

**China Biodiesel International Holding Co., Ltd.**  
**(‘China Biodiesel’, ‘CBI’ or the ‘Company’)**  
**Preliminary results for the year ended 31 December 2009**

China Biodiesel (AIM:CBI), one of China’s leading renewable energy companies, focused on research and development, production, and marketing of biodiesel as a substitute for diesel or petrochemical materials, announces its preliminary results for the year ended 31 December 2009.

**Key financials**

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Sales volume (Tons)	26,095	25,273	39,308
Revenue (RMB)	124.6m	164.2m	167.95m
Net profit (RMB)	16.55m	4.10m	11.46m
Earning per share (basic) (RMB)	0.365	0.091	0.253
Cash generated from operations (RMB)	33.2m	2.81m	30.45m
Proposed final dividend per share (RMB)	0.0365	0	0.0253

**Highlights**

- Sales volume up 55.53 per cent to 39,308 tons (2008: 25,273 tons);
- Net profit increased by 180 per cent to RMB11.50 million (2008: RMB4.10 million);
- Cash generated from operations increased by 982 per cent to RMB30.45 million (2008: RMB2.81 million);
- Increase in higher margin B1 and B2 biodiesel sales volumes, accounting for 97.16 per cent of revenue (2008: 89.87 per cent);
- A "Postdoctoral R&D Working Station" was set up in the Longyan biodiesel plant;
- Xiamen Zhuoyue Biomass Energy Co., Ltd (the "Xiamen Subsidiary") was named by the municipal government as "an Advanced Unit with Recycling Economy"; and
- Expansion of international trade.

Commenting on the final results, Executive Chairman Huodong Ye said: “2009 was a milestone year for CBI. During a period of challenging global economic conditions, CBI not only experienced a recovery in revenue and profits but was also able to greatly improve its working capital. With the invaluable experience the board has gained through this period, I believe CBI is well placed to achieve further growth in the period ahead.”

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## **Chairman's Statement**

2009 was a milestone year for CBI, with the Company recovering from the effects of the sharp global economic downturn experienced in 2008 and early 2009 to report record sales volumes. This growth in volume was achieved via an expansion in the number of sales channels used by the Company and an increase in number of customers. The board is pleased to report that this growth in volume was achieved while maintaining the quality of CBI's products. As a result of the increased sales volume the Xiamen plant became profitable during the fourth quarter of 2009.

Continuously improved technology has helped the Company further optimise its product mixture, under which the percentage of higher value-added products increased and margins were improved despite a fall in selling price. Moreover, the Company was granted awards during the year in respect of such technology innovation.

The working capital of the Company was strengthened during 2009. A strict credit policy kept the Company away from financial risk and dramatically reduced trading accounts receivable. Operating cash inflow also increased by 982 per cent to RMB30.45 million due to working capital efficiencies. The gearing of the Company was also significantly reduced through debt repayment.

The Company continued to receive support from the Chinese government with direct grants being received due to CBI's energy-saving and renewable energy production and technology innovation. Furthermore, as a qualified biodiesel company utilising waste oil as feedstock, the Company benefited from a preferential policy whereby it continued to receive VAT refunds. The board believes that the Chinese government will continue its commitment to promote the renewable industry and therefore provide further grants and assistance to help CBI's future development. The impact of government support in the renewable industry is evidenced within Hainan Province, which has, since 1 January 2010, become the first Chinese province to have a mandate of 5 per cent of diesel sales via a biodiesel blend.

Overall, while the world economy is still relatively stagnant, compared to a year ago the Company is far stronger, better positioned and more experienced. With production facilities capable of a higher output, well developed and flexible technology, and an increasing share of the biomaterial market in which the Company operates, the board remains confident that the Company will continue to grow in the future.

## **Operational Review**

In 2009, CBI successfully expanded its sales volume by 55.53 per cent to 39,308 tons for the year, with 15,018 tons in the first half and 24,290 tons in the second half of the year. This growth has been fueled by an expansion in the number of sales channels used by the Company and an expansion of customers in both domestic and international markets.

During the year, 44,630 tons of feedstock oil was collected, compared with 30,028 tons in 2008. This increased procurement was achieved through an expanded network of national suppliers, specifically in North China and West China and internationally in Southeast Asian countries.

An improved product mix combined with strict cost control resulted in higher year-on-year margins of 14.0 per cent (2008: 5.92 per cent). This increased margin was achieved through a focus on selling higher margin products. As a result of this focus, higher margin products (i.e. B1 and B2) accounted for 97.16 per cent of total revenue (2008: 89.87 per cent). Higher output scale also led to decreased unit costs. The Xiamen plant, which restarted its production in the second quarter, became profitable from the fourth quarter of the year.

Efficient working capital management and strict credit control led to a healthier financial structure and reduced costs within the Company. Due to its market leading position the Company was able to implement a strict credit control policy during the second half of the year under which no credit on sales was given to customers. As a result trading receivables were dramatically reduced, which contributed to

an increased operating cash inflow. The bank loans of the Company were also reduced which resulted in a better debt-to-asset rate and a lower interest cost. The two biodiesel subsidiaries of the Company continue to get the highest credit rating from the Agricultural Bank of China.

During the year, the Company kept working hard to improve technology. A "Postdoctoral R&D Working Station" was set up at the Longyan biodiesel plant and Longyan Zhuoyue New Energy Development Co., Ltd. was named by the provincial government as a "Provincial Creative Enterprise". The Xiamen subsidiary was named by the municipal government as "an Advanced Unit with Recycling Economy". The quality of CBI's biodiesel for burning fully passed tests and complied with the national criterion (BD100 used in diesel engines). Consequently, the Company continues to receive governmental financial support in the form of grants and VAT refunds.

## **Financial Review**

### **Revenues**

The Company's sales volumes grew by 55.46 per cent to 39,308 tons in 2009 (2008: 25,273 tons). As a result of falling commodity prices worldwide in 2009, the average selling price of our biodiesel products fell by 34.16 per cent to RMB4,270 per ton (2008: RMB6,497 per ton). The annual revenue of RMB167.95 million, represented an increase of 2.28 per cent over the prior year (2008: RMB164.2 million).

Gross margin was lifted to 14 per cent of the revenue (2008: 5.92 per cent) as a combined result of increasing VAT refunds and improved product mix. The Company received a VAT refund of RMB20.7 million in 2009 (2008: RMB 4.31 million), as a result of increased sales of biodiesel products made of waste oils. Improvements in the product mix meant that sale of B1 and B2, with higher value and non-capped pricing, accounted for 97.16 per cent of the total sales (2008: 89.87 per cent).

During the year, the Company received government grants amounting to RMB11.49 million (2008: RMB15.35 million). These grants were related to the Company's contribution to both producing energy from non-corn resource and technology innovation.

### **Costs and expenses**

Due to the low price of feedstock in late 2008 and early 2009, costs of goods fell 33.05 per cent year on year to RMB4,201 per ton (2008: RMB6,283 per ton).

As a result of an increased client service offering, particularly for transportation, distribution costs increased to RMB6.55 million (2008: RMB1.15 million), being 3.9 per cent of revenue (2008: 0.7 per cent).

The increase in distribution costs however was more than offset by strict controls over costs and timing with administrative expenses reduced by 11.06 per cent to RMB12.88 million (2008: RMB14.49 million).

### **Results for the year**

As a result of the higher margin mentioned above, gross profit for the year grew by 142 per cent to RMB23.51 million (2008: RMB9.72 million). Net profit for the year grew by 180 per cent to RMB11.46 million (2008: RMB4.1 million). Return on net assets also increased to 5.9 per cent (2008: 2.25 per cent).

### **Working capital management**

Because of higher net profit, net cash inflow from operations was greatly improved in 2009 to RMB30.45 million (2008: RMB2.81 million). Cash in hand also grew to RMB29.73 million (2008: RMB17.49 million).

A strict credit policy also helped improve cash inflow. Trade receivables were cut to RMB1 million (2008: RMB9.7 million) due to a policy of zero credit being given to customers from the second half of the year. Some trade credit to customers was replaced by bank drafts, which are deemed by management to be of low risk.

Short-term liabilities were reduced by 7.55 per cent to RMB44.31 million (2008: RMB47.89 million). Net current assets increased by 180 per cent to RMB23.40 million (2008: RMB8.35 million). The financing structure of the Company was also improved, as the debt-to-asset ratio fell to 0.186 at the end of 2009 from 0.208 at the end of 2008.

### **Bank facility**

The outstanding bank loans of the Company were reduced by 22.95 per cent during 2009 to RMB29.55 million (2008: RMB38.35 million).

### **Dividend**

The directors propose a final dividend for 2009 of RMB0.0253 per share which, if approved by shareholders at the Company's annual general meeting on 2 June 2010, will be paid on 5 July 2010 to shareholders on the register at 18 June 2010 (2009: no dividend).

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Notes	2009 RMB	2008 RMB
Revenue	3	167,948,509	164,199,041
Government subsidy	4	20,699,210	4,305,092
Cost of sales		<u>(165,139,338)</u>	<u>(158,782,804)</u>
Gross profit		23,508,381	9,721,329
Other income	5	11,616,615	19,082,643
Distribution costs		(6,550,814)	(1,145,390)
Write-down of inventories		(438,190)	(7,036,340)
Administrative expenses		(12,884,989)	(14,486,471)
Other operating expenses		(357,933)	(244,917)
Finance income	8	89,509	140,156
Finance costs	8	<u>(1,971,839)</u>	<u>(1,725,228)</u>
Profit before income tax expense	7	13,010,740	4,305,782
Income tax expense	10	<u>(1,551,014)</u>	<u>(202,076)</u>
Profit for the year		<u><u>11,459,726</u></u>	<u><u>4,103,706</u></u>
Other comprehensive income			
Exchange difference on translation of foreign operations		<u>(57,236)</u>	<u>(46,266)</u>
Total comprehensive income for the year		<u><u>11,402,490</u></u>	<u><u>4,057,440</u></u>
Profit for the year attributable to:			
- Owners of the Company		11,478,455	4,127,722
- Minority interests		<u>(18,729)</u>	<u>(24,016)</u>
		<u><u>11,459,726</u></u>	<u><u>4,103,706</u></u>
Total comprehensive income for the year attributable to:			
- Owners of the Company		11,421,219	4,081,456
- Minority interests		<u>(18,729)</u>	<u>(24,016)</u>
		<u><u>11,402,490</u></u>	<u><u>4,057,440</u></u>
Earnings per share			
Basic	11	<u><u>0.253</u></u>	<u><u>0.091</u></u>
Diluted	11	<u><u>0.253</u></u>	<u><u>0.091</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2009**

	Notes	2009 RMB	2008 RMB
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	160,889,296	164,944,419
Deposits for acquisition of property, plant and equipment		1,393,959	-
Payments for leasehold land held for own use under operating leases	13	8,474,431	8,743,363
Other intangible assets		1,895	2,341
Deferred tax assets		-	711,518
Total non-current assets		<u>170,759,581</u>	<u>174,401,641</u>
<b>Current assets</b>			
Inventories	14	17,070,115	14,558,258
Trade and other receivables	15	20,908,686	23,252,801
Income tax recoverable		-	940,405
Cash and cash equivalents		29,725,910	17,492,467
Total current assets		<u>67,704,711</u>	<u>56,243,931</u>
<b>Total assets</b>		<u>238,464,292</u>	<u>230,645,572</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	16	13,193,731	9,540,460
Current tax liabilities		1,567,738	-
Other financial liabilities	17	29,545,221	38,350,000
Total current liabilities		<u>44,306,690</u>	<u>47,890,460</u>
<b>NET ASSETS</b>		<u>194,157,602</u>	<u>182,755,112</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AS AT 31 DECEMBER 2009**

	Notes	2009 RMB	2008 RMB
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		3,632,941	3,632,941
Reserves		190,262,886	178,841,667
		193,895,827	182,474,608
Equity attributable to owners of the Company			
<b>Minority interests</b>		261,775	280,504
		194,157,602	182,755,112
<b>TOTAL EQUITY</b>		194,157,602	182,755,112

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Equity attributable to owners of the Company											Total RMB
	Share capital RMB	Share Premium RMB	Contributed surplus RMB	Foreign exchange reserve RMB	Share option reserve RMB	Merger reserve RMB	General reserve RMB	Proposed dividend RMB (note 20)	Retained earnings RMB	Sub-total RMB	Minority interests RMB	
At 1 January 2008	3,632,941	90,572,623	5,047,816	(1,818,086)	2,229,427	(121,330)	8,518,709	456,089	70,331,052	178,849,241	304,520	179,153,761
Total comprehensive income for the year	-	-	-	(46,266)	-	-	-	-	4,127,722	4,081,456	(24,016)	4,057,440
Provision for general reserve	-	-	-	-	-	-	1,634,568	-	(1,634,568)	-	-	-
2007 dividends paid	-	-	-	-	-	-	-	(456,089)	-	(456,089)	-	(456,089)
At 31 December 2008 and 1 January 2009	<u>3,632,941</u>	<u>90,572,623</u>	<u>5,047,816</u>	<u>(1,864,352)</u>	<u>2,229,427</u>	<u>(121,330)</u>	<u>10,153,277</u>	<u>-</u>	<u>72,824,206</u>	<u>182,474,608</u>	<u>280,504</u>	<u>182,755,112</u>
Total comprehensive income for the year	-	-	-	(57,236)	-	-	-	-	11,478,455	11,421,219	(18,729)	11,402,490
Provision for general reserve	-	-	-	-	-	-	1,732,893	-	(1,732,893)	-	-	-
2009 proposed dividends	-	-	-	-	-	-	-	1,147,846	(1,147,846)	-	-	-
At 31 December 2009	<u>3,632,941</u>	<u>90,572,623</u>	<u>5,047,816</u>	<u>(1,921,588)</u>	<u>2,229,427</u>	<u>(121,330)</u>	<u>11,886,170</u>	<u>1,147,846</u>	<u>81,421,922</u>	<u>193,895,827</u>	<u>261,775</u>	<u>194,157,602</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Notes	2009 RMB	2008 RMB
<b>Operating activities</b>			
Profit before income tax expense		13,010,740	4,305,782
Adjustments for:			
Interest income		(89,509)	(140,156)
Loss on disposal of property, plant and equipment		171,560	-
Depreciation of property, plant and equipment		10,772,059	8,424,420
Amortisation of land lease payments		278,932	198,046
Amortisation of other intangible assets		446	446
Write-down of inventories		438,190	7,036,340
Interest expense		1,971,839	1,725,228
<b>Operating profit before working capital changes</b>		26,554,257	21,550,106
Increase in inventories		(2,950,047)	(13,151,366)
Decrease/(increase) in trade and other receivables		775,618	(5,126,654)
Increase/(decrease)/ in trade and other payables		6,019,712	(458,056)
<b>Cash generated from operations</b>		30,399,540	2,814,030
Income tax paid		(767,409)	(3,258,577)
Income tax refunded		2,436,056	-
<b>Net cash from/(used in) operating activities</b>		32,068,187	(444,547)
<b>Investing activities</b>			
Acquisition of property, plant and equipment		(9,838,896)	(18,428,014)
Deposit for acquisition of property, plant and equipment		(1,393,959)	-
Land lease payments		(10,000)	(87,551)
Repayment from/(advances to) a shareholder		8,497	(156,229)
Repayment from/(advances to) related companies		1,560,000	(3,500,000)
Proceeds from disposal of property, plant and equipment		29,395	-
Interest received		89,509	140,156
<b>Net cash used in investing activities</b>		(9,555,454)	(22,031,638)

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	Notes	2009 RMB	2008 RMB
<b>Financing activities</b>			
Repayment of bank loans		(46,350,000)	(7,850,000)
New bank loans		37,545,221	37,650,000
Advance from/(repayment to) an equity holder		554,564	(5,859)
Interest paid		(1,971,839)	(1,725,228)
Dividend paid to an equity shareholder		-	(456,089)
Repayment to a related company		-	(60,000)
<b>Net cash (used in)/from financing activities</b>		(10,222,054)	27,552,824
<b>Net increase in cash and cash equivalents</b>		12,290,679	5,076,639
<b>Cash and cash equivalents at beginning of year</b>		17,492,467	12,462,094
<b>Effect of foreign exchange rate changes</b>		(57,236)	(46,266)
<b>Cash and cash equivalents at end of year</b>		29,725,910	17,492,467
<b>Cash and cash equivalents comprises</b>			
Cash and bank balances		29,725,910	17,492,467

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2009

### 1. GENERAL

China Biodiesel International Holding Co., Limited (the “Company”) was incorporated in the British Virgin Islands on 18 October 2005. Its registered office is at Nerine Chamber, PO Box 905, Road Town, Tortola, the British Virgin Islands. The shares of the Company were admitted to trading on the Alternative Investment Market (“AIM”) of the London Stock Exchange plc (the “Stock Exchange”) on 30 June 2006.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are the manufacturing and sale of biodiesel products and the provision of services in connection with biodiesel distillation technologies in the People’s Republic of China (the “PRC”). The Group’s principal places of business are at Longyan and Xiamen, both cities are located in the Fujian Province, the PRC.

### 2. SEGMENT INFORMATION

On first-time adoption of IFRS 8 “Operating segments” which requires an entity to report operating segments in a manner consistent with the internal reporting provided to the chief operating decision-maker, there was no additional reportable segment identified for the Group as the Group as a whole forms an operating segment engaging in producing and marketing of biodiesel products in the PRC. In addition, the Group’s turnover and operating profit are almost entirely derived from its operations in the PRC. As a result, no segment analysis has been presented.

Revenue from a customer of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Customer A	<u>22,010,997</u>	<u>53,983,476</u>

### 3. REVENUE

Revenue represents the net invoiced value of goods sold and service income earned by the Group. The amount of each significant category of revenue recognised during the year is as follows:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Revenue arises from:		
Sale of biodiesel products	167,848,509	164,099,041
Provision of technology services and others	<u>100,000</u>	<u>100,000</u>
	<u>167,948,509</u>	<u>164,199,041</u>

### 4. GOVERNMENT SUBSIDY

Government subsidy represents value-added tax (“VAT”) refunded or refundable from the government which is paid for the sale of biodiesel products made of waste oil. Pursuant to a VAT regulation circular which was issued by the Ministry of Finance in the PRC on 9 December 2008, both Longyan Zhuoyue New Energy Development Co., Ltd. (“LZNE”) and Xiamen Zhuoyue Biomass Energy Co., Ltd. (“XZBM”), being the subsidiaries of the Company producing biodiesel

products by using waste oil with “Comprehensive Utilisation of Resources” verification issued by the relevant government authority, are eligible to claim for the refund of VAT paid for the sale of biodiesel products since 1 July 2008. There are no unfulfilled conditions or contingencies relating to this subsidy.

In order to provide the readers of the financial statements with more accurate and relevant information relating to the gross profit earned by the Group from the sale of its biodiesel products, such VAT refunds are presented as a separate line item above the gross profit in the consolidated statement of comprehensive income as management concluded that it is directly related to the sale of biodiesel products made out of wasted oils. VAT refunds which were presented as other income for the year ended 31 December 2008 have been restated.

## 5. OTHER INCOME

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Income from sale of used packaging materials and semi-finished products	126,615	3,732,643
Government grants (note 6)	<u>11,490,000</u>	<u>15,350,000</u>
	<u><u>11,616,615</u></u>	<u><u>19,082,643</u></u>

As a result of re-utilising wasted oil barrel, the income from sale of used packaging materials substantially decreased as compared with that in 2008.

## 6. GOVERNMENT GRANTS

Government grants represent the financial support from relevant government authorities for the encouragement of the Group’s engagement in energy-saving industry and research and development of biodiesel products. Pursuant to relevant notices issued by the Finance Bureau of the PRC for energy saving biodiesel producers, as a result of the Group engaging in the production and sale of biofuel and biodiesel, it is entitled to financial rewards the amount of which is determined by government authorities by reference either to production capacity of the Group or to the volume of biodiesel products produced and sold. There are no unfulfilled conditions or contingencies relating to these grants.

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Grants rewarded for the usage of non-grain materials in the production of biodiesel products	8,440,000	8,020,000
Grants rewarded for engagement in energy-saving industry	-	6,000,000
Grants rewarded for research of biodiesel products	<u>3,050,000</u>	<u>1,330,000</u>
	<u><u>11,490,000</u></u>	<u><u>15,350,000</u></u>

## 7. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Cost of inventories recognised as expense	165,139,338	158,782,804
Auditor’s remuneration	536,513	590,347

Staff costs (note 9)	7,828,075	6,847,000
Depreciation of property, plant and equipment	10,772,059	8,424,420
Amortisation of land lease payments	278,932	198,046
Write-down of inventories	438,190	7,036,340
Amortisation of other intangible assets	446	446
Operating lease expense	-	31,200
Exchange loss, net	150,166	155,743

## 8. FINANCE INCOME AND COSTS

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
<b>Finance income</b>		
Bank interest income	<u>89,509</u>	<u>140,156</u>
<b>Finance costs</b>		
Bank interest expense	<u>1,971,839</u>	<u>1,725,228</u>

## 9. STAFF COSTS

Staff costs (including directors) comprise:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Wages and salaries	6,839,935	5,995,805
Employers' national insurance contributions	432,756	372,392
Staff welfare	<u>555,384</u>	<u>478,803</u>
	<u>7,828,075</u>	<u>6,847,000</u>

Included in staff costs are directors' emoluments analysed as follows:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Salaries	1,331,362	1,689,820
Employers' national insurance contributions	<u>10,015</u>	<u>12,089</u>
	<u>1,341,377</u>	<u>1,701,909</u>

The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. All key management personnel are the directors of the Company.

## 10. INCOME TAX EXPENSE

The Company itself did not generate any taxable profit for the year ended 31 December 2009, (2008: nil).

According to the new PRC tax rules and regulations effective on 1 January 2008, LZNE and its subsidiaries, Longyan Zhuoyue Biodiesel Technology Development Co., Ltd. and Xiamen Horda Industry & Trade Co., Ltd. as well as Longyan Zhuoyue Biomass Co., Ltd. ("LZBM"), a subsidiary of the Company, are subject to PRC Enterprise Income Tax ("EIT") at the standard rate

of 25% in the fiscal year 2009 (2008: 25%). XZBM was established in the Xiamen Special Economic Zone prior to 16 March 2007 and is subject to EIT at a rate of 20% (2008: 18%), which is the standard tax rate in the special economic zone in the fiscal year 2009.

The standard EIT rate applicable to XZBM will be gradually increased from 20% to 25% during a three-year transitional period as follows:

Year	Applicable EIT rate
2010	22%
2011	24%
2012	25%

Both LZNE and XZBM, being wholly owned foreign enterprises (“WFOE”), are eligible to enjoy tax exemptions and tax reductions available to a WFOE. In particular, LZNE has been eligible for a 50% reduction in the EIT standard rate for the fiscal years 2008 and 2009 and will be eligible for such a reduction in 2010, while XZBM has been eligible for a full exemption from EIT for the two fiscal years 2008 and 2009 and will be eligible for a 50% reduction in the EIT standard rate for the next three fiscal years. In addition, according to the tax circular issued by the State Administration of Taxation in the PRC (“SAT”) dated 10 April 2009, being approved as “Comprehensive Utilisation of Resources” entities, both entities are also eligible to a preferential tax policy under which a 10% reduction is applied to their revenue generated from the sale of biodiesel products by utilising waste or recycled materials in the calculation of the assessable income since 1 January 2009.

In 2008, management considered that both LZNE and XZBM would be eligible for either of the above tax preferential policies and opted for the latter option (i.e., the one related to the subsidiaries being approved as “Comprehensive Utilisation of Resources” entities). However, according to further clarification from the local tax authorities on 30 August 2009, the subsidiaries could only enjoy the former tax preferential policy (i.e., the one related to the subsidiaries being qualified as WOFEs) in 2008. The under-provision of EIT arising from the above, together with the impact on exemption of EIT relating to government grants granted in 2008 as described below, has been reflected in the current year’s tax provision.

LZBM, being a WFOE, has been eligible for a preferential tax policy of a full exemption from EIT for the two fiscal years 2008 and 2009 and is eligible for a 50% reduction of EIT standard rate for the next three fiscal years.

Pursuant to a circular jointly issued by the Ministry of Finance in the PRC and the SAT dated 16 June 2009, government grants that were granted on or after 1 January 2008 qualify for an EIT exemption if the following criteria are met: (1) the entities receiving the grants must be able to provide approval documentation issued by relevant government authorities in which usage of the grants is specified; (2) there are detailed promulgations issued by relevant government authorities to manage the use of the grants and (3) the grants, together with the expenditures associated with the grants, are accounted for separately in the books of the entities receiving the grants. The circular also states that the expenses associated with the grants, and the depreciation and amortisation charges in connection with the non-current assets acquired by the entities by utilising the grants, are not deductible for the purpose of an EIT calculation.

Out of the total government grants shown in note 6, government grants in the amount of RMB10.14 million (2008: RMB15.1 million) met the above criteria and the local tax authority has approved the EIT exemption related to such government grants received by the Group since 1 January 2008.

Income tax expense of the Group for the fiscal year 2009 represents the EIT calculated at the applicable income tax rate on the assessable income.

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Current tax		
- tax for the year	383,534	751,094
- under-provision in respect of prior years	455,962	-
Deferred tax		
- current year	-	(549,018)
- write off of deferred tax assets	<u>711,518</u>	<u>-</u>
Income tax expense	<u>1,551,014</u>	<u>202,076</u>

The income tax expense for the year can be reconciled to profit per consolidated statement of comprehensive income as follows:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Profit before income tax expense	<u>13,010,740</u>	<u>4,305,782</u>
Tax calculated based on the standard rate of EIT in the PRC of 25% (2008: 25%)	3,252,685	1,076,445
Tax exemption and concession	(4,088,596)	(4,027,105)
Tax effect of tax losses not recognised	524,101	494,267
Tax effect of deductible temporary differences not recognised	-	1,857,011
Tax effect of non-deductible expenses	695,344	973,584
Effect of difference between standard rate and expected rate at realisation of temporary differences	-	(172,126)
Under-provision in respect of prior years	455,962	-
Write off of deferred tax assets previously recognised	<u>711,518</u>	<u>-</u>
Income tax expense	<u>1,551,014</u>	<u>202,076</u>

## 11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
<i>Earnings</i>		
Earnings for the purpose of basic earnings per share	11,478,455	4,127,722
Effect of dilutive potential ordinary shares	<u>-</u>	<u>-</u>
Earnings for the purpose of diluted earnings per share	<u>11,478,455</u>	<u>4,127,722</u>
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	45,411,765	45,411,765
Effect of dilutive potential ordinary shares:		
- share options	<u>-</u>	<u>-</u>

Weighted average number of ordinary shares for the purpose of diluted earnings per share

45,411,765      45,411,765

*Earnings per share*

	<u>RMB</u>	<u>RMB</u>
Basic	<u>0.253</u>	<u>0.091</u>
Diluted	<u>0.253</u>	<u>0.091</u>

The computation of diluted earnings per share for 2009 and 2008 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares in both 2009 and 2008.

## 12. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings and structures RMB</b>	<b>Machinery RMB</b>	<b>Motor vehicles RMB</b>	<b>Furniture, fixtures and equipment RMB</b>	<b>Construction in progress RMB</b>	<b>Total RMB</b>
<b><u>2009</u></b>						
<b>Cost</b>						
At 1 January 2009	45,607,995	122,396,235	1,742,546	827,022	11,326,524	181,900,322
Additions	-	1,919,583	265,723	74,678	4,657,907	6,917,891
Transfer to property, plant and equipment	10,400,298	-	-	-	(10,400,298)	-
Disposals	-	(423,000)	-	-	-	(423,000)
Reclassification	-	(62,545)	-	62,545	-	-
At 31 December 2009	<u>56,008,293</u>	<u>123,830,273</u>	<u>2,008,269</u>	<u>964,245</u>	<u>5,584,133</u>	<u>188,395,213</u>
<b>Accumulated depreciation and impairment</b>						
At 1 January 2009	1,971,478	13,982,022	756,227	246,176	-	16,955,903
Depreciation	1,312,029	8,990,395	322,305	147,330	-	10,772,059
Written back on disposals	-	(222,045)	-	-	-	(222,045)
Reclassification	-	(5,629)	-	5,629	-	-
At 31 December 2009	<u>3,283,507</u>	<u>22,744,743</u>	<u>1,078,532</u>	<u>399,135</u>	<u>-</u>	<u>27,505,917</u>
<b><u>2008</u></b>						
<b>Cost</b>						
At 1 January 2008	42,797,284	114,645,582	1,742,546	361,783	6,343,841	165,891,036
Additions	-	4,642,578	-	465,239	10,901,469	16,009,286
Transfer from construction in progress	2,810,711	3,108,075	-	-	(5,918,786)	-
At 31 December 2008	<u>45,607,995</u>	<u>122,396,235</u>	<u>1,742,546</u>	<u>827,022</u>	<u>11,326,524</u>	<u>181,900,322</u>
<b>Accumulated depreciation and impairment</b>						
At 1 January 2008	868,964	7,069,992	453,851	138,676	-	8,531,483
Depreciation	1,102,514	6,912,030	302,376	107,500	-	8,424,420
At 31 December 2008	<u>1,971,478</u>	<u>13,982,022</u>	<u>756,227</u>	<u>246,176</u>	<u>-</u>	<u>16,955,903</u>
<b>Net book value</b>						
At 31 December 2009	<u>52,724,786</u>	<u>101,085,530</u>	<u>929,737</u>	<u>565,110</u>	<u>5,584,133</u>	<u>160,889,296</u>
At 31 December 2008	<u>43,636,517</u>	<u>108,414,213</u>	<u>986,319</u>	<u>580,846</u>	<u>11,326,524</u>	<u>164,944,419</u>

The Group has pledged leasehold land (note 13), buildings and certain machinery having a net book value (“NBV”) of RMB5,799,901, RMB11,023,285 and RMB10,183,337 (2008: RMB5,933,824, RMB18,285,118 and RMB59,815,503) respectively to secure loans and other banking facilities granted to the Group.

Items of machinery with NBV of RMB200,955 were disposed of during the year (2008: nil), resulting in a loss on disposal of RMB171,560 (2008: nil).

### 13. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

The Group’s payments for leasehold land held for own use under operating leases comprise:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Leasehold land in the PRC		
- Long lease	<u>8,474,431</u>	<u>8,743,363</u>

As at 31 December 2009, the Group leased the following four (2008: four) pieces of land with total consideration of RMB9,154,024 (2008: RMB9,144,024). The application for a certificate of land use right in respect of the third piece of land located in Longyan with an area of 58,999 sq. m. is currently in progress.

<u>Location</u>	<u>Area (sq. m.)</u>	<u>Lease term (years)</u>	<u>Lease expiry date</u>
Longyan, Fujian Province, the PRC	8,149	50 years	26 March 2053
Longyan, Fujian Province, the PRC	11,000	50 years	15 November 2055
Xiamen, Fujian Province, the PRC	30,005	50 years	6 December 2056
Longyan, Fujian Province, the PRC	58,999	50 years	18 December 2056

### 14. INVENTORIES

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Raw materials and consumables	10,926,174	6,404,014
Work-in-progress	1,556,893	2,278,504
Finished goods	<u>4,587,048</u>	<u>5,875,740</u>
	<u>17,070,115</u>	<u>14,558,258</u>

## 15. TRADE AND OTHER RECEIVABLES

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Trade debtors - third parties	1,001,381	8,828,971
Trade debtors - related companies	-	872,434
	<u>1,001,381</u>	<u>9,701,405</u>
Notes receivable - third parties	5,605,620	2,150,000
Deposits paid	2,186,047	477,342
Prepayments	82,401	71,810
Other receivables	249,161	945,163
VAT refundable	9,636,344	6,190,852
Amount due from a shareholder	147,732	156,229
Amounts due from related companies	<u>2,000,000</u>	<u>3,560,000</u>
	<u><u>20,908,686</u></u>	<u><u>23,252,801</u></u>

Third party trade debtors are with no specific credit terms granted.

Related companies are companies in which the director has an interest. Amounts due from related trading companies are unsecured, interest-free and with no specific credit terms granted. The amounts due from related non-trading companies are unsecured, interest-free and repayable on demand.

As at 31 December 2009, all items in trade and other receivables were denominated in RMB. The directors consider that the carrying amount of trade and other receivables classified as loans and receivables approximates their fair value.

The aging of trade debtors which are past due but not impaired are as follows:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Less than 1 month past due	1,001,381	533,454
1 to 3 months past due	-	1,070,374
More than 3 months but less than 12 months past due	-	8,097,577
	<u>1,001,381</u>	<u>9,701,405</u>

The balances that were past due but not impaired related to a wide range of customers with no recent history of default.

The ageing of amounts due from related non-trading companies which are past due but not impaired are as follows:

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Less than 1 month past due	-	1,360,000
1 to 3 months past due	-	60,000
More than 3 months but less than 12 months past due	-	2,140,000
More than 1 year but less than 2 years past due	<u>2,000,000</u>	-
	<u><u>2,000,000</u></u>	<u><u>3,560,000</u></u>

## 16. TRADE AND OTHER PAYABLES

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Trade creditors - third parties	556,059	1,905,779
Trade creditors - related parties	161,626	-
	<u>717,685</u>	<u>1,905,779</u>
Notes payable	500,000	-
Deferred income	450,000	550,000
Deposits received	1,460,561	198,128
Payroll payable	1,020,513	580,562
Other payables	2,054,135	1,132,065
Payable to contractors for acquisition of property, plant and equipment	1,978,828	4,899,833
VAT payable	4,457,445	274,093
Amount due to a shareholder	554,564	-
	<u>13,193,731</u>	<u>9,540,460</u>

Deferred income represents the unamortised revenue from the granting of exclusive catalyst purchase rights to customers. The directors consider that the carrying amount of trade and other payables approximates their fair value.

Notes payable represents a bank acceptance issued by XZBM to a related party who is not a member of the Group with 20% of the face value of the issued bank acceptance deposited to the accepting bank as collateral. The notes will be due on 17 February 2010.

## 17. OTHER FINANCIAL LIABILITIES

	<b>2009</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>
Bank loans due within one year		
- Secured by the Group's machinery (note 12) (i)	4,850,000	4,850,000
- Secured by the Group's buildings and leasehold land (note 12, 13) (ii)	13,695,221	30,000,000
- Guaranteed by a related company (note 19) (ii)	3,000,000	3,000,000
- Guaranteed by a fellow subsidiary (i)	8,000,000	-
- Unsecured with non-interest bearing	-	500,000
	<u>29,545,221</u>	<u>38,350,000</u>

(i) Interest is charged at fixed rates ranging from 5.841% to 8.217% (2008: from 6.138% to 8.217%).

(ii) Interest is charged at fixed rates ranging from 2% to 5.346% (2008: 1.2 times of benchmark interest rate stipulated by the People's Bank of China).

## 18. OTHER FINANCIAL LIABILITIES - CARRYING AMOUNT AND FAIR VALUE

The book value and fair value of other financial liabilities are as follows:

<b>2009</b>		<b>2008</b>	
<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>

Other financial liabilities	<u>29,545,221</u>	<u>29,545,221</u>	<u>38,350,000</u>	<u>38,350,000</u>
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Fair value of financial liabilities has been determined by discounting cash payments at prevailing market rates of interest having regard to the specific risks attaching to them.

## 19. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2009, the Group entered into the following transactions with related parties who are not members of the Group.

Entities	Type of transactions	Transaction amounts	
		2009 RMB	2008 RMB
Companies in which directors or their close family members have an interest	Purchase from the Group	<u>2,679,754</u>	<u>4,099,483</u>
Companies in which directors or their close family members have an interest	Sale to the Group	<u>297,111</u>	<u>1,811,030</u>

The Group's bank loans in the amount of RMB3,000,000 as at 31 December 2009 (2008: RMB3,000,000) were guaranteed by a related company, which is controlled by close family members of the Company's directors.

Management considers that the directors of the Company are the "key management" of the Group. Details of directors' emoluments have been disclosed in note 9.

## 20. DIVIDENDS

At a Board of Directors' meeting held on 12 April 2010, the directors recommended a final dividend of 10% of the net profit for 2009.

At a Board of Directors' meeting held on 9 April 2009, the directors did not recommend any final dividend for 2008.

## 21. SUBSEQUENT EVENTS

A government grant of RMB4 million was received by the Group during the first quarter of 2010.

The Company has been informed that on 11 February 2010, Mr. Huodong Ye, Chairman of the Company, purchased 860,875 ordinary shares of 0.01 pence each at a price of 10 pence per ordinary share, from China Strategy Investment Management Co., Ltd. Following this purchase, Mr. Huodong Ye has a total beneficial and non-beneficial holding of 33,772,875 ordinary shares, representing 74.37% of the current issued share capital of the Company.