

25 February 2011

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

By: e-lodgement (ASX code SBI)

#### **APPENDIX 4D AND HALF YEAR REPORT**

Please find attached Sterling Biofuels International Limited's Appendix 4D and Half Year Financial Report for the half year ended 31 December 2010.

Yours sincerely

A handwritten signature in cursive script that reads "Alicia Mitton".

Alicia Mitton  
Company Secretary  
Sterling Biofuels International Limited

# Appendix 4D

## Half yearly report

Name of entity

Sterling Biofuels International Ltd

ABN or equivalent company  
reference

Half year ended  
(current period)

Half year ended  
(‘previous period’)

ACN 119 880 492

31 December 2010

31 December 2009

### Results for announcement to the market

*Extracts from this report for announcement to the market (see note 1).*

\$A'000

Revenues	down	(88)%	to	11
Loss after tax attributable to members	up	42%	to	(3,064)
Net loss for the period attributable to members	up	42%	to	(3,064)
<b>Dividends (distributions)</b>		<b>Amount per security</b>		<b>Franked amount per security</b>
Interim dividend declared		Nil		Nil
Previous corresponding period		Nil		Nil

+Record date for determining entitlements to the dividend, Not applicable

Brief explanation of any of the figures reported above to enable figures to be understood:

The consolidated loss after income tax for the half-year ended 31 December 2010 was \$3,063,918 (half-year ended 31 December 2009: loss of \$2,161,790). The loss reflects higher operating expenditure relating, among other things, to the plantation development and the launch of the Growers Scheme.

During the period, the Group successfully launched its Growers Scheme with respect to its plantation development in Malaysia. Sales of grower plots under the Growers Scheme have exceeded expectations and the sale proceeds have enabled the Group to accelerate its plantation development.

The biodiesel industry continues to be in the doldrums with no clear indication of when we will see positive margins to allow for production. Barring any improvement in production economics, the Group will explore alternative uses for its biodiesel plant. With additional cash flows, there are many alternatives for the plant.

**This half yearly report is to be read in conjunction with the most recent annual financial report.**

<b>NTA backing</b>	Current period	Previous corresponding Period
Net tangible asset backing per <sup>+</sup> ordinary security	\$0.04	\$0.10

Details of entities over which control has been gained or lost during the period. Not Applicable

Details of individual and total dividends or distributions and dividend or distribution payments. Not Applicable

Details of any dividend or distribution reinvestment plans in operation. Not Applicable

Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities. Not Applicable

This report is based on the <sup>+</sup>accounts have been subject to review



Sign here: ..... Date: 25 February 2011  
Group Executive Director

Print name: Andrew Phang

<sup>+</sup> See chapter 19 for defined terms.



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

**Half-Year Report**  
**31 December 2010**

<b>Table of Contents</b>	<b>Page No</b>
Corporate Directory	1
Directors' Report	2
Auditor's Independence Declaration	3
Statement of Comprehensive Income	4
Statement of Financial Position	5
Statement of Changes in Equity	6
Consolidated Cash Flow Statement	7
Notes to the Consolidated Financial Statements	8
Directors' Declaration	16
Auditors' Review Statement	17



## Corporate Directory

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### DIRECTORS

Dato' CRS Paragash (Executive Chairman)  
Andrew Phang (Group Executive Director)  
Paul Mason (Non-Executive Director)  
Graham Keys (Non-Executive Director)

### SHARE REGISTRY

Computershare Investor Services Pty Ltd  
Level 2, 45 St Georges Terrace  
Perth WA 6000

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### COMPANY SECRETARY

Alicia Mitton  
Email: [mittona@norvest.com.au](mailto:mittona@norvest.com.au)

### BANKERS

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

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### REGISTERED OFFICE IN AUSTRALIA

57 Havelock Street  
West Perth WA 6005  
Australia

Telephone: (618) 9324 8583  
Facsimile: (618) 9324 8586

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

### AUDITORS

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

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### HOME EXCHANGE

Australian Stock Exchange  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

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### ASX Code

SBI

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## **Directors' Report**

The Directors present their report for the half-year ended 31 December 2010.

### **Directors**

The names of the Directors in office during the half-year period and until the date of this report are as below. All Directors were in office for this entire period.

Dato' CRS Paragash	(Executive Chairman)
Andrew Phang	(Group Executive Director)
Paul Mason	(Non-Executive Director)
Graham Keys	(Non-Executive Director)

### **Principal Activities**

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

### **Review and Results of Operations**

The consolidated loss after income tax for the half-year ended 31 December 2010 was \$3,063,918 (half-year ended 31 December 2009: loss of \$2,161,790). The loss reflects higher operating expenditure relating, among other things, to the plantation development and the launch of the Growers Scheme.

During the period, the Group successfully launched its Growers Scheme with respect to its plantation development in Malaysia. Sales of grower plots under the Growers Scheme have exceeded expectations and the sale proceeds have enabled the Group to accelerate its plantation development.

The biodiesel industry continues to be in the doldrums with no clear indication of when we will see positive margins to allow for production. Barring any improvement in production economics, the Group will explore alternative uses for its biodiesel plant. With additional cash flows, there are many alternatives for the plant.

### **Auditor's Independence Declaration**

We have obtained the auditor's independence declaration from Ernst & Young, which is set out on page 3.

Signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to be 'AP' or similar initials.

**Andrew Phang**  
**Group Executive Director**  
**Perth 25 February 2011**

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

In relation to our review of the financial report of Sterling Biofuels International Limited for the half year year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

 Ernst & Young

Ernst &amp; Young



P McIver

Partner

Perth

25 February 2011

## Statement of Comprehensive Income For The Half Year Ended 31 December 2010

	Note	Consolidated	
		31 December 2010 \$	31 December 2009 \$
<b>Continuing operations</b>			
<b>Revenue</b>			
Sales		-	93,882
Finance income – interest		11,357	1,161
		<u>11,357</u>	<u>95,043</u>
Other income		-	2,158
Net gain arising from changes in fair value of biological assets		115,362	-
Raw materials and consumable used		(1,645)	(122,255)
Sales and distribution expense		(438,255)	(4,754)
Employee benefits expense		(1,111,275)	(364,406)
Depreciation and amortisation		(207,795)	(816,290)
Finance costs		(78,509)	(4,660)
Other expenses		(1,353,158)	(946,626)
<b>Loss before income tax</b>		<b>(3,063,918)</b>	<b>(2,161,790)</b>
Income tax expense	2	-	-
<b>Net loss for the period</b>		<b>(3,063,918)</b>	<b>(2,161,790)</b>
<b>Other comprehensive income</b>			
Foreign currency translation		(1,004,266)	(1,219,387)
<b>Other comprehensive income for the period, net of tax</b>		<b>(1,004,266)</b>	<b>(1,219,387)</b>
<b>Total comprehensive loss for the period</b>		<b>(4,068,184)</b>	<b>(3,381,177)</b>
<b>Loss for the period is attributable to:</b>			
Non-controlling interest		(5,711)	(220,221)
Owners of the parent		(3,058,207)	(1,941,569)
		<u>(3,063,918)</u>	<u>(2,161,790)</u>
<b>Total comprehensive loss for the period is attributable to:</b>			
Non-controlling interest		(5,711)	(220,221)
Owners of the parent		(4,062,473)	(3,160,956)
		<u>(4,068,184)</u>	<u>(3,381,177)</u>
<b>Loss per share for loss attributable to the ordinary equity holders of the parent</b>			
- basic loss per share (cents per share)		(4.71)	(3.32)
- diluted loss per share (cents per share)		(4.71)	(3.32)

## Statement of Financial Position As at 31 December 2010

	Note	Consolidated	
		31 December 2010 \$	30 June 2010 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	2,261,510	130,813
Inventories		99,388	96,644
Other current assets		211,493	179,747
<b>Total current assets</b>		<b>2,572,391</b>	<b>407,204</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	4	8,605,827	9,308,564
Biological assets	5	875,405	720,916
<b>Total non-current assets</b>		<b>9,481,232</b>	<b>10,029,480</b>
<b>TOTAL ASSETS</b>		<b>12,053,623</b>	<b>10,436,684</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		2,073,075	1,236,288
Interest bearing loans and borrowings	6	2,436,798	2,111,076
<b>Total current liabilities</b>		<b>4,509,873</b>	<b>3,347,364</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing loans and borrowings	6	10,520	-
Growers fees	7	4,512,094	-
<b>Total non-current liabilities</b>		<b>4,522,614</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>9,032,487</b>	<b>3,347,364</b>
<b>NET ASSETS</b>		<b>3,021,136</b>	<b>7,089,320</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Contributed equity		32,143,181	32,143,181
Accumulated losses		(27,625,944)	(24,567,737)
Reserves		(1,485,354)	(481,088)
Parent interests		3,031,883	7,094,356
Non-controlling interests		(10,747)	(5,036)
<b>TOTAL EQUITY</b>		<b>3,021,136</b>	<b>7,089,320</b>

## Statement of Changes in Equity

Consolidated	Ordinary Shares \$	Employee Equity Benefits Reserve \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Equity Reserve \$	Owners of the Parent \$	Non- controlling Interest \$	Total \$
<b>At 1 July 2010</b>	<b>32,143,181</b>	<b>233,917</b>	<b>(30,246)</b>	<b>(24,567,737)</b>	<b>(684,759)</b>	<b>7,094,356</b>	<b>(5,036)</b>	<b>7,089,320</b>
Loss for the period	-	-	-	(3,058,207)	-	(3,058,207)	(5,711)	(3,063,918)
Other comprehensive income	-	-	(1,004,266)	-	-	(1,004,266)	-	(1,004,266)
<b>Total comprehensive loss for the half-year</b>	<b>-</b>	<b>-</b>	<b>(1,004,266)</b>	<b>(3,058,207)</b>	<b>-</b>	<b>(4,062,473)</b>	<b>(5,711)</b>	<b>(4,068,184)</b>
<b>At 31 December 2010</b>	<b>32,143,181</b>	<b>233,917</b>	<b>(1,034,512)</b>	<b>(27,625,944)</b>	<b>(684,759)</b>	<b>3,031,883</b>	<b>(10,747)</b>	<b>3,021,136</b>
<b>At 1 July 2009</b>	<b>32,143,181</b>	<b>232,492</b>	<b>(359,247)</b>	<b>(21,876,829)</b>	<b>-</b>	<b>10,139,597</b>	<b>-</b>	<b>10,139,597</b>
Loss for the period	-	-	-	(1,941,569)	-	(1,941,569)	(220,221)	(2,161,790)
Other comprehensive income	-	-	(1,219,387)	-	-	(1,219,387)	-	(1,219,387)
<b>Total comprehensive loss for the half-year</b>	<b>-</b>	<b>-</b>	<b>(1,219,387)</b>	<b>(1,941,569)</b>	<b>-</b>	<b>(3,160,956)</b>	<b>(220,221)</b>	<b>(3,381,177)</b>
<b>Transaction with owners in their capacity as owners</b>								
Share-based payment	-	1,972	-	-	-	1,972	-	1,972
<b>At 31 December 2009</b>	<b>32,143,181</b>	<b>234,464</b>	<b>(1,578,634)</b>	<b>(23,818,398)</b>	<b>-</b>	<b>6,980,613</b>	<b>(220,221)</b>	<b>6,760,392</b>

## Consolidated Cash Flow Statement For The Half Year Ended 31 December 2010

	Consolidated	
	31 December 2010 \$	31 December 2009 \$
<b>Cash flows from operating activities</b>		
Receipts from customer	-	98,939
Income tax refund	5,627	15,602
Interest received	14	1,239
Payments to suppliers and employees	(2,009,221)	(1,279,181)
<b>Net cash flows used in operating activities</b>	<b>(2,003,580)</b>	<b>(1,163,401)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of property, plant and equipment	4,727	-
Purchase of property, plant and equipment	(521,990)	(8,299)
Increase in plantation development costs	(494,563)	(103,002)
Acquisition of biological assets	(135,540)	(24,198)
<b>Net cash flows used in investing activities</b>	<b>(1,147,366)</b>	<b>(135,499)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	595,063	607,684
Proceeds from sale of growers plots	4,774,769	-
<b>Net cash flows from financing activities</b>	<b>5,369,832</b>	<b>607,684</b>
<b>Net increase/(decrease) in cash held</b>	<b>2,218,886</b>	<b>(691,216)</b>
Cash and cash equivalents at beginning of period	130,812	762,084
Net foreign exchange differences	(88,188)	(39,025)
<b>Cash and cash equivalents at end of period</b>	<b>2,261,510</b>	<b>31,843</b>

## **Notes to the Consolidated Financial Statements**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

This interim condensed financial report for the half-year ended 31 December 2010 has been prepared in accordance with AASB 134 "Interim Financial Reporting" and the Corporations Act 2001.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual financial report of Sterling Biofuels International Limited as at 30 June 2010 and considered together with any public announcements made by Sterling Biofuels International Limited during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX listing rules.

The accounting policies applied by the economic entity in this consolidated financial report are the same as those applied by the economic entity in its consolidated financial report as at and for the year ended 30 June 2010.

#### **Changes in accounting policy**

Since 1 July 2010, the Group has adopted the following applicable accounting policies, Standards and Interpretations, mandatory for financial reporting periods beginning on or after 1 July 2010. Adoption of these Standards and Interpretations did not have any material effect on the financial position or performance of the Group.

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

##### **a) Financial liabilities**

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

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

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

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

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

##### **b) Growers fees**

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

The following standards and interpretations and all consequential amendments, which became applicable on 1 July 2010, have also been adopted by the Group, but have had no impact on the financial position or performance of the Group, or on presentation or disclosure in its financial statements.

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

AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASBs 5, 8, 101, 107, 117, 118, 136 & 139]
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
AASB 2010-3	Amendments to Australian Interpretation arising from the Annual Improvements Project [AASBs 3, 7, 121, 128, 131, 132 & 139]
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

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

When the adoption of the Standards or Interpretations is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

*AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 117]*

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

### Going concern

During the half-year ended 31 December 2010, the consolidated entity incurred net losses of \$3.064 million (2009: \$2.162 million) and a net cash outflow from operations of \$2.003 million (2009: \$1.163 million).

However, the cash inflows from the sale of grower plots of \$4.775 million (2009: nil) and the proceeds from borrowings of \$0.595 million (2009: \$0.608 million) more than compensates for the net cash outflow from operations.

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

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

- Successful launch of Growers Scheme  
The Growers Scheme was successfully launched on 20 August 2010 by the Malaysian Minister of International Trade and Industry. The Scheme involves the sale of 19,600 grower plots to the Malaysian public at \$2,553 per plot. Each grower plot entitles the holder to a ¼ acre profit share from the plantation development. As at 16 February 2011, \$9.272 million has been raised and the Scheme is ultimately expected to raise gross funds of \$80 million. The Group will continue to retain at least 30% of the economic value of the plantation development.
- Continued availability of short term funding from the founder shareholder  
As at 31 December 2010, the Group has drawn down \$2.431 million of the \$3.191 million standby credit line made available by the founder shareholder. With the launch of the Growers' Scheme, the Group will be less reliant on funding from the founder shareholder and expects to begin reducing the outstanding amount under this credit line over time.

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

## 2. INCOME TAX

SPC Biodiesel, a subsidiary of Sterling Biofuels, has been granted pioneer tax status in Malaysia which will exempt 100% of its operating income from taxation in Malaysia for a period of 5 years commencing from the date of commercial operations.

Dividends received by Sterling Biofuels from SPC Biodiesel will be exempted from Australian income tax.

## 3. CASH AND CASH EQUIVALENTS

For the purpose of the half-year consolidated cash flow statement, cash and cash equivalents comprise the following:

	<b>Consolidated</b>	
	<b>31 December 2010</b>	<b>30 June 2010</b>
	\$	\$
Cash at bank	246,812	121,803
Deposits with licensed banks	2,014,698	9,010
Cash and cash equivalents	2,261,510	130,813

Includes deposits of \$1.570 million with licensed banks primarily held by trustee of Growers Scheme for future guaranteed yield payments (30 June 2010: nil).

## 4. PROPERTY, PLANT AND EQUIPMENT

	<b>Consolidated</b>	
	<b>31 December 2010</b>	<b>30 June 2010</b>
	\$	\$
<b>Biodiesel plant and equipment</b>		
At cost	13,838,590	15,629,572
Less: accumulated depreciation	(2,838,163)	(3,066,720)
Less: impairment charge	(6,946,187)	(7,469,874)
	4,054,240	5,092,978
<b>Buildings</b>		
At cost	1,022,182	1,142,134
Less: accumulated depreciation	(153,756)	(151,890)
Less: impairment charge	(399,971)	(430,126)
	468,455	560,118
<b>Motor vehicles</b>		
At cost	248,694	294,806
Less: accumulated depreciation	(155,695)	(119,029)
Less: written-off	(11,826)	(54,866)
	81,173	120,911

#### 4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
Motor vehicles – under finance lease		
At cost	16,753	-
Less: accumulated depreciation	(838)	-
	15,915	-
Office equipment		
At cost	327,372	154,423
Less: accumulated depreciation	(103,181)	(82,089)
Less: written-off	(669)	(411)
	223,522	71,923
Plantation equipment and machinery		
At cost	516,547	545,124
Less: accumulated depreciation	(130,193)	(119,443)
	386,354	425,681
Leasehold land		
At cost	1,668,007	1,883,879
Less: accumulated depreciation	(131,495)	(129,674)
	1,536,512	1,754,205
Capital work-in-progress		
At cost	153,032	69,907
	153,032	69,907
Plantation development costs		
At cost	1,686,624	1,212,841
	1,686,624	1,212,841
<b>Total property, plant and equipment</b>	<b>8,605,827</b>	<b>9,308,564</b>

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

#### 5. BIOLOGICAL ASSETS

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
Carrying amount at beginning	720,916	517,824
Purchases of seeds	55,707	6,501
Other expenditure/(transfer)	30,623	(3,301)
Fair value adjustment	115,361	181,556
Effect of foreign exchange	(47,202)	18,336
Carrying amount at end	875,405	720,916

## 6. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
<b>Current</b>		
Obligations under the hire purchase contracts	5,302	-
Shareholder advances	2,431,496	2,111,076
	2,436,798	2,111,076
<b>Non-current</b>		
Obligations under the hire purchase contracts	10,520	-
	10,520	-

The unsecured loan from a shareholder, during the period, is a standby credit line of up to RM10 million equivalent \$3.191 million (2010: RM10 million equivalent \$3.604 million). The loan is repayable on demand and may be drawn down from time to time for working capital purposes. Interest is payable at the base lending rate of a leading Malaysian financial institution. There are no conversion rights attached to the loan.

## 7. GROWERS FEES

The Growers Fees represent the amount received from growers under the Golden Palm Growers Scheme ("the Scheme") which commenced in August 2010. The Scheme involves the sale of 19,600 grower plots to the Malaysian public at \$2,553 per plot ("the Growers Fees"). Each grower plot entitles the holder to a ¼ acre profit share from the plantation development. Under the Scheme, the Group is obligated to pay an annual net yield over the duration of the Scheme, has certain obligations to meet repurchase requests as stated in Clause 10 of the Grower's Management Agreement ("GMA") and at the closure or expiry of the Scheme, the Group is required to refund a grower its proportionate share of the net sale proceeds in accordance with Clauses 12 or 13 of the GMA. The net yield received by the grower from Years 1 to 6 is fixed at 6% per annum and from Years 7 to 23 is an amount equal to higher of the plantation profit and an amount calculated based on the average crude palm oil prices in the respective financial years.

The Growers Fees are recognised as a liability, with changes in fair values being recognised in statement of comprehensive income. The classification as a liability is due to the fact that the Group has as a result of the terms of the Scheme a present obligation to pay the growers a net yield over the life of the Scheme, to meet repurchase request from Years 7 to 23 which is effectively a put option held by the grower, to refund the growers net sale proceeds at the closure or expiry of the Scheme and the variability with which these amounts are determined. These matters are dependant upon the Scheme's future success.

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
Fair value through profit or loss, upon initial recognition and at balance date	4,512,094	-

## 8. DIVIDENDS PAID AND PROPOSED

The Company did not declare a dividend during the half-year ended 31 December 2010 (2009: nil).

## 9. OPERATING SEGMENTS

### Identification of reportable segments

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

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

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

### Types of products and services

#### *Biodiesel*

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

#### *Oil palm*

Oil palm business is a producer and supplier of fresh fruit bunches (FFB) for palm oil industrial markets. The oil palm business has been determined as both an operating segment and reportable segment.

### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

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

Corporate charges such as head office expenses and interest are not allocated to operating segments as they are not considered part of the core operations of any segment:

The following table presents revenue and loss information regarding reportable segments for the half years ended 31 December 2010 and 31 December 2009:

	<b>Biodiesel</b>	<b>Oil palm</b>	<b>Unallocated</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Half year ended 31 December 2010</b>				
<b>Revenue</b>				
Sales	-	-	-	-
Finance income – interest	-	11,344	13	11,357
Total revenue per the statement of comprehensive income	-	11,344	13	11,357

9. OPERATING SEGMENTS (CONT'D)

	Biodiesel \$	Oil palm \$	Unallocated \$	Total \$
<b>Half year ended 31 December 2010</b>				
<b>Result</b>				
Segment result	(736,577)	(2,146,300)	-	(2,882,877)
Unallocated result	-	-	(181,041)	(181,041)
Net loss before income tax per the statement of comprehensive income	(736,577)	(2,146,300)	(181,041)	(3,063,918)
<b>Assets and liabilities</b>				
Segment assets	6,195,682	5,820,081	-	12,015,763
Unallocated assets	-	-	37,860	37,860
Total assets per the statement of financial position	6,195,682	5,820,081	37,860	12,053,623
Segment liabilities	2,763,288	6,135,114	-	8,898,402
Unallocated liabilities	-	-	134,085	134,085
Total liabilities per the statement of financial position	2,763,288	6,135,114	134,085	9,032,487
<b>Half year ended 31 December 2009</b>				
<b>Revenue</b>				
Sales	35,477	58,327	-	93,804
Finance income – interest	1,239	-	-	1,239
Other income	2,158	-	-	2,158
Total revenue per the statement of comprehensive income	38,874	58,327	-	97,201
<b>Result</b>				
Segment result	(1,298,244)	(733,946)	-	(2,032,190)
Unallocated result	-	-	(129,600)	(129,600)
Net loss before income tax per the statement of comprehensive income	(1,298,244)	(733,946)	(129,600)	(2,161,790)
<b>Year ended 30 June 2010</b>				
<b>Assets and liabilities</b>				
Segment assets	7,571,997	2,846,258	-	10,418,255
Unallocated assets	-	-	18,429	18,429
Total assets per the statement of financial position	7,571,997	2,846,258	18,429	10,436,684
Segment liabilities	2,412,925	893,820	-	3,306,745
Unallocated liabilities	-	-	40,619	40,619
Total liabilities per the statement of financial position	2,412,925	893,820	40,619	3,347,364

#### **10. SUBSEQUENT EVENT**

As at the date of this report, no other matter or circumstance has arisen since 31 December 2010 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.

#### **11. COMMITMENTS AND CONTINGENCIES**

There is a condition under the Golden Palm Growers Scheme for which the growers have an option to exit the Scheme early via a repurchase option. The Group is committed to redeem 100% of the growers fees when the growers exercise the repurchase option between Years 7 to 23 of the Scheme. The number of repurchase requests is capped at 10% of the total number of growers plots held by the public for each calendar year.

There have been no other material changes to or additional commitments or contingencies to those disclosed in the 30 June 2010 annual report.

## **Directors' Declaration**

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

1) In the opinion of the Directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act, 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* 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 period ended 31 December 2010.

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to be the name "Andrew Phang".

**Andrew Phang**  
**Group Executive Director**  
**Perth 25 February 2011**

To the members of Sterling Biofuels International Limited

## Report on the 31 December 2010 Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Sterling Biofuels International Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies, other selected explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sterling Biofuels International Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

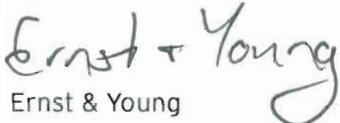
### Independence

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

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sterling Biofuels International Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

  
Ernst & Young



P McIver  
Partner  
Perth  
25 February 2011