Group reviews its capital structure at least annually to ensure that the Group will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group is required to comply with loan covenants imposed by the lenders. This externally imposed requirement has been complied with by the Group, including relevant subsidiary companies for the financial year ended 31 December 2017 and 31 December 2016.

The capital structure of the Group comprises only of issued capital and retained earnings. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

### 36. Capital management (cont'd)

The Group monitors capital using a gearing ratio, which is net borrowing divided by total equity. The Group includes within net borrowing, loans and borrowings, finance lease obligation, adjusted for working capital items.

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | US$'000 | US$'000 |
| | | (Restated) |
| Loan payables (Note 25) | 610,511 | 705,017 |
| Finance lease obligation (Note 30(b)) | 582 | 1,097 |
| Total borrowing | 611,093 | 706,114 |
| Adjust for: Working capital items | | |
| – Trade receivables (Note 18) | (121,689) | (98,066) |
| – Inventories (Note 21) | (305,347) | (319,973) |
| – Cash and bank balances (Note 17) | (152,229) | (66,625) |
| – Trade payables (Note 23) | 38,757 | 46,265 |
| Net borrowing | 70,585 | 267,715 |
| Total equity | 837,831 | 622,079 |
| Gearing ratio | 0.08 | 0.43 |

### 37. Comparative figures

Certain comparative figures have been restated to reflect the effects of the retrospective adjustments arising from the finalisation of the provisional PPA relating to the acquisition of GMG Group and SINRIO Group and reclassification, as follows:

| | Group | | | | |
|---|---|---|---|---|---|
| | | Restatement of comparative figures | | | |
| | **Previously reported** | **Finalisation of PPA Increase/ (decrease)** | **Reclassification Increase/ (decrease)** | **Total Increase/ (decrease)** | **As restated 2016** |
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Consolidated statement of financial position** | | | | | |
| Property, plant and equipment | 244,826 | (45) | – | (45) | 244,781 |
| Loan and other receivables | 60,669 | (8,795) | – | (8,795) | 51,874 |
| Other payables | 44,305 | 749 | (2,355) | (1,606) | 42,699 |
| Provision for taxation | 4,148 | 15,665 | – | 15,665 | 19,813 |
| Retirement benefit obligation | 14,297 | 501 | 2,355 | 2,856 | 17,153 |
| Accumulated profits | 74,748 | (26,632) | – | (26,632) | 48,116 |
| Foreign currency translation reserve | (78,325) | 877 | – | 877 | (77,448) |
| **Consolidated income statement** | | | | | |
| Profit for the financial year | 71,942 | (26,632) | – | (26,632) | 45,310 |

## 38. Event occurring after the reporting period

a) Acquisition of Polymer Division of RCMA Group Pte. Ltd. ("RCMA Group")

In January 2018, the Group completed the acquisition of all of the rubber trading and distribution business of RCMA Group in Europe, the United States, Singapore and Thailand. The Purchase consideration for the RCMA Polymer Acquisition of US$31,759,000 has been fully satisfied in cash.

b) Acquisition of Corrie MacColl Trading Limited ("CMTL")

In February 2018, the Group acquired 100% of the issued and paid-up share capital in CMTL, a limited liability company incorporated in England and Wales, for a total cash consideration of £91,502 (equivalent to approximately US$129,000).

c) Acquisition of 80% shares in PT Pulau Bintan Djaya ("PBD")

In February 2018, PT Hok Tong (a 99.99% owned subsidiary of the Company) ("Hok Tong") completed the acquisition of 80% of the issued and paid-up share capital of PBD, which owns a natural rubber processing factory (together with all associated land, buildings, plant and machinery) located in Bintan Timur, Indonesia.

In conjunction with the aforesaid acquisition, Hok Tong has granted an irrevocable put option to one of the vendors for a period of two (2) years (effective from 27 February 2018), to require Hok Tong to acquire all its remaining 20% equity interest in PBD on the same terms and conditions of the said acquisition.

d) Proposed acquisition of PT Sumber Djantin ("PSD") and PT Sumber Alam ("PSA")

In January 2018, the Group announced the proposed acquisition of 100% of the issued and paid-up share capital of PSD and PSA for purchase consideration of S$105,300,000. Both PSD and PSA owns four natural rubber processing factories in West Kalimantan. The proposed acquisition is subject to certain conditions precedent stated in the sales and purchase agreement.

e) Increase in shareholding in subsidiaries

Subsequent to year end, the Group has increased its shareholding in the following subsidiaries:

– <u>PT GMG Sentosa ("GMG Sentosa")</u>
In February 2018, Hok Tong has acquired 25% of the issued and paid-up share capital in GMG Sentosa for a cash consideration of US$1. Subsequent to the acquisition, the Group's total equity interest in GMG Sentosa has increased from 75% to 100%; and

– <u>PT Sunan Rubber ("Sunan")</u>
In February 2018, Hok Tong completed the acquisition of 46.25% of the issued and paid-up share capital of Sunan from the non-controlling interests, for total cash consideration of approximately US$15,260,000.

## 39. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 19 March 2018.

# Statistics of Shareholdings

## As at 20 March 2018

| | | |
|---|---|---|
| Issued and paid-up share capital | : | S$952,655,008.46 |
| Number of issued shares | : | 1,595,011,941 |
| Number of treasury shares | : | Nil |
| Number of subsidiary holdings | : | Nil |
| Voting rights on a poll | : | 1 vote for each ordinary share |

## DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|---|---|---|---|---|
| 1 – 99 | 1,867 | 16.94 | 109,671 | 0.01 |
| 100 – 1,000 | 3,517 | 31.92 | 1,535,222 | 0.10 |
| 1,001 – 10,000 | 3,956 | 35.90 | 16,983,518 | 1.06 |
| 10,001 – 1,000,000 | 1,650 | 14.97 | 78,992,720 | 4.95 |
| 1,000,001 AND ABOVE | 30 | 0.27 | 1,497,390,810 | 93.88 |
| **TOTAL** | **11,020** | **100.00** | **1,595,011,941** | **100.00** |

## TWENTY LARGEST SHAREHOLDERS

| NO. | NAME | NO. OF SHARES | % |
|---|---|---|---|
| 1 | SINOCHEM INTERNATIONAL (OVERSEAS) PTE LTD | 877,056,655 | 54.99 |
| 2 | UOB KAY HIAN PRIVATE LIMITED | 167,418,475 | 10.50 |
| 3 | DBS NOMINEES (PRIVATE) LIMITED | 105,430,407 | 6.61 |
| 4 | CITIBANK NOMINEES SINGAPORE PTE LTD | 74,219,344 | 4.65 |
| 5 | GMG HOLDING (H.K.) LIMITED | 72,922,374 | 4.57 |
| 6 | CREDENCE CAPITAL FUND II (CAYMAN) LIMITED | 52,500,000 | 3.29 |
| 7 | RAFFLES NOMINEES (PTE) LIMITED | 38,720,522 | 2.43 |
| 8 | GOI SENG HUI | 25,000,000 | 1.57 |
| 9 | NOMURA SINGAPORE LIMITED | 11,711,047 | 0.73 |
| 10 | PANWELL (PTE) LTD | 11,601,183 | 0.73 |
| 11 | ANDREW TREVATT | 9,013,066 | 0.57 |
| 12 | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 6,045,451 | 0.38 |
| 13 | BNP PARIBAS NOMINEES SINGAPORE PTE LTD | 5,739,734 | 0.36 |
| 14 | OCBC SECURITIES PRIVATE LIMITED | 4,821,891 | 0.30 |
| 15 | BESCHIZZA LEONARD PETER SILVIO | 4,000,000 | 0.25 |
| 16 | CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD. | 3,900,034 | 0.24 |
| 17 | GE JIANMING | 3,550,347 | 0.22 |
| 18 | SEE YONG HANG | 2,845,818 | 0.18 |
| 19 | TAN NG KUANG | 2,799,900 | 0.18 |
| 20 | PHILLIP SECURITIES PTE LTD | 2,758,984 | 0.17 |
| | **TOTAL** | **1,482,055,232** | **92.92** |

# Statistics of Shareholdings

As at 20 March 2018

## SUBSTANTIAL SHAREHOLDERS

| | Direct Interest | | Deemed Interest | |
|---|---|---|---|---|
| Name of Substantial Shareholders | Number of shares | % | Number of shares | % |
| Sinochem International (Overseas) Pte. Ltd. | 877,056,655 | 54.99 | – | – |
| Sinochem International Corporation (1) | – | – | 877,056,655 | 54.99 |
| Sinochem Corporation (1) | – | – | 877,056,655 | 54.99 |
| Sinochem Group (1) | – | – | 877,056,655 | 54.99 |
| China-Africa Agrichemical Investment Corporation Limited | 162,864,000 | 10.21 | – | – |
| China-Africa Development Fund (2) | – | – | 162,864,000 | 10.21 |
| Mieke Bintati Gondobintoro | 859,329 | 0.05 | 84,523,557 (3) | 5.30 |
| Jeffrey Gondobintoro | 639,642 | 0.04 | 84,523,557 (3) | 5.30 |

*Notes:*

*(1) Each of Sinochem International Corporation, Sinochem Corporation and Sinochem Group is deemed interested in the shares held by Sinochem International (Overseas) Pte. Ltd. ("SIO"), by virtue of its controlling interest in SIO.*

*(2) China-Africa Development Fund is deemed interested in the shares held by its wholly owned subsidiary, China-Africa Agrichemical Investment Corporation Limited.*

*(3) Mieke Bintati Gondobintoro and Jeffrey Gondobintoro are deemed interested in the 11,601,183 shares held by Panwell (Pte) Ltd and 72,922,374 shares held by GMG Holding (H.K.) Limited.*

## SHAREHOLDINGS HELD IN HANDS OF PUBLIC

Based on the information available to the Company as at 20 March 2018, approximately 24.40% of the issued ordinary shares of the Company is held by the public. Therefore, Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited is complied with.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting ("AGM") of Halcyon Agri Corporation Limited (the "Company") will be held at RELC International Hotel, 30 Orange Grove Road (Off Orchard Road), Singapore 258352 on Monday, 23 April 2018 at 4.00 p.m. for the purpose of transacting the following business:

## ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements for the financial year ended 31 December 2017, the Directors' Statement and the Independent Auditor's Report thereon. **(Resolution 1)**

2. To approve and declare a final one-tier tax exempt dividend of 1.0 Singapore cent (S$0.01) and one-tier tax exempt special dividend of 1.0 Singapore cent (S$0.01) per ordinary share, for the financial year ended 31 December 2017. **(Resolution 2)**

3. To re-elect Mr Pascal Guy Chung Wei Demierre, the Director who is retiring pursuant to Article 91 of the Constitution of the Company and who, being eligible, offers himself for re-election. **(Resolution 3)**

4. To re-elect Mr Alan Rupert Nisbet, the Director who is retiring pursuant to Article 91 of the Constitution of the Company and who, being eligible, offers himself for re-election. **(Resolution 4)**

5. To re-elect Mr Khoo Boo Teck Randolph, the Director who is retiring pursuant to Article 91 of the Constitution of the Company and who, being eligible, offers himself for re-election. **(Resolution 5)**

6. To re-elect Mr Wang Wei, the Director who is retiring pursuant to Article 97 of the Constitution of the Company and who, being eligible, offers himself for re-election. **(Resolution 6)**

7. To re-elect Mr Jeremy Goon Kin Wai, the Director who is retiring pursuant to Article 97 of the Constitution of the Company and who, being eligible, offers himself for re-election. **(Resolution 7)**

8. To re-elect Mr Qin Jinke, the Director who is retiring pursuant to Article 97 of the Constitution of the Company and who, being eligible, offers himself for re-election. **(Resolution 8)**

9. To approve the sum of up to S$750,000 to be paid quarterly in arrears, to the non-executive Directors as Directors' fees for the financial year ending 31 December 2018. **(Resolution 9)**

10. To re-appoint Messrs Ernst & Young LLP as Auditor of the Company and to authorise the Directors to fix its remuneration. **(Resolution 10)**

11. To transact any other ordinary business which may be properly transacted at an AGM.

## SPECIAL BUSINESS

To consider and, if thought fit, to pass the following as Ordinary Resolution, with or without modification(s):

12. **Authority to Allot and Issue Shares** **(Resolution 11)**

THAT pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore (the "Act") and Rule 806 of the Listing Manual, the Directors of the Company be authorised and empowered to:

(I) (a) allot and issue shares in the capital of the Company (the "Shares") whether by way of rights, bonus or otherwise; and/or

(b) make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

(II) issue Shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force, notwithstanding that the authority conferred by this Resolution may have ceased to be in force at the time of such issuance of Shares,

PROVIDED THAT:

(1) the aggregate number of Shares to be issued pursuant to this Resolution (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution), shall not exceed fifty per cent (50%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a pro-rata basis to existing shareholders of the Company (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) shall not exceed twenty per cent (20%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the Singapore Exchange Securities Trading Limited ("SGX-ST")) for the purpose of determining the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) that may be issued under sub-paragraph (1) above, the percentage of total issued Shares shall be based on the total number of issued Shares (excluding treasury shares and subsidiary holdings) at the time this Resolution is passed, after adjusting for:

  (a) new Shares arising from the conversion or exercise of any convertible securities;

  (b) new Shares arising from the exercise of share options or vesting of share awards which are outstanding and/or subsisting at the time of the passing of this Resolution, provided the options or awards (as the case may be) were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and

  (c) any subsequent bonus issue, consolidation or sub-division of Shares,

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual for the time being in force (unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Act and the Constitution of the Company for the time being; and

(4) the authority conferred by this Resolution shall, unless revoked or varied by the Company in general meeting, continue to be in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier.

By Order of the Board

Liew Guat Yi
Company Secretary
Singapore
6 April 2018

# Notice of Annual General Meeting

**Explanatory Notes**

**Resolution 2: Declaration of final dividend and special dividend on ordinary shares**

Resolution 2 is to approve the declaration of dividends in an aggregate amount of S$0.02 per ordinary share for the financial year ended 31 December 2017. Please refer to page 157 of this Annual Report for books closure and dividend payment dates.

**Resolution 3: Re-election of Mr Pascal Guy Chung Wei Demierre as a Director**

Mr Pascal Guy Chung Wei Demierre will, upon re-election as a Director of the Company, remain as Executive Director and a member of the Audit Committee and Remuneration Committee. He will be considered non-independent for the purpose of Rule 704(8) of the Listing Manual of the SGX-ST (the "Listing Manual"). There are no relationships (including family relationships) between Mr Demierre and the other Directors, the Company and its ten per cent (10%) shareholders. Please refer to the sections on Board of Directors and Corporate Governance in this Annual Report for further information on Mr Demierre, including information on the current directorships in other listed companies and other principal commitments.

**Resolution 4: Re-election of Mr Alan Rupert Nisbet as a Director**

Mr Alan Rupert Nisbet will, upon re-election as a Director of the Company, remain as the Lead Independent Director, Chairman of the Audit Committee, and a member of the Nominating Committee, Remuneration Committee as well as the Strategy and Investment Committee. He will be considered independent for the purpose of Rule 704(8) of the Listing Manual. There are no relationships (including family relationships) between Mr Nisbet and the other Directors, the Company and its ten per cent (10%) shareholders. Please refer to the sections on Board of Directors and Corporate Governance in this Annual Report for further information on Mr Nisbet, including information on the current directorships in other listed companies and other principal commitments.

**Resolution 5: Re-election of Mr Khoo Boo Teck Randolph as a Director**

Mr Khoo Boo Teck Randolph will, upon re-election as a Director of the Company, remain as an Independent Director, Chairman of the Nominating Committee and a member of the Audit Committee and Remuneration Committee. He will be considered independent for the purpose of Rule 704(8) of the Listing Manual. There are no relationships (including family relationships) between Mr Khoo and the other Directors, the Company and its ten per cent (10%) shareholders. Please refer to the sections on Board of Directors and Corporate Governance in this Annual Report for further information on Mr Khoo, including information on the current directorships in other listed companies (if any) and other principal commitments.

**Resolution 6: Re-election of Mr Wang Wei as a Director**

Mr Wang Wei will, upon re-election as a Director of the Company, remain as a Non-executive Non-independent Director. Mr Wang is a nominee director of China-Africa Agrichemical Investment Corporation Limited (10.21% shareholder). Please refer to the sections on Board of Directors and Corporate Governance in this Annual Report for further information on Mr Wang, including information on the current directorships in other listed companies (if any) and other principal commitments. Save as disclosed in this Annual Report, there are no relationships (including family relationships) between Mr Wang and the other Directors, the Company and its ten per cent (10%) shareholders.

**Resolution 7: Re-election of Mr Jeremy Goon Kin Wai as a Director**

Mr Jeremy Goon Kin Wai will, upon re-election as a Director of the Company, remain as an Independent Director. There are no relationships (including family relationships) between Mr Jeremy Goon and the other Directors, the Company and its ten per cent (10%) shareholders. Please refer to the sections on Board of Directors and Corporate Governance in this Annual Report for further information on Mr Jeremy Goon, including information on the current directorships in other listed companies (if any) and other principal commitments.

**Resolution 8: Re-election of Mr Qin Jinke as a Director**

Mr Qin Jinke will, upon re-election as a Director of the Company, remain as a Non-executive Non-independent Director. Mr Qin is a nominee director of Sinochem International (Oversea) Pte. Ltd. (54.99% shareholder) and is a co-worker of Mr Liu Hongsheng, the Chairman of the Board, at Sinochem International Corporation. Please refer to the sections on Board of Directors and Corporate Governance in this Annual Report for further information on Mr Qin, including information on the current directorships in other listed companies (if any) and other principal commitments. Save as disclosed in this Annual Report, there are no relationships (including family relationships) between Mr Qin and the other Directors, the Company and its ten per cent (10%) shareholders.

**Resolution 9: Approval of Directors' fees of up to S$750,000**

Resolution 9, if passed, will facilitate the payment of Directors' fees during the financial year ending 31 December 2018, in which the fees are incurred. Remuneration framework for the non-executive Directors (including the Chairman) remains unchanged from the framework for the financial year ended 31 December 2017. Directors' fees are computed based on the anticipated number of Board and Board Committee meetings, assuming full attendance by all of the non-executive Directors. The amount also caters for any fee increases and unforeseen circumstances, for example, the appointment of additional Directors, additional unscheduled Board meetings and/or the formation of additional Board Committee(s). Please refer to the section on Corporate Governance in this Annual Report for further information on the Directors' fees.

# Notice of Annual General Meeting

**Resolution 11: Authority to the Directors to allot and issue shares**

Resolution 11, if passed, will empower the Directors of the Company, effective from the conclusion of the above AGM until the conclusion of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to allot and issue Shares and convertible securities in the Company (without seeking any further approval from shareholders in general meeting) within the limitation imposed by the Resolution 11, for such purposes as the Directors may consider would be in the best interests of the Company.

The number of Shares and convertible securities that the Directors may allot and issue under the Resolution 11 would not exceed fifty per cent (50%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) at the time of passing of the Resolution 11. For the issue and allotment of Shares and convertible securities other than on a pro-rata basis to all shareholders, the aggregate number of Shares and convertible securities to be issued and allotted shall not exceed twenty per cent (20%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) at the time of passing of the Resolution 11.

For determining the aggregate number of Shares that may be issued, the percentage of issued Shares will be based on the total number of issued Shares (excluding treasury shares and subsidiary holdings) at the time the Resolution 11 is passed after adjusting for new Shares arising from the conversion or exercise of any convertible securities, the exercise of share options or the vesting of share awards outstanding and/or subsisting at the time the Resolution 11 is passed and any subsequent bonus issue, consolidation or subdivision of the Company's Shares.

**Notes**

1. A member of the Company who is not a relevant intermediary is entitled to appoint not more than two proxies to attend entitled to attend, speak and vote at the AGM in his stead.
2. Pursuant to Section 181 of the Act, any member who is a relevant intermediary is entitled to appoint one or more proxies to attend, speak and vote at the AGM. "Relevant intermediary" has the meaning ascribed to it in Section 181 of the Act.
3. A proxy need not be a member of the Company.
4. The instrument appointing a proxy must be deposited at the office of the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for holding the AGM.

**General**

The Company shall be entitled to reject a Proxy Form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on and/or attached to the Proxy Form. In addition, in the case of a member whose shares are entered in the Depository Register, the Company may reject a Proxy Form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the EGM, as certified by The Central Depository (Pte) Limited to the Company.

**Personal data privacy**

By submitting an instrument appointing proxy or proxies, and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company:

(i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxy(ies) and/or representative(s) appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes");

(ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure of such individual's personal data for the Purposes; and

(iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

# Notice of Books Closure and Dividend Payment Dates

**NOTICE IS HEREBY GIVEN** that the Transfer Books and Register of Members of Halcyon Agri Corporation Limited (the "Company") will be closed from 5.00 p.m. on 27 April 2018 for the purposes of determining shareholders' entitlements to the proposed:

(a) final one-tier tax exempt dividend of 1.0 Singapore cent (S$0.01) for the financial year ended 31 December 2017 for every ordinary share (the "Share"); and

(b) one-tier tax exempt special dividend of 1.0 Singapore cent (S$0.01) for every Share

(collectively, the "Dividend"), of which the declaration is subject to the approval of shareholders being given at the Annual General Meeting of the Company to be held on 23 April 2018 (the "2018 AGM").

Duly completed registrable transfers of Shares received by the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623 no later than 5.00 p.m. on 27 April 2018 will be registered to determine shareholders' entitlements to the Dividend.

Shareholders (being depositors) whose securities accounts with The Central Depository (Pte) Limited are credited with Shares as at 5.00 p.m. on 27 April 2018 will be entitled to the Dividend.

The proposed Dividend, if approved by shareholders at the 2018 AGM, will be paid on 7 May 2018.

By Order of the Board

Liew Guat Yi
Company Secretary
Singapore
6 April 2018

# HALCYON AGRI CORPORATION LIMITED

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

## PROXY FORM
ANNUAL GENERAL MEETING

**Important notes:**

1. Relevant intermediaries as defined in Section 181 of the Companies Act, Chapter 50 of Singapore may appoint more than two proxies to attend, speak and vote at the Annual General Meeting ("**AGM**").
2. An investor who holds shares under the Central Provident Fund Investment Scheme ("**CPF Investor**") and/or the Supplementary Retirement Scheme ("**SRS Investors**") (as may be applicable) may attend and cast his vote(s) at the AGM in person. CPF and SRS Investors, who are unable to attend the AGM but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the AGM to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the AGM.
3. This Proxy Form is not valid for use by CPF/SRS investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

**Personal Data Privacy:**
By submitting an instrument appointing proxy or proxies and/or representative(s), a member of the Company accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 6 April 2018.

*I/We, ____________________________ (Name) *NRIC/Passport/Co. Reg. No. ____________________

of ______________________________________________________________ (address)

being a *member/members of HALCYON AGRI CORPORATION LIMITED (the "Company"), hereby appoint:

| Name | Address | NRIC/Passport No. | Proportion of Shareholdings | |
|---|---|---|---|---|
| | | | No. of Shares | % |
| | | | | |

*and/or

| Name | Address | NRIC/Passport No. | Proportion of Shareholdings | |
|---|---|---|---|---|
| | | | No. of Shares | % |
| | | | | |

or failing him/her, the Chairman of the Annual General Meeting ("**AGM**"), as *my/our *proxy/proxies to attend and to vote for *me/us on *my/our behalf at the AGM of the Company to be held at RELC International Hotel, 30 Orange Grove Road (Off Orchard Road), Singapore 258352 on Monday, 23 April 2018 at 4.00 p.m. and at any adjournment thereof, in the manner as indicated hereunder.

In the absence of specific directions, the *proxy/proxies may vote or abstain from voting at *his/her discretion, as he/they may on any other matter arising at the AGM.

All resolutions put to vote at the AGM shall be decided by way of poll.

| ORDINARY RESOLUTIONS<br>**Ordinary Business** | | Number of votes For** | Number of votes Against** |
|---|---|---|---|
| Resolution 1 | Adoption of Directors' Statement, Audited Financial Statements and Independent Auditor's Report | | |
| Resolution 2 | Declaration of final dividend and special dividend on ordinary shares | | |
| Resolution 3 | Re-election of Mr Pascal Guy Chung Wei Demierre as a Director retiring under Article 91 | | |
| Resolution 4 | Re-election of Mr Alan Rupert Nisbet as a Director retiring under Article 91 | | |
| Resolution 5 | Re-election of Mr Khoo Boo Teck Randolph as a Director retiring under Article 91 | | |
| Resolution 6 | Re-election of Mr Wang Wei as a Director retiring under Article 97 | | |
| Resolution 7 | Re-election of Mr Jeremy Goon Kin Wai as a Director retiring under Article 97 | | |
| Resolution 8 | Re-election of Mr Qin Jinke as a Director retiring under Article 97 | | |
| Resolution 9 | Approval of Directors' fees of up to S$750,000 for the financial year ending 31 December 2018 | | |
| Resolution 10 | Re-appointment of Messrs Ernst & Young LLP as Auditor | | |
| **Special Business** | | | |
| Resolution 11 | Authority to the Directors to allot and issue shares | | |

*Delete accordingly
**Please indicate the number of votes as appropriate

Date this ____________ day of ____________ 2018

| Total Number of Shares held in: | |
|---|---|
| CDP Register | |
| Register of Members | |

______________________________________

Signature(s) of Members(s) or Common Seal

**IMPORTANT: PLEASE READ THE NOTES OVERLEAF**

**Notes:**

1. Please insert the total number of shares in the share capital of the Company held by the member. If the member has shares entered against his name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members, he should insert the number of shares entered against his name in the Depository Register and registered in his name in the Register of Members. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member.

2. A member of the Company who is not a relevant intermediary is entitled to appoint not more than two proxies to attend entitled to attend, speak and vote at the AGM in his stead.

3. Where a member appoints more than one proxy, the member must specify the proportion of shareholdings (expressed as a percentage of the whole) to be represented by each proxy. If no proportion of shareholdings is specified, the proxy whose name appears first shall be deemed to carry one hundred per cent (100%) of the shareholdings of his/its appointor and the proxy whose name appears after shall be deemed to be appointed in the alternate.

4. Pursuant to Section 181 of the Companies Act, Chapter 50 of Singapore, any member who is a relevant intermediary is entitled to appoint one or more proxies to attend, speak and vote at the AGM but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where more than one proxy is appointed, the number and class of shares in relation to which each proxy has been appointed shall be specified in the instrument appointing a proxy or proxies. A relevant intermediary is either:

   (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or its wholly-owned subsidiary which provides nominee services and holds shares in that capacity;

   (b) a capital markets services licence holder which provides custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore and holds shares in that capacity; or

   (c) the Central Provident Fund ("CPF") Board established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased on behalf of CPF investors.

5. In relation to a relevant intermediary who wishes to appoint more than two proxies, it should annex to the instrument appointing a proxy or proxies the list of proxies, setting out, in respect of each proxy, the name, address, NRIC/Passport Number and proportion of shareholding (number of shares and percentage) in relation to which the proxy has been appointed. For the avoidance of doubt, a CPF Agent Bank who intends to appoint CPF investors as its proxies shall comply with this Note.

6. A proxy need not be a member of the Company.

7. The instrument appointing a proxy or proxies must be deposited at the office of the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623, not less than 48 hours before the time set for the AGM.

8. Subject to note 12, completion and return of this instrument appointing a proxy or proxies shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the AGM in person and, in such event, the Company reserves the right to refuse to admit any person or persons appointed under this instrument of proxy to the AGM.

9. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

10. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof (failing previous registration with the Company) must be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

11. A corporation which is a member may authorise by resolution of its Directors or other governing body such person as it thinks fit to act as its representative at the general meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

12. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the AGM in person. CPF and SRS Investors who are unable to attend the AGM but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the AGM to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the AGM.

**General:**

The Company shall be entitled to reject a Proxy Form which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on and/or attached to the Proxy Form. In addition, in the case of a member whose shares are entered in the Depository Register, the Company may reject a Proxy Form if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.

**Halcyon Agri Corporation Limited**
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