



Hevea Estates makes good progress

Our plantation holdings consist of four estate parcels with a combined estimated plantable area of 7,150 hectares in Kelantan, Malaysia. We made considerable progress in 2014 in the development of our natural rubber plantations.

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Chairman's message



Dear all,

Sustainability may be a buzz word for some, but for Halcyon Agri it is a core element of our business. We define sustainability not by external standards, although we comply with many of them, but a deep-rooted belief that only sustainable businesses deliver positive, long term returns on capital.

The capital we employ far exceeds the total financial assets we report in our financial statements. We employ human capital, ecological capital and, most difficult to quantify, opportunity capital.

Human capital is our biggest asset. As at 31 March, we employed 4,000 people in Indonesia, Malaysia, Singapore, Vietnam, China, Germany, the Netherlands and the United States. I consider their next of kin to be a part of us as well, seeing that they provide the family context for our people. Parents, children, spouses, they form part of our human capital. Expand this view to include suppliers and their families, especially in Indonesia, Malaysia and Vietnam. The ballpark number you arrive at is staggering. Rough calculations suggest in excess of 10 million people constitute our expanded human capital base. 10 million! That is twice the population of Singapore.

Ecological capital; our business is dependent on agricultural and

ecological inputs: rubber trees for the field latex, and water for the factories. The responsibility we bear to treat these assets well is far from trivial. The land we employ must be planted with a view to preserve. We understand and strictly abide by local preservation laws, undertake environmental impact assessments, create natural boundaries and buffer zones to adjacent forests and waterways, and dedicate land as reserves in each of our estates to protect keystone species. The water we use must be returned to the rivers cleaner than it was when it entered our factories.

Opportunity capital. Business theory talks about opportunity costs. For our purposes, I believe this is a classification of limited use. A cost is a line item in a profit and loss statement, whereas capital is the long term resource available for a company to employ. If we build a sustainable business, then time, effort, brainpower, dedication and all the unquantifiable energy that is deployed on a daily basis to develop this business becomes a form of capital. People stay. Investors hold their shares. Bankers provide long term capital solutions. Maintaining the drive, indeed looking to reenergize the business at ever higher levels, that is sustainability.

So what does this mean? The simple truth is, that the natural

rubber business employs substantial amounts of capital that is not adequately reported in our financial statements. We derive benefit from millions of people dedicating their lives to not only this industry, but our company. We derive benefit from approximately 500,000 hectares of planted rubber land that produces the raw material we purchase daily. And we employ significant amounts of opportunity capital, benefitting from a level of stakeholder dedication which I cannot emphasise enough.

And that means that we must ensure that our business is sustainable. It is my responsibility, and that of my fellow management team, to do our very best to provide commensurate returns for our expanded capital base. Remuneration for farmers, with sufficient headroom over direct production costs to allow for appropriate husbandry and care of their lands. Continuous investment in our EHS system (Environment, health and safety) further drives asset productivity at the plantation and factory level. Adequate compensation to the providers of our opportunity capital: shareholders, bankers, senior management and staff.

Finally, I would like to introduce Bunut, our latest addition to the family. Read all about him on Page 7.

Yours always,

Robert Meyer
Executive Chairman &
Chief Executive Officer

Getting the BIG Stamp: Attainment of ISO 14001 / OHSAS 18001

December 2014 was a landmark along the Group's Sustainability Journey with the simultaneous certification of ISO 14001 and OHSAS 18001 by Hevea KB in Malaysia. An almost unprecedented achievement within the natural rubber processing industry; the certification is the result of much hard work by Hevea KB's dedicated EHS Committee and steering committee comprising representatives from all departments.

The process began in 12 August 2014 when a launch event was held. This was graced by the Department of Safety & Health (DOSH) and the

Department of Environment (DOE).

What followed was a lengthy process of document control and numerous visits by auditors. The final audit took place on 18 Nov 2014 with certification received on 31 Dec 2014.

Halcyon Agri would like to thank Mr. Darren (ISO Consultant), Mr. Loga (ISO Management representative) and members of EHS Steering Committee for helping to make this possible. Hevea KB is the first of the Group's processing facilities to attain certification, but it won't be the last!



Serious on Safety: EHS Workshop

To ensure that the utmost is done when it comes to staff safety so that no one gets hurt, we have developed an Environment, Health & Safety (EHS) strategy for all subsidiaries. This provides direction for the improvement of EHS performance across all areas of the EHS Committees' activities and the establishment of specific job functions and areas of responsibilities.

An EHS workshop focused on EHS risk assessment was held on 9 February in Palembang. This was in line with the key aim of our strategy, which is to deliver improvements to the capacity for Committees to handle risk effectively and produce a performance framework that will enable it to demonstrate improvements made to safety. The session, led by EHS Manager of Hevea KB,

Loganathan Ramah, and was well received by key management representing all Anson processing facilities.

Although the session kicked off almost an hour late, due to some travel complications, it quickly turned into a highly interactive session on the identification of risks and hazards, followed by the classification of risks using a common matrix.

The activities did not stop there. Following a typically delicious Palembang Nasi Padang lunch, Committee Members wore their personal protection gear to get hands-on with full facilities audits, starting with PT Hok Tong (SGO) and ending two days later with PT Hevea MK II (SEA).



Since the completion of this exercise, our Palembang based factories were able to follow up with detailed risk assessment and corrective action reports. A central EHS audit team has also been formed within this region and comprises a representative from each factory.

Ramping it Up!

Upgrading Production in Indonesia

2014 was a momentous year for us. With the acquisition of Anson Company, we added four subsidiaries and nine factories to our Halcyon family. We have been busy aligning these operations with those of the larger group, including making improvements to the factories such as the construction of additional facilities and purchase of new equipment.

Here is a roundup of some of these activities:

PT. Hok Tong, Palembang (SCX)

This February, we completed the installation and commissioning of a new chain dryer (prebreaker), with the capacity to produce more than 5.5 metric tonnes/hour of SIR 20.

PT. Hok Tong, Keramasan (SGO)

Construction of a second Hanging House is well underway and is expected to be completed by this coming September. This will increase capacity for hanging blankets to about 4,200 metric tonnes.

We have also started laying gas pipes for our trolley washing system. Instead of using diesel, we will change to natural gas to increase efficiency, and lower carbon footprint.

PT. Hok Tong, Pontianak (KAZ)

Our "Blaze" heater room is expected to be completed in April. We are using palm kernel shells as fuel to supply heat to the dryer. This will help to save production cost, increase our use of renewable fuels, and increase dryer efficiency and capacity.

PT. Remco, Palembang (SDQ)

We have increased our hanging capacity by 300 metric tonnes with the completion of a new Hanging House last December.

A more environmentally friendly Waste Water Treatment Plant with activated sludge system has also

been installed. This is a positive step forward and prepares us for ISO 14001 certification.

PT. Hevea MK I (SDR)

Instead of two, we now have three lines for the wet process, increasing production capacity. To manage the increase in waste water from the wet process, we built a new Waste Water Treatment Plant to increase our total capacity to 10,000 cubic metres.

With our new Waste Water Treatment Plant, we can now process more waste water into clean water to meet the Indonesian government's standards. This is also very much in line with our own commitment to operating our business in an environmentally friendly manner.

A new floor in the Hanging House has been added to increase our hanging capacity to 3,700 metric tonnes. Additionally we have built an extra raw material storage space.

A new generator has been installed with a capacity of 2,000 KVA to support both our wet and dry processes. We are also now using a new metal detector that can detect ferrous (iron) and non-ferrous (other metals) materials.

PT. Hevea MK II (SEA)

We had a very busy 2014. In that year, we completed the installation of our Waste Water Treatment Plant, enabling us to process all waste water into clean water.

A new 24 m x 60 m Hanging House was also completed to increase hanging capacity.

We are especially proud that our staff were able to move into their new housing with the completion of construction in March 2014.



...And in Malaysia

The last three months of 2014 have been busy at Hevea KB in Malaysia. In October, we opened a new raw materials buying station in Kelantan's Gua Musang, that will help us secure larger volumes of high quality cup lump raw material.

This was followed with the installation and commissioning of new dry prebreaker lines to further expand production capacity of compound and CV grades to over 10 metric tonnes per hour.

In December, we added more storage space with the completion of our finished goods warehouse and the installation of a new rail system for feeding the dry prebreaker lines.

We also took delivery of another two new dry prebreakers in February 2015. HKB will now be able to produce the new 88% carbon black compound for China from this July.

Last but not least, we want to extend a warm welcome to 60 new colleagues from Nepal who joined HKB as production operators.



Our Green Initiatives

Our water runs clear

Clean water has long been the buzz among environmentalists, governments, as well as international development organizations such as the United Nations.

At Halcyon Agri, we are no different, and continue to invest in water treatment systems. A steady supply of clean water is absolutely crucial in feeding our wet processes where the raw material in the form of cup lump, or slabs is processed through a series of breakers and blending tanks prior to milling, which then feeds into the dry process.

As the raw material comes directly from the field, it is unavoidable that it will contain levels of contamination including twigs, leaves, and soil. Following an initial inspection for acceptable levels of contamination at raw material receiving points, the rubber enters the wet process where it is cleaned through manual inspection before undergoing stringent cleaning in circulating blending tanks.

It is crucial to have a clean water supply at each stage of cleaning as it makes all the difference to the quality of our finished goods. Our experienced technical staff will attest to proper management of production flow rate to ensure that every bit of rubber is given a good clean and that the water at the end stage blending units runs clear.

Producing a high quality premium product is what we are about, but that's not everything. A key environmental aspect stemming from our processing operations is diligence in the proper isolation of our waste water systems and treatment technology that ensures that end-of-pipe waste water is restored to a quality that matches, or exceeds, the quality of water drawn at source. With continuous monitoring of post-treatment water for key indicators

such as biological oxygen demand (BOD), chemical oxygen demand (COD), nitrogen, and suspended solids, we have been able to ensure that water recycled back into the production process meets standards, and equally important, that end-of-pipe discharges into surrounding waterways have no negative impact on the natural environment.

Keeping abreast of water treatment technology has been key to our contribution to environmental protection, while increasing production volumes of high quality goods. All water treatment plants within our Indonesian processing facilities now utilize a chemical free, activated sludge biological system.

This system first utilizes mechanical filtration to remove coarse solids such as sticks, rags, and other debris. By use of fine screening, even floatable matter and algae are removed. Following this, contaminants such as sand, gravel, cinders, or other heavy solid materials are removed in the Grit Chamber. The Primary Clarifier which follows, is a basin where water has a certain retention time for the heavy organic solids to settle. Efficiently designed and operated primary sedimentation tanks should remove from 50 to 70 percent of the suspended solids and 25 to 40 percent of the BOD.

In the final stage, the effluent is mixed with activated sludge in the Aeration Tanks. The aeration stimulates bacterial action, which depletes the substrate to form a solid biomass.

This in turn settles as sediments and is then removed. Because the system is chemical free, this solid biomass, or sludge can safely be used as a fertilizer and is currently used in-house (see adjacent article), or given to surrounding farms.

Unlike the activated sludge systems used in Indonesia, Hevea KB in Malaysia, uses a passive water treatment system of effluent ponds. However, being no less eco-friendly, the system requires more space and has a slower through put, as the job is left to Mother Nature. Hevea KB is well qualified to boast about its 100 percent water recycling rate, closed circuit water system, and as ultimate proof of a job well done, abundant bird life and biodiversity at its ponds!



Using waste to green our grounds

Everything needed to keep PT Hok Tong II in Palembang (SGO) looking green and luscious - including our fruit trees and vegetable gardens - happens right here at the factory. We are proud to say that we have found an efficient and sustainable way to manage production waste and turn it into fertilizer for our trees.

Every day, we produce 3 to 4 metric tonnes of solid waste, such as grit, sand and sludge, from raw material processing. Each day, we also produce 8 to 10 metric tonnes of excess sludge from our Waste Water Treatment Plant, which uses the activated sludge system.

To solve both problems, we combine the excess sludge with the solid waste from raw material processing. The mixture is then left to dry

thoroughly before being used as fertilizers.

To speed up the process and make it more convenient, we installed a conveyor to our composting boxes in August 2014. We are confident that SGO will continue be green and healthy for many years to come.



Home sweet home

Our pet turtle Bunut has moved happily into its beautiful new home at SGO. Bunut was named after a small river in the locale. It was found by Pak Chandra on the factory premises in 2012.

Bunut belongs to the endangered species of Malaysian giant turtle, the largest freshwater turtle in Southeast Asia. This species has a powerful head, strong jaw and a slightly protruding snout.

Exploitation has rapidly diminished the population of this rare and gigantic reptile as its meat is highly sought after as food. At its new home, Bunut is safe and can swim and play safely in the pond all day long.

(See bottom right photo)

Our man Agus Effendy

Agus Effendy is on a green mission. Thanks to him these days SGO looks like a thriving fruit and vegetable farm and not your typical rubber processing factory.

In March 2012, Agus initiated a farming project to create a green belt within the plantation. Today, SGO boasts several agricultural plots devoted to the cultivation of honeydew, rice, chili and eggplant. This year, SGO plans to start planting dragon fruit and watermelon.

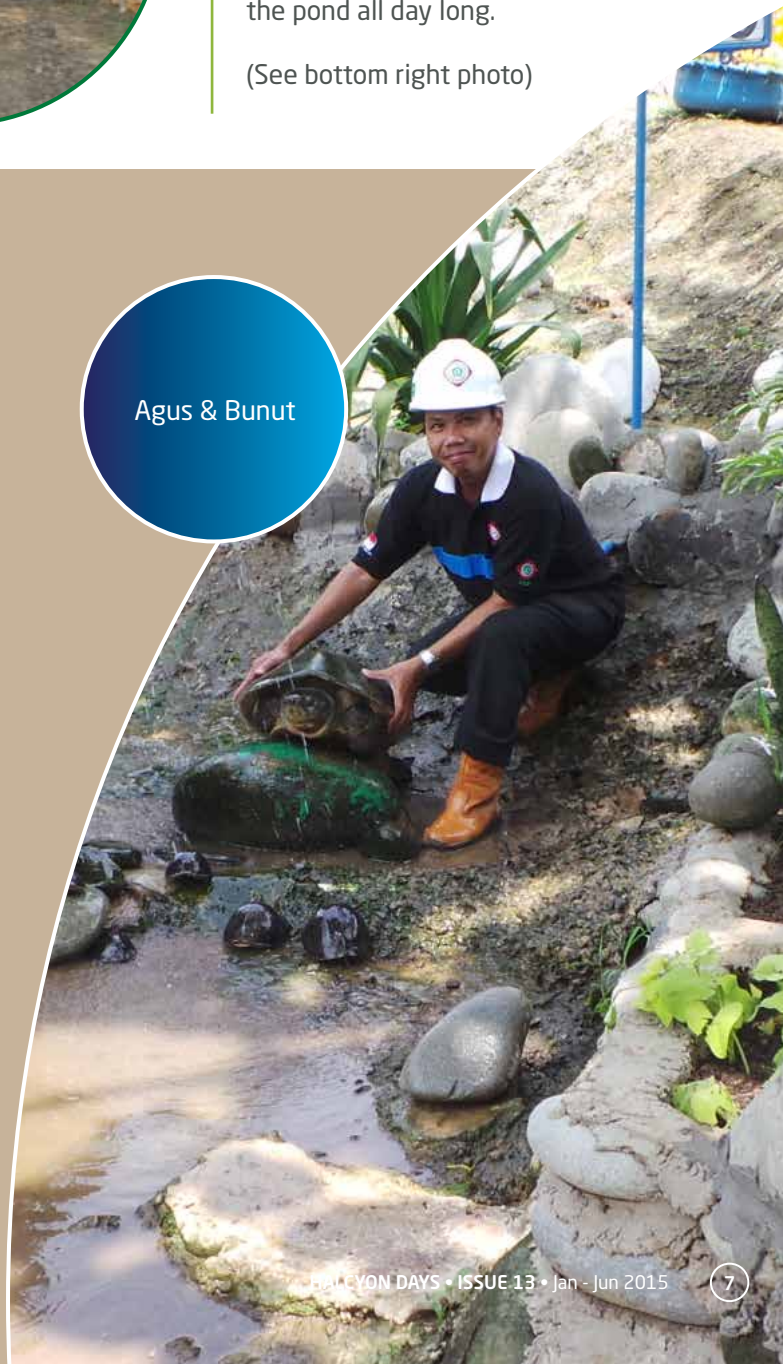
Surprisingly, he did not have any prior farming experience or knowledge.

"I learnt everything I know today through browsing the Internet for answers and being hands-on when it comes to actual planting", said Agus. "It also helped that we have good team work here as this makes things easier and enjoyable for everyone."

Agus has been with PT. Hok Tong for 29 years, starting as a lab analyst with PT. Hok Tong, Plaju (SCX) in 1986. He has been an Environmental Control Supervisor at SGO from May 2010.

The father of three wants his children to appreciate and protect the environment to make this a better world. He often reminds them not to litter and why they need to conserve nature. When he has time, he cooks for his family. "I can only cook fried rice for them and but it makes me very happy to do so", said Agus.

Agus & Bunut



Integrating our Indonesian finance

On 27 August 2014, 15 days after our acquisition of Anson Company, the Group Finance Team conducted a Finance Integration Day in Palembang.

The aim was to brief the participants on the Group level financial Standard Operating Procedures, closing procedures and harmonisation of accounting practices.

Twenty-five participants from our 12 factories in Indonesia attended the session which was chaired by our Group CFO Ng Eng Kiat, Group Accountant Ingrid Margaret Lihan, our head of finance for Indonesia Pak Sunyoto.

It was an emotional day for some of the participants from Anson factories, as they were meeting each other for the very first time after working with the Anson Group for the past 30 years. The event was a huge success.

All participants gained a better understanding of Halcyon's reporting requirements, sharing experience and knowledge with each other. It closed with a sumptuous dinner that was also attended by Pak Tan Chor Leng, our Indonesia CEO.



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Our plantation holdings consist of four estate parcels with a combined estimated plantable area of 7,150 hectares in Kelantan, Malaysia. We made considerable progress in 2014 in the development of our natural rubber plantations.

After the establishment of a local management team, work started at our Lebir site, with a natural rubber nursery established, temporary workers' accommodation built, and land preparation completed on 1,500 hectares. In 2014, we planted 544 hectares with Class I Clones PB260, PB350 and RRIM2025. The main criteria for clonal selection are fast growth, high yielding, as well as wind and disease resistance.

We also completed the planned planting of oil palm at the site, which was already in progress when we acquired the land. About 60,000 oil palms, occupying 450 hectares, have now been planted.

Planning is well underway to complete the Lebir site development with another 900 hectares of natural rubber planting in 2015, as well as the initial development of our Ulu Nenggiri site, with 250 hectares of land scheduled for planting in 2015.

The whole area of 7,150 hectares will be fully planted by 2018, and will come into full production in 2024. Clones planted are capable of producing 2.5 to 3 metric tonnes per hectare every year.



This year, we will be building an administrative office, warehouse, workshop and new houses for staff and workers at Lebir, in addition to our continued infrastructure development of roads and bridges.