

www.sterlingbiofuels.com

**Sterling Biofuels**

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**ASX Code:** SBI

**Sterling Biofuels**

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





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#### **Directors**

Chairman  
Alister T Maitland

Group Managing Director  
Dato' CRS Paragash

Group Executive Director  
Andrew Phang

Director  
Adam Sierakowski

#### **Company Secretary**

Susan Hunter

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Facsimile: (603) 7957 6282

#### **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 Georges Terrace  
Perth WA 6000

#### **Lawyers**

Freehills  
QV1 Building  
250 St Georges 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 Chairman



Dear fellow shareholders

On behalf of the board, I am pleased to present the second annual report for the Sterling Biofuels International Limited group of companies. This report covers the financial year 1 July 2007 to 30 June 2008.

During the year we announced the acceleration of our upstream strategy. This strategy involves our participation in various sectors of the palm oil–biodiesel value chain.

As part of this strategy, we acquired a 4,200 hectare (10,600 acre) oil palm concession in Malaysia in September of last year. We have also begun preliminary work on developing a palm oil mill in the vicinity of our biodiesel plant.

When completed, the plantation and the mill will help mitigate the effects of fluctuating feedstock prices and diversify our revenue and earnings base.

In simple terms, when palm oil prices rise we will make money from our plantation development. When palm oil prices fall we will make money from our biodiesel operations.

While this strategy is simple to enunciate, the difficulty of course lies in its execution. In this we believe we have the credentials to successfully implement the strategy. Construction of our biodiesel plant on time and within budget is part testimony to this.

In the coming year, we will focus our resources on the continued development of the plantation and the mill. This will enhance the value of our upstream assets.

As at the date of this report, the plantation is on track to begin generating first revenues in FY2012. The mill is expected to commence operations in 2010.

At the same time, we have a biodiesel plant that stands ready to produce at short notice when market economics are more favourable. Recent sharp falls in feedstock prices have improved the viability of production and we hope to commence production shortly.

While we are not out of the woods yet, we believe we have the right strategy in place.

The Group is well positioned to see through implementation of this strategy. We have contained costs and continue to manage our cash flows whilst pursuing funding options to further accelerate development of our upstream activities.

On behalf of the board, I wish to thank you for your continued support. It is our belief that your patience will ultimately be rewarded.

I look forward to seeing you at our Annual General Meeting in November.

Yours sincerely

*Alister Maitland*

**Alister Maitland**

Chairman

26 August 2008





# 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 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows.

### DIRECTORS

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

Alister T Maitland  
 Dato' CRS Paragash  
 Andrew Phang  
 Adam Sierakowski  
 Shariffuddin Khalid (resigned on 31 March 2008)

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

#### Name and Qualifications

#### Particulars

**ALISTER T MAITLAND** *FAIM SFFin FAICD BCom, Chairman*

Mr Maitland was appointed Chairman (independent non-executive) on 14 July 2006. Mr Maitland is a retired senior banker formerly with the ANZ banking group. He has been a member of several federal government advisory bodies and a member of the Trade Policy Advisory Council.

He is currently Chairman of Folkestone Ltd, Eastern Health and a non-executive director of Lihir Gold Limited. During the past three years, Mr Maitland has also served as a director of Ballarat Goldfields Ltd (Chairman).

#### Interest in SBIL shares/options:

50,000 ordinary shares and 500,000 options to acquire 500,000 shares in the Company.

Mr Maitland is a member of the audit and risk committee.

**DATO' CRS PARAGASH** *FCA, Group Managing Director*

Dato' Paragash joined the board on 25 May 2006. He is a Fellow of the Institute of Chartered Accountants (England & 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.

During the past three years, Dato' Paragash has not served as a director of any other publicly listed company.

#### Interest in SBIL shares/options:

30,000,000 shares in SBIL held indirectly through Duplex Fame Sdn Bhd.



## Directors' Report (Cont'd)

**Name and Qualifications****Particulars**

**ANDREW PHANG** *FFin LLM LLB, Group Executive Director*

Mr Phang joined the board on 25 May 2006. Andrew Phang is a Fellow of the Financial Services Institute of Australasia. A lawyer by training, he has held senior management posts in the Malaysian private sector as well as a Malaysian government agency.

During the past three years, Mr Phang has not served as a director of any other publicly listed company.

**Interest in SBIL shares/options:**

30,000,000 shares in SBIL held indirectly through Duplex Fame Sdn Bhd.

**ADAM SIERAKOWSKI** *Director*

Mr Sierakowski joined the board on 21 June 2006. Adam Sierakowski is a lawyer and partner of the Perth-based legal firm of Price Sierakowski. He is co-founder of a Perth-based corporate advisory business called Trident Capital. Mr Sierakowski has held board positions on ASX listed companies. He is a member of the Australian Institute of Company Directors and the Association of Mining and Exploration Companies.

He is currently Chairman of Carnavale Resources Limited. During the past three years, Mr Sierakowski has also served as a director of Lach Drummond Resources Ltd.

**Interest in SBIL shares/options:**

98,000 ordinary shares and 400,000 options to acquire 400,000 shares in the Company.

Mr Sierakowski is chairman of the audit and risk committee.

Except for S Khalid (who resigned on 31 March 2008), all directors held their positions as a director from their respective date of appointment and up to the date of this report.



## INTERESTS IN SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

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

Directors	Number of fully paid ordinary shares	Number of share options
A T Maitland	50,000	500,000
CRS Paragash	*30,000,000	-
A Phang	*30,000,000	-
A Sierakowski	98,000	400,000

\* held indirectly via Duplex Fame Sdn Bhd

## COMPANY SECRETARY

### Susan Hunter

BCom ACA FFSIA (Dip) MAICD (Dip) ACIS (Dip)

Ms Susan Hunter was appointed company secretary with effect from 5 March 2008 replacing Mr Tony Walsh. Ms. Hunter has over 14 years experience in the corporate finance industry and is company secretary of a number of public listed companies.

## DIVIDENDS

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

## PRINCIPAL ACTIVITIES

During the year under review, the Group completed construction of a 100,000 tonne per annum multi-feedstock biodiesel manufacturing plant in the Malaysian state of Sabah. The Group has yet to commence biodiesel production due to market conditions.

As part of its strategy to participate in various upstream activities in the palm oil–biodiesel value chain, the Group also commenced development of a 4,200 hectare (10,600 acre) oil palm plantation in the Malaysian state of Kelantan.

## OPERATIONAL AND FINANCIAL REVIEW

### Group Overview

Sterling Biofuels International Limited was listed on the ASX in September 2006 to develop a biodiesel manufacturing plant in the Malaysian state of Sabah.

The biodiesel plant was completed on time and under budget in July 2007. Unfortunately, an unexpected spike in feedstock prices without a corresponding increase in biodiesel prices has resulted in the Group deferring biodiesel production until it is economically viable to do so.

In September 2007, the Group announced that it was accelerating its strategy of participating in various upstream sectors within the palm oil–biodiesel value chain. This strategy is aimed at partly insuring the Group against future adverse swings within the palm oil–biodiesel value chain by diversifying its revenue and earnings base across a number of related sectors in the value chain.

As part of this upstream strategy, the Group acquired a 70% equity stake in SPC Sawit Sdn Bhd, a Malaysian company that has the right to develop a 4,200 hectare (10,600 acre) oil palm plantation in the Malaysian state of Kelantan. The plantation is expected to start generating revenues in FY2012 when the first oil palm trees begin to bear fruit. This investment is a very exciting initiative as it has the potential to generate substantial revenues for the Group over an extended period of time – the concession is for a 60 year term with an option to extend for another 30 years (sufficient for three planting cycles).

## Directors' Report (Cont'd)



The plantation development is on schedule and tremendous progress has been made. The nursery for Phase 1 (1,200 hectares) has been completed with 200,000 seedlings planted. These are scheduled to be planted out into the ground from November 2008 with first harvests expected in the second half of 2011. The nursery for Phase 2 (2,200 hectares) has commenced with the first 20,000 seedlings planted. These are scheduled to be planted out into the ground from July 2009 with first harvests expected in 2012. The last 600 hectares (Phase 3) will begin to yield fruit in 2013.

Preliminary work on a palm oil mill also commenced during the year. The mill will have an initial capacity of 45 tonnes per hour. A consultant engineering company experienced in the development of palm oil mills in Sabah has been engaged for regulatory submissions, design and project management. A site close to the Group's biodiesel plant has been identified and relevant regulatory approvals are being sought. Based on the current project schedule, the mill is expected to commence operations in 2010 and arrangements are being made to obtain supply contracts for the mill when it commences operations.

These upstream initiatives are significant as they will position the Group to better manage its feedstock requirements and help mitigate the effects of future adverse spikes in the price of its palm based feedstock.

Once fully implemented, these upstream initiatives will also enable the Group to capture the best margins within the palm oil-biodiesel value chain wherever they may occur.

During the year, the Group continued to evaluate alternative feedstock options, including jatropha. While we were unable to source commercial quantities of jatropha for production purposes, the Group is positioned to take advantage of such alternative feedstock should it become available in commercial quantities and at a cost that makes production economically viable.

Whatever the choice of feedstock, the Group is conscious of its commitment towards the sustainability principles being developed by the Roundtable on Sustainable Palm Oil (RSPO). During the year, the Group's wholly-owned Malaysian subsidiary, SPC Biodiesel Sdn Bhd, was admitted as an affiliate member of the RSPO. The Group is committed towards adopting the RSPO's stringent sustainability guidelines in its operations.

### Operating Results for the Year

The consolidated loss after income tax for the year ended 30 June 2008 was \$12,449,000 (Period Ending 30 June 2007: loss of \$2,968,000). This includes a non-cash impairment charge of \$7,900,000 (Period Ending 30 June 2007: nil) against the carrying value of the Group's biodiesel plant. Without the impairment charge, the loss for the year would have been \$4,549,000.

The impairment charge was made as a result of the uncertainty over when the Group can commence biodiesel production. This uncertainty has arisen due to the sustained peak in feedstock prices. In addition, although the outlook for the biodiesel industry remains generally positive, biodiesel prices have yet to show a corresponding increase sufficient to compensate for the increase in feedstock prices. In these circumstances, the board took the conservative view that it would be prudent to make the impairment charge.

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

#### Key Information

	30 June 2008 \$'000	30 June 2007 \$'000	Movement
Revenue	1,136	1,051	Up 8%
Loss after tax	(12,449)	(2,968)	Up 319%
Loss attributable to members	(12,449)	(2,968)	Up 319%
Dividends proposed or paid	Nil	Nil	n/a
Cash held at year end	5,358	13,328	Down \$7.97 million

## Shareholder Returns

As expected, there were no returns to shareholders during the year as the Group has yet to commence biodiesel production. As a result, the loss per share was (19.15) cents.

## Review of Financial Conditions

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

Net cash outflows from operating activities increased to \$4.548 million from \$2.021 million. These relate to employee costs and payments to suppliers and netted off against receipts from sale of stocks.

Net cash outflows from investing activities decreased to \$3.170 million from \$15.866 million. These reflect the completion sums on the biodiesel plant and increasing expenditure on the plantation development.

There were no cash inflows from financing activities (Period Ended 30 June 2007: \$31.348 million).

The Company's cash balance as at 30 June 2008 was \$5.358 million.

## Risk management and corporate governance practices

The board regularly reviews operating and financial information and is kept informed by senior management and the audit and risk committee of any significant events affecting the Group's operations.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- implementation of board approved operating plans and budgets and board monitoring of the progress, both of a financial and non-financial nature, against these budgets; and
- the requirement of the Group Managing Director and the Group Executive Director to certify the integrity of the financial statements and the effectiveness of the internal control systems.

## SIGNIFICANT EVENTS DURING THE YEAR

On 14 September 2007, the Group acquired a 70% equity stake in SPC Sawit Sdn Bhd, a Malaysian company that has the right to develop and manage 4,200 hectares (10,600 acres) of oil palm plantation land in the Malaysian state of Kelantan. The stake is held through a wholly-owned Malaysian subsidiary - Sterling Plantations Sdn Bhd.

On 2 October 2007, another of the Group's wholly-owned Malaysian subsidiaries, SPC Biodiesel Sdn Bhd, accepted an offer of a trade facility of RM25 million (\$7,953,172) from a Malaysian financial institution. The facility is intended for the purchase of raw materials for biodiesel production and other working capital purposes. As at 30 June 2008, the facility remains unutilised.

## SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

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 Sterling Biofuels International Limited and its controlled entities, the results of those operations or the state of affairs of Sterling Biofuels International Limited and its controlled entities in subsequent years that is not otherwise disclosed in this report or the consolidated financial statements.

## Directors' Report (Cont'd)



### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The board believes that successful implementation of the upstream strategy being pursued by the Group is key to its future. This strategy mitigates the effects of fluctuating feedstock prices that currently affect the Group's biodiesel operations.

If successfully implemented, this strategy will enable the Group to tap margins from its plantation activities (upstream) when feedstock prices rise. Conversely, if feedstock prices fall, the Group will enjoy margins from its biodiesel operations (downstream).

Over the next financial year, therefore, the Group will continue to focus on developing these upstream initiatives.

At the same time, it is well positioned to commence biodiesel production depending on market economics. As at the date of this report, crude palm oil prices have fallen sharply from record highs earlier in the year. Although biodiesel prices have softened marginally in line with lower crude oil prices, the economics of production are becoming more favourable. Given the improving market conditions, the Group has commenced plant mobilisation. If the downward trend in feedstock prices continues and biodiesel prices remain relatively firm, the Group expects to commence production in the near future.

The Group will continue managing its cash flows and minimise fixed costs to mitigate the effects of the sustained peak in feedstock prices. While additional costs will be incurred in respect of the plantation and mill development, other operating overheads for the biodiesel division for the next financial year are expected to be reduced by some 50% of previous year's expenditure levels.

As indicated previously, the Group will seek to secure funding to further accelerate development of its upstream activities in the coming financial year.

Successful funding will enable the Group to accelerate its upstream activities which, in turn, will enhance the value of its upstream assets. The Group's plantation development, in particular, will begin to show an incremental increase in value as the plantation is planted out and the oil palm trees approach their first harvests.

### 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.

### SHARE OPTIONS

As at the reporting date and the date of this report, there were 1,095,000 unissued ordinary shares under options: refer to the Remuneration Report for further details of the options outstanding. 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.

#### Shares issued as a result of exercise of options

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

### 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, the company secretary and all officers of the Company and of any subsidiary against a liability incurred by a director, secretary or officer in his capacity as such 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 reasons.

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



## **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.

### ***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.

### ***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 previously issued to non-executive directors are disclosed in the relevant table in this report. During the financial year, 70% of the options previously issued to S Khalid (amounting to 280,000 options) lapsed as a result of his resignation from the board.

### ***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 (refer to note 20 of the financial statements), no component of the executive salary is at risk and the Company does not have a formal cash incentive or bonus scheme.

### ***Service Agreements***

The Group Managing Director, Dato' CRS Paragash, is employed under contract. The current employment contract commenced on 1 July 2006 and terminates on 30 June 2009. With effect from 1 December 2007, the Group Managing Director is paid a nominal director's fee of \$1,000 (plus superannuation at 9%) instead of his basic executive salary. The total remuneration received by the Group Managing Director during the year is disclosed in the relevant tables in this report. Either the Group Managing Director or the Company can terminate the contract by giving 3 months notice.

The Group Executive Director, A Phang, is employed under contract. The current employment contract commenced on 1 July 2006 and terminates on 30 June 2009. With effect from 1 January 2008, the Group Executive Director is paid a nominal director's fee of \$1,000 (plus superannuation at 9%) instead of his basic executive salary. 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 Company executives and Group 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)

No performance remuneration was paid during this year other than the options granted in the prior period that vested in the current year.

## Directors' Report (Cont'd)



## Remuneration of Key Management Personnel for the year ended 30 June 2008

Name	Short-term		Post employment	Share-based payments	Total		Total performance related	
	Salary and directors fees	Non-monetary benefits			Options*	\$		%
<b>Non-executive directors</b>								
A T Maitland	63,853	-	5,747	27,362	96,962	28	28	
A Sierakowski	48,000	-	-	21,889	69,889	31	31	
S Khalid (resigned on 31 March 2008)	81,136	-	7,787	6,567	95,490	7	7	
<b>Sub-total - non-executive directors</b>	<b>192,989</b>	<b>-</b>	<b>13,534</b>	<b>55,818</b>	<b>262,341</b>			
<b>Executive directors</b>								
CRS Paragash	94,000	-	8,460	-	102,460	-	-	
A Phang	94,000	9,426	8,460	-	111,886	-	-	
<b>Sub-total - executive directors</b>	<b>188,000</b>	<b>9,426</b>	<b>16,920</b>	<b>-</b>	<b>214,346</b>			
<b>Other KMP</b>								
T Walsh (resigned on 5 March 2008)	54,000	-	-	4,104	58,104	7	7	
M K Thorley	170,565	44,304	-	-	214,869	-	-	
C C Lim	67,327	2,802	8,079	-	78,208	-	-	
J Kumar	165,928	-	12,604	-	178,532	-	-	
J Leong	96,950	-	9,695	-	106,645	-	-	
I A Hamid (resigned on 30 June 2008)	96,950	-	9,695	-	106,645	-	-	
<b>Sub-total - other KMP</b>	<b>651,720</b>	<b>47,106</b>	<b>40,073</b>	<b>4,104</b>	<b>743,003</b>			
<b>Total</b>	<b>1,032,709</b>	<b>56,532</b>	<b>70,527</b>	<b>59,922</b>	<b>1,219,690</b>			

\* Options exercisable at prices ranging from \$1.00 to \$1.40. As at 30 June 2008, the share price was \$0.08.

Remuneration of Key Management Personnel for the year ended 30 June 2007

Name	Short-term			Post-employment	Share-based payments			Total \$	(bonus per total remuneration) %	(options per total remuneration) %	(performance rights per total remuneration) %	Total performance related %
	Salary and directors fees \$	Bonus \$	Non-monetary benefits \$		Options \$	Performance rights \$	Super-annuation \$					
<b>Non-executive directors</b>												
A T Maitland	66,055	-	-	5,945	53,598	-	125,598	-	43	-	-	43
A Sierakowski	48,000	-	-	-	42,879	-	90,879	-	47	-	-	47
S Khalid	147,166	10,226	-	15,503	42,879	49,623	265,397	4	16	19	-	39
<b>Sub-total - non-executive directors</b>	261,221	10,226	-	21,448	139,356	49,623	481,874					
<b>Executive directors</b>												
CRS Paragash	216,000	-	-	19,440	-	-	235,440	-	-	-	-	-
A Phang	180,000	-	1,671	16,200	-	-	197,871	-	-	-	-	-
<b>Sub-total - executive directors</b>	396,000	-	1,671	35,640	-	-	433,311					
<b>Other KMP</b>												
T Walsh	72,000	-	-	-	26,799	-	98,799	-	27	-	-	27
M K Thorley	211,587	34,087	33,909	-	-	90,223	369,806	9	-	24	-	33
IA Hamid	103,130	23,861	-	13,176	-	90,223	230,390	10	-	39	-	49
J Leong	103,130	10,226	-	11,540	-	49,623	174,519	6	-	28	-	34
C Menon	68,037	6,817	-	-	-	-	74,854	9	-	-	-	9
<b>Sub-total - other KMP</b>	557,884	74,991	33,909	24,716	26,799	230,069	948,368					
<b>Total</b>	1,215,105	85,217	35,580	81,804	166,155	279,692	1,863,553					

## Directors' Report (Cont'd)

**Compensation options: granted and vested during the year (consolidated)**

An aggregate of options were granted to the following directors and executives of the Company as part of their remuneration:

	Granted		Held at 30 June 2008	Terms and conditions for each grant						Vested		
	Held at 1 July 2007	Lapsed*		Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	First exercise date	Last exercise date	No.	%	
												\$
<b>Directors</b>												
A T Maitland	500,000	-	500,000	04/08/06	0.2518	1.00	25/9/09	25/9/07	25/9/09	150,000	100	
-Tranche A	150,000	-	150,000									
-Tranche B	200,000	-	200,000		0.1934	1.20	25/9/10	25/9/08	25/9/10	-	-	
-Tranche C	150,000	-	150,000		0.1499	1.40	25/9/11	25/9/09	25/9/11	-	-	
CRS Paragash	Nil	-	Nil									
A Phang	Nil	-	Nil									
A Sierakowski	400,000	-	400,000	04/08/06	0.2518	1.00	25/9/09	25/9/07	25/9/09	120,000	100	
-Tranche A	120,000	-	120,000									
-Tranche B	160,000	-	160,000		0.1934	1.20	25/9/10	25/9/08	25/9/10	-	-	
-Tranche C	120,000	-	120,000		0.1499	1.40	25/9/11	25/9/09	25/9/11	-	-	
S Khalid (resigned on 31 March 2008)	400,000	(280,000)	120,000	04/08/06	0.2518	1.00	25/9/09	25/9/07	25/9/09	120,000	100	
-Tranche A	120,000	-	120,000									
-Tranche B	160,000	(160,000)	-									
-Tranche C	120,000	(120,000)	-									
<b>Executives</b>												
T Walsh (resigned on 5 March 2008)	250,000	(175,000)	75,000	04/08/06	0.2518	1.00	25/9/09	25/9/07	25/9/09	75,000	100	
-Tranche A	75,000	-	75,000									
-Tranche B	100,000	(100,000)	-									
-Tranche C	75,000	(75,000)	-									
<b>Total</b>	1,550,000	(455,000)	1,095,000							465,000		

\* due to resignation during the year

The value of options granted as part of remuneration is shown below:

	Value of options held at 1 July 2007	Value of options exercised during the year	Value of options lapsed during the year*	Value of options held at 30 June 2008
	\$	\$	\$	\$
<b>Directors</b>				
A T Maitland	98,935	-	-	98,935
GRS Paragash	-	-	-	-
A Phang	-	-	-	-
A Sierakowski	79,148	-	-	79,148
S Khalid (resigned on 31 March 2008)	79,148	-	(48,932)	30,216
<b>Executives</b>				
T Walsh (resigned on 5 March 2008)	49,468	-	(30,582)	18,886
<b>Total</b>	306,699	-	(79,514)	227,185

\* due to resignation during the year

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

Except for options that lapsed during the year as reflected above, there were no forfeitures or exercise of options for the year.

The value of options granted is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards. Fair value at grant date is determined using the binomial option pricing model. For further details on the valuation of options please refer to Note 20(a) of the financial statements.

## Directors' Report (Cont'd)



The value of performance rights granted as part of remuneration is shown below:

	No. of performance rights held at 1 July 2007	No. of performance rights lapsed during the year	No. of performance rights held at 30 June 2008	Fair value of performance rights held at 30 June 2008
				\$
<b>Directors</b>				
S Khalid (resigned on 31 March 2008)	550,000	(275,000)	275,000	179,822
<b>Executives</b>				
M K Thorley	1,000,000	(500,000)	500,000	326,950
J Leong	550,000	(275,000)	275,000	179,822
I A Hamid (resigned on 30 June 2008)	1,000,000	(500,000)	500,000	326,950
<b>Total</b>	<b>3,100,000</b>	<b>(1,550,000)</b>	<b>1,550,000</b>	<b>1,013,544</b>

No shares were issued during the year as the conditions of performance rights were not met.

## 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		Audit and Risk Committee	
	Held	Attended	Held	Attended
A T Maitland	7	7	3	3
CRS Paragash	7	7	-	-
A Phang	7	7	-	-
A Sierakowski	7	6	3	2
S Khalid (resigned on 31 March 2008)	6	6	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:

A Sierakowski (Committee Chairman)  
A T Maitland  
S Khalid (resigned on 31 March 2008)

## 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

Details of amounts paid or payable to the auditor for non-audit services provided during the period by the auditor are outlined in note 21 to the financial statements. The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration is included on page 55 of the financial report.

Signed in accordance with a resolution of the directors.



**Alister Maitland**  
Chairman



**Dato' CRS Paragash**  
Group Managing Director

Perth, 26 August 2008

## Income Statement

For the Year Ended 30 June 2008



	NOTE	CONSOLIDATED		COMPANY	
		30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	25 May 2006 to 30 June 2007 \$'000
<b>Continuing operations</b>					
Revenue	6(a)	1,136	1,051	348	1,047
Raw materials and consumables used	6(b)	(896)	(306)	-	-
Employee benefits expense	6(c)	(1,060)	(2,233)	79	(1,170)
Depreciation and amortisation expense	6(d)	(1,938)	(39)	(1)	(1)
Distribution expense	6(e)	-	(305)	-	(305)
Occupancy costs		(75)	(119)	(42)	(21)
Travel expense		(141)	(299)	(16)	(32)
Impairment on property, plant and equipment	10	(7,900)	-	-	-
Impairment of investment in controlled entity	12	-	-	(13,763)	(3,735)
Loss on foreign exchange		-	(399)	(130)	(815)
Other expenses		(1,574)	(319)	(246)	(203)
<b>LOSS BEFORE INCOME TAX</b>		(12,448)	(2,968)	(13,771)	(5,235)
Income tax expense	7	(1)	-	-	-
<b>NET LOSS ATTRIBUTABLE TO MEMBERS OF THE ENTITY</b>		(12,449)	(2,968)	(13,771)	(5,235)
Basic and diluted loss per share (cents per share)	17	(19.15)	(5.15)		

Balance Sheet  
As at 30 June 2008



	NOTE	CONSOLIDATED		COMPANY	
		30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	18(a)	5,358	13,328	4,168	11,761
Inventory		458	-	-	-
Other current assets	8	270	177	11	-
<b>TOTAL CURRENT ASSETS</b>		6,086	13,505	4,179	11,761
<b>NON-CURRENT ASSETS</b>					
Other receivables	9	-	-	4,433	6,977
Property, plant and equipment	10	7,060	15,836	-	7
Prepaid land lease payments	11	1,615	1,589	-	-
Other financial assets	12	-	-	5,437	9,831
<b>TOTAL NON-CURRENT ASSETS</b>		8,675	17,425	9,870	16,815
<b>TOTAL ASSETS</b>		14,761	30,930	14,049	28,576
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	13	1,325	2,365	41	281
Interest bearing loans and borrowings	14	19	20	-	-
<b>TOTAL CURRENT LIABILITIES</b>		1,344	2,385	41	281
<b>NON-CURRENT LIABILITIES</b>					
Other payables	13	-	806	647	636
Interest bearing loans and borrowings	14	56	80	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		56	886	647	636
<b>TOTAL LIABILITIES</b>		1,400	3,271	688	917
<b>NET ASSETS</b>		13,361	27,659	13,361	27,659
<b>EQUITY</b>					
Equity attributable to equity holders of the parent					
Issued capital	15	32,143	32,143	32,143	32,143
Accumulated losses		(16,853)	(4,404)	(19,006)	(5,235)
Reserves	16	(1,929)	(80)	224	751
<b>TOTAL EQUITY</b>		13,361	27,659	13,361	27,659

## Statement of Changes in Equity

For the Year Ended 30 June 2008



<b>CONSOLIDATED</b>	<b>Issued Capital \$'000</b>	<b>Accumulated Losses \$'000</b>	<b>Equity Benefits Reserve \$'000</b>	<b>Foreign Currency Translation Reserve \$'000</b>	<b>Total \$'000</b>
<b>At 30 June 2006</b>	473	(1,436)	-	(4)	(967)
Exchange differences arising on translation of foreign operations	-	-	-	(827)	(827)
Total income/(expense) for the period recognised directly in equity	-	-	-	(827)	(827)
Loss for the period	-	(2,968)	-	-	(2,968)
<b>Total income/(expense) for the period</b>	<b>-</b>	<b>(2,968)</b>	<b>-</b>	<b>(827)</b>	<b>(3,795)</b>
Cost of share-based payment	-	-	751	-	751
Issue of share capital	35,000	-	-	-	35,000
Costs of issue of shares	(3,330)	-	-	-	(3,330)
<b>At 30 June 2007</b>	<b>32,143</b>	<b>(4,404)</b>	<b>751</b>	<b>(831)</b>	<b>27,659</b>
Exchange differences arising on translation of foreign operations	-	-	-	(1,322)	(1,322)
Total income/(expense) for the year recognised directly in equity	-	-	-	(1,322)	(1,322)
Loss for the year	-	(12,449)	-	-	(12,449)
<b>Total income/(expense) for the year</b>	<b>-</b>	<b>(12,449)</b>	<b>-</b>	<b>(1,322)</b>	<b>(13,771)</b>
Cost/(Reversal) of share-based payment	-	-	(527)	-	(527)
<b>At 30 June 2008</b>	<b>32,143</b>	<b>(16,853)</b>	<b>224</b>	<b>(2,153)</b>	<b>13,361</b>
<b>COMPANY</b>					
<b>At 25 May 2006</b>	473	-	-	-	473
Total income/(expense) for the period recognised directly in equity	-	-	-	-	-
Loss for the period	-	(5,235)	-	-	(5,235)
<b>Total income/(expense) for the period</b>	<b>-</b>	<b>(5,235)</b>	<b>-</b>	<b>-</b>	<b>(5,235)</b>
Cost of share-based payment	-	-	751	-	751
Issue of share capital	35,000	-	-	-	35,000
Costs of issue of shares	(3,330)	-	-	-	(3,330)
<b>At 30 June 2007</b>	<b>32,143</b>	<b>(5,235)</b>	<b>751</b>	<b>-</b>	<b>27,659</b>
Total income/(expense) for the year recognised directly in equity	-	-	-	-	-
Loss for the year	-	(13,771)	-	-	(13,771)
<b>Total income/(expense) for the year</b>	<b>-</b>	<b>(13,771)</b>	<b>-</b>	<b>-</b>	<b>(13,771)</b>
Cost/(Reversal) of share-based payment	-	-	(527)	-	(527)
<b>At 30 June 2008</b>	<b>32,143</b>	<b>(19,006)</b>	<b>224</b>	<b>-</b>	<b>13,361</b>

Cash Flow Statement  
For the Year Ended 30 June 2008



	NOTE	CONSOLIDATED		COMPANY	
		30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	25 May 2006 to 30 June 2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from trade customers		734	-	-	-
Receipts from others		1,270	-	-	-
Payments to suppliers and employees		(6,937)	(3,072)	(998)	(1,097)
Payment of tax		(17)	-	-	-
Interest received		402	1,051	348	1,047
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>					
	18(b)	(4,548)	(2,021)	(650)	(50)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(3,147)	(15,866)	-	(8)
Acquisition of other assets		(23)	-	-	-
Investment in controlled entity	12(a)	-	-	(9,369)	(13,566)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>					
		(3,170)	(15,866)	(9,369)	(13,574)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		-	35,000	-	35,000
Transaction costs of issue of shares		-	(3,201)	-	(3,330)
(Repayment of)/proceeds from borrowings		-	(451)	2,426	(6,285)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>					
		-	31,348	2,426	25,385
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS AND CASH EQUIVALENTS NET FOREIGN EXCHANGE DIFFERENCES</b>					
		(7,718)	13,461	(7,593)	11,761
		(252)	(138)	-	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD</b>					
		13,328	5	11,761	-
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>					
	18(a)	5,358	13,328	4,168	11,761

## Notes to the Financial Statements



## 1. CORPORATE INFORMATION

The financial report of Sterling Biofuels International Limited for the year ended 30 June 2008 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.

## 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.

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.

### (b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS").

### (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 2008. These are outlined below:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB Int. 12 and AASB 2007-2	Service Concession Arrangements and consequential amendments to other Australian Accounting Standards	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset - not as property, plant and equipment.	1 January 2008	Unless the Group enters into service concession arrangements or public-private-partnerships (PPP), the amendments are not expected to have any impact on the Group's financial report.	1 July 2008
AASB Int. 4 (revised)	Determining whether an Arrangement contains a Lease	The revised interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008
AASB Int. 129	Service Concession Arrangements: Disclosures	Requires disclosure of provisions or significant features necessary to assist in assessing the amount, timing and certainty of future cash flows and the nature and extent of the various rights and obligations involved. These disclosures apply to both grantors and operators.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008

**(c) New accounting standards and interpretations (Cont'd)**

<b>Reference</b>	<b>Title</b>	<b>Summary</b>	<b>Application date of standard</b>	<b>Impact on Group financial report</b>	<b>Application date for Group</b>
AASB Int. 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	The Group does not have any customer loyalty programmes and as such this interpretation is not expected to have any impact on the Group's financial report.	1 July 2008
AASB Int. 14	AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The Group does not have a defined benefit pension plan and as such this interpretation is not expected to have any impact on the Group's financial report.	1 July 2008
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may have an impact on the Group's segment disclosures.	1 July 2009
AASB 123 (revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009

## Notes to the Financial Statements (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 101 (revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 2008-2	Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	1 January 2009	These amendments are not expected to have any impact on the Group's financial report as the Group does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	1 July 2009

## (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 3 (revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into - to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group has no current plans to enter into any business combinations during the next financial year. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009
AASB 127 (revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will not give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (revised) and AASB 127 (revised) above.	1 July 2009

## Notes to the Financial Statements (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
Amendments to International Financial Reporting Standards	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	<p>The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.</p>	1 January 2009	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments. In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 July 2009
Amendments to International Financial Reporting Standards	Improvements to IFRSs	<p>The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs.</p> <p>The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.</p>	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

**(c) New accounting standards and interpretations (Cont'd)**

<b>Reference</b>	<b>Title</b>	<b>Summary</b>	<b>Application date of standard</b>	<b>Impact on Group financial report</b>	<b>Application date for Group</b>
IFRIC 15	Agreements for the Construction of Real Estate	This interpretation proposes that when the real estate developer is providing construction services to the buyer's specifications, revenue can be recorded only as construction progresses. Otherwise, revenue should be recognised on completion of the relevant real estate unit.	1 January 2009	The Group does not enter into agreements to provide the buyer's specifications and as such this interpretation is not expected to have any impact on the Group's financial report.	1 July 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	This interpretation proposes that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	1 January 2009	The Interpretation is unlikely to have any impact on the Group since it does not significantly restrict the hedged risk or where the hedging instrument can be held.	1 July 2009

## Notes to the Financial Statements (Cont'd)

**(c) New accounting standards and interpretations (Cont'd)***Adoption of new accounting standards*

Since 1 July 2007 the Consolidated Entity has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

These are outlined in the table below:

Reference	Title	Impact on Consolidated Entity financial report	Application Date of Standard	Application Date for Consolidated Entity
Revised AASB 101	Presentation of Financial Statements	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2007
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED151 and Other Amendments	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 7	Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB Interpretation 10	Interim Financial Reporting and Impairment	No change to accounting policy required. Therefore no impact.	1 November 2006	1 July 2007
AASB Interpretation 11	Group and Treasury Share Transactions	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2007
AASB 2008-4	Amendments to Australian Accounting Standard - Key Management Personnel Disclosures by Disclosing Entities [AASB 124]	No change to accounting policy required. Therefore no impact.	30 June 2008	30 June 2008

**(d) Principles of consolidation**

The financial statements comprise the financial statements of Sterling Biofuels International Limited ("Sterling") and its subsidiary as at 30 June 2008.

*Reverse acquisition*

On 31 May 2006, Sterling effectively acquired all the issued capital of SPC Biodiesel. Sterling issued 30 million ordinary shares in return for 100% of the share capital of SPC Biodiesel. SPC Biodiesel was identified as the acquirer in relation to the combination. Accordingly, the combination has been accounted for as a reverse acquisition. However Sterling did not trade prior to the transaction and accordingly is not considered to constitute a business.

*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.

*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 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 to those of segments operating in other economic environments.

**(f) Foreign currency translation**

Both the functional and presentation currency of Sterling 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 income statement 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 balance sheet comprise cash at bank, on hand and short-term deposits with an original maturity of three months or less 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (h) 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.

### (i) Investments

Investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments in controlled entities are measured at cost, less impairment.

#### *Impairment*

If there is objective evidence that an investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised is recognised in the income statement.

### (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:

- Buildings – over 20 years
- Plant and equipment – between 5 to 10 years
- Other non-plant equipment – 5 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 profit or loss in the year the asset is derecognised.

**(l) Plantation development costs**

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

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

**(m) 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 profit or loss 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 profit or loss 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.

**(n) 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.

**(o) 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.

**(p) 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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (q) 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.

### (r) 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.

### (s) 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 period. 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 periods 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 utilized. 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 utilize 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 realized 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 income statement, 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.

**(t) 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 balance sheet.

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.

**(u) Research and development costs**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period 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.

**(v) 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.

**(w) Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

**(x) 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).

At each subsequent reporting date until vesting, the cumulative charge to the income statement 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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (x) Share-based payments (Cont'd)

The charge to the income statement 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 17).

### (y) Earnings per share

#### *Basic earnings per share*

Basic earnings per share is determined by dividing the profit 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 adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

### (z) 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.

## 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 trade payables, 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 that arise from the Group's financial instruments are interest rate risks, foreign currency risk, liquidity risk and credit risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

### Risk exposures and responses

#### (a) Interest rate risk

The Group does not have significant exposure to interest rate risk, hence a sensitivity analysis has not been prepared.

Interest rate risk on cash and short term deposits is not considered to be a material risk due to the short term nature of these financial instruments.

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

	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
Cash	4,193	524	4,168	4,794
Short term deposits	1,165	12,804	-	6,967
<i>Net exposure</i>	5,358	13,328	4,168	11,761

**(b) Foreign exchange risk**

The Group has significant operations in Malaysia. The functional currency of the Malaysian subsidiaries and the Group 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.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	<b>30 June 2008 \$'000</b>	<b>30 June 2007 \$'000</b>
<i>Consolidated</i>		
<i>Functional currency: RM</i>		
<i>Financial assets</i>		
Cash and cash equivalents	4,168	11,761
Other current assets	6	-
	4,174	11,761
<i>Financial liabilities</i>		
Trade and other payables	41	281
<i>Net exposure</i>	4,133	11,480
<i>Company</i>		
<i>Functional currency: A\$</i>		
<i>Financial assets</i>		
Cash and cash equivalents	-	-
Other current assets	4,433	6,977
	4,433	6,977
<i>Financial liabilities</i>		
Trade and other payables	-	-
Interest bearing loans and borrowings	-	-
Other payables	647	636
	647	636
<i>Net exposure</i>	3,786	6,341

The following sensitivity is based on the foreign currency risk exposure existing at the balance sheet date.

At 30 June 2008, had the Australian Dollar moved as illustrated in the table below, with all other variables held constant, the Group and the Company post-tax loss and equity would have been effected as follows:

*Judgements of reasonably possible movements:*

	<b>Post-tax loss higher/(lower)</b>		<b>Equity higher/(lower)</b>	
	<b>30 June 2008 \$'000</b>	<b>30 June 2007 \$'000</b>	<b>30 June 2008 \$'000</b>	<b>30 June 2007 \$'000</b>
<i>Consolidated</i>				
AUD/RM + 10%	-	-	413	1,148
AUD/RM - 10%	-	-	(413)	(1,148)
<i>Company</i>				
AUD/RM + 10%	(379)	(634)	-	-
AUD/RM - 10%	379	634	-	-

The Group's executive directors monitor the Group's and the Company's risks on an ongoing basis and report to the Board who review and approve risk management policy. Neither the Group or the Company use derivative financial instruments as part of their risk management process.

## Notes to the Financial Statements (Cont'd)

**3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)****(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 balance sheet. 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.

A wholly-owned Malaysian subsidiary of the Group accepted an offer of a trade facility of RM25 million (\$7,953,172) from a Malaysian financial institution. As at 30 June 2008, the facility remains unutilised.

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.

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

	≤ 6 months \$'000	6-12 months \$'000	1-5 years \$'000	> 5 years \$'000	Total \$'000
<i>Consolidated</i>					
<b>Year ended 30 June 2008</b>					
<b>Financial assets</b>					
Cash	5,358	-	-	-	5,358
Other current assets	255	15	-	-	270
<b>Financial liabilities</b>					
Trade and other payables	1,325	-	-	-	1,325
Interest bearing loans and borrowings	10	9	56	-	75
<b>Year ended 30 June 2007</b>					
<b>Financial assets</b>					
Cash	13,328	-	-	-	13,328
Other current assets	177	-	-	-	177
<b>Financial liabilities</b>					
Trade and other payables	2,365	-	806	-	3,171
Interest bearing loans and borrowings	10	10	80	-	100
<i>Company</i>					
<b>Year ended 30 June 2008</b>					
<b>Financial assets</b>					
Cash	4,168	-	-	-	4,168
Other current assets	11	-	-	-	11
Other receivables	-	-	-	4,433	4,433
<b>Financial liabilities</b>					
Trade and other payables	41	-	647	-	688
<b>Year ended 30 June 2007</b>					
<b>Financial assets</b>					
Cash	11,761	-	-	-	11,761
Other receivables	-	-	-	6,977	6,977
<b>Financial liabilities</b>					
Trade and other payables	281	-	636	-	917

**(e) Fair values**

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

**4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements 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 judgements, 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.

*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.

During the year, an impairment loss of \$7,900,000 was recognised against the carrying amount of the Group's biodiesel plant. In determining the recoverable amount of the plant by reference to its fair value less costs to sell, a number of factors were considered including: uncertainty over when the Group can commence biodiesel production; the recent sustained peak in feedstock prices; market conditions prevailing in the biodiesel market; and recent transactions for similar assets.

*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 20. 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. The Group measures the cost of cash-settled share-based payments at fair value at the grant date taking into account the terms and conditions upon which the instruments were granted. See note 20.

## Notes to the Financial Statements (Cont'd)



## 5. SEGMENT INFORMATION

### Geographical Segments

The Group's operations are based in Malaysia.

### Industry Segments

The Group is involved in the business of manufacturing biodiesel and the development of an oil palm plantation.

The following table presents revenue and loss information and certain asset and liability information regarding business segments for the year ended 30 June 2008. During the period ended 30 June 2007 the only business segment was biodiesel production, hence a table has not been prepared for comparative information.

	Biodiesel production \$'000	Palm oil plantation \$'000	Unallocated \$'000	Total \$'000
<b>Revenue</b>				
Sales to external customers	734	-	-	734
Finance income - interest	54	-	348	402
Total consolidated revenue	788	-	348	1,136
<b>Result</b>				
Segment result	(11,358)	(1,209)	-	(12,567)
Unallocated expenses	-	-	119	119
Loss before tax	(11,358)	(1,209)	119	(12,448)
Tax	(1)	-	-	(1)
Loss after tax	(11,359)	(1,209)	119	(12,449)
<b>Assets and liabilities</b>				
Segment assets	9,433	1,141	-	10,574
Unallocated assets	-	-	4,187	4,187
Total assets	9,433	1,141	4,187	14,761
Segment liabilities	1,331	28	-	1,359
Unallocated liabilities	-	-	41	41
Total liabilities	1,331	28	41	1,400
<b>Other segment information</b>				
Capital expenditure	(2,095)	(1,052)	-	(3,147)
Depreciation and amortisation	(1,266)	(672)	-	(1,938)
Impairment loss	(7,900)	-	-	(7,900)
Share-based payment write-back	-	-	527	527
<b>Cash flow information</b>				
Net cash flow from operating activities	(2,654)	(1,236)	(658)	(4,548)
Net cash flow from investing activities	(2,095)	(1,076)	1	(3,170)
Net cash flow from financing activities	-	-	-	-



	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	25 May 2006 to 30 June 2007 \$'000
<b>6. REVENUES AND EXPENSES</b>				
<b>(a) Revenue</b>				
Sales	734	-	-	-
Finance income - interest	402	1,051	348	1,047
	1,136	1,051	348	1,047
<b>(b) Raw materials and consumables used</b>				
Wash-out on feedstock contract	228	-	-	-
Consumables	668	306	-	-
	896	306	-	-
<b>(c) Employee benefits</b>				
Wages and salaries	1,507	1,748	428	685
Superannuation	80	39	20	39
Share-based payment (write-back)/expense	(527)	446	(527)	446
	1,060	2,233	(79)	1,170
<b>(d) Depreciation and amortisation</b>				
Property, plant and equipment	1,247	20	1	1
Amortisation of initial lease payment (note 6(f))	691	19	-	-
	1,938	39	1	1
<b>(e) Distribution</b>				
Share-based payment expense to offtaker	-	305	-	305
<b>(f) Lease payments included in income statement</b>				
Minimum lease payments - operating lease	75	33	42	21
Amortisation of initial lease payment (note 6(d))	691	19	-	-
	766	52	42	21

## Notes to the Financial Statements (Cont'd)



	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	25 May 2006 to 30 June 2007 \$'000
<b>7. INCOME TAX</b>				
The major components of income tax are:				
<b>Income Statement</b>				
<i>Current income tax</i>				
<i>Current year</i>	1	-	-	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	-	-	-	-
Income tax reported in the income statement	1	-	-	-
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	(12,448)	(2,968)	(13,771)	(5,235)
At the Group's statutory income tax rate of 30% (2007: 30%)	(3,734)	(890)	(4,131)	(1,571)
Impairment loss on investment in controlled entity	-	-	4,129	1,120
Share issue expenses	(200)	(200)	(200)	(200)
Share-based payments	(158)	225	(158)	225
Losses in foreign operations	3,771	565	-	-
Deferred tax assets on temporary differences and tax losses not brought to account as realisation is not regarded as probable	322	300	360	426
Income tax reported in the income statement	1	-	-	-
<b>BALANCE SHEET</b>				
<b>INCOME STATEMENT</b>				
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Deferred income tax</b>				
Deferred income tax at 30 June relates to the following:				
Consolidated				
<i>Deferred tax assets</i>				
Losses available for offset against future taxable income	322	300	22	300
Deferred tax assets on temporary differences not brought to account as realisation is not regarded as probable	(322)	(300)	(22)	(300)
Deferred tax income/(expense)	-	-	-	-



	BALANCE SHEET		INCOME STATEMENT	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	25 May 2006 to 30 June 2007 \$'000
Company				
<i>Deferred tax assets</i>				
Unrealised foreign exchange loss on loan to controlled entity	38	126	(88)	126
Losses available for offset against future taxable income	322	300	22	300
Deferred tax assets on temporary differences not brought to account as realisation is not regarded as probable	(360)	(426)	66	(426)
	-	-	-	-
Deferred tax income/(expense)				

Sterling Biofuels International Limited has not formed a tax consolidated group.

Estimated unrecouped income tax losses of \$322,000 (2007 : \$300,000) 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.

	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>8. OTHER CURRENT ASSETS</b>				
Trade receivables	3	-	-	-
Prepayments and deposits	221	177	5	-
Tax recoverable	15	-	-	-
Other receivables	31	-	6	-
	270	177	11	-

## 9. OTHER RECEIVABLES (NON-CURRENT)

### Related party receivables

Wholly-owned group				
- loan to controlled entity	-	-	4,433	6,977

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.

## Notes to the Financial Statements (Cont'd)



	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>				
<i>Biodiesel plant and equipment</i>				
At cost	14,061	14,677	-	-
Less accumulated depreciation	(1,111)	-	-	-
Less impairment*	(7,470)	-	-	-
	5,480	14,677	-	-
<i>Buildings</i>				
At cost	870	810	-	-
Less accumulated depreciation	(44)	-	-	-
Less impairment*	(430)	-	-	-
	396	810	-	-
<i>Motor vehicles</i>				
At cost	343	222	-	-
Less accumulated depreciation	(79)	(15)	-	-
	264	207	-	-
<i>Motor vehicles – under finance lease</i>				
At cost	96	102	-	-
Less accumulated depreciation	(23)	(3)	-	-
	73	99	-	-
<i>Office equipment</i>				
At cost	116	50	-	8
Less accumulated depreciation	(25)	(7)	-	(1)
	91	43	-	7
<i>Plantation equipment and machinery</i>				
At cost	417	-	-	-
Less accumulated depreciation	(10)	-	-	-
	407	-	-	-
<i>Plantation development costs</i>				
At cost	349	-	-	-
Less accumulated amortisation	-	-	-	-
	349	-	-	-
Total property, plant and equipment	7,060	15,836	-	7



	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)</b>				
<i>Biodiesel plant and equipment</i>				
Carrying amount at beginning	14,677	218	-	-
Additions	341	14,459	-	-
Depreciation expense	(1,111)	-	-	-
Impairment charge*	(7,470)	-	-	-
Effect of foreign exchange	(957)	-	-	-
Carrying amount at end	5,480	14,677	-	-
<i>Buildings</i>				
Carrying amount at beginning	810	-	-	-
Additions	116	810	-	-
Depreciation expense	(43)	-	-	-
Depreciation capitalised	(1)	-	-	-
Impairment charge*	(430)	-	-	-
Effect of foreign exchange	(56)	-	-	-
Carrying amount at end	396	810	-	-
<i>Motor vehicles</i>				
Carrying amount at beginning	207	-	-	-
Additions	139	222	-	-
Depreciation expense	(56)	(15)	-	-
Depreciation capitalised	(8)	-	-	-
Effect of foreign exchange	(18)	-	-	-
Carrying amount at end	264	207	-	-
<i>Motor vehicles – under finance lease</i>				
Carrying amount at beginning	99	-	-	-
Additions	-	102	-	-
Depreciation expense	(20)	(3)	-	-
Effect of foreign exchange	(6)	-	-	-
Carrying amount at end	73	99	-	-
<i>Office equipment</i>				
Carrying amount at beginning	43	7	7	-
Additions	79	38	-	8
Disposal	(6)	-	(6)	-
Depreciation expense	(17)	(2)	(1)	(1)
Depreciation capitalised	(1)	-	-	-
Effect of foreign exchange	(7)	-	-	-
Carrying amount at end	91	43	-	7
<i>Plantation equipment and machinery</i>				
Carrying amount at beginning	-	-	-	-
Additions	441	-	-	-
Depreciation capitalised	(10)	-	-	-
Effect of foreign exchange	(24)	-	-	-
Carrying amount at end	407	-	-	-
<i>Plantation development costs</i>				
Carrying amount at beginning	-	-	-	-
Additions	370	-	-	-
Effect of foreign exchange	(21)	-	-	-
Carrying amount at end	349	-	-	-

\* During the year, an impairment loss of \$7,900,000 was recognised against the carrying amount of the Group's biodiesel plant. In determining the recoverable amount of the plant by reference to its fair value less costs to sell, a number of factors were considered including: uncertainty over when the Group can commence biodiesel production; the recent sustained peak in feedstock prices; market conditions prevailing in the biodiesel market; and recent transactions for similar assets.

## Notes to the Financial Statements (Cont'd)



	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000

**11. PREPAID LAND LEASE PAYMENTS**

Payment for lease of land	1,663	1,608	-	-
Less: accumulated amortisation of operating lease payments	(48)	(19)	-	-
	1,615	1,589	-	-

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

**12. OTHER FINANCIAL ASSETS**

a) Investments in controlled entity – at cost	-	-	22,935	13,566
Less impairment	-	-	(17,498)	(3,735)
	-	-	5,437	9,831

The amount of the impairment has been measured as the difference between the net assets of the controlled entity and the investment in the controlled entity.

- b) Controlled entity  
The consolidated financial statements include the financial statements of Sterling Biofuels International Limited and the controlled entity listed in the following table:

CONTROLLED ENTITY	PRINCIPAL ACTIVITY	BENEFICIAL % HELD BY THE CONSOLIDATED ENTITY		BOOK VALUE OF INVESTMENT	
		2008 %	2007 %	2008 \$'000	2007 \$'000
<i>Incorporated in Malaysia:</i>					
SPC Biodiesel Sdn Bhd	Manufacture and export of biodiesel	100	100	5,437	9,831
Sterling Plantations Sdn Bhd	Investment holding	100	-	1	-
SPC Sawit Sdn Bhd	Plantation development and cultivation of palm products	70 *	-	23	-
SPC Palm Mills Sdn Bhd	Milling of palm products	60 *	-	1	-

\* Minority interest is immaterial and therefore has not been separately disclosed.

Investment in the controlled entity is in ordinary shares.

	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000

**13. TRADE AND OTHER PAYABLES**

<i>Current</i>				
Trade payables	8	70	-	-
Other payables	1,317	2,295	41	281
	1,325	2,365	41	281

<i>Non-current</i>				
Other payables	-	806	647	636

Current trade and other payables are non-interest bearing and are normally settled on 30 day terms. Non-current payables are unsecured and have no fixed terms of repayment.



	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000

#### 14. INTEREST BEARING LOANS AND BORROWINGS

##### *Current*

Obligations under hire purchase contracts	19	20	-	-
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##### *Non-current*

Obligations under hire purchase contracts	56	80	-	-
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#### 15. ISSUED CAPITAL

##### a) Issued and paid up capital

Ordinary shares fully paid	32,143	32,143	32,143	32,143
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	2008		2007	
	NUMBER OF SHARES	\$'000	NUMBER OF SHARES	\$'000
<b>b) Movements in shares on issue</b>				
Beginning of the financial year/period	65,000,000	32,143	4	473
Issued for the reverse acquisition of SBIL	-	-	29,999,996	-
Shares issued during the year/period	-	-	35,000,000	35,000
Less share issue costs	-	-	-	(3,330)
End of the financial year/period	65,000,000	32,143	65,000,000	32,143

##### c) Share options and performance rights

The Company has a share-based payment scheme under which performance rights and options to subscribe for the Company's shares have been granted to certain executives and other employees (refer note 20).

##### 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.

###### *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, 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. Management has no current plans to issue more shares or to pay dividends. The Group's capital structure is monitored on an ongoing basis by the executive directors and is periodically reviewed by the Board.

	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000

**16. RESERVES**

Equity benefits reserve	224	751	224	751
Foreign currency translation reserve	(2,153)	(831)	-	-
	(1,929)	(80)	224	751

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

	CONSOLIDATED	
	30 June 2008 \$'000	30 June 2007 \$'000

**17. LOSS PER SHARE**

Loss used in calculating basic loss per share	(12,449)	(2,968)
	<b>Number</b>	<b>Number</b>
<i>Weighted average number of ordinary shares on issue used in the calculation of basic loss per share</i>	65,000,000	57,636,612
Effect of dilution:		
Performance rights	-	8,962,500
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	66,599,112

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.

	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	25 May 2006 to 30 June 2007 \$'000

**18. CASH FLOW STATEMENT****a) Reconciliation of cash and cash equivalents**

Cash balances comprise:

Cash at bank	4,193	524	4,168	4,794
Deposits with licensed banks	1,165	12,804	-	6,967
	5,358	13,328	4,168	11,761

Deposits with licensed banks of \$40,825 are restricted deposits pledged as security for banking facilities.



	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	25 May 2006 to 30 June 2007 \$'000
<b>b) Reconciliation of loss after income tax to the net cash used in operating activities</b>				
Loss from ordinary activities after tax	(12,449)	(2,968)	(13,771)	(5,235)
<b>Non-cash items:</b>				
Depreciation and amortisation	1,938	39	1	1
Share-based payments (write-back)/expense	(527)	751	(527)	751
Impairment of investment in controlled entity	-	-	13,763	3,735
Impairment charge on property, plant and equipment	7,900	-	-	-
Unrealised foreign currency loss	-	-	124	416
<b>Changes in assets and liabilities:</b>				
Other current assets	(93)	(185)	(11)	-
Inventory	(457)	-	-	-
Trade and other payables	(860)	342	(229)	282
Net cash used in operating activities	(4,548)	(2,021)	(650)	(50)

A wholly-owned Malaysian subsidiary of the Group accepted an offer of a trade facility of RM25 million (\$7,953,172) from a Malaysian financial institution. As at 30 June 2008, the facility remains unutilised.

	CONSOLIDATED		COMPANY	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000

## 19. EXPENDITURE COMMITMENTS

### (a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, but not provided for or payable

not later than one year:

- Initial payment for leasehold land
- Property, plant and equipment

- Initial payment for leasehold land	-	178	-	-
- Property, plant and equipment	257	13	-	-
	257	191	-	-

### (b) Operating leases (non-cancellable)

Minimum lease payments

- not later than one year
- later than one year but not later than five years
- later than five years

- not later than one year	317	71	-	-
- later than one year but not later than five years	35	66	-	-
- later than five years	-	-	-	-
	352	137	-	-

The leases are for premises from which the Group operates.

## Notes to the Financial Statements (Cont'd)

**19. EXPENDITURE COMMITMENTS (CONT'D)****(c) Finance leases**

The Group has finance lease contracts for motor vehicles at 30 June 2008. These contracts have monthly repayment with no escalation clauses.

Future minimum lease payments under finance lease contracts together with the present value of the net minimum lease payments are as follows:

	MINIMUM LEASE PAYMENTS		PRESENT VALUE OF LEASE PAYMENTS	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<i>Consolidated</i>				
Within one year	21	22	19	20
After one year but not more than five years	62	90	56	80
Total minimum lease payments	83	112	75	100
Less amounts representing future finance charges	(8)	(12)	-	-
Present value of minimum lease payments	75	100	75	100

**20. SHARE-BASED PAYMENTS****(a) Directors'/employees' share options**

The unlisted options detailed below have been granted to various directors and executives 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 exercise 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:

	2008		2007	
	No	WAEP \$	No	WAEP \$
Outstanding at the beginning of the year/period	1,550,000	1.20	-	-
Granted during the year/period	-	-	1,550,000	1.20
Lapsed during the year/period	(455,000)	1.20	-	-
Exercised during the year/period	-	-	-	-
Expired during the year/period	-	-	-	-
Outstanding at the end of the year/period	1,095,000	1.20	1,550,000	1.20
Exercisable at the end of the year/period	465,000	-	-	-

	2008 No	2007 No
The outstanding balance at balance sheet date is represented by:		
Options over ordinary shares with an exercise price of \$1.00 each, exercisable from 25/9/07 to 25/9/09	465,000	465,000
Options over ordinary shares with an exercise price of \$1.20 each, exercisable from 25/9/08 to 25/9/10	360,000	620,000
Options over ordinary shares with an exercise price of \$1.40 each, exercisable from 25/9/09 to 25/9/11	270,000	465,000

The weighted average share price during the year was \$0.15 (2007 : \$0.56)

The weighted average remaining contractual life for the share options outstanding at 30 June 2008 is between 1 and 3 years.

The range of exercise prices for options outstanding at the end of the year was \$1.00 to \$1.40.

#### (b) Directors'/employee's performance rights

The performance rights detailed below have been issued to a director of the Company and key employees under the performance rights plan:

	2008 Number	2007 Number
Outstanding at the beginning of the year/period	5,450,000	-
Granted during the year/period	-	5,450,000
Forfeited during the year/period	-	-
Converted to shares on achievement of performance hurdles	-	-
Lapsed during the year/period	(2,725,000)	-
Outstanding at the end of the year/period	2,725,000	5,450,000

Each performance right gives the holder the right to one share on achievement of the performance hurdles noted below.

The outstanding balance at balance sheet date is represented by:

#### 2008

- 2,725,000 rights for shares to be issued if the Group achieves a net profit after tax ("NPAT") of not less than \$24.621 million for the year ending 30 June 2009.

#### 2007

- 2,725,000 rights for shares to be issued if the Group achieves forecast net profit after tax ("NPAT") for the year ending 30 June 2008
- 2,725,000 rights for shares to be issued if the Group achieves forecast NPAT for the year ending 30 June 2009. Forecast NPAT for this period will be determined by the Board by 30 June 2008, though cannot be less than the forecast NPAT for the year ending 30 June 2008.

The fair value of the equity-settled share options and performance rights granted is estimated at the date of grant using a binomial model taking into account the terms and conditions upon which the options and performance rights were granted.

No share-based payments were made in the current financial year. The following table lists the weighted average inputs to the model used in the year ended 30 June 2007:

	Options	Performance Rights
Dividend yield (%)	16%	14%
Expected volatility (%)	60%	60%
Risk-free interest rate (%)	5.69%	5.69%
Expected life of options/rights (years)	3.5	2.6
Option exercise price (\$)	\$1.20	n/a
Weighted average share price at grant date (\$)	\$1.00	\$1.00

The expected life of the options/rights 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.

## Notes to the Financial Statements (Cont'd)



	CONSOLIDATED		COMPANY	
	30 June 2008 \$	30 June 2007 \$	30 June 2008 \$	30 June 2007 \$
<b>21. AUDITORS' REMUNERATION</b>				
The auditor of Sterling Biofuels International Limited is Ernst & Young.				
a) <i>Amounts received or due and receivable by Ernst &amp; Young (Australia) for:</i>				
- an audit or review of the financial report of the entity	49,000	42,360	49,000	42,360
- independent accountant's report in relation to a capital raising	-	85,397	-	85,397
- tax compliance	-	11,506	-	11,506
b) <i>Amounts received or due and receivable by internationally affiliated practices of Ernst &amp; Young (Australia) for:</i>				
- an audit or review of the financial report of the entity	11,445	6,446	-	-
- tax compliance	-	-	-	-
c) <i>Amounts received or due and receivable by non-Ernst &amp; Young audit firms for:</i>				
- an audit or review of the financial report of the entity	-	7,520	-	-
- tax compliance	6,700	3,939	-	-
	67,145	157,168	49,000	139,263

The auditors received no other benefits.

**22. DIRECTOR AND EXECUTIVE DISCLOSURES****(a) Details of Key Management Personnel****Directors**

A T Maitland	Chairman
Dato' CRS Paragash	Group Managing Director
A Phang	Group Executive Director
A Sierakowski	Director
S Khalid	Director (resigned on 31 March 2008)

**Executives**

M K Thorley	Chief Operating Officer – Biodiesel
C C Lim	Chief Executive – Plantations
J Kumar	Head, Production
J Leong	Head, Corporate Finance
I A Hamid	Head, Feedstock and Logistics (resigned on 30 June 2008)
T Walsh	Company Secretary and Chief Financial Officer (resigned on 5 March 2008)

Other than those as disclosed above, there were no changes to key management personnel between the reporting date and the date the financial report was authorised for issue.

**(b) Compensation of Key Management Personnel****Remuneration by category**

	CONSOLIDATED		COMPANY	
	30 June 2008 \$	30 June 2007 \$	30 June 2008 \$	25 May 2006 to 30 June 2007 \$
<i>Key Management Personnel</i>				
Short-term benefits	1,089,241	1,335,902	386,514	626,092
Post-employment benefits	70,527	81,804	25,606	45,548
Share-based payments	59,922	445,847	59,922	445,847
	1,219,690	1,863,553	472,042	1,117,487

**(c) Option holdings of Key Management Personnel**

Key Management Personnel	Held at 1 July 2007	Granted as remuneration	Exercised	Lapsed*	Held at 30 June 2008	Vested at 30 June 2008		
						Total	Exercised	Not exercised
<b>Directors</b>								
A T Maitland	500,000	-	-	-	500,000	150,000	-	150,000
A Sierakowski	400,000	-	-	-	400,000	120,000	-	120,000
S Khalid (resigned on 31 March 2008)	400,000	-	-	(280,000)	120,000	120,000	-	120,000
<b>Executives</b>								
T Walsh (resigned on 5 March 2008)	250,000	-	-	(175,000)	75,000	75,000	-	75,000
<b>Total</b>	1,550,000	-	-	(455,000)	1,095,000	465,000	-	465,000

\* due to resignation during the year

No options were issued during the year from 1 July 2007 to 30 June 2008.

**(d) Performance rights holdings of Key Management Personnel**

Key Management Personnel	Held at 1 July 2007	Granted as remuneration	Performance hurdles achieved and shares issued	Lapsed	Held at 30 June 2008
<b>Directors</b>					
S Khalid (resigned on 31 March 2008)	550,000	-	-	(275,000)	275,000
<b>Executives</b>					
M K Thorley	1,000,000	-	-	(500,000)	500,000
J Leong	550,000	-	-	(275,000)	275,000
I A Hamid (resigned on 30 June 2008)	1,000,000	-	-	(500,000)	500,000
<b>Total</b>	3,100,000	-	-	(1,550,000)	1,550,000

## Notes to the Financial Statements (Cont'd)

**22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONT'D)****(e) Share holdings of key management personnel****30 June 2008****Fully Paid Ordinary Shares**

	<b>Held at 1 July 2007</b>	<b>Granted as remuneration</b>	<b>On exercise of options</b>	<b>Net change other</b>	<b>Held at 30 June 2008</b>
<b>Directors</b>					
A T Maitland	50,000	-	-	-	50,000
CRS Paragash	*30,000,000	-	-	-	*30,000,000
A Phang	*30,000,000	-	-	-	*30,000,000
A Sierakowski	-	-	-	98,000	98,000

\* held indirectly via Duplex Fame Sdn Bhd.

**30 June 2007****Fully Paid Ordinary Shares**

	<b>Held at 1 July 2006</b>	<b>Granted as remuneration</b>	<b>On exercise of options</b>	<b>Net change other</b>	<b>Held at 30 June 2007</b>
<b>Directors</b>					
A T Maitland	-	-	-	50,000	50,000
CRS Paragash	1	-	-	29,999,999	*30,000,000
A Phang	1	-	-	29,999,999	*30,000,000
A Sierakowski	-	-	-	-	-

**Executives**

T Walsh (resigned on 5 March 2008)	1	-	-	(1)	-
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\* held indirectly via Duplex Fame Sdn Bhd.

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.

**(e) Loans to key management personnel**

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

**(f) 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.

**23. RELATED PARTY DISCLOSURES**

Transactions with wholly-controlled entities:

- Loans to wholly-controlled entities are interest free and unsecured and have no fixed repayment terms.
- Interests in wholly-controlled entities are disclosed in note 12.

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

	<b>\$</b>
Rental paid to a director of a controlled entity	6,059

Details relating to key management personnel are disclosed in note 22.

## 24. COMMITMENTS AND CONTINGENCIES

### Offtake agreement

The offtaker, Masfield AG, has agreed to purchase 100,000 tonnes of biodiesel per annum 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.

### Performance rights granted to offtaker

Each performance right gives the holder the right to one share on achievement of the performance hurdles noted below:

#### Performance condition

#### Number of performance rights

The Group achieves forecast NPAT for the year ending 30 June 2009. Forecast NPAT for this period will be determined by the Board by 30 June 2008, though cannot be less than the forecast NPAT for the year ending 30 June 2008.

1,000,000

The Group achieves 120% of forecast revenue for the year ending 30 June 2009. Forecast revenue for this period will be determined by the Board by 30 June 2008, though cannot be less than the forecast revenue for the year ending 30 June 2008.

1,000,000

The Group achieves forecast NPAT for the year ending 30 June 2010. Forecast NPAT for this period will be determined by the Board by 30 June 2009, though cannot be less than the forecast NPAT for the year ending 30 June 2008.

1,000,000

The Group achieves 120% of forecast revenue for the year ending 30 June 2010. Forecast revenue for this period will be determined by the Board by 30 June 2009, though cannot be less than the forecast revenue for the year ending 30 June 2008.

1,000,000

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4,000,000

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Refer to note 20 for details of the fair value of performance rights for the year ended 30 June 2008. The fair value of performance rights referred to above were calculated on the same basis as performance rights granted to directors and employees.

## 25. EVENTS AFTER THE BALANCE SHEET DATE

As at the date of the report, no other matter or circumstance has arisen that has significantly affected, or may significantly affect, the operations of Sterling Biofuels International Limited and its controlled entity, the results of those operations or the state of affairs of Sterling Biofuels International Limited and its controlled entity in subsequent years that is not otherwise disclosed in this report or the consolidated financial statements.

## Directors' Declaration



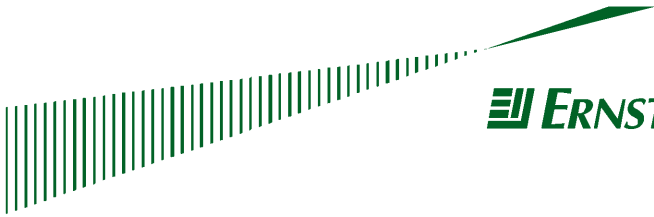
In accordance with a resolution of the directors of Sterling Biofuels International Limited, I state that:

- 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 Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
    - ii) complying with Accounting Standards and the Corporations Regulations 2001; and
  - b) 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 2008.

On behalf of the Board:

**Dato' CRS Paragash**  
**Group Managing Director**

Perth  
Date: 26 August 2008

**ERNST & YOUNG**

Ernst & Young Building  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

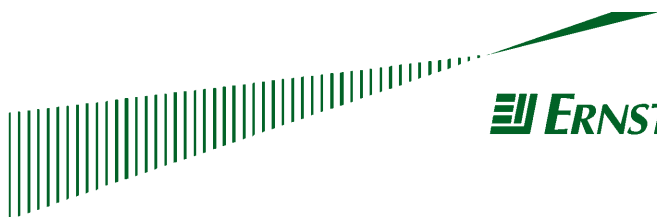
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Fax: +61 8 9429 2436  
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### Auditor's Independence Declaration to the Directors of Sterling Biofuels International Limited

In relation to our audit of the financial report of Sterling Biofuels International Limited for the financial year ended 30 June 2008, 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

P McIver  
Partner  
26 August 2008



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

### Scope

We have audited the accompanying financial report of Sterling Biofuels International Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Auditor's responsibility

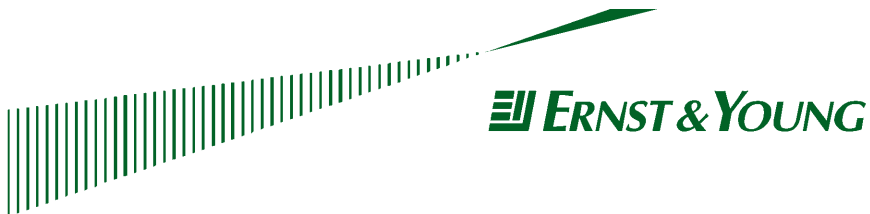
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider 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 met 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.



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### Auditor's opinion

In our opinion:

1. 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 financial position of Sterling Biofuels International Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Report on the remuneration report

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 30 June 2008. 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.

### Auditor's opinion

In our opinion the Remuneration Report of Sterling Biofuels International Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*

Ernst & Young

P McIver  
 Partner  
 Perth  
 26 August 2008



## SUMMARY OF CORPORATE GOVERNANCE POLICIES

The Board of Directors of the Company is responsible for its corporate governance, that is, the system by which the Company and its subsidiaries are managed.

### 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 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 reviewed and improved as required.

#### *Composition of the Board*

The current board comprises of two independent non-executive directors and two executive directors. Details of the composition of the board are disclosed in the Directors' Report. 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.

#### *Audit and Risk Committee*

The primary role of the 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 the performance and nomination of the external auditors.

The committee is comprised of A Sierakowski (Chairman) and A T Maitland both of whom are considered independent. The two members of the committee are non-executive directors.

#### *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 and Group Executive Director having ultimate responsibility to the board for the risk management and control framework.

#### *Integrity of Financial Reporting*

The Group Managing Director and Group Executive Director report in writing to the board that:

- the consolidated financial statements of the Company and its controlled entities for each half and full year 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 statement is 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.

## Dealings in Shares by the Board and Senior Management

Policies of the Company adopted by the board require that:

- Trading in shares by employees is limited to specific periods, following the release of an annual report, half year results or the holding of the annual general meeting. Outside of these “window” periods, all employees, must receive clearance for any proposed dealing in the Company’s shares on the ASX by informing and receiving approval from the Company secretary prior to undertaking a transaction.
- A director or senior manager 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 board or the next most senior director.
- Employees may not trade in shares for short term gains.
- Employees must be aware of and 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.

## 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.

## 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 the Company’s securities and to correct any material mistake or misinformation in the market. The Company discharges these obligations by releasing information to the ASX in the form of an ASX release or disclosure in other relevant documents (eg 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).

## Communication to Shareholders

The board aims to ensure that shareholders are informed of all major developments affecting the Company’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 Company’s website.

## 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.

## 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.

## Corporate Governance (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 followed the best practice recommendations set by the ASX Corporate Governance Council.

Principle No	Best Practice Recommendation	Compliance	Reasons for Non-compliance
2.1	A majority of the board should be independent directors.	Currently, the Company has two independent directors and two non-independent directors.	Given the Company's present size and scope, it is currently not company policy to have a majority of independent directors. Persons have been selected as directors to bring specific skills and industry experience relevant to the Company.
2.4	The board should establish a nomination committee.	The board has not established a nomination committee.	Given the present size of the Company, the whole board acts as a nomination committee if required.
2.5	Provide the information indicated in Guide to reporting on Principle 2.	The information has been disclosed in the Annual Report with the exception that there is no commentary on why the board has chosen not to have a nomination committee. A non-executive director is considered as independent when he substantially satisfies the test for independence as set out in the ASX Best Practice Recommendations. Mr A T Maitland and Mr A Sierakowski are both considered to be independent directors.	Given the present size of the Company, the whole board acts as a nomination committee if required.
8.1	Disclose the process for performance evaluation of the board and individual directors.	The Company has in place informal procedures for evaluating the performance of the board, its committees, individual directors and key executives.	At this stage of the development of the Company, it has only informal procedures in place for performance evaluation of the board, its committees and key executives against qualitative indicators.
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand the costs and benefits of those policies and the link between remuneration paid to directors and key executives and corporate performance.	The Company has established a Performance Rights Plan for certain senior employees, the terms and conditions of which are summarised in the Prospectus. A condition of the issue of shares under the Performance Right Plan is whether the company meets forecast NPAT.	The board has established a Performance Rights Plan and issued directors/employees share options and has informal policies in place to appropriately reward its employees.
9.2	The board should establish a remuneration committee	The board has not established a remuneration committee.	Given the present size of the Company, the whole board acts as a remuneration committee if required.

## Additional Stock Exchange Information

This information is current as at 20 August 2008

### Ordinary share capital

The issued capital of the Company as at 30 June 2008 is 65,000,000 ordinary shares fully paid. There was no change in the issued capital of the Company as at 20 August 2008.

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

### Unquoted Options and Performance Rights

The number of Unquoted Options on issue as at 30 June 2008 is 1,095,000 Options. There was no change in the number of Unquoted Options on issue as at 20 August 2008.

The number of Unquoted Performance Rights on issue as at 30 June 2008 is 6,725,000 Performance Rights. There was no change in the number of Unquoted Performance Rights on issue as at 20 August 2008.

### Top 20 holders of fully paid ordinary shares (grouped by like holders) as at 20 August 2008

Rank	Holder	Number of Ordinary Shares	% of Issued Capital
1	DUPLEX FAME SDN BHD	30,000,000	46.15
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,700,535	13.39
3	TRANSOCEAN SECURITIES PTY LTD	1,283,443	1.97
4	DARTALE PTY LTD <BERESFORD SUPER FUND A/C>	1,250,000	1.92
5	ANZ NOMINEES LIMITED <CASH INCOME A/C>	1,039,808	1.60
6	EQUITAS NOMINEES PTY LIMITED <821471 A/C>	814,000	1.25
7	MADAM LIM GEK KUAN	620,798	0.96
8	CELAR PTY LTD	604,200	0.93
9	COLONIAL STATE PROPERTIES PTY LIMITED <THE T J SMITH A/C>	500,000	0.77
10	MR KENNETH HALL + MRS MARY HALL <SUPER FUND A/C>	500,000	0.77
11	CIMB-GK SECURITIES PTE LTD <CLIENT A/C>	499,945	0.77
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECSA	429,133	0.66
13	BOND STREET CUSTODIANS LIMITED <LMR - V21878 A/C>	400,000	0.62
14	SEPT PTY LTD	395,000	0.61
15	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	393,880	0.61
16	MS CONNIE LO LIN SYE	391,293	0.60
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	CHARTER PACIFIC CORPORATION LTD	250,000	0.38
20	MR PUAY JEN KHOO	250,000	0.38
<b>Top 20 holders of FULLY PAID SHARES (GROUPED) as at 20 Aug 2008</b>		<b>48,832,655</b>	<b>75.13</b>

## Additional Stock Exchange Information (Cont'd)

This information is current as at 20 August 2008

## Distribution of holders of equity securities as at 20 August 2008

Range	Number of Holders	Number of Ordinary Shares	% of Issued Capital
1-1,000	21	13,980	0.02
1,001 – 5,000	183	644,916	0.99
5,001 – 10,000	151	1,339,286	2.06
10,001 – 100,000	279	9,554,675	14.7
More than 100,001	48	53,447,143	82.23
Total	682	65,000,000	100

The number of holders holding less than a marketable parcel : 206

## Substantial shareholders

Holder	Number of Ordinary Shares	% of Issued Capital
Duplex Fame Sdn Bhd	30,000,000	46.15
Devonshire Funds Limited*	8,605,535	13.24

\* Registered holder: HSBC Custody Nominees (Australia) Limited

## Application of funds

During the financial year, the Company has used its cash and assets (in a form readily convertible to cash) in a manner which is consistent with its business objectives.

## Number of securities subject to escrow

Class of Security	Number held in Escrow	Escrow Period
Ordinary Shares	30,000,000	25/9/06 to 25/9/08
Options	1,020,000	25/9/06 to 25/9/08
Performance Rights Class A	275,000	25/9/06 to 25/9/08

Listing has been granted for all ordinary fully paid shares of the Company on ASX except for 30,000,000 ordinary fully paid shares which are not quoted by virtue of restriction agreements.

## The Exercise Price and First Exercise Date of the Options granted in September 2006

Number of Options which can be exercised by the Holder	Exercise Price	First Exercise Date
30%	\$1.00	25/9/07
40%	\$1.20	25/9/08
30%	\$1.40	25/9/09