

26 August 2011

The Manager  
Company Announcements Office  
Australian Securities Exchange  
Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

By: e-lodgement (ASX code SBI)

**APPENDIX 4E PRELIMINARY FINAL REPORT**

Please find attached Sterling Biofuels International Limited's Appendix 4E for the year ending 30 June 2011.

.

Yours sincerely



Alicia Mitton  
Company Secretary  
Sterling Biofuels International Limited

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**Sterling Biofuels**



**Sterling Biofuels International Limited** ACN 119 880 492



**APPENDIX 4E**

**PRELIMINARY FINAL REPORT**

Financial Year Ended 30 June 2011

# Results For Announcement To The Market

## Key Information

|   | 30 June<br>2011 | 30 June<br>2010 | Movement     |
|---|-----------------|-----------------|--------------|
|   | \$'000          | \$'000          |              |
| Revenue                                     | 122             | 111             | Up 9.91%     |
| Loss after tax                              | (7,921)         | (2,696)         | Up 193.80%   |
| Loss attributable to members                | (7,921)         | (2,696)         | Up 193.80%   |
| Dividends proposed or paid                  | Nil             | Nil             | n/a          |
| Cash held at year end                       | 462             | 131             | Up \$331,000 |
| Net tangible (liabilities)/assets per share | (0.03)          | 0.11            | Down 127.27% |

## Statement of Comprehensive Income

The consolidated loss after income tax for the year ended 30 June 2011 was \$7.921 million (2010: \$2.696 million).

During the year under review, the Group launched its Golden Palm Growers Scheme with respect to the oil palm plantation that the Group is developing in Malaysia. The Scheme has been well received and as at 30 June 2011, 7,449 Grower Plots have been sold raising \$16.494 million for the development of the plantation.

The successful launch of the Growers Scheme secures funding for the plantation development while enabling the Group to retain at least 30% of the economic value of the plantation.

The physical development at the plantation is progressing well. As at 30 June 2011, 1,690 hectare of the 4,565 hectare plantation is already under development. Of this area, 885 hectare have been planted out with oil palms.

The plantation development has been professionally valued at \$22 million.

While the plantation development has seen tremendous progress, the Group was unable to commence production at its biodiesel plant as there were no margins to be made. The Malaysian mandatory blend was rolled out on a limited basis in June in the central region. Timing of the roll out for East Malaysia (where our plant is located) has not been announced by the Malaysian government.

## Statement of Financial Position

During the year under review, the Company's share capital remained unchanged at \$32.143 million.

The Group's cash balance as at 30 June 2011 was \$0.462 million with net liabilities of \$1.754 million as at that date ended. The restricted deposits of \$7.439 million are deposits held by trustee of Growers Scheme.

# Results For Announcement To The Market

(Cont'd)

## Cash Flow Statement

Net cash outflows from operating activities increased to \$6.632 million from \$1.937 million primarily as a result of increased staff costs, expenditure on advertising and marketing of Growers Scheme as well as plantation operations.

Net cash outflows from investing activities increased to \$3.323 million from \$0.709 million. The increase reflects increased expenditure on the plantation development and full settlement of a previous acquisition of non-controlling interest.

Net cash inflows from financing activities increased to \$9.692 million from \$1.963 million reflecting the proceeds raised from the sale of grower plots were utilised primarily for placement of deposits pledged.

## Dividends

No dividend was paid or is proposed for the year under review.

## Significant Events after Balance Sheet Date

Except as disclosed in this report or the consolidated financial statements, as at the date of this report, no other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

## Audit Information

The preliminary final report is based on financial statements which have been audited.

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See Financial Statements  
from pages 14 to 56  
of the attached  
Annual Report 2011

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[www.sterlingbiofuels.com](http://www.sterlingbiofuels.com)

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West Perth WA 6872

ASX Code: SBI

**Malaysia Office**

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Selangor Malaysia  
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Sterling Biofuels International Limited

**Sterling Biofuels**



**Sterling Biofuels International Limited** ACN 119 880 492

ANNUAL REPORT 2011



**ANNUAL REPORT 2011**

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# Corporate Information and Directory

## Directors

Dato' CRS Paragash \_\_\_\_\_ Executive Chairman  
Andrew Phang \_\_\_\_\_ Group Executive Director  
Paul Mason \_\_\_\_\_ Director  
Graham Keys \_\_\_\_\_ Director

## Company Secretary

Alicia Mitton  
Email: mittona@norvest.com.au

## Registered Office in Australia

57 Havelock Street  
West Perth WA 6005  
Australia  
Telephone : (61-8) 9324 8555  
Facsimile : (61-8) 9324 8560

## Postal Address

PO Box 541  
West Perth WA 6872

## Malaysian office

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## Website

[www.sterlingbiofuels.com](http://www.sterlingbiofuels.com)

## Home Exchange

Australian Stock Exchange  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

## ASX Code

SBI

## Share Registry

Computershare Investor Services Pty Ltd  
Level 2, 45 St George's Terrace  
Perth WA 6000

## Auditors

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

## Bankers

Westpac Banking Corporation  
1257-1261 Hay Street  
West Perth WA 6005



# Letter From Executive Chairman

Dear fellow shareholders

I am pleased to present the annual report of Sterling Biofuels International Limited for the financial year 1 July 2010 to 30 June 2011.

During the year under review our Growers Scheme was launched by the Malaysian Minister of International Trade & Industry. The Growers Scheme has been well received and secures funding for the Group's oil palm plantation development.

Physical development at the plantation progressed as planned and the plantation is now valued at \$22 million.

While we have made good progress upstream with our plantation development, we have seen little improvement downstream in the biodiesel sector. We are still unable to produce at a profit. The Malaysian mandatory blend was rolled out on a limited basis but it remains to be seen how we will benefit from this in the near term. Unless the general outlook for the biodiesel industry improves tremendously, we will need to take a serious look at our involvement in this sector of the oil palm value chain.

While the Group is now on a better financial footing, we are not out of the woods yet. We continue to rely on external funding from the founder shareholder to smoothen fluctuations in cash flow from the Growers Scheme. The plantation itself remains a few years away from being cash flow positive.

There are also considerable technical hurdles that need to be overcome before the value of our businesses can be reflected fully in our books and for shareholders to begin to see the fruits of our labour.

These are matters that we will need to address in the coming year and beyond.

I take this opportunity to thank you for your patience and support and look forward to seeing you at our annual general meeting later this year.

Your sincerely



**Dato' CRS Paragash**  
**Executive Chairman**  
26 August 2011

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# Financial Report

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# Directors' Report

The directors of Sterling Biofuels International Limited ("SBIL") submit the annual report of the Company for the year ended 30 June 2011.

## DIRECTORS

The names of the directors in office since the date of the last report are:

Dato' CRS Paragash  
Andrew Phang  
Paul Mason  
Graham Keys

Details of directors in office at the date of this report are as follows:

| Name and Qualifications  | Particulars   |
|--|---|
| <b>Dato' CRS Paragash</b><br>FCA<br><i>Executive Chairman</i>          | <p>Dato' Paragash joined the board on 25 May 2006. He is a Fellow of the Institute of Chartered Accountants (England &amp; Wales) and a member of the Malaysian Institute of Chartered Accountants. In the past, he has worked with Sime Darby Bhd, an international conglomerate. He has been a successful private equity investor involved in infrastructure and property for over 15 years.</p> <p>During the past three years, Dato' Paragash has not served as a director of any other publicly listed company.</p> <p><b>Interest in SBIL shares/options:</b><br/>30,000,000 shares in SBIL held indirectly through Duplex Fame Sdn Bhd.</p> <hr/>                    |
| <b>Andrew Phang</b><br>FFin LLM LLB<br><i>Group Executive Director</i> | <p>Mr Phang joined the board on 25 May 2006. Mr Phang is a Fellow of the Financial Services Institute of Australasia. A lawyer by training, he has held senior management posts in the public and private sectors in Malaysia.</p> <p>During the past three years, Mr Phang has not served as a director of any other publicly listed company.</p> <p><b>Interest in SBIL shares/options:</b><br/>30,000,000 shares in SBIL held indirectly through Duplex Fame Sdn Bhd.</p> <hr/>  |
| <b>Paul Mason</b><br><i>NonExecutive Director</i>                      | <p>Mr Mason joined the board on 1 April 2009. Mr Mason is a chartered accountant by profession and is a member of the Institute of Chartered Accountants in Australia as well as the Institute of Chartered Accountants in England and Wales. He has over 17 years experience advising public and private companies and has worked in various industries in Australia and overseas predominantly in the energy and mining sectors.</p> <p>During the past three years, Mr Mason has not served as a director of any other publicly listed company.</p> <p><b>Interest in SBIL shares/options:</b><br/>Nil.</p> <p>Mr Mason is chairman of the audit and risk committee.</p> |

# Directors' Report

(Cont'd)

## Name and Qualifications

## Particulars

### Graham Keys

*NonExecutive Director*

Mr Keys holds a Bachelor of Economics and is a graduate member of the Institute of Company Directors. A chartered accountant, Mr Keys was a partner of the international firm Ernst & Young for 15 years before leaving to become managing director of a publicly listed mining company. In his 40 years of business life, Mr Keys has developed a wide range of professional, managerial, accounting, financial, corporate and commercial skills in a variety of industries. He is currently Executive Chairman of Norvest Corporate and Non Executive Chairman of ASX listed Advanced Engine Components Ltd and Brand New Vintage Limited.

### Interest in SBIL shares/options

14,000 shares, of which 7,000 shares held indirectly through Norvest Corporate Pty Ltd.

## COMPANY SECRETARY

## Name and Qualifications

## Particulars

### Alicia Mitton

*BA (Intnl Stud), BBus (Intnl Bus),  
MBus (Acc)*

Ms Mitton was appointed in place of Ms Hunter who resigned as Company Secretary effective 25 November 2010.

Ms Mitton has experience in project management and corporate advisory roles with public, private, state and federal government organizations on projects in Australia and various Asia Pacific countries. Her experience includes organizational strategic reviews, feasibility studies, financial consulting, business valuation, project management, business performance and improvement projects. Ms Mitton holds a Bachelor of Business (International Business), a Bachelor of Arts (International Studies) and a Masters of Business (Accountancy) from the University of South Australia. Ms Mitton is the Company Secretary for one other listed company.

## PRINCIPAL ACTIVITIES

The Group is principally involved in oil palm plantation development and the sale and marketing of grower plots and manufacture of biodiesel from palm oil.

## OPERATIONAL AND FINANCIAL REVIEW

### Operating Results for the Year

The consolidated loss after income tax for the year ended 30 June 2011 was \$7.921 million (2010: \$2.696 million).

Summarised operating results for the year under review are as follows.

|                              | 30 June 2011<br>\$'000 | 30 June 2010<br>\$'000 | Movement   |
|------------------------------|------------------------|------------------------|------------|
| Revenue                      | 122                    | 111                    | up 9.9%    |
| Loss after tax               | (7,921)                | (2,696)                | up 193.80% |
| Loss attributable to members | (7,921)                | (2,696)                | up 193.80% |
| Dividends proposed or paid   | Nil                    | Nil                    | n/a        |

# Directors' Report

(Cont'd)

## Shareholder Returns

As expected, there were no returns to shareholders during the year as the Group has yet to commence continuous biodiesel production and its plantation development is still at the planting out stage. As a result, the loss per share was 12.19 cents (2010 : 4.15 cents)

## Dividends

No dividend was paid or is proposed for the year under review.

## Review of Operations

During the year under review, the Group launched its Golden Palm Growers Scheme with respect to the oil palm plantation that the Group is developing in Malaysia. The Scheme has been well received and as at 30 June 2011, 7,449 grower plots have been sold raising \$16.494 million for the development of the plantation.

The successful launch of the Growers Scheme secures funding for the plantation development while enabling the Group to retain at least 30% of the economic value of the plantation.

The physical development at the plantation is progressing well. As at 30 June 2011, 1,690 hectare of the 4,565 hectare plantation is already under development. Of this area, 885 hectare have been planted out with oil palms.

The plantation development has been professionally valued at \$22 million.

While the plantation development has seen tremendous progress, the Group was unable to commence production at its biodiesel plant as there were no margins to be made. The Malaysian mandatory blend was rolled out on a limited basis in June in the central region. Timing of the roll out for East Malaysia (where our plant is located) has not been announced by the Malaysian government.

## Environmental Regulations and Performance

The Group has received relevant approvals from environmental protection authorities in Malaysia with respect to its biodiesel plant and the plantation development. These approvals require the Group to comply with applicable environmental regulations. The directors are not aware of any breaches of such environmental regulations during the period of this report.

## Review of Financial Position

During the year under review, the Company's share capital remained unchanged at \$32.143 million,

Net cash flows used in operating activities increased to \$6.632 million from \$1.937 million primarily as a result of increased staff costs, expenditure on advertising and marketing of the Growers Scheme as well as the plantation operations.

Net cash flows used in investing activities increased to \$3.323 million from \$0.709 million. The increase reflects increased expenditure on the plantation development and full settlement of a previous acquisition of shares in a subsidiary.

Net cash flows from financing activities increased to \$18.196 million from \$1.963 million reflecting primarily the proceeds raised from the sale of grower plots.

The Group's cash balance as at 30 June 2011 was \$0.462 million and there were restricted deposits of \$7.439 million held by the trustee of the Growers Scheme as at that date ended.

# Directors' Report

(Cont'd)

## SIGNIFICANT EVENTS DURING THE YEAR

Significant events that occurred during the year under review included:

- On 9 August 2010 the Group received Malaysian regulatory approval for the Golden Palm Growers Scheme undertaken by the Company's Malaysian subsidiary, Golden Palm Growers Berhad. The Scheme involves the sale of interests in the oil palm plantation that the Group is developing in Malaysia.
- On 20 August 2010 the Golden Palm Growers Scheme was officially launched in Kuala Lumpur, Malaysia by the Malaysian Minister of International Trade and Industry.

## SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

Except as disclosed in this report or the consolidated financial statements, as at the date of this report, no other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Although plagued by delays, the roll out of the Malaysian mandatory blend may eventually provide a base production capacity for biodiesel plants in Malaysia. It is, however, unclear how and when the Group will benefit from this as timing of the roll out in East Malaysia (where our plant is located) has yet to be announced.

The success of the Growers Scheme enables the Group to focus its resources on the development of its 4,565 hectare oil palm plantation in Malaysia. First harvests are expected in 30 months with positive cash flows in 2016 when the palms achieve commercial yields.

## UNQUOTED OPTIONS

As at the reporting date and the date of this report, there were 120,000 unquoted options on issue exercisable into ordinary shares subject to certain vesting conditions. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

No shares have been issued during or since the end of the financial year as a result of exercise of an option.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

The following table sets out each director's relevant interest in shares of the Company as at the date of this report.

| Directors            | Number of fully paid ordinary shares |
|----------------------|--------------------------------------|
| Dato' CRS Paragash * | 30,000,000                           |
| A Phang *            | 30,000,000                           |
| P Mason              | -                                    |
| G Keys               | 14,000                               |

\* held indirectly via Duplex Fame Sdn Bhd

The current Board of Directors of the Company do not have any options granted to them.

## INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company Secretary and all executive officers of the Company and of any subsidiary against a liability incurred as such as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The nature of the liability and the amount of premium paid has not been disclosed due to confidentiality purposes.

The Company has not otherwise, during or since the financial year, except to the amount permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

# Directors' Report

(Cont'd)

## REMUNERATION REPORT (Audited)

This Remuneration Report outlines the directors and executives remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the executives in the parent and the Group receiving the highest remuneration.

### Details of key management personnel

#### Directors

|                    |                          |
|--------------------|--------------------------|
| Dato' CRS Paragash | Executive Chairman       |
| A Phang            | Group Executive Director |
| P Mason            | Director (Non-Executive) |
| G Keys             | Director (Non-Executive) |

#### Executives

|            |   |
|------------|---|
| MK Thorley | Chief Operating Officer – Biodiesel     |
| CC Lim     | Chief Executive – Plantations           |
| T Rajan    | Chief Executive – Golden Palm Marketing |
| J Leong    | Head – Corporate Finance                |
| A Mitton   | Company Secretary                       |

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

### Remuneration Philosophy

The Board is responsible for reviewing the compensation arrangements for the directors and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis. The overall objective is the retention of a high quality Board and executive team, to maximise value of the shareholders' investment.

### Relationship between the remuneration policy and company performance

During the year, the Board approved a special bonus to the Executive Chairman and Group Executive Director calculated on 1% of the gross development value of the Growers Scheme. A similar bonus was approved for the Head - Corporate Finance, J Leong. Details of these special bonuses (which are only payable upon fulfillment of certain key parameters) are set out in note 26.

T Rajan (Chief Executive – Golden Palm Marketing) has a contractual bonus compensation based on a percentage of gross sales achieved in each financial year, subject to the achievement of a minimum cumulative sales target of 6,000 Grower Plots.

Except as disclosed above, no component of director and senior management salary is dependent on company performance and the Company did not have a formal cash incentive or bonus scheme for the years ended 30 June 2010 and 30 June 2011.

The table below sets out summary information about the Group's earnings and movements in shareholders wealth for 30 June 2011 and 30 June 2010.

|  | 30 June 2011<br>\$'000 | 30 June 2010<br>\$'000 |
|--|------------------------|------------------------|
| Revenue  | 122                    | 111                    |
| Net Loss before Tax                                | (7,921)                | (2,696)                |
| Net Loss after Tax                                 | (7,921)                | (2,696)                |
| Share price at beginning of year                   | \$0.02                 | \$0.10                 |
| Share price at end of year                         | \$0.04                 | \$0.03                 |
| Dividends  | -                      | -                      |
| Basic and diluted loss per share (cents per share) | (12.19)                | (4.15)                 |



# Directors' Report

(Cont'd)

## Non-Executive Directors' Fees

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the General Meeting held on 31 July 2006 when shareholders approved the aggregate remuneration of \$250,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants, as well as the fees paid to non-executive directors of comparable companies, when undertaking the annual review process.

No options were issued to non-executive directors during the financial year. Details of options that have lapsed as a result of resignation are also disclosed in the relevant table in this report.

## Executive Salary

The remuneration of executives is reviewed annually with the review taking into consideration the contribution of the individual commensurate with the performance of the Group and comparable employment market conditions. Except for vesting conditions of options and performance rights (which have all lapsed), no component of the executive salary is at risk and the Company does not have a formal cash incentive or bonus scheme.

### *Hedging of equity awards*

Executives are prohibited from entering into transactions or arrangements, which limit the economic risk of participating in unvested entitlements.

## Service Agreements

The Executive Chairman, Dato' CRS Paragash, is employed under contract. The employment contract, which commenced on 1 July 2006, has been renewed for 3 years and terminates on 30 June 2012. The total remuneration received by the Executive Chairman during the year is disclosed in the relevant tables in this report. Either the Executive Chairman or the Company can terminate the contract by giving 3 months notice.

The Group Executive Director, A Phang, is employed under contract. The employment contract, which commenced on 1 July 2006, has been renewed for 3 years and terminates on 30 June 2012. The total remuneration received by the Group Executive Director during the year is disclosed in the relevant tables in this report. Either the Group Executive Director or the Company can terminate the contract by giving 3 months notice.

## Remuneration of Key Management Personnel ("KMP")

The directors and the following executives received the following amounts as compensation for their services as directors and executives of the Company and/or the Group during the year: (see next page)

# Directors' Report

(Cont'd)

## Remuneration of Key Management Personnel for the year ended 30 June 2011

| Name                                       | Short-term      |                                    | Post employment | Share-based payments |           | (options per total remuneration) | Total performance related |
|--|-----------------|------------------------------------|-----------------|----------------------|-----------|----------------------------------|---------------------------|
|  | Salary and fees | Non-monetary benefits <sup>^</sup> |                 | Options*             | Total     |                                  |                           |
|  | \$              | \$                                 | \$              | \$                   | \$        | %                                | %                         |
| <b>Non-executive directors</b>             |                 |                                    |                 |                      |           |                                  |                           |
| Paul Mason                                 | 29,358          | -                                  | 2,642           | -                    | 32,000    | -                                | -                         |
| Graham Keys                                | + 93,833        | -                                  | -               | -                    | 93,833    | -                                | -                         |
| <b>Sub-total - non-executive directors</b> | 123,191         | -                                  | 2,642           | -                    | 125,833   | -                                | -                         |
| <b>Executive directors</b>                 |                 |                                    |                 |                      |           |                                  |                           |
| CRS Paragash                               | 454,203         | 5,805                              | 52,344          | -                    | 512,352   | -                                | -                         |
| A Phang                                    | 354,025         | 7,093                              | 41,043          | -                    | 402,161   | -                                | -                         |
| <b>Sub-total - executive directors</b>     | 808,228         | 12,898                             | 93,387          | -                    | 914,513   | -                                | -                         |
| <b>Other KMP Note 1</b>                    |                 |                                    |                 |                      |           |                                  |                           |
| M K Thorley                                | 131,726         | 197                                | -               | -                    | 131,923   | -                                | -                         |
| C C Lim                                    | 83,730          | 2,364                              | 10,048          | -                    | 96,142    | -                                | -                         |
| Rajan T                                    | 305,710         | 4,214                              | 36,212          | -                    | 346,136   | -                                | -                         |
| J Leong                                    | ++ 307,339      | 1,311                              | 23,641          | -                    | 332,291   | -                                | -                         |
| <b>Sub-total - other KMP</b>               | 828,505         | 8,086                              | 69,901          | -                    | 906,492   | -                                | -                         |
| <b>Total</b>                               | 1,759,924       | 20,984                             | 165,930         | -                    | 1,946,838 | -                                | -                         |

<sup>^</sup>

Non-monetary benefits comprise motor vehicle expenses and expatriate living accommodation.

\* Options exercisable at prices ranging from \$1.00 to \$1.40. As at 30 June 2011, the share price was \$0.04

+ Includes fees paid for secretarial and other services amounting to \$61,500 (2010: \$61,500) which were paid to a company that he has interest.

++ Includes special bonus paid amounting to \$110,327 (2010: Nil)

Note 1 The company secretary, Alicia Mitton, is employed by Norvest Corporate Pty Ltd. An amount of \$61,500 (2010: \$61,500) was paid to Norvest during the year in respect of secretarial and other services provided to the Company.

# Directors' Report

(Cont'd)

Remuneration of Key Management Personnel for the year ended 30 June 2010

| Name                                       | Short-term                |                                    | Post employment | Share-based payments |         | (options per total remuneration) | Total performance related |
|--|---------------------------|------------------------------------|-----------------|----------------------|---------|----------------------------------|---------------------------|
|  | Salary and directors fees | Non-monetary benefits <sup>^</sup> |                 | Options*             | Total   |                                  |                           |
|  |                           |                                    |                 |                      |         |                                  |                           |
| <b>Non-executive directors</b>             |                           |                                    |                 |                      |         |                                  |                           |
| P Mason                                    | 22,018                    | -                                  | 1,982           | -                    | 24,000  | -                                | -                         |
| G Keys                                     | ++65,667                  | -                                  | -               | -                    | 65,667  | -                                | -                         |
| A Sierakowski (resigned on 29 April 2010)  | 40,000                    | -                                  | -               | (2,518)              | 37,482  | -                                | -                         |
| <b>Sub-total - non-executive directors</b> | 127,685                   | -                                  | 1,982           | (2,518)              | 127,149 | -                                | -                         |
| <b>Executive directors</b>                 |                           |                                    |                 |                      |         |                                  |                           |
| CRS Paragash                               | -                         | -                                  | -               | -                    | -       | -                                | -                         |
| A Phang                                    | -                         | 3,910                              | -               | -                    | 3,910   | -                                | -                         |
| <b>Sub-total - executive directors</b>     | -                         | 3,910                              | -               | -                    | 3,910   | -                                | -                         |
| <b>Other KMP Note 1</b>                    |                           |                                    |                 |                      |         |                                  |                           |
| M K Thorley                                | 133,148                   | 500                                | -               | -                    | 133,648 | -                                | -                         |
| C C Lim                                    | 60,322                    | 2,413                              | 7,238           | -                    | 69,973  | -                                | -                         |
| J Leong                                    | 82,439                    | -                                  | 9,893           | -                    | 92,332  | -                                | -                         |
| <b>Sub-total - other KMP</b>               | 275,909                   | 2,913                              | 17,131          | -                    | 295,953 | -                                | -                         |
| <b>Total</b>                               | 403,594                   | 6,823                              | 19,113          | (2,518)              | 427,012 | -                                | -                         |

<sup>^</sup> Non-monetary benefits comprise motor vehicle expenses and expatriate living accommodation.

\* Options exercisable at prices ranging from \$1.00 to \$1.40. As at 30 June 2010, the share price was \$0.03.

++ Includes fees paid for secretarial and other services amounting to \$61,500 which were paid to a company that he has interest.

Note 1 The company secretary is employed by Norvest Corporate Pty Ltd. An Amount of \$61,500 was paid to Norvest during the year in respect of secretarial and other services provided to the Company.

**END OF REMUNERATION REPORT**

# Directors' Report

(Cont'd)

## DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings and committee meetings held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

| Directors    | Board of Directors Held | Board of Directors Attended | Audit and Risk Committee Held | Audit and Risk Committee Attended |
|--------------|-------------------------|-----------------------------|-------------------------------|-----------------------------------|
| CRS Paragash | 4                       | 3                           | NA                            | NA                                |
| A Phang      | 4                       | 4                           | NA                            | NA                                |
| P Mason      | 4                       | 4                           | 2                             | 2                                 |
| G Keys       | 4                       | 4                           | 2                             | 2                                 |

Unless otherwise indicated, all directors were eligible to attend all board meetings held.

## Committee Membership

As at the date of this report, the Company had an Audit and Risk Committee of the board of directors. Members of this committee during the year were:

P Mason (Committee Chairman)  
G Keys

The full Board meets as the Nomination Committee and the Remuneration Committee on an as required basis. The Board had for the year one meeting as the Nomination Committee and one meeting as the Remuneration Committee during the financial year.

## ROUNDING OF AMOUNTS

The Company is an entity to which Australian Securities and Investments Commission Class Order 98/100 applies. Pursuant to this Class Order, amounts reported in this report and the financial statements have been rounded to the nearest thousand dollars, except where not permitted to be rounded under the Corporations Act 2001.

## NON-AUDIT SERVICES

An amount of \$7,000 is payable to an internationally affiliated practice of the auditor for non-audit services provided during the year.

## AUDITORS INDEPENDENCE DECLARATION

The Auditor's Independence Declaration is included on page 58 of the financial report.  
Signed in accordance with a resolution of the directors.



**Dato' CRS Paragash**  
Executive Chairman



**Andrew Phang**  
Group Executive Director

Perth, 26 August 2011

# Statement of Comprehensive Income

For the Year Ended 30 June 2011

|  | NOTE | CONSOLIDATED              |                           |
|--|------|---------------------------|---------------------------|
|  |      | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <b>Revenue</b>   | 6(a) | 122                       | 111                       |
| Other income   |      | 11                        | 9                         |
| Net gain arising from changes in fair value of biological assets                         |      | 418                       | 182                       |
| Raw materials and consumable used  | 6(b) | (264)                     | (258)                     |
| Sales and distribution expenses  |      | (2,393)                   | (6)                       |
| Employee benefits expense  | 6(c) | (2,550)                   | (621)                     |
| Depreciation and amortisation expense  | 6(d) | (1,181)                   | (1,353)                   |
| Finance costs  | 6(e) | (129)                     | (51)                      |
| Occupancy costs  | 6(f) | (143)                     | (77)                      |
| Travel expense   |      | (49)                      | (18)                      |
| Impairment of goodwill   |      | -                         | (2)                       |
| Net yield expense  |      | (590)                     | -                         |
| Other expenses   | 6    | (1,173)                   | (612)                     |
| <b>LOSS BEFORE INCOME TAX</b>  |      | (7,921)                   | (2,696)                   |
| Income tax expense   | 7    | -                         | -                         |
| <b>NET LOSS ATTRIBUTABLE TO MEMBERS OF THE ENTITY</b>                                    |      | (7,921)                   | (2,696)                   |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>   |      |                           |                           |
| Foreign currency translation   |      | (922)                     | 329                       |
| <b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>                        |      | (922)                     | 329                       |
| <b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>                                    |      | (8,843)                   | (2,367)                   |
| <b>LOSS FOR THE YEAR IS ATTRIBUTABLE TO:</b>   |      |                           |                           |
| Non-controlling interest   |      | -                         | (5)                       |
| Owners of the parent   |      | (7,921)                   | (2,691)                   |
|  |      | (7,921)                   | (2,696)                   |
| <b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR IS ATTRIBUTABLE TO:</b>                |      |                           |                           |
| Non-controlling interest   |      | -                         | (5)                       |
| Owners of the parent   |      | (8,843)                   | (2,362)                   |
|  |      | (8,843)                   | (2,367)                   |
| <b>LOSS PER SHARE FOR LOSS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT</b> |      |                           |                           |
| Basic and diluted loss per share (cents per share)                                       | 16   | (12.19)                   | (4.15)                    |

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes

# Statement of Financial Position

As at 30 June 2011

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|                                |   | <b>CONSOLIDATED</b>                |                                    |
|--------------------------------|---|------------------------------------|------------------------------------|
|                                |   | <b>30 June<br/>2011<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
| <b>NOTE</b>                    |   |                                    |                                    |
| <b>ASSETS</b>                  |   |                                    |                                    |
| <b>CURRENT ASSETS</b>          |   |                                    |                                    |
|                                | Cash and cash equivalents                           | 17(a) 462                          | 131                                |
|                                | Restricted deposits                                 | 18 7,439                           | -                                  |
|                                | Inventories   | 8(a) -                             | 96                                 |
|                                | Other current assets                                | 8(b) 434                           | 180                                |
|                                | <b>TOTAL CURRENT ASSETS</b>                         | <b>8,335</b>                       | <b>407</b>                         |
| <b>NON-CURRENT ASSETS</b>      |   |                                    |                                    |
|                                | Property, plant and equipment                       | 9 9,494                            | 9,308                              |
|                                | Biological assets                                   | 10 1,389                           | 721                                |
|                                | <b>TOTAL NON-CURRENT ASSETS</b>                     | <b>10,883</b>                      | <b>10,029</b>                      |
|                                | <b>TOTAL ASSETS</b>                                 | <b>19,218</b>                      | <b>10,436</b>                      |
| <b>LIABILITIES</b>             |   |                                    |                                    |
| <b>CURRENT LIABILITIES</b>     |   |                                    |                                    |
|                                | Trade and other payables                            | 11 2,003                           | 1,236                              |
|                                | Interest bearing loans and borrowings               | 12 2,468                           | 2,111                              |
|                                | <b>TOTAL CURRENT LIABILITIES</b>                    | <b>4,471</b>                       | <b>3,347</b>                       |
| <b>NON-CURRENT LIABILITIES</b> |   |                                    |                                    |
|                                | Interest bearing loans and borrowings               | 12 7                               | -                                  |
|                                | Growers fees  | 13 16,494                          | -                                  |
|                                | <b>TOTAL NON-CURRENT LIABILITIES</b>                | <b>16,501</b>                      | <b>-</b>                           |
|                                | <b>TOTAL LIABILITIES</b>                            | <b>20,972</b>                      | <b>3,347</b>                       |
|                                | <b>NET (LIABILITIES)/ASSETS</b>                     | <b>(1,754)</b>                     | <b>7,089</b>                       |
| <b>EQUITY</b>                  |   |                                    |                                    |
|                                | Equity attributable to equity holders of the parent |                                    |                                    |
|                                | Issued capital                                      | 14(a) 32,143                       | 32,143                             |
|                                | Accumulated losses                                  | (32,489)                           | (24,568)                           |
|                                | Reserves  | 15 (1,403)                         | (481)                              |
|                                | Parent interests                                    | (1,749)                            | 7,094                              |
|                                | Non-controlling interest                            | 27 (5)                             | (5)                                |
|                                | <b>TOTAL EQUITY</b>                                 | <b>(1,754)</b>                     | <b>7,089</b>                       |

The Statement of Financial Position should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

For the Year Ended 30 June 2011

| CONSOLIDATED   | Ordinary Shares<br>\$'000 | Accumulated Losses<br>\$'000 | Employee Equity Benefits Reserve<br>\$'000 | Foreign Currency Translation Reserve<br>\$'000 | Equity Reserve<br>\$'000 | Owners of the Parent<br>\$'000 | Non-controlling Interest<br>\$'000 | Total<br>\$'000 |
|--|---------------------------|------------------------------|--|--|--------------------------|--------------------------------|------------------------------------|-----------------|
| <b>At 30 June 2009</b>                                     | 32,143                    | (21,877)                     | 233  | (359)  | -                        | 10,140                         | -                                  | 10,140          |
| Loss for the year  | -                         | (2,691)                      | -  | -  | -                        | (2,691)                        | (5)                                | (2,696)         |
| Other comprehensive income                                 | -                         | -                            | -  | 329  | -                        | 329                            | -                                  | 329             |
| <b>Total comprehensive income for the year</b>             | -                         | (2,691)                      | -  | 329  | -                        | (2,362)                        | (5)                                | (2,367)         |
| <b>Transaction with owners in their capacity as owners</b> |                           |                              |  |  |                          |                                |                                    |                 |
| Non-controlling interest                                   | -                         | -                            | -  | -  | (685)                    | (685)                          | -                                  | (685)           |
| Share-based payment  | -                         | -                            | 1  | -  | -                        | 1                              | -                                  | 1               |
| <b>At 30 June 2010</b>                                     | 32,143                    | (24,568)                     | 234  | (30)   | (685)                    | 7,094                          | (5)                                | 7,089           |
| Loss for the year  | -                         | (7,921)                      | -  | -  | -                        | (7,921)                        | -                                  | (7,921)         |
| Other comprehensive income                                 | -                         | -                            | -  | (922)  | -                        | (922)                          | -                                  | (922)           |
| <b>Total comprehensive income for the year</b>             | -                         | (7,921)                      | -  | (922)  | -                        | (8,843)                        | -                                  | (8,843)         |
| <b>Transaction with owners in their capacity as owners</b> |                           |                              |  |  |                          |                                |                                    |                 |
| Non-controlling interest                                   | -                         | -                            | -  | -  | -                        | -                              | -                                  | -               |
| Share-based payment  | -                         | -                            | -  | -  | -                        | -                              | -                                  | -               |
| <b>At 30 June 2011</b>                                     | 32,143                    | (32,489)                     | 234  | (952)  | (685)                    | (1,749)                        | (5)                                | (1,754)         |

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Cash Flow Statement

For the Year Ended 30 June 2011

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| NOTE  | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b> |                           |                           |
|   | -                         | 110                       |
|   | 11                        | 58                        |
|   | (6,648)                   | (2,117)                   |
|   | 5                         | 16                        |
|   | -                         | (5)                       |
|   | -                         | 1                         |
| 17(b)                                       | (6,632)                   | (1,937)                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |                           |                           |
|   | 5                         | -                         |
|   | (2,327)                   | (589)                     |
|   | (404)                     | 7                         |
| 20(b) (ii)                                  | (597)                     | (54)                      |
|   | -                         | (73)                      |
|   | (3,323)                   | (709)                     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |                           |                           |
|   | 698                       | 1,963                     |
|   | 16,494                    | -                         |
|   | (61)                      | -                         |
|   | (7,439)                   | -                         |
|   | 9,692                     | 1,963                     |
|   | (263)                     | (683)                     |
|   | 594                       | 52                        |
|   | 131                       | 762                       |
| 17(a)                                       | 462                       | 131                       |

The Cash Flow Statement should be read in conjunction with the accompanying notes.



# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

The financial report of Sterling Biofuels International Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on the date of approval of the Directors' Report.

Sterling Biofuels International Limited is a company limited by shares, incorporated in Australia, whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

### *Going Concern*

During the year ended 30 June 2011, the consolidated entity incurred a net loss of \$7.921 million (2010: \$2.696 million) and a net cash outflow from operations of \$6.632 million (2010: \$1.937 million).

However, the cash inflows from the sale of grower plots of \$16.494 million (2010: Nil) utilised primarily for placement of restricted deposits of \$7.439 million and the proceeds from borrowings of \$0.698 million (2010: \$1.963 million) more than compensate for the net cash outflow from operations.

The financial report has been prepared on the basis that the consolidated entity will continue to meet its commitments and can therefore continue normal business activities.

In arriving at the position, the directors have considered the following:

- **Successful launch of Growers Scheme**

The Growers Scheme was successfully launched on 20 August 2010 by the Malaysian Minister of International Trade and Industry. The Scheme involves the sale of 30,800 grower plots to the Malaysian public currently at \$2,468 per plot. Each grower plot entitles the holder to a ¼ acre profit share from the plantation development. As at 8 August 2011, \$17.849 million has been raised and the Scheme is ultimately expected to raise gross funds of RM252.8 million equivalent \$78 million. The Group will continue to retain at least 30% of the economic value of the plantation development.

- **Continued availability of short term funding from the founder shareholder**

As at 30 June 2011, the Group has drawn down \$2.299 million of the \$3.084 million standby credit line made available by the founder shareholder. With the launch of the Growers' Scheme, the Group will be less reliant on funding from the founder shareholder and expects to begin reducing the outstanding amount under this credit line over time.

The directors believe that at the date of signing the financial report, there are reasonable grounds to believe that having regard to matters set out above, the consolidated entity will be able to raise sufficient funds to meet its obligations as and when they fall due.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for biological assets and growers fees, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ("'\$000'"), unless otherwise stated, under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board.

### (c) New accounting standards and interpretations

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting year ended 30 June 2011. These are outlined below:

| Reference    | Title   | Summary  | Application date of standard | Impact on Group financial report   | Application date for Group |
|--------------|---|--|------------------------------|--|----------------------------|
| AASB 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] | <p>The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes:</p> <ul style="list-style-type: none"> <li>- two categories for financial assets being amortised cost or fair value</li> <li>- removal of the requirement to separate embedded derivatives in financial assets</li> <li>- strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows</li> <li>- an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition</li> <li>- reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes</li> <li>- changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income</li> </ul> | 1 January 2013               | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013                |

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (c) New accounting standards and interpretations (cont'd)

| Reference    | Title  | Summary  | Application date of standard | Impact on Group financial report   | Application date for Group |
|--------------|--|--|------------------------------|--|----------------------------|
| AASB 2009-12 | Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] | <p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>The amendment to AASB 124 clarifies and simplifies the definition of a related party as well as providing some relief for government-related entities (as defined in the amended standard) to disclose details of all transactions with other government-related entities (as well as with the government itself)</p> | 1 January 2011               | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2011                |
| AASB 9       | Financial Instruments  | AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).   | 1 January 2013               | The Group has not yet determined the extent of the impact of the amendments, if any  | 1 July 2013                |

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (c) New accounting standards and interpretations (cont'd)

| Reference       | Title                 | Summary  | Application date of standard | Impact on Group financial report | Application date for Group |
|-----------------|-----------------------|--|------------------------------|----------------------------------|----------------------------|
| AASB 9 (cont'd) | Financial Instruments | <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> |                              |                                  |                            |

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# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (c) New accounting standards and interpretations (cont'd)

#### *Adoption of new accounting standards*

Since 1 July 2010, the Group has adopted the Standards and Interpretations, mandatory for financial reporting beginning on or after 1 July 2010.

Pursuant to the amendments to AASB 117 Leases, the Group has reassessed and determined that the leasehold land of the Group is in substance a finance lease and reclassified the leasehold land to property, plant and equipment. These changes in the presentation are applied retrospectively.

Other than this, adoption of these Standards and Interpretations did not have any material effect on the financial position or performance of the Group.

The following accounting policies have been adopted by the Group since 1 July 2010:

#### (a) *Financial liabilities*

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of AASB 139, are recognised in the statement of financial position when, and only when, the Group become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

##### (i) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss comprise financial liabilities designated upon initial recognition as at fair value through profit or loss.

Those financial instruments that contain a number of embedded derivatives, which significantly modify cash flows that would otherwise be required by the contract (hybrid instruments), are designated as financial instruments at fair value through profit or loss and the fair value changes are taken to the statement of comprehensive income.

#### (b) *Growers fees*

Growers fees received from the growers under the Golden Palm Growers Scheme are financial instruments with multiple embedded derivative and are designated as financial liabilities at fair value through profit or loss upon initial recognition and are measured initially at fair value and subsequently at fair value, with any resultant gains or losses recognised in profit or loss. Transaction costs are immediately recognised in profit or loss on initial recognition.

The Group has not elected to early adopt any new standards or amendments.

### (d) Principles of consolidation

The financial statements comprise the financial statements of Sterling Biofuels International Limited ("SBIL") and its subsidiaries as at 30 June 2011.

#### *Controlled entity*

The financial statements of the controlled entity are prepared as at the same reporting period as the parent company, using consistent accounting policies. The financial statements of the controlled entity are included in the consolidated financial statements from the date control commences until the date control ceases.

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (d) Principles of consolidation (cont'd)

#### *Transactions eliminated on consolidation*

Unrealised gains and losses and inter-company balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

### (e) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

### (f) Foreign currency translation

Both the functional and presentation currency of SBIL is Australian dollar (A\$). The functional currency of SPC Biodiesel (the parent for consolidation purposes) is Malaysian Ringgit (RM) and its presentation currency for Group reporting purposes is Australian dollar (A\$).

#### *Transactions*

Foreign currency transactions are translated to the relevant functional currency at the rate of exchange ruling at the date of transaction. At balance sheet date, all foreign currency monetary items are translated using the exchange rate ruling on that date. Non-monetary items which are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Resulting exchange differences are brought to account as exchange gains or losses in the statement of comprehensive income in the financial year in which the exchange rates change.

#### *Presentation of consolidated accounts*

On consolidation, the assets and liabilities recognised on a functional currency other than Australian dollar are translated into Australian dollar at the exchange rates prevailing at the reporting date. Income and expense items are translated into Australian dollar at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve.

### (g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank, on hand, short-term and long-term deposits with an original maturity of not less than one month that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

### (h) Restricted deposits

Restricted deposits comprise deposits with licensed banks representing 46% of the growers fees received from growers. These restricted deposits are to be used for the creation of a Reserve Fund Trust Account for purposes of paying guaranteed net yields (36%) as well as the setting up of a reserve margin account (10%).

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (i) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Group will not be able to collect the debt.

Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment.

### (j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- *Raw materials*  
purchase cost is assigned on the weighted average cost basis.
- *Finished goods and work-in-progress*  
cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity but excluding borrowing costs.
- *Net realisable value*  
the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### (k) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- a. Buildings – over 20 years
- b. Plant and equipment – between 5 to 20 years
- c. Other non-plant equipment – 5 years
- d. Land – 50 years

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of comprehensive income in the year the asset is derecognised.

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (l) Plantation development costs

Costs incurred on land clearing are capitalised as plantation development costs and is amortised over the economic useful life of the asset.

Costs on the concession land lease with a term of 60 years are charged to the statement of comprehensive income in the year in which the costs are incurred.

### (m) Biological assets

Biological assets, which include mature and immature oil palm plantations, are stated at fair value less estimated point of sale costs, except when the fair value cannot be measured reliably. In this instance, the biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses until such time as its fair value can be reliably measured.

Fresh fruit bunches (which are subsequently milled to become palm oil) is the harvested product of a biological asset and is measured at its fair value less estimated point of sale costs at the point of harvest.

Net movement in fair value less estimated point of sale costs of biological assets are included in the statement of comprehensive income in the year they arise.

### (n) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the assets may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case, the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case, the reversal of the impairment loss is treated as a revaluation increase.

### (o) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.



# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (p) Trade and other payables

Trade and other payables are recognised at amortised cost and they represent amounts to be paid in the future for goods and services received, whether or not billed to the Company. Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

### (q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of a past event, and the future sacrifice of economic benefits is probable to settle the obligation, and the amount of the provision can be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those flows. When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

### (r) Employee benefits

Provision is made for benefit accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

#### *Defined Contribution Plan*

Contributions to defined contributions plans are expensed when incurred.

### (s) Revenue recognition

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. The following specific recognition criteria must also be met before revenue is recognised:

#### *Sale of Goods*

Revenue is recognised when all significant risks and rewards of ownership of the goods have been transferred to the buyer and can be measured reliably. Risks and rewards of ownership are considered transferred to the buyer at the time of delivery of the goods to the customer.

#### *Interest revenue*

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (t) Taxation

#### *Current Tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current or prior years is recognised as liability (or asset) to the extent that it is unpaid (or refundable).

#### *Deferred Tax*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income or accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates and are expected to apply to the period(s) when the assets and liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

#### *Current and deferred tax for the year*

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### (u) Other taxes

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

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable;
- receivables and payables are stated with the amount of GST included; and
- the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (u) Other taxes (cont'd)

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority are classed as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (v) Research and development costs

Expenditure on research activities is recognised as an expense in the year in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year as incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

### (w) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

### (x) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate which is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the year, other than borrowings made specifically for the purpose of obtaining another qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on that borrowing during the year less any investment income on the temporary investment of that borrowing.

All other borrowing costs are recognised as an expense in the statement of comprehensive income in the year in which they are incurred.

### (y) Share-based payments

The Group provides benefits to its key employees (including directors) and offtaker in the form of share-based payments, whereby key employees render services in exchange for shares or rights over shares (equity-settled transactions).

Equity settled transactions are measured at fair value at the date of grant. The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees becomes fully entitled to the award (vesting date).

# Notes to the Financial Statements

(Cont'd)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (y) Share-based payments (cont'd)

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to the statement of comprehensive income for the year is the cumulative amount as calculated above less the amounts already charged in previous years. There is a corresponding credit to equity. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 16).

### (z) Earnings per share

#### *Basic earnings per share*

Basic earnings per share is determined by dividing the profit from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

#### *Diluted earnings per share*

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element

### (aa) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

### (bb) Change in accounting estimates

The AASB 116 Property, plant and equipment requires the review of the residual value and remaining useful life of an item of property, plant and equipment at least at each financial year end. A subsidiary revised the estimated useful lives of certain plant and equipment from 10 years to 20 years since 1 July 2009. The revisions were accounted for prospectively as a change in accounting estimates.

# Notes to the Financial Statements

(Cont'd)

## 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Financial risk management objectives and policies

The Group's principal financial instruments are cash and short term deposits, and finance leases. The Group has various other financial liabilities, such as growers fees, trade payables and interest bearing liabilities, which arise directly from its operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arise from the Group's financial instruments are interest rate risks, liquidity risk and credit risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group is exposed to financial risks in respect of agricultural activity. The agricultural activity of the Group consists of the plantation development and cultivation of palm products. The primary financial risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of oil palm plantation and in harvesting fresh fruit bunches, and ultimately receiving cash from the sale of palm products to third parties. The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements.

### Risk exposures and responses

#### a) Interest rate risk

At balance date the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

|                              | CONSOLIDATED              |                           |
|------------------------------|---------------------------|---------------------------|
|                              | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <i>Financial assets</i>      |                           |                           |
| Cash                         | 454                       | 122                       |
| Short term deposits          | 8                         | 9                         |
| Restricted deposits          | 7,439                     | -                         |
|                              | 7,901                     | 131                       |
| <i>Financial liabilities</i> |                           |                           |
| Interest bearing liabilities | 2,468                     | 2,111                     |
| Net exposure                 | 5,433                     | (1,980)                   |

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

Judgments of reasonably possible movements:

|                        | Post-tax profit<br>higher/(lower) |                           | Equity<br>higher/(lower)  |                           |
|------------------------|-----------------------------------|---------------------------|---------------------------|---------------------------|
|                        | 30 June<br>2011<br>\$'000         | 30 June<br>2010<br>\$'000 | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| Consolidated           |                                   |                           |                           |                           |
| +1% (100 basis points) | 54                                | (20)                      | -                         | -                         |
| -1% (100 basis points) | (54)                              | 20                        | -                         | -                         |

The movements in profit and equity are due to higher/lower interest revenue from variable rates of deposits. The sensitivity is higher in 2011 than in 2010 due to the increase in the balance of cash and short term deposits.

# Notes to the Financial Statements

(Cont'd)

## 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

### a) Interest rate risk (cont'd)

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on a review of the last 2 year's historical movements and economic forecaster's expectations; and
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed in the next 12 months from balance date.

The Group does not actively manage interest rate risk.

### b) Foreign exchange risk

The Group has significant operations in Malaysia. The functional currency of the Malaysian subsidiaries is Malaysian Ringgit ("RM") while the functional currency of the Company is Australian Dollar. The financial instruments of the Group and the Company are therefore exposed to movements in the RM/AUD exchange rate.

### c) Credit risk exposures

The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position. Credit risk on unrecognised financial instruments refers to the potential financial loss to the consolidated entity that may result from counter parties failing to meet their contractual obligations. The Group manages its counterparty credit risk by limiting its transactions to counter parties of sound credit worthiness and avoiding undue exposure to any single counter party.

The Group did not face any significant credit exposures at balance date.

### d) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The pledged deposits held by trustee of Growers Scheme are restricted for the purposes of paying guaranteed net yields and maintaining reserve margin account.

A wholly-owned Malaysian subsidiary has in place a standby credit line of up to RM10 million equivalent \$3.084 million (2010: RM10 million equivalent \$3.604 million). This credit line, which is unsecured, was extended by the Company's founder shareholder for working capital purposes. As at 30 June 2011, the outstanding amount of this credit line stood at RM7.984 million equivalent \$2.463 million (2010: RM5.858 million equivalent \$2.111 million).

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. The table below reflects a balanced view of cash inflows and outflows and shows the implied risk based on those values.

# Notes to the Financial Statements

(Cont'd)

## 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

### d) Liquidity risk (cont'd)

Management continually reviews the Group liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

| <i>Consolidated</i>                   |                             |                                   |                             |                               |                         |
|---------------------------------------|-----------------------------|-----------------------------------|-----------------------------|-------------------------------|-------------------------|
| <b>Year ended 30 June 2011</b>        | <b>≤6 months<br/>\$'000</b> | <b>6-12<br/>months<br/>\$'000</b> | <b>1-5 years<br/>\$'000</b> | <b>&gt;5 years<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
| <b>Financial assets</b>               |                             |                                   |                             |                               |                         |
| Cash                                  | 7,901                       | -                                 | -                           | -                             | 7,901                   |
| Restricted deposits                   | 692                         | -                                 | 6,747                       | -                             | 7,439                   |
| Other current assets                  | 434                         | -                                 | -                           | -                             | 434                     |
| <b>Financial liabilities</b>          |                             |                                   |                             |                               |                         |
| Trade and other payables              | 1,926                       | 77                                | -                           | -                             | 2,003                   |
| Interest bearing loans and borrowings | -                           | 2,468                             | 7                           | -                             | 2,475                   |
| <b>Year ended 30 June 2010</b>        |                             |                                   |                             |                               |                         |
| <b>Financial assets</b>               |                             |                                   |                             |                               |                         |
| Cash                                  | 131                         | -                                 | -                           | -                             | 131                     |
| Other current assets                  | 48                          | 6                                 | -                           | -                             | 54                      |
| <b>Financial liabilities</b>          |                             |                                   |                             |                               |                         |
| Trade and other payables              | 422                         | 814                               | -                           | -                             | 1,236                   |
| Interest bearing loans and borrowings | -                           | 2,111                             | -                           | -                             | 2,111                   |

### e) Fair values

The methods for estimating fair value are outlined in the relevant notes to the financial statements. The fair value of other financial assets and liabilities approximate their carrying values as disclosed in the financial statements.

Growers fees received from the growers under the Growers Scheme are financial instruments with an embedded derivative and are designated as financial liabilities at fair value through profit or loss upon initial recognition and are measured initially at fair value and subsequently at fair value, with any resultant gains or losses recognized in profit or loss. Transaction costs are immediately recognised in profit or loss on initial recognition.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

# Notes to the Financial Statements

(Cont'd)

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

### *Impairment of plant and equipment*

Plant and equipment are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash-generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- future production levels;
- future commodity prices; and
- future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

No further impairment loss was recognised against the carrying amount of the Group's biodiesel plant during the year (2010: Nil).

### *Recoverability of potential deferred income tax assets*

The Group recognises deferred income tax assets in respect of tax losses to the extent that it is probable that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a valuation model, with the assumptions detailed in note 22. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity. See note 22.

### *Fair value of biological assets*

The fair value of the oil palm plantations is estimated by reference to independent professional valuations using the discounted cash flows of the underlying biological assets. The expected cash flows from the whole life cycle of the oil palm plantations is determined using the market price and the estimated yield of the agricultural produce, being fresh fruit bunches ("FFB"), net of maintenance and harvesting costs and any costs required to bring the oil palm plantations to maturity. The estimated yield of the oil palm plantations is dependent on the age of the oil palm trees, the location of the plantations, soil type and infrastructure. The market price of the FFB is largely dependent on the prevailing market prices of crude palm oil and palm kernel.

### *Fair value of growers fees*

The Group carries its growers fees at fair value, with changes in fair values being recognised in profit or loss. In accordance with the terms and conditions of the Growers Scheme, the Group has a net yield payment obligation from Year 7 to 23 and the estimated fair market value of the Plantation at Year 23. The net yield obligation is an amount equal to the higher of the plantation profit and a minimum yield based on the average crude palm oil prices in the respective financial years. This balance represents the embedded derivative portion of the growers fees.



# Notes to the Financial Statements

(Cont'd)

## 5. OPERATING SEGMENTS

### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of the business, product to be produced and type of land development. Discrete financial information about each of these operating businesses is reported to management.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and/or the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

### Types of products and services

#### *Biodiesel*

The biodiesel business is a producer and supplier of blended biodiesel for export markets. The biodiesel business has been determined as both an operating segment and reportable segment.

#### *Oil Palm and Growers Scheme*

Oil palm and growers scheme business involve the operation of an oil palm plantation interest scheme, plantation development and cultivation of fresh fruit bunches (FFB). The oil palm and growers scheme business has been determined as both an operating segment and reportable segment.

### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period.

#### *Segment loans payable and loans receivable*

Segment loans are initially recognised at the consideration received excluding transaction costs. Inter-segment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to the segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

# Notes to the Financial Statements

(Cont'd)

## 5. OPERATING SEGMENTS (cont'd)

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Corporate charges such as head office expenses and interest

The following table presents revenue and loss information for reportable segments for the years ended 30 June 2011 and 30 June 2010:

| 2011   | Biodiesel<br>\$'000 | Oil palm &<br>Growers Scheme<br>\$'000 | Unallocated<br>\$'000 | Total<br>\$'000 |
|--|---------------------|--|-----------------------|-----------------|
| <b>Revenue</b>   |                     |  |                       |                 |
| Sales  | -                   | -                                      | -                     | -               |
| Finance income – interest  | -                   | 122                                    | -                     | 122             |
| Total revenue per the statement of comprehensive income              | -                   | 122                                    | -                     | 122             |
| <b>Result</b>  |                     |  |                       |                 |
| Segment result   | (1,666)             | (5,886)                                | -                     | (7,552)         |
| Unallocated expenses   | -                   | -                                      | (369)                 | (369)           |
| Net loss before income tax per the statement of comprehensive income | (1,666)             | (5,886)                                | (369)                 | (7,921)         |
| <b>Segment assets</b>  |                     |  |                       |                 |
| Segment assets   | 5,853               | 13,327                                 | -                     | 19,180          |
| Unallocated assets   | -                   | -                                      | 38                    | 38              |
| Total assets per the statement of financial position                 | 5,853               | 13,327                                 | 38                    | 19,218          |
| <b>Segment liabilities</b>   |                     |  |                       |                 |
| Segment liabilities  | 2,712               | 18,214                                 | -                     | 20,926          |
| Unallocated liabilities  | -                   | -                                      | 46                    | 46              |
| Total liabilities per the statement of financial position            | 2,712               | 18,214                                 | 46                    | 20,972          |

# Notes to the Financial Statements

(Cont'd)

## 5. OPERATING SEGMENTS (cont'd)

| 2010   | Biodiesel<br>\$'000 | Oil palm<br>\$'000 | Unallocated<br>\$'000 | Total<br>\$'000 |
|--|---------------------|--------------------|-----------------------|-----------------|
| <b>Revenue</b>   |                     |                    |                       |                 |
| Sales  | 42                  | 68                 | -                     | 110             |
| Finance income – interest  | -                   | -                  | 1                     | 1               |
| Total revenue per the statement of comprehensive income              | 42                  | 68                 | 1                     | 111             |
| <b>Result</b>  |                     |                    |                       |                 |
| Segment result   | (1,181)             | (1,266)            | -                     | (2,447)         |
| Unallocated expenses   | -                   | -                  | (249)                 | (249)           |
| Net loss before income tax per the statement of comprehensive income | (1,181)             | (1,266)            | (249)                 | (2,696)         |
| <b>Segment assets</b>  |                     |                    |                       |                 |
| Segment assets   | 7,572               | 2,846              | -                     | 10,418          |
| Unallocated assets   | -                   | -                  | 18                    | 18              |
| Total assets per the statement of financial position                 | 7,572               | 2,846              | 18                    | 10,436          |
| <b>Segment liabilities</b>   |                     |                    |                       |                 |
| Segment liabilities  | 2,413               | 894                | -                     | 3,307           |
| Unallocated liabilities  | -                   | -                  | 40                    | 40              |
| Total liabilities per the statement of financial position            | 2,413               | 894                | 40                    | 3,347           |

# Notes to the Financial Statements

(Cont'd)

## 6. REVENUES AND EXPENSES

|   | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <b>(a) Revenue</b>  |                           |                           |
| Sales   | -                         | 110                       |
| Finance income - interest   | 122                       | 1                         |
|   | 122                       | 111                       |
| <b>(b) Raw materials and consumable used</b>                            | 264                       | 258                       |
| <b>(c) Employee benefits expense</b>                                    |                           |                           |
| Wages and salaries  | 2,125                     | 560                       |
| Superannuation  | 217                       | 50                        |
| Share-based payment (write back)/expense                                | -                         | 1                         |
| Other benefits  | 208                       | 10                        |
|   | 2,550                     | 621                       |
| <b>(d) Depreciation and amortisation expense</b>                        |                           |                           |
| Property, plant and equipment   | 412                       | 369                       |
| Amortisation of initial lease payment (note 6(f))                       | 769                       | 984                       |
|   | 1,181                     | 1,353                     |
| <b>(e) Finance costs</b>  |                           |                           |
| Other loans   | 129                       | 51                        |
|   | 129                       | 51                        |
| <b>(f) Lease payments included in statement of comprehensive income</b> |                           |                           |
| Minimum lease payments - operating lease                                | 143                       | 77                        |
| Amortisation of initial lease payment (note 6(d))                       | 769                       | 984                       |
|   | 912                       | 1,061                     |
| <b>(g) Other expenses</b>   |                           |                           |
| Other expenses mainly comprise:   |                           |                           |
| Growers Scheme costs  | 243                       | -                         |
| Legal and professional fees   | 150                       | 63                        |
| Motor vehicle running expenses  | 108                       | 46                        |
| Utilities and upkeep maintenance  | 120                       | 41                        |
| Insurance   | 98                        | 100                       |
| Others  | 454                       | 362                       |
|   | 1,173                     | 612                       |

# Notes to the Financial Statements

(Cont'd)

## 7. INCOME TAX

|   | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| The major components of income tax are:   |                           |                           |
| <b>Statement of comprehensive income</b>  |                           |                           |
| <i>Current income tax</i>   |                           |                           |
| Current year  | -                         | -                         |
| <i>Deferred income tax</i>  |                           |                           |
| Relating to origination and reversal of temporary differences   | -                         | -                         |
| Income tax reported in the statement of comprehensive income  | -                         | -                         |
| A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows: |                           |                           |
| Accounting loss before income tax   | (7,921)                   | (2,696)                   |
| At the Group's statutory income tax rate of 30% (2010: 30%)   | (2,376)                   | (809)                     |
| Share issue expenses  | (200)                     | (200)                     |
| Losses in foreign operations  | 2,089                     | 735                       |
| Deferred tax assets on temporary differences and tax losses not brought to account as realisation is not regarded as probable                                 | 487                       | 274                       |
| Income tax reported in the statement of comprehensive income  | -                         | -                         |

|  | Statement of<br>Financial Position |                           | Statement of<br>Comprehensive<br>Income |                           |
|--|------------------------------------|---------------------------|---|---------------------------|
|  | 30 June<br>2011<br>\$'000          | 30 June<br>2010<br>\$'000 | 30 June<br>2011<br>\$'000               | 30 June<br>2010<br>\$'000 |
| <b>Deferred income tax</b>   |                                    |                           |   |                           |
| Deferred income tax at 30 June relates to the following:   |                                    |                           |   |                           |
| <b>CONSOLIDATED</b>  |                                    |                           |   |                           |
| <i>Deferred tax assets</i>   |                                    |                           |   |                           |
| Losses available for offset against future taxable income  | 1,665                              | 1,178                     | 487                                     | 274                       |
| Deferred tax assets on temporary differences not brought to account as realisation is not regarded as probable | (1,665)                            | (1,178)                   | (487)                                   | (274)                     |
| Deferred tax income/(expense)  | -                                  | -                         | -                                       | -                         |

# Notes to the Financial Statements

(Cont'd)

## 7. INCOME TAX (cont'd)

SBIL has not formed a tax consolidated group.

Estimated unrecouped income tax losses of \$310,000 (2010: \$274,000) are available indefinitely to be offset against future years' taxable income. Deferred tax assets have not been brought to account as, in the opinion of the Directors, their realisation is not probable. Unrecognised deferred tax assets will be brought to account over future years as and when it is considered probable that they will be realised.

The Company's subsidiary, SPC Biodiesel Sdn Bhd, has Malaysian pioneer tax status which provides an exemption from income tax to SPC Biodiesel Sdn Bhd for the first 5 years of operations.

## 8. CURRENT ASSETS

|                                 | <b>CONSOLIDATED</b>                |                                    |
|---------------------------------|------------------------------------|------------------------------------|
|                                 | <b>30 June<br/>2011<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
| <b>(a) Inventories</b>          |                                    |                                    |
| Raw materials                   | -                                  | 96                                 |
| <b>(b) Other current assets</b> |                                    |                                    |
| Prepayments and deposits        | 254                                | 126                                |
| Tax recoverable                 | -                                  | 6                                  |
| Other receivables               | 180                                | 48                                 |
|                                 | <b>434</b>                         | <b>180</b>                         |

## 9. PROPERTY, PLANT AND EQUIPMENT

|  | <b>CONSOLIDATED</b>                |                                    |
|--|------------------------------------|------------------------------------|
|  | <b>30 June<br/>2011<br/>\$'000</b> | <b>30 June<br/>2010<br/>\$'000</b> |
| <i>Capital work-in-progress</i>                  |                                    |                                    |
| At cost  | 39                                 | 70                                 |
|  | <b>39</b>                          | <b>70</b>                          |
| <b>Biodiesel property, plant &amp; equipment</b> |                                    |                                    |
| <i>Biodiesel plant and equipment</i>             |                                    |                                    |
| At cost  | 13,376                             | 15,629                             |
| Less accumulated depreciation                    | (2,862)                            | (3,067)                            |
| Less impairment*                                 | (6,714)                            | (7,470)                            |
|  | <b>3,800</b>                       | <b>5,092</b>                       |
| <i>Buildings</i>                                 |                                    |                                    |
| At cost  | 1,076                              | 1,142                              |
| Less accumulated depreciation                    | (169)                              | (152)                              |
| Less impairment*                                 | (387)                              | (430)                              |
|  | <b>520</b>                         | <b>560</b>                         |

# Notes to the Financial Statements

(Cont'd)

## 9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

|   | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <i>Motor vehicles</i>                           |                           |                           |
| At cost   | 300                       | 295                       |
| Less accumulated depreciation                   | (190)                     | (174)                     |
|   | 110                       | 121                       |
| <i>Motor vehicles – under finance lease</i>     |                           |                           |
| At cost   | 16                        | -                         |
| Less accumulated depreciation                   | (2)                       | -                         |
|   | 14                        | -                         |
| <i>Office equipment</i>                         |                           |                           |
| At cost   | 419                       | 154                       |
| Less accumulated depreciation                   | (138)                     | (82)                      |
|   | 281                       | 72                        |
| <i>Prepaid land lease</i>                       |                           |                           |
| At cost   | 1,612                     | 1,884                     |
| Less accumulated depreciation                   | (143)                     | (130)                     |
|   | 1,469                     | 1,754                     |
| <b>Plantation property, plant and equipment</b> |                           |                           |
| <i>Plantation equipment and machinery</i>       |                           |                           |
| At cost   | 585                       | 545                       |
| Less accumulated depreciation                   | (153)                     | (119)                     |
|   | 432                       | 426                       |
| <i>Plantation development costs</i>             |                           |                           |
| At cost   | 2,829                     | 1,213                     |
| Less accumulated amortisation                   | -                         | -                         |
|   | 2,829                     | 1,213                     |
| <b>Total property, plant and equipment</b>      | <b>9,494</b>              | <b>9,308</b>              |

Prepaid land lease relates to the initial payment for an operating lease of land which is amortised over a period of 50 years.

The movements in property, plant and equipment during the year include the effect of foreign exchange.

# Notes to the Financial Statements

(Cont'd)

## 9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

|  | CONSOLIDATED              |                           |
|--|---------------------------|---------------------------|
|  | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <b>Movement</b>                                |                           |                           |
| <i>Capital work-in-progress</i>                |                           |                           |
| Carrying amount at beginning                   | 70                        | -                         |
| Additions                                      | 172                       | 70                        |
| Transfers                                      | (194)                     | -                         |
| Effect of foreign exchange                     | (9)                       | -                         |
| Carrying amount at end                         | 39                        | 70                        |
| <b>Biodiesel property, plant and equipment</b> |                           |                           |
| Biodiesel plant and equipment                  |                           |                           |
| Carrying amount at beginning                   | 5,092                     | 5,242                     |
| Additions                                      | -                         | -                         |
| Discount received                              | -                         | (218)                     |
| Depreciation expense                           | (253)                     | (271)                     |
| Effect of foreign exchange                     | (1,039)                   | 339                       |
| Carrying amount at end                         | 3,800                     | 5,092                     |
| <i>Buildings</i>                               |                           |                           |
| Carrying amount at beginning                   | 560                       | 570                       |
| Additions                                      | 9                         | 3                         |
| Transfers                                      | 96                        | -                         |
| Depreciation expense                           | (19)                      | (19)                      |
| Depreciation capitalised                       | (23)                      | (19)                      |
| Effect of foreign exchange                     | (103)                     | 25                        |
| Carrying amount at end                         | 520                       | 560                       |
| <i>Motor vehicles</i>                          |                           |                           |
| Carrying amount at beginning                   | 121                       | 237                       |
| Additions                                      | 78                        | -                         |
| Written-off                                    | (16)                      | (51)                      |
| Depreciation expense                           | (37)                      | (49)                      |
| Depreciation capitalised                       | (18)                      | (14)                      |
| Effect of foreign exchange                     | (18)                      | (2)                       |
| Carrying amount at end                         | 110                       | 121                       |
| <i>Motor vehicles – under finance lease</i>    |                           |                           |
| Carrying amount at beginning                   | -                         | 60                        |
| Additions                                      | 17                        | -                         |
| Written-off                                    | -                         | (49)                      |
| Depreciation expense                           | (2)                       | (8)                       |
| Effect of foreign exchange                     | (1)                       | (3)                       |
| Carrying amount at end                         | 14                        | -                         |



# Notes to the Financial Statements

(Cont'd)

## 9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

|   | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <i>Office equipment</i>                         |                           |                           |
| Carrying amount at beginning                    | 72                        | 87                        |
| Additions                                       | 209                       | 10                        |
| Written-off                                     | (1)                       | -                         |
| Transfers                                       | 99                        | -                         |
| Depreciation expense                            | (67)                      | (21)                      |
| Depreciation capitalised                        | (7)                       | (6)                       |
| Effect of foreign exchange                      | (24)                      | 2                         |
| Carrying amount at end                          | 281                       | 72                        |
| <i>Prepaid land lease</i>                       |                           |                           |
| Carrying amount at beginning                    | 1,754                     | 1,741                     |
| Additions                                       | -                         | -                         |
| Depreciation expense                            | (34)                      | (35)                      |
| Effect of foreign exchange                      | (251)                     | 48                        |
| Carrying amount at end                          | 1,469                     | 1,754                     |
| <b>Plantation property, plant and equipment</b> |                           |                           |
| <i>Plantation equipment and machinery</i>       |                           |                           |
| Carrying amount at beginning                    | 426                       | 463                       |
| Additions                                       | 126                       | 3                         |
| Depreciation capitalised                        | (55)                      | (50)                      |
| Effect of foreign exchange                      | (65)                      | 10                        |
| Carrying amount at end                          | 432                       | 426                       |
| <i>Plantation development costs</i>             |                           |                           |
| Carrying amount at beginning                    | 1,213                     | 665                       |
| Additions                                       | 1,898                     | 491                       |
| Effect of foreign exchange                      | (282)                     | 57                        |
| Carrying amount at end                          | 2,829                     | 1,213                     |

# Notes to the Financial Statements

(Cont'd)

## 10. BIOLOGICAL ASSETS

|                              | CONSOLIDATED              |                           |
|------------------------------|---------------------------|---------------------------|
|                              | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| Carrying amount at beginning | 721                       | 518                       |
| Purchase of seeds            | 161                       | 6                         |
| Other expenditure            | 166                       | (3)                       |
| Fair value adjustment        | 418                       | 182                       |
| Effect of foreign exchange   | (77)                      | 18                        |
| Carrying amount at end       | 1,389                     | 721                       |

Other expenditure includes upkeep of oil palms in the nursery.

Biological assets consist mainly of immature oil palm trees.

The Group grows oil palm trees for trading purposes, as part of its normal operations. The plantation is located in Malaysia. First harvest will be upon maturity of trees.

As at 30 June 2011, the total planted area of mature and immature plantations are as follows:

|               | 2011<br>Hectare | 2010<br>Hectare |
|---------------|-----------------|-----------------|
| Planted area: |                 |                 |
| • Mature      | -               | -               |
| • Immature    | 2,187           | 827             |
|               | 2,187           | 827             |

An independent professional valuer, Messrs Raine & Horne International Zaki + Partners Sdn Bhd, conducted a valuation on a subsidiary's 11,280 acre oil palm plantation development as at 30 June 2011. Raine & Horne has valued the plantation at RM71.5 million equivalent \$22 million (2010: RM55.4 million equivalent \$20 million) on a Market Value basis. This compares to the carrying value of RM15.589 million equivalent \$4.808 million represents biological assets of \$1.389 million and plantation development costs of \$3.419 million as shown in the accounts.

# Notes to the Financial Statements

(Cont'd)

## 11. TRADE AND OTHER PAYABLES

|                             | CONSOLIDATED              |                           |
|-----------------------------|---------------------------|---------------------------|
|                             | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <i>Current</i>              |                           |                           |
| Trade payables              | 26                        | 7                         |
| Net yield payable (note 13) | 723                       |                           |
| Other payables              | 1,254                     | 1,229                     |
|                             | <b>2,003</b>              | <b>1,236</b>              |

Current trade and other payables are non-interest bearing and are normally settled on 30 day terms except for an amount of \$77,000 which is payable in the next 6-12 months. Non-current payables are unsecured and have no fixed terms of repayment.

## 12. INTEREST BEARING LOANS AND BORROWINGS

|   | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <i>Current</i>                            |                           |                           |
| Obligations under hire purchase contracts | 5                         | -                         |
| Shareholders advances                     | 2,463                     | 2,111                     |
|   | <b>2,468</b>              | <b>2,111</b>              |
| <i>Non-current</i>                        |                           |                           |
| Obligations under hire purchase contracts | 7                         | -                         |

The unsecured loan from a shareholder is a standby credit line of up to RM10 million equivalent \$3.084 million (2010: RM10 million equivalent \$3.604 million). The loan is repayable on demand and may be drawn down from time to time for working capital purposes. Interest is payable at the base lending rate of a leading Malaysian financial institution. There are no conversion rights attached to the loan. The shareholder has undertaken not to recall this loan in the next 12 months.

## 13. GROWERS FEES

|  | CONSOLIDATED              |                           |
|--|---------------------------|---------------------------|
|  | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| Fair value through profit or loss, at balance date | 16,494                    | -                         |

- (a) Growers fees represent the amount received from growers under the Golden Palm Growers Scheme ("the Scheme") for which a subsidiary is obligated to pay an annual net yield over the duration of the Scheme.

# Notes to the Financial Statements

(Cont'd)

## 13. GROWERS FEES (cont'd)

- (b) The subsidiary has certain obligations to repurchase grower plots at the request of a grower. This repurchase obligation is subject to certain provisions as provided in the agreement with a grower (refer [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com)) which includes inter-alia requirement for submission of proper repurchase documents, annual repurchase limits, timing of payment, repurchase price etc.
- (c) At the closure or expiry of the Scheme, the subsidiary is required to refund a grower its proportionate share of the net sale proceeds in accordance with terms as stated in the relevant agreement with growers.

These terms include amongst others, minimum notice period to growers, conditions for voluntary closure of the scheme, timing and procedures for the sale as well as timing of payment of net proceeds received from sale.

In the event of the refund to a Grower of its proportionate share of net sale proceeds, the subsidiary will not be required to repay the growers fees.

## 14. ISSUED CAPITAL

|                                      | CONSOLIDATED              |                           |
|--------------------------------------|---------------------------|---------------------------|
|                                      | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <b>a) Issued and paid up capital</b> |                           |                           |
| Ordinary shares fully paid           | 32,143                    | 32,143                    |

|  | 2011                |        | 2010                |        |
|--|---------------------|--------|---------------------|--------|
|  | NUMBER OF<br>SHARES | \$'000 | NUMBER OF<br>SHARES | \$'000 |
| <b>b) Movements in shares on issue</b> |                     |        |                     |        |
| Beginning of the financial year        | 65,000,000          | 32,143 | 65,000,000          | 32,143 |
| Shares issued during the year          | -                   | -      | -                   | -      |
| End of the financial year              | 65,000,000          | 32,143 | 65,000,000          | 32,143 |

### c) Share options

The Company has previously issued share options to a previous director and employees and its biodiesel offtaker.

The number of outstanding share options and exercise price and dates are set out in note 22(a).

### d) Terms and conditions

*Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

As per the Corporations Act 2001, the Company does not have authorised capital and its ordinary shares do not have a par value.

# Notes to the Financial Statements

(Cont'd)

## 14. ISSUED CAPITAL (cont'd)

### d) Terms and conditions (cont'd)

#### Options

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

### e) Capital management

When managing capital [shareholders' equity of \$(1.754) million (2010: \$7.089 million)], management's objective is to ensure the entity remains as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital to the entity. The Group's capital structure is monitored on an ongoing basis by the executive directors and is periodically reviewed by the Board. The Group has no externally imposed capital requirements.

## 15. RESERVES

|                                      | CONSOLIDATED    |                 |
|--------------------------------------|-----------------|-----------------|
|                                      | 30 June<br>2011 | 30 June<br>2010 |
|                                      | \$'000          | \$'000          |
| Equity benefits reserve              | 234             | 234             |
| Foreign currency translation reserve | (952)           | (30)            |
| Equity reserve                       | (685)           | (685)           |
|                                      | (1,403)         | (481)           |

Movements in reserves are set out in the Statement of Changes in Equity.

#### Equity benefits reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration and to the offtaker.

#### Foreign currency translation reserve

This reserve represents the foreign exchange gain/loss on the translation of the subsidiary from its functional currency (Malaysian Ringgit) to the presentation currency (AUD).

#### Equity reserve

This reserve arising from a transaction with non-controlling interest in prior year.

# Notes to the Financial Statements

(Cont'd)

## 16. LOSS PER SHARE

|   | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| Loss used in calculating basic loss per share   | (7,921)                   | (2,696)                   |
| Weighted average number of ordinary shares on issue used in the calculation of basic loss per share | 65,000,000                | 65,000,000                |
| Effect of dilution:   |                           |                           |
| Performance rights  | -                         | -                         |
| Share options (out of the money so not considered dilutive)   | -                         | -                         |
| Weighted average number of ordinary shares on issue adjusted for the effect of dilution             | 65,000,000                | 65,000,000                |

The number of shares that will be issued if outstanding options are exercised is 120,000 (2010: 480,000). The options are currently out of the money and so are not expected to be exercised.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

As the Group made a loss for the year diluted earnings per share is the same as basic earnings per share. The impact of dilution would be to reduce the loss per share.

## 17. CASH FLOW STATEMENT

|   | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <b>a) Reconciliation of cash and cash equivalents</b> |                           |                           |
| Cash balances comprise:                               |                           |                           |
| Cash at bank  | 454                       | 122                       |
| Deposits with licensed bank                           | 8                         | 9                         |
|   | 462                       | 131                       |

Deposits with licensed bank are deposits pledged as security for banking facilities.

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# Notes to the Financial Statements

(Cont'd)

## 17. CASH FLOW STATEMENT (cont'd)

### b) Reconciliation of loss after income tax to the net cash used in operating activities

|  | CONSOLIDATED              |                           |
|--|---------------------------|---------------------------|
|  | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| Loss after tax                             | (7,921)                   | (2,696)                   |
| <b>Non-cash items:</b>                     |                           |                           |
| Depreciation and amortisation              | 1,181                     | 1,353                     |
| Share-based payments (write-back)/expense  | -                         | 1                         |
| Fair value adjustment on biological assets | (418)                     | (182)                     |
| <b>Changes in assets and liabilities:</b>  |                           |                           |
| Other current assets                       | (254)                     | 23                        |
| Inventory                                  | 96                        | 101                       |
| Trade and other payables                   | 684                       | (537)                     |
| Net cash used in operating activities      | (6,632)                   | (1,937)                   |

A wholly-owned Malaysian subsidiary has in place a standby credit line of up to RM10 million equivalent \$3.084 million (2010: RM10 million equivalent \$3.604 million). This credit line, which is unsecured, was extended by the Company's founder shareholder for working capital purposes. As at 30 June 2011, the outstanding amount of this credit line stood at RM7.984 million equivalent \$2.463 million (2010: RM5.858 million equivalent \$2.111 million).

## 18. RESTRICTED DEPOSITS

|                                |       |   |
|--------------------------------|-------|---|
| Deposits with licensed trustee | 7,439 | - |
|--------------------------------|-------|---|

Restricted deposits represent deposits held by trustee of Growers Scheme, AmTrustee Berhad, a licensed trustee in Malaysia. They represent 46% of the growers fees received from growers. These restricted deposits are to be used for the creation of a Reserve Fund Trust Account for purposes of paying guaranteed net yields (36%) as well as the setting up of a reserve margin account (10%).

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# Notes to the Financial Statements

(Cont'd)

## 19. PARENT ENTITY INFORMATION

|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
|---|---------------------------|---------------------------|
| Information relating to SBIL:   |                           |                           |
| Current assets  | 38                        | 18                        |
| Total assets  | 7,003                     | 8,533                     |
| Current liabilities   | 46                        | 40                        |
| Total liabilities   | 790                       | 864                       |
| Issued capital  | 32,143                    | 32,143                    |
| Retained earnings   | (26,163)                  | (24,708)                  |
| Equity benefit reserve  | 234                       | 234                       |
| Total shareholders' equity  | 6,214                     | 7,669                     |
| Loss of the parent entity   | (1,456)                   | (2,471)                   |
| Total comprehensive income of the parent entity   | -                         | -                         |
| Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries        | -                         | -                         |
| Details of any contingent liabilities of the parent entity  | -                         | -                         |
| Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment | -                         | -                         |

Included in total assets is loan to controlled entity of \$6.966 million (2010 \$8.515 million). Loan to controlled entity is non-trade related, unsecured, non-interest bearing and has no fixed terms of repayment. The Company has undertaken not to recall this loan in the next 12 months.

## 20. INVESTMENT IN CONTROLLED ENTITIES

### a) Controlled entity

The consolidated financial statements include the financial statements of Sterling Biofuels International Limited and the controlled entities listed in the following table:

| CONTROLLED ENTITY             | PRINCIPAL ACTIVITY   | BENEFICIAL %<br>HELD BY THE<br>CONSOLIDATED<br>ENTITY |           |
|-------------------------------|--|---|-----------|
|                               |  | 2011<br>%   | 2010<br>% |
| SPC Biodiesel Sdn Bhd         | Manufacture and export of biodiesel  | 100   | 100       |
| Sterling Plantations Sdn Bhd  | Investment holding   | 100   | 100       |
| Golden Palm Growers Berhad    | Operation of an oil palm plantation interest scheme, plantation development and cultivation of palm products | 99.66*  | 99.66*    |
| SPC Palm Mills Sdn Bhd        | Milling of palm products   | 100   | 60*       |
| Golden Palm Marketing Sdn Bhd | Marketing of oil palm plantation plots   | 100   | 100       |

- Minority interest is separately disclosed in note 27.

Investment in the controlled entities is in ordinary shares.



# Notes to the Financial Statements

(Cont'd)

## 20. INVESTMENT IN CONTROLLED ENTITIES (cont'd)

### b) Acquisition of other assets

- (i) During the year, a controlled entity acquired 40 ordinary shares of RM1 each, representing 40% equity interest in SPC Palm Mills Sdn Bhd for a cash consideration of RM40. The acquisition has no material impact on the Group's financial report.
- (ii) In prior year, a controlled entity entered into a Share Sale Agreement with a non-controlling interest on 28 April 2010 to acquire further 0.26% equity interest in Golden Palm Growers Berhad for a consideration of RM1,900,000. An initial sum of RM140,000 equivalent \$54,000 was paid in prior year and the balance purchase price of RM1,760,000 equivalent \$597,000 has been fully settled in the current year.

## 21. EXPENDITURE COMMITMENTS

|   | CONSOLIDATED              |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| <b>(a) Capital expenditure commitments</b>  |                           |                           |
| Estimated capital expenditure contracted for at balance date, but not provided for or payable     |                           |                           |
| not later than one year:  |                           |                           |
| - Property, plant and equipment   | 80                        | 152                       |
| - Plantation development expenditure  | -                         | 493                       |
|   | 80                        | 645                       |
| Estimated capital expenditure not contracted for at balance date, and not provided for or payable |                           |                           |
| not later than one year:  |                           |                           |
| - Property, plant and equipment   | 1,082                     | -                         |
| <b>(b) Operating leases (non-cancellable)</b>   |                           |                           |
| Minimum lease payments  |                           |                           |
| - not later than one year   | 196                       | 86                        |
| - later than one year but not later than five years   | 424                       | 98                        |
| - later than five years   | -                         | -                         |
|   | 620                       | 184                       |

# Notes to the Financial Statements

(Cont'd)

## 21. EXPENDITURE COMMITMENTS (cont'd)

### (c) Finance leases

The previous year future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments were as follows:

|   | Minimum Lease Payments |                        | Present Value of Lease Payments |                        |
|---|------------------------|------------------------|---------------------------------|------------------------|
|   | 30 June 2011<br>\$'000 | 30 June 2010<br>\$'000 | 30 June 2011<br>\$'000          | 30 June 2010<br>\$'000 |
| <i>Consolidated</i>                               |                        |                        |                                 |                        |
| Within one year                                   | 6                      | -                      | 5                               | -                      |
| After one year but not more than five years       | 7                      | -                      | 7                               | -                      |
| Total minimum lease payments                      | 13                     | -                      | 12                              | -                      |
| Less: amounts representing future finance charges | (1)                    | -                      | -                               | -                      |
| Present value of minimum lease payments           | 12                     | -                      | 12                              | -                      |

## 22. SHARE-BASED PAYMENTS

### (a) Directors'/employees' share options

The unlisted options detailed below have been granted to a former director of the consolidated entity. The options granted are for no consideration and are exercisable at a fixed price after the vesting dates indicated in the table below. The options will lapse if not exercised by the expiry date. The options cannot be transferred and will not be quoted on the Australian Stock Exchange.

The following table sets out the number of (No) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

|  | 2011      |            | 2010      |            |
|--|-----------|------------|-----------|------------|
|  | No        | WAEP<br>\$ | No        | WAEP<br>\$ |
| Outstanding at the beginning of the year | 480,000   | 1.20       | 945,000   | 1.20       |
| Granted during the year                  | -         | -          | -         | -          |
| Lapsed during the year                   | -         | -          | -         | -          |
| Exercised during the year                | -         | -          | -         | -          |
| Expired during the year                  | (360,000) | -          | (465,000) | -          |
| Outstanding at the end of the year       | 120,000   | 1.20       | 480,000   | 1.20       |
| Exercisable at the end of the year       | 120,000   | -          | 480,000   | -          |

# Notes to the Financial Statements

(Cont'd)

## 22. SHARE-BASED PAYMENTS (cont'd)

### (a) Directors'/employees' share options (cont'd)

The outstanding balance at 30 June 2011 is represented by:

|   | 2011<br>No | 2010<br>No |
|---|------------|------------|
| Options over ordinary shares with an exercise price of \$1.00 each, exercisable from 25/9/07 to 25/9/09 | -          | -          |
| Options over ordinary shares with an exercise price of \$1.20 each, exercisable from 25/9/08 to 25/9/10 | -          | 360,000    |
| Options over ordinary shares with an exercise price of \$1.40 each, exercisable from 25/9/09 to 25/9/11 | 120,000    | 120,000    |

The weighted average fair value of options was \$0.15 (2010: \$0.20).

The weighted average remaining contractual life for the share options outstanding at 30 June 2011 is 3 months (2010 : 6 months).

The exercise price for options outstanding at the end of the year was \$1.40.

The weighted average share price during the year was \$0.04 (2010 : \$0.05).

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

## 23. AUDITORS' REMUNERATION

|   | CONSOLIDATED          |                       |
|---|-----------------------|-----------------------|
|   | 30 June<br>2011<br>\$ | 30 June<br>2010<br>\$ |
| The auditor of SBIL is Ernst & Young.   |                       |                       |
| a) Amounts received or due and receivable by Ernst & Young (Australia) for:<br>- an audit or review of the financial report of the entity   | 46,800                | 45,500                |
| b) Amounts received or due and receivable by internationally affiliated practice of Ernst & Young (Australia) for:<br>- an audit or review of the financial report of the entity<br>- independent accountants' report in relation to Growers Scheme | 24,232<br>6,567       | 13,237<br>3,519       |
|   | 77,599                | 62,256                |

The auditors received no other benefits.

# Notes to the Financial Statements

(Cont'd)

## 24. DIRECTOR AND EXECUTIVE DISCLOSURES

### (a) Compensation of Key Management Personnel

#### Remuneration by category

|                                 | CONSOLIDATED          |                       |
|---------------------------------|-----------------------|-----------------------|
|                                 | 30 June<br>2011<br>\$ | 30 June<br>2010<br>\$ |
| <i>Key Management Personnel</i> |                       |                       |
| Short-term benefits             | 1,780,908             | 410,417               |
| Post-employment benefits        | 165,930               | 19,113                |
| Share-based payments            | -                     | (2,518)               |
|                                 | <b>1,946,838</b>      | <b>427,012</b>        |

### (b) Option holdings of Key Management Personnel

#### 30 June 2011

During the year, 360,000 options issued to previous Key Management Personnel (a previous director) under the option plan have lapsed. As at 30 June 2011, there is a balance of 120,000 Options, which have been granted and vested to a previous director and will expire on 26 September 2011.

### (c) Share holdings of key management personnel

#### 30 June 2011

#### Fully Paid Ordinary Shares

|                  | Held at<br>1 July 2010 | Granted as<br>remuneration | On exercise<br>of options | Net change<br>other | Held at<br>30 June 2011 |
|------------------|------------------------|----------------------------|---------------------------|---------------------|-------------------------|
| <b>Directors</b> |                        |                            |                           |                     |                         |
| CRS Paragash     | *30,000,000            | -                          | -                         | -                   | *30,000,000             |
| A Phang          | *30,000,000            | -                          | -                         | -                   | *30,000,000             |
| P Mason          | -                      | -                          | -                         | -                   | -                       |
| G Keys           | 14,000                 | -                          | -                         | -                   | 14,000                  |

\* held indirectly via Duplex Fame Sdn Bhd.

# Notes to the Financial Statements

(Cont'd)

## 24. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

### (c) Share holdings of key management personnel (cont'd)

| 30 June 2010                                 | Fully Paid Ordinary Shares |                            |                           |                        |                         |
|--|----------------------------|----------------------------|---------------------------|------------------------|-------------------------|
|  | Held at<br>1 July 2009     | Granted as<br>remuneration | On exercise<br>of options | Net change<br>other    | Held at<br>30 June 2010 |
| <b>Directors</b>                             |                            |                            |                           |                        |                         |
| CRS Paragash                                 | *30,000,000                | -                          | -                         | -                      | *30,000,000             |
| A Phang                                      | *30,000,000                | -                          | -                         | -                      | *30,000,000             |
| P Mason                                      | -                          | -                          | -                         | -                      | -                       |
| G Keys (appointed on<br>29 April 2010)       | -                          | -                          | -                         | 14,000 <sup>^</sup>    | 14,000                  |
| A Sierakowski (resigned on<br>29 April 2010) | 98,000                     | -                          | -                         | (98,000) <sup>^^</sup> | -                       |

\* held indirectly via Duplex Fame Sdn Bhd.

<sup>^</sup> acquired during the year

<sup>^^</sup> due to resignation during the year

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options, have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

### (d) Loans to key management personnel

There were no loans to key management personnel during the year.

### (e) Other transactions and balances with key management personnel

There were no transactions or balances with key personnel other than those disclosed in the remuneration report of the Directors' Report and note 25.

# Notes to the Financial Statements

(Cont'd)

## 25. RELATED PARTY DISCLOSURES

Significant related party transaction other than those disclosed elsewhere in the financial statements is as follows:

|  | CONSOLIDATED              |                           |
|--|---------------------------|---------------------------|
|  | 30 June<br>2011<br>\$'000 | 30 June<br>2010<br>\$'000 |
| Unsecured loan from a shareholder  | 2,299                     | 2,061                     |
| Loan interest to a shareholder   | 129                       | 46                        |
| Rental paid to a director of a controlled entity   | 7                         | 7                         |
| Payments for secretarial and other services to a company in which the company secretary is an employee | 62                        | 62                        |

These transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties. The unsecured loan from a shareholder is a standby credit line of up to RM10 million equivalent \$3.084 million (2010: RM10 million equivalent \$3.604 million). The loan is repayable on demand and may be drawn down from time to time for working capital purposes. Interest is payable at the base lending rate of a leading Malaysian financial institution. There are no conversion rights attached to the loan. The shareholder has undertaken not to recall this loan in the next 12 months. As at 30 June 2011, the outstanding amount of this credit line stood at RM7.984 million equivalent \$2.463 million (2010: RM5.858 million equivalent \$2.111 million).

Details relating to key management personnel are disclosed in note 24.

## 26. COMMITMENTS AND CONTINGENCIES

### Offtake agreement

The offtaker, Masefield AG, has agreed to purchase all the biodiesel produced by the Group for 3 years, commencing on the date of commencement of the operation of the Group's biodiesel plant. The agreement can be extended for a further two years by mutual agreement of both parties.

### Special bonus

During the year, the Board approved a special bonus of \$736,000 each to the Executive Chairman and Group Executive Director. The special bonus was calculated on 1% of the gross development value of the Golden Palm Growers Scheme and was awarded for the successful development and implementation of a corporate plan that culminated in the launch of the Growers Scheme. Payment of the special bonus is subject to fulfilment of the following key parameters – sale of at least 6,000 Grower Plots; repayment of existing liabilities (including the standby facility from the founder shareholder); and sufficient cash flows for ongoing operations.

A similar bonus was approved for the Head - Corporate Finance, J Leong.

As at the date of this report, other than the bonus paid to J Leong, the key parameters have not been met and therefore there is no contractual obligation to make the payment.

# Notes to the Financial Statements

(Cont'd)

## 27. NON-CONTROLLING INTEREST

The minority shareholders' share of losses in the controlled entity is limited to their share of the paid-up capital of the subsidiaries. The balance of the losses will be borne by the Group until such time that the controlled entity is able to generate profits. The minority interest' share of losses for the financial year (2010: \$0.001 million) and cumulative losses (2010: \$0.007 million) respectively are not material to the financial report of the Group.

## 28. EVENTS AFTER THE BALANCE SHEET DATE

Except as disclosed in this report or the consolidated financial statements, as at the date of this report, no other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

# Directors' Declaration

In accordance with a resolution of the directors of Sterling Biofuels International Limited, I state that:

- 1) In the opinion of the directors:
  - a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
    - ii) complying with Accounting Standards and the Corporations Regulations 2001; and
  - b) the financial statements and notes also comply with Australian Accounting Standards and IFRS as disclosed in note 2; and
  - c) subject to the matters set out in note 1 "Going Concern", there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

On behalf of the Board:



**Andrew Phang**  
**Group Executive Director**

Perth  
Date: 26 August 2011

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# Auditor's Independence Declaration


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Fax: +61 8 9429 2436  
www.ey.com/au

## Auditor's Independence Declaration to the Directors of Sterling Biofuels International Limited

In relation to our audit of the financial report of Sterling Biofuels International Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

  
Ernst & Young  
Ernst & Young  
Peter McIver  
Partner  
Perth  
26 August 2011

FM-MB-STERLING-054

See file limited by a scheme approved  
under Professional Standards Legislation

# Independent Audit Report

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## Independent audit report to members of Sterling Biofuels International Limited

### Report on the financial report

We have audited the accompanying financial report of Sterling Biofuels International Limited, which comprises the consolidated balance sheet as at 30 June 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

# Independent Audit Report

(Cont'd)



## Opinion

In our opinion:

- a. the financial report of Sterling Biofuels International Limited is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with international Financial Reporting Standards as disclosed in Note 1.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Sterling Biofuels International Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

A handwritten signature in dark ink, appearing to read 'Peter McIver', written over the printed name and title.

Peter McIver  
Partner  
Perth  
26 August 2011

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# Corporate Governance Statement

## SUMMARY OF CORPORATE GOVERNANCE POLICIES AND PROCEDURES

The Board of Directors of Sterling Biofuels International Limited (“SBIL” or “the Company”) is responsible for its corporate governance and the Board has adopted a manual of corporate governance policies and procedures based on control systems and accountability. A summary of the Group’s corporate governance policies and procedures is included in this Statement.

The Group’s corporate governance policies and procedures are in line with the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (2nd Edition with 2010 Amendments) (“the Principles & Recommendations”). The Group has followed the Principles & Recommendations where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration by the Board, the Company’s corporate governance practices depart from the Principles & Recommendations, the Board has fully disclosed the departure and the reason for the adoption of its own practice, in compliance with the “if not, why not” exception reporting regime.

Further information about the Group’s corporate governance practices including the information on the Company’s charters, code of conduct and other policies and procedures is set out on the Company’s website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

### Board of Directors

#### *Role of the Board and Management*

The Board is responsible for promoting the success of the Group in a way which ensures that the interests of shareholders and stakeholders are promoted and protected. The Board may delegate some powers and functions to the Group Managing Director (or equivalent) for the day-to-day management of the Group. Powers and functions not delegated remain with the Board. The key responsibilities and functions of the Board include the following:

- to develop, review and monitor the Group’s long term business strategies and provide strategic direction to management;
- to ensure policies and procedures are in place to safeguard the Group’s assets and business and to enable the Group to act ethically and prudently;
- to develop and promote a system of corporate governance which ensures the Group is properly managed and controlled;
- to identify the Group’s principal risks and ensure that it has in place appropriate systems of risk management, internal control, reporting and compliance; and
- to monitor management’s performance and the Group’s financial results on a regular basis.

The Board’s role and the Group’s corporate governance practices are periodically reviewed and improved as required.

The role of the senior management of the Company is to progress the strategic direction provided by the Board. The Group’s senior management is responsible for supporting the Executive Directors in implementing the running of the general operations and financial business of the Group in accordance with the delegated authorities for expenditure levels and materiality thresholds in place.

# Corporate Governance Statement

(Cont'd)

## SUMMARY OF CORPORATE GOVERNANCE POLICIES AND PROCEDURES (cont'd)

### Board of Directors (cont'd)

#### *Role of the Board and Management (cont'd)*

The Chairman is responsible for evaluation of the Board and, where deemed appropriate, Board committees and individual Directors. The Company has conducted a performance evaluation of the Board during the financial year which involved completion of a questionnaire by each Board member and collation and review of the results by the Board. The Non-executive Directors undertook a performance and remuneration review of the Managing Director and the Chairman during the financial year. The Managing Director and Chairman are reviewed against a number of qualitative factors. At this stage of the development of the Company, SBIL has only informal procedures in place for performance evaluation of its senior executives against qualitative indicators. It is noted the Company has a formal Induction Program in place for new Directors and employees.

A summary of the Board Charter, a statement of matters reserved for the Board and senior management is available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

#### *Composition of the Board*

The Company has adopted a *Policy on Assessing the Independence of Directors* which is consistent with the guidelines detailed in the ASX Principles & Recommendations.

The Company's *Board Charter* includes guidelines for assessing the materiality of matters which are summarised below:

- A matter which triggers the Company's set materiality threshold must be a Material Contract or Material Item (as defined below) and has a value of more than \$1 million or will have an impact on the current year operating result of \$1 million or more.
- A Material Contract is one which is outside the ordinary course of business, includes exceptionally onerous provisions, impacts revenue, is essential to the operations of the Group, contains or triggers change of control provisions or is between related parties.
- A Material Item is one that impacts the Group's reputation, involves a breach or potential breach of legislation, is outside the ordinary course of business or could affect the Group's rights to assets.

The current Board includes two independent non-executive directors, Graham Keys and Paul Mason, and two executive directors CRS Paragash and Andrew Phang who are not considered to be independent. As such, the Board does not currently have a majority of independent Directors. Graham Keys and Paul Mason fall within the requirements of an independent Director as stipulated in the Principles & Recommendations, that is, no past or current relationships exist between these Directors and the Company that may affect their status as an independent Director.

The Executive Chairman of the Board, CRS Paragash, and the Group Executive Director, Andrew Phang, are not independent directors.

A minimum of 4 Directors is required under the Company's Constitution. Any changes to the composition of the Board will be determined by the Board, subject to any applicable laws and the resolutions of Shareholders. The Board seeks to nominate persons for appointment to the Board who have the qualifications, experience and skills to augment the capabilities of the Board. All directors (except the Managing Director) are required by the Constitution of SBIL to submit themselves for re-election at regular intervals and at least every three years. Non-executive directors shall serve a maximum of three terms, unless their tenure is extended by the Board. Tenure limits can help to ensure that there are fresh ideas and viewpoints available to the Board. However, it is recognised that they hold the disadvantage of losing the contribution of directors who have developed over time an increasing insight into SBIL and its operations. Before a director is nominated for re-election at a shareholders' meeting, the Chairman shall consult with the rest of the Board and review the director's performance before the Board endorses his or her re-nomination.

# Corporate Governance Statement

(Cont'd)

## **Composition of the Board (cont'd)**

The Board should comprise directors with a mix of skills and diversity which will assist the Board in fulfilling its responsibilities as well as assisting the Company in achieving growth and delivering value to shareholders. The current Board encompasses accounting, legal and general commercial skills with experience across various industries in Australia and overseas.

A summary of the Company's policy for re-election of Directors and selection and appointment of new Directors is available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

A profile of each director containing their skills, experience and expertise is set out in the Directors' Report.

## **Statement concerning availability of Independent Professional Advice**

The Board considers that to assist directors with independent judgment a director may consider it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director. Provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

## **Nomination Committee**

Given the present size of the Company, the whole Board acts as the Nomination Committee, if required. The Board believes no efficiencies or other benefits could be gained by establishing a separate Nomination Committee. To assist the Board to fulfil its function as the Nomination Committee, the Board has adopted a *Nomination Committee Charter*. A summary of the *Nomination Committee Charter* is available on the Company's website [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

## **Remuneration Committee**

Given the present size of the Company, the whole Board acts as the Remuneration Committee, if required. The Board believes no efficiencies or other benefits could be gained by establishing a separate Remuneration Committee. To assist the Board to fulfil its function as the Remuneration Committee, the Board has adopted a *Remuneration Committee Charter*. A summary of the *Remuneration Committee Charter* and the *Remuneration Policy* are available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

The Company has a *Remuneration Policy* adopted by the Board. Remuneration of directors and senior management is determined with regard to payments made by other companies of similar size and industry and in accordance with the skills and experience of the particular person. Details of remuneration of directors and Key Management Personnel are disclosed in the Remuneration Report.

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

Pursuant to the *Remuneration Policy*, executives are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

## **Code of Conduct**

The Company has adopted a *Code of Conduct* that outlines how the Company expects its directors and employees of the Group to behave and conduct business in the workplace on a range of issues. The Company is committed to the highest level of integrity and ethical standards in all business practices. The objective of the Code is to:

- provide a benchmark for professional behaviour;
- support the Company's business reputation and corporate image; and
- make directors and employees aware of the consequences if they breach the code.

The Code records the Company's commitment and responsibilities with respect to various stakeholders, in particular, employees, clients, shareholders, governments and surrounding communities.

# Corporate Governance Statement

(Cont'd)

## Code of Conduct (cont'd)

It sets out the Company's expectations of its directors and employees with respect to a range of issues including compliance with the law, fair dealing, discrimination, financial inducements, occupational health and safety, confidentiality of information, conflicts of interest, use of Company assets and outside employment.

A breach of the code is subject to disciplinary action which may include termination of employment.

A summary of the *Code of Conduct* is available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

## Ethical Standards

The Board considers that the success of the Company will be enhanced by a strong ethical culture within the organisation. Accordingly, the Board is committed to the highest level of integrity and ethical standards in all business practices. Employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation.

## Conflicts of Interest

In accordance with the Corporations Act, directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

## Diversity

The Company has not adopted a formal *Diversity Policy*. The Board encourages diversity but has only informal procedures in place for staff selection. The Board considers that persons have been selected based on appropriate skills and experience relevant to their positions. However, in compliance with Recommendation 3.4, the Company provides the following information with respect to the representation of women in the organisation. Women represent approximately 21% of the whole organisation, 25% of senior executives (including Directors) but there are no women on the Board.

## Security Trading Policy

The *Securities Trading Policy* adopted by the Board prohibits trading in shares by a director, officer or employee during certain blackout periods (in particular, prior to release of interim or annual results) except in exceptional circumstances and subject to procedures set out in the Policy.

Outside of these blackout periods, a director, officer or employee must first obtain clearance in accordance with the Policy before trading in shares. For example:

- a director must receive clearance from the Chairman before he may buy or sell shares
- if the Chairman wishes to buy or sell shares he must first obtain clearance from the Managing Director (or equivalent)
- other officers and employees must receive clearance from the Managing Director (or equivalent) before they may buy or sell shares

Directors, officers and employees must observe their obligations under the Corporations Act not to buy or sell shares if in possession of price sensitive non-public information and that they do not communicate price sensitive non-public information to any person who is likely to buy or sell shares or communicate such information to another party.

A summary of the *Securities Trading Policy* is available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

# Corporate Governance Statement

(Cont'd)

## Continuous Disclosure

The Company is a “disclosing entity” for the purposes of Part 1.2A of the Corporations Act. As such, the Company has an *Information Policy*. The purpose of this Information Policy is to set out the procedure for:

- protecting confidential information from unauthorised disclosure;
- identifying material price sensitive information and reporting it to the Company Secretary for review;
- ensuring the Group achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules; and
- ensuring the Group and individual officers do not contravene the Corporations Act or ASX Listing Rules.

The Group has obligations under the Corporations Act and ASX Listing Rules to keep the market fully informed of information which may have a material effect on the price or value of SBIL's securities and to correct any material mistake or misinformation in the market. SBIL discharges these obligations by releasing information to the ASX in the form of an ASX release or disclosure in other relevant documents (e.g. the Annual Report).

The Group recognises that the maintenance of confidentiality is also of paramount importance to the Company both to protect its trade secrets and to prevent any false market for the Company's shares from developing.

All relevant information provided to ASX in compliance with the continuous disclosure requirements of the Corporations Act and ASX listing rules is promptly posted on the Company's web site [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

A summary of the *Information Policy* is available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

## Audit and Risk Committee

The primary role of the *Audit and Risk Committee* is to monitor and review, on behalf of the Board, the effectiveness of the control environment of the Group in the areas of operational and balance sheet risk, legal/regulatory compliance and financial reporting. The overriding objective of the Committee is to provide an independent and objective review of financial and other information prepared by management, in particular that to be provided to members and/or filed with regulators. The Committee meets and receives regular reports from its external auditors concerning matters that arise in connection with their audit. The Committee is also responsible for review of performance of the external auditors.

The Committee is comprised of Paul Mason (Chairman) and Graham Keys both of whom are considered independent. The two members of the Committee are non-executive directors.

The *Audit and Risk Committee* provides recommendations to the Board in relation to the initial appointment of the external auditor and the appointment of a new external auditor should a vacancy arise. Any appointment of a new external auditor made by the Board must be ratified by shareholders at the next annual general meeting of SBIL.

Proposed external auditors must be able to demonstrate complete independence from the Group and an ability to maintain independence through the engagement period. In addition, the successful candidate for external auditor must have arrangements in place for the rotation of the audit engagement partner on a regular basis. Other than these mandatory criteria, the Board may select an external auditor based on other criteria relevant to the Company such as references, cost and any other matters deemed relevant by the Board.

A formal *Audit and Risk Committee Charter* has been adopted, a copy of which is available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).



# Corporate Governance Statement

(Cont'd)

## Communication to Shareholders

The Company has a *Shareholder Communications Policy* that promotes effective communication with shareholders and encourages presentation of information to shareholders in a clear, concise and effective manner. The Board aims to ensure that Shareholders are informed of all major developments affecting SBIL's state of affairs. Information will be communicated to Shareholders through its annual report, annual general meeting, half-yearly results and quarterly activities and cash flow announcements and the SBIL website.

The Company considers general meetings to be an effective means to communicate with shareholders and encourages shareholders to attend the meeting. Information included in the notice of meeting sent to shareholders is presented in a clear, concise and effective manner.

A summary of the *Shareholder Communications Policy* is available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com).

## Privacy Policy

The Group is committed to respecting the privacy of any personal information in its possession. To this end, the Group has a Privacy Policy which sets out the Group's personal information management practices. The Privacy Policy covers application of privacy laws, personal information collected, use and disclosure of personal information, accessing and updating of personal information and security of personal information. The Group is bound by the Privacy Act.

## Risk Management

The *Audit and Risk Committee* is responsible for the oversight of the Group's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Group with the Group Managing Director (or equivalent) having ultimate responsibility to the Board for the risk management and control framework.

A summary of the Company's *Risk Management Policy* is available on the Company's website at [www.sterlingbiofuels.com](http://www.sterlingbiofuels.com). Since adoption of the policy, the Group Managing Director (or equivalent) is required to report on the management of risk as a standing agenda item at each Board meeting. This involves the tabling of a risk register which is monitored and updated by management periodically. The categories of risks reported on in the risk register include operational (including occupational health and safety), environmental, sustainability, human capital, political, ethical conduct, reputation, legal and compliance, technological, product quality, financial reporting and market related risks (including economic cycle and marketing). The Board also requires management to report to it confirming that those risks are being managed effectively. The Board has received an assurance from management that the Company's management of its material business risks are effective.

## Integrity of Financial Reporting

The Company's Executive Chairman and Group Executive Director have provided a declaration in accordance with section 295A of the Corporations Act in writing to the Board that:

- the financial records of the Company and its controlled entities for the year ended 30 June 2011 have been properly maintained;
- the consolidated financial statements of the Company and its controlled entities for the year ended 30 June 2011 present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

# Corporate Governance Statement

(Cont'd)

## ASX LISTING RULE DISCLOSURE - EXCEPTION REPORTING

As required by ASX Listing Rules, the following table discloses the extent to which Sterling Biofuels International Limited has not followed the best practice recommendations set by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition with 2010 Amendments).

| Principle No. | Best Practice Recommendation   | Compliance   | Reasons for Non-compliance  |
|---------------|--|--|---|
| 1.2           | Disclose the process for evaluation of senior executives                       | The Company has in place informal procedures for evaluating the performance of senior executives                             | At this stage of the development of the Company, SBIL has only informal procedures in place for performance evaluation of the senior executives against qualitative indicators  |
| 2.1           | A majority of the Board should be independent directors                        | Currently, SBIL has two independent directors and two non-independent directors  | The Board considers that its structure has been, and continues to be, appropriate in the context of the Company's recent history and the scope and scale of the Company's operations. Persons have been selected as directors to bring specific skills and industry experience relevant to the Company.   |
| 2.2           | The Chair should be an independent director                                    | Currently, SBIL has a non-independent Chair  | The Board considers that the non-independent Chair possess skills and experience suitable for leading the Board and considers a non-independent Chair to be appropriate in the context of the Company's recent history and the scope and scale of the Company's operations. The Board will consider the appointment of an independent director as the Chair if deemed appropriate depending on the scope and scale of the Company's operations. |
| 2.4           | The Board should establish a nomination committee                              | The Board has not established a nomination committee. The role of the nomination committee is carried out by the full Board. | Given the present size of the Company, the whole Board acts as a nomination committee, if required. The Board believes no efficiencies or other benefits could be gained by establishing a separate Nomination Committee. However, it is noted the Board has adopted a Nomination Committee Charter.  |
| 3.2           | The Company should establish diversity policy.                                 | The Board has not adopted a formal diversity policy.   | The Board encourages diversity but has only informal procedures in place for staff selection. Given the present size of the Company, the Board believes no efficiencies or other benefits could be gained by establishing a diversity policy. The Board considers that persons have been selected based on appropriate skills and experience relevant to their positions.   |
| 4.2           | The audit committee should be structured so that it has at least three members | The Company's Audit and Risk Committee has two members.  | Given the present size of the Company and the Board, the Audit and Risk Committee has only two members. The Board believes no efficiencies or other benefits could be gained by establishing a larger Audit and Risk Committee. It is noted the two members are non-executive independent directors and the chair of the Committee is not the chair of the Board.   |

# Corporate Governance Statement

(Cont'd)

## ASX LISTING RULE DISCLOSURE - EXCEPTION REPORTING (cont'd)

| Principle No. | Best Practice Recommendation                        | Compliance   | Reasons for Non-compliance  |
|---------------|---|--|---|
| 8.1           | The Board should establish a remuneration committee | The Board has not established a remuneration committee. The role of a remuneration committee is carried out by the full Board. | Given the present size of the Company, the whole Board acts as a remuneration committee, if required. The Board believes no efficiencies or other benefits could be gained by establishing a separate remuneration committee. All matters of remuneration are determined by the Board in accordance with Corporations Act requirements, particularly in respect of related party transactions. No director participates in any discussion or decision regarding his own remuneration or related issues. The Board has adopted a <i>Remuneration Committee Charter</i> . |

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# Additional Stock Exchange Information

As at 19 August 2011

## Ordinary share capital

The issued capital of the Company as at 30 June 2011 is 65,000,000 ordinary shares fully paid. There was no change in the issued capital of the Company as at 19 August 2011.

All ordinary fully paid shares carry one vote per share without restrictions.

## Top 20 holders of FULLY PAID SHARES as at 19 August 2011

| Rank  | Holder  | Number of Ordinary Share | % of Issued Capital |
|---|---|--------------------------|---------------------|
| 1   | DUPLEX FAME SDN BHD   | 30,000,000               | 46.15               |
| 2   | MR WAI FOONG LIM  | 9,265,114                | 14.25               |
| 3   | CITICORP NOMINEES PTY LIMITED   | 3,915,837                | 6.02                |
| 4   | JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>                | 2,485,808                | 3.82                |
| 5   | DMG & PARTNERS SECURITIES PTE LTD <CLIENTS A/C>                       | 1,928,802                | 2.97                |
| 6   | MR RAMESHWEREN KANAGALINGAM   | 1,400,000                | 2.15                |
| 7   | RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MLCI A/C> | 1,105,943                | 1.70                |
| 8   | CIMB SECURITIES (SINGAPORE) PTE LTD <CLIENT A/C>                      | 714,945                  | 1.10                |
| 9   | MR GEOFFREY THOMAS  | 710,000                  | 1.09                |
| 10  | MADAM LIM GEK KUAN  | 620,798                  | 0.96                |
| 11  | CELAR PTY LTD   | 604,200                  | 0.93                |
| 12  | COLONIAL STATE PROPERTIES PTY LIMITED <THE T J SMITH A/C>             | 500,000                  | 0.77                |
| 13  | MR KENNETH HALL + MRS MARY HALL <SUPER FUND A/C>                      | 500,000                  | 0.77                |
| 14  | RAFIANO MACHA PTY LTD <THE FINGAL UNIT A/C>                           | 400,000                  | 0.62                |
| 15  | SEPT PTY LTD  | 395,000                  | 0.61                |
| 16  | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED                        | 308,500                  | 0.47                |
| 17  | MS FRANCISKA LASIC  | 260,000                  | 0.40                |
| 18  | NATIONAL AUSTRALIA MANAGEMENT PTY LTD <TJ SMITH SUPER FUND A/C>       | 250,620                  | 0.39                |
| 19  | MR PUAY JEN KHOO  | 250,000                  | 0.38                |
| 20  | MR SIMON TESSELAAR  | 222,000                  | 0.34                |
| <b>Top 20 holders of FULLY PAID SHARES AS AT 19 AUGUST 2011</b> |   | <b>55,837,567</b>        | <b>85.89</b>        |

# Additional Stock Exchange Information

As at 19 August 2011

(cont'd)

## Distribution of holders of equity securities as at 19 August 2011

| Range             | Number of Holders | Number of Ordinary Shares |
|-------------------|-------------------|---------------------------|
| 1 – 1000          | 22                | 12,454                    |
| 1,001 – 5,000     | 147               | 489,491                   |
| 5,001 – 10,000    | 92                | 821,800                   |
| 10,001 – 100,000  | 160               | 5,311,845                 |
| More than 100,001 | 36                | 58,364,410                |
| <b>Total</b>      | <b>457</b>        | <b>65,000,000</b>         |

The number of holders holding less than a marketable parcel : 207

## Substantial shareholders

| Holder              | Number of Ordinary Shares | % of Issued Capital |
|---------------------|---------------------------|---------------------|
| Duplex Fame Sdn Bhd | 30,000,000                | 46.15               |
| Mr. Wai Foong Lim   | 9,265,114                 | 14.25               |

## Number of securities subject to escrow

There are no securities subject to escrow.

## Unquoted Options

The number of Unquoted Options on issue as at 30 June 2011 is 120,000 Options. Mr. Adam Sierakowski, a previous director, is the holder of these Unquoted Options.

## Terms of Unquoted Options

| Number of Options which can be exercised by the Holder | Exercise Price | Vesting Date | Expiry Date |
|--|----------------|--------------|-------------|
| 30%  | \$1.40         | 25/9/09      | 26/9/11     |