



## CHAIRMAN'S MESSAGE

**"OUR INITIAL BUSINESS STRATEGY WAS TO EMBARK ON AN INTEGRATED STRATEGY FOR THE BIOFUEL MANUFACTURING BUSINESS, STARTING WITH ACQUIRING EXISTING PLANTATIONS TO SECURE OUR OWN UPSTREAM FEEDSTOCK SUPPLY FOR THE BIOFUEL OPERATIONS AND THEN THE TRADING OPERATIONS DOWNSTREAM."**

### DEAR SHAREHOLDERS

The financial year ended 31 March 2008 was a challenging year for the Group in preparation for its biofuel and related business in view of the economic changes and inflationary pressures that had surfaced throughout the world.

### THE GLOBAL INVESTMENT OUTLOOK AND INVESTMENTS IN LBC

The global investment outlook has deteriorated since 2007. Financial markets continue to deal with the shakeup arising from the "sub-prime" meltdowns in the US economy and its huge impact and stress on the global financial system. Equity markets are sliding and the money markets are generally more cautious over the credit worthiness of various debt issuers as well as the illiquidity of the interbank markets. Despite all these, we are glad that Lereno Bio-Chem Ltd ("LBC") was able to raise approximately \$6.75 million in July 2007 with the placement of 35 million LBC shares and to convert \$11.7 million worth of debts into equity through the issue of 68.7 million new LBC shares.

One of the milestones in 2007/2008 was crude oil price crossing the US\$100 per barrel mark. Almost all commodities and raw material prices are at an all-time high. Strong global demand and shortages of food products are fuelling the rise in food prices; these inevitably have a direct impact on the price of palm oil which is one of the feedstocks that LBC uses for its production of biodiesel. These have all combined to give 2007/2008 a changed outlook for the biofuel market and necessitate our management to initiate adjustments in LBC's business strategy going forward.

### BIOFUELS PROCESSING

In March 2007, LBC completed the acquisition of Lereno Sdn Bhd ("LSB") as one of its associated companies. LSB is one of the very few biodiesel manufacturers in

Malaysia that has started production notwithstanding the current high palm oil prices. This is attributed to its special winterized biodiesel technology which has enabled LSB to secure a number of manufacturing contracts. There is some initial loss reported for the production plant, as it was only commissioned in the second half of 2007. The current arrangement has given LSB the ability to take on a range of product refining work and to help establish the company's credentials as a reliable and flexible manufacturer/supplier. It also allows potential long term buyers the opportunity to observe and test for themselves the company's product quality and operational diversity. In fact, LSB is currently arranging with top multinational companies for long-term off-take arrangements for its quality products.

### SOURCING FOR ALTERNATIVE FEEDSTOCK IN SUPPORT OF GREEN PRACTICES

LBC is also actively sourcing for alternative non-edible feedstocks including jatropha for its biofuel operations. As a result, the LSB plant in Malaysia is being prepared to receive multi-feedstock inputs in the near future besides palm oil.

### NEXT STEP FORWARD

Our initial business strategy was to embark on an integrated strategy for the biofuel manufacturing business, starting with acquiring existing plantations to secure our own upstream feedstock supply for the biofuel operations and then the trading operations downstream.

In response to the changes and volatile external environment, the Management decided to fine-tune its business strategy. Hence, as a priority, the Management of LBC has focused on those activities that can help grow the potentials of the LSB plant faster and the development of fresh supply resources and opportunities that are offered by the current global "Green Movement".

**" DESPITE THE UNCERTAINTIES IN THE GLOBAL OUTLOOK, LBC IS MOVING FORWARD STEADILY BUT SURELY, THINKING INNOVATIVELY AND CHARTING A JOURNEY OF TRANSFORMATION IN A SEA OF CHANGES AND OPPORTUNITIES THAT FEW HAVE SEEN BEFORE."**



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Towards this end, the Company is already in the midst of negotiations to seek alternative sources of feedstock supplies for its biofuel process and trading. We believe that the alternative feedstock secured by LBC can eventually grow to be just as important as palm oil, sugar cane and other food crops as the primary feedstock for the biofuel industry.

The Company intends to start developing the Lumut biofuel plant production base further for the next phase of expansion, employing "green" and/or non-edible feedstock supply.

### **LBC'S CORPORATE GOVERNANCE HIGHLY RATED**

In August 2007, LBC's Audit Committee commissioned an independent review on LBC's corporate governance to identify any gaps between existing corporate governance practices within LBC and the Singapore Code of Corporate Governance. The review was done by KPMG Risk Advisory Services.

The good rating awarded to LBC from the review validates the high quality work practices that LBC Management and the Board of Directors have put in place. LBC is poised to meet the challenges ahead!

### **CONCLUSION**

It is inevitable that there will continue to be many changes in the Company's operating environment. The context and the rules of engagement will differ from time to time. A successful company has to be prepared to be nimble footed in response to all changes. However, a truly great company requires time to build, to consolidate and to institutionalize good management ideas, people and practices. Our shareholders and valued supporters have seen us evolve during the recent years and truly LBC is a work-in-progress. Despite the uncertainties in the global

outlook, LBC is moving forward steadily but surely, thinking innovatively and charting a journey of transformation in a sea of changes and opportunities that few have seen before.

Let me take this opportunity to sincerely thank everyone and in particular, those who have started on this journey with us from the beginning when the LBC story unfolds; all our shareholders, supporters, past and present directors as well as management and staff. I would also like to take this opportunity to express the Company's appreciation to our Director, Mr Suganda Setiadikurnia, for his past contributions. Mr Suganda has resigned from the board on 1 May 2008 due to personal work commitment.

Let us look forward together, confidently to the years ahead!

**TAN SRI DATO' KAMARUZZAMAN BIN SHARIFF**  
Chairman  
Lereo Bio-Chem Ltd

