NOVARISE RENEWABLE RESOURCES INTERNATIONAL LTD
ABN – 48 138 537 596

FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

Directors' Report

Your Directors present their Report on the consolidated entity (hereinafter referred to as the Group) consisting of Novarise Renewable Resources International Ltd and its controlled entities for the year ended 31 December 2012.

Directors:

The following persons were directors of the Group during the whole of the financial year and up to the date of this Report, unless otherwise stated:

Director:		Appointed	Resigned
Mr. Qingyue Su	Chairman and Managing Director	6 Aug 2009	
Mr. Xiaobin Zhuang	Executive Director	9 Dec 2009	
Mr. Chung Yi So	Non-Executive Director	9 Dec 2009	
Mr. Liandong Tu	Non-Executive Director	9 Dec 2009	
Mr. John O'Brien	Non-Executive Director	9 Dec 2009	
Mr. Fai Peng Chen	Non-Executive Director	6 Aug 2009	

Company Secretary:

The following persons were Company Secretary of the Group during the whole of the financial year and up to the date of this Report, unless otherwise stated:

Company Secretary:		Appointed	Resigned
Mr. Xiaobin Zhuang	Joint Company Secretary	18 January 2010	
Ms Winnie Chen	Joint Company Secretary	1 Dec 2010	

Information on Directors

Mr. Qingyue Su – Chairman and Managing Director

Mr. Su is the Chairman and Managing Director of Novarise. He has more than 20 years' experience in the polypropylene fibre industry.

Prior to founding the Company in 1998, Mr. Su occupied positions as general manager for a number of companies in China which produce PP filament yarn and related products.

Under his leadership, the Company has successfully developed the technology to process post-consumer PP waste material to produce fibre-grade recycled polypropylene pellets, which have won a number of awards for technological innovation.

Directors' Report (continued)

Information on Directors (continued)

Mr. Su's experience and achievements in the polypropylene filament yarn industry are widely recognised. He has led the Company to become a member of the China Chemical Fibres Association, and the Polypropylene Committee of the China Chemical Fibres Association, and was involved in establishment of the industry standard for polypropylene filament yarn.

Mr. Su is also a member of the China Chemical Fibres Association, an honorary member of the China Association of Environmental Protection Industry, and a director of the China Resource Recycling Association, the Quanzhou Bags Association, the Quanzhou Youth Chamber of Commerce, and the Quanzhou Economy and Development Zone Commerce Union.

Mr. Su is a resident of China and does not hold directorship of any other listed companies.

Interest in Shares and Options: Ordinary shares of 2,218,743 shares.

Interest in Shares and Options by Great Rises International Group Investment Ptd (BVI): Ordinary shares of 268,269,444 shares

Mr. Xiaobin Zhuang – Executive Director

Mr. Zhuang is an executive director and is the joint Company Secretary of Novarise. He is also the Chief Financial Officer of the Company and has more than 10 years' experience in accounting and financial management.

Mr. Zhuang has acted as the Chief Financial Officer of the Company since 2003, and is in charge of the Group's financial management and planning.

Before joining the Sanhong Group in 2003, Mr. Zhuang was the financial manager for the Quanzhou Branch of Jitong Communications Co. Ltd, a large state owned communication Company in China, where he was involved in corporate finance and mergers and acquisitions projects. Prior to his appointment to Executive Director of Novarise Renewable Resources International Ltd, he was an account manager with Tianyu Futures Investment Co., Ltd.
Mr. Zhuang graduated from Xiamen University in Fujian Province, China with a degree in accounting. In 2007 he undertook further study in relation to senior financial management and chief financial officer roles with the Sino-British University of Cambridge. He is currently undertaking an MBA course at the Huaqiao University in Quanzhou, Fujian Province.

Mr. Zhuang is a resident of China and does not hold directorship of any other listed companies.

Interest in Shares and Options: Nil

Directors' Report (continued)

Information on Directors (continued)

Mr. Chung Yi So – Non-Executive Director

Mr. So is a non-executive director of the Company.

Mr. So co-founded the Company in 1998 with Mr. Qingyue So, first with the establishment of Quanzhou Sanhong in 1998, and then with the establishment of Fujian Sanhong in 2006.

Prior to co-founding the Company, between 1982 and 1988 Mr. So managed a trading company in Hong Kong, which was involved in the business of importing and exporting polypropylene products. Between 1988 and 1998, Mr. Su managed Hongli Weaving Co. Ltd in mainland China, which manufactured and sold polypropylene yarn.

Mr. So has been involved in the management and administration of the Company including in the expansion of the Company's export business.

Mr. So is a resident of Hong Kong and does not hold directorship of any other listed companies

Interest in Shares and Options: Ordinary shares 31,561,111 shares.

Mr. John O'Brien – Non-Executive Director

Mr. O'Brien is a Non-Executive Director of Novarise. He has had over 10 years of experience in the green technology sector, and is the founder and Managing Director of Australian CleanTech Pty Ltd. He has advised numerous organisations with respect to clean technology investments.

Prior to joining the Australian energy industry, Mr. O'Brien held oil and gas and consulting engineering roles in the UK, Canada and the Middle East. Mr. O'Brien previously worked for Origin Energy Limited on growth, strategy and mergers and acquisitions projects, which focused on reviewing clean energy and water industry opportunities. He was also the founding secretary of that company's Operational Risk Committee.

Mr. O'Brien is also on the board of two unlisted clean technology start-up companies, is an adjunct lecturer on the MBA course at the University of Adelaide and is a member of the South Australian Premier's Climate Change Council and Innovation Australia's Clean Technology Innovation Committee. He is a Chartered Engineer with the Institute of Engineers of Australia, a Graduate member of the Australian Institute of Company Directors (GAICD) and is a member of both the Australian Water Association and the Responsible Investment Association of Australasia. Mr. O'Brien has engineering degrees from the University of Oxford in England, and Trinity College in Ireland, and an MBA from the University of Adelaide.

Mr. O'Brien is a resident of Australia and does not hold directorship of any other listed companies.

Interest in Shares and Options: Nil

Directors' Report (continued)

Information on Directors (continued)

Mr. Liandong Tu – Non-Executive Director

Mr. Tu is a Non-Executive Director of Novarise. He is the Chief Financial Officer of Power Capital Corp. Ltd, and, from 2005 to 2008, he was a non-executive director of Shanghai Prosolar Real Estate Co., Ltd, listed on the Shanghai Stock Exchange. He was previously the Principal Clerk of the China Securities Regulatory Commission. Mr. Tu is a registered Certified Public Accountant.

Mr. Tu graduated from Fuzhou University in Fujian Province, China, with a Bachelor of Science and from Xiamen University with a Master of Science (Physical Chemistry). He has also been accredited as a qualified independent director (public company) by the Shenzhen Stock Exchange, and he is a qualified lawyer and an accredited valuer.

Mr. Tu has experience in corporate advisory and corporate finance work, and has acted as the corporate advisor for a number of companies which have listed in China and overseas.

Mr. Tu is a resident of China and does not hold directorship of any other listed companies.

Interest in Shares and Options: Nil

Mr. Fai Peng Chen – Non-Executive Director

Mr. Chen is a Non-Executive Director of Novarise. He is a partner at Minter Ellison Lawyers and a director of ASX listed companies TWT Group Ltd, and Mesbon China Nylon Limited.

Mr. Chen graduated with a Bachelor of Laws from the University of Adelaide and an MBA (International Management) from RMIT University Melbourne.

Interest in Shares and Options: Ordinary shares of 8,000 shares

Ms Winnie Huei Chi Chen - Company Secretary

Ms Chen was appointed Company Secretary in December 2010. She is franchise owner of the Cabot Square accounting franchise in the Sydney CBD since 2004 and is active particularly in Sydney's Chinese business community. Ms Chen has also been working with the Institute of Bi-Lingual Business Training since 2004 in delivering a range of vocational training modules (including Accounting, Book Keeping & Taxation, etc.) to many hundreds of Chinese ESL small business owner clients.

Ms Chen previously worked as associate or adviser to several large manufacturing businesses in Australia and in Hong Kong.

Ms Chen was awarded a Bachelor of Business Degree from Northern Territory University in 1995 and a MBA (International Management) also from Northern Territory University in 1997. Ms Chen is licenced as a Financial Planner and is a Justice of the Peace in NSW.

Ms Chen is a resident of Australia.

Interest in Shares and Options: Nil

Directors' Report (continued)

Principal Activities

The Group combines scientific research, production and operation as a Chinese-foreign joint venture new high-tech enterprise. The principal activities of the Group are the use of technology to process polypropylene (PP) waste material into fibre-grade PP pellets. The re-cycled PP pellets are used to produce polypropylene filament yarns, PP consumer webbing products and PP cloth. The average utilization rate of recycled PP plastics is approximately 60%, with some products such as black PP yarn able to be produced with 100% waste PP plastics. Meanwhile, 100% of our products can be recycled and reused. Our Group is the only enterprise recycling polypropylene (PP) waste material to produce fibre-grade recycled PP pellets, and is also the largest manufacturer of the resultant polypropylene filament yarn which is supplied to industries in China and internationally.

The Group utilises recycling technology and is focussed on further broadening the application of its technology from the consumer area to requirements in the industrial and consumption areas.

The Group has been able to harness its technology and know-how, to develop what it believes to represent a distinct competitive advantage by recycling PP waste to produce quality PP fibre-based products at lower production costs than if 100% virgin PP pellets were to be used.

There were no significant changes in the nature of the Group's activities that occurred during the reporting year.

Dividends

After considering the significant cash flow requirements associated with the construction of Nan'an factory, the Board agreed not to distribute a dividend for 2012 in the Board Meeting held on 22 August 2012.

Review of Operations

The following provides a summary of the activities of the Group during the course of the financial year under review:

Completion of main operational targets in 2012:

Items	2012 (AUD$'000)	2011 (AUD$'000)	2012 (RMB'000)	2011 (RMB'000)
Revenue including interest income	86,654	82,072	567,020	546,523
NPAT	16,720	17,004	109,409	113,233

Directors' Report (continued)

Review of Operations (continued)

1. Results as announced to the market

	$A'000			
Revenue from continuing operations	Up	6 %	to	$86,654
Other income	Down	29%	to	$637
Total revenue and other income from ordinary activities	Up	5 %	to	$87,291
Profit from ordinary activities after tax attributable to Members	Down	1.67 %	to	$16,720
Total comprehensive income for the period attributable to members	Down	18 %	to	$15,937

2. Commentary on results

Revenue during the reporting period grew by 6% compared to previous corresponding period. NPAT declined slightly from $17,004,206 in FY2011 to $16,720,300 in FY2012.

Revenue grew significantly steadily during the period due to the increase of new buyers and the sales volume of recycled PP granules. Manufacturing and continuous process improvements resulted in increased productivity and efficiency and contributed to the unit cost reduction and improvement in overall gross profit margins.

Sales in recycled PP yarn and PP webbing products grew due to continued growth of market acceptance of Novarise's products and quality recognition. Overall demand for PP yarn expanded in China and internationally in 2012, driven by stronger global demands and rising consumer awareness for Green products . Sale prices of PP yarn and webbing products maintained and grew as the result of this stronger demand. Consistent with its intent to be a profitable, integrated manufacture the Group began to market finished products such as notebook bags, shopping bags, hotel slippers and work clothing during 2012.

Procurement of post-consumer PP products to feed the growing manufacturing needs of the Group also grew by volume and expanded geographically in 2012. The supply and procurement costs for PP waste and feedstock remained stable during the time.

In 2012, the Group won a silver award for environmentally friendly computer bags, hotel slippers and renewable polypropylene fibre spinning process in the "6.18 Cross-Strait innovations Exhibition" held in Fuzhou. In 2012, the Group obtained a total of nine utility model patent certificates from China for backpack, satchel, storage box, waist pack, computer bag, work cloths, slippers, shopping bags, mountaineering bags. The Group was also awarded as a national manufacturing and R&D base for polypropylene renewable products.

There are 8 production lines planned for the completed Nan'an production facility , capable of producing 80,000 tonnes of PP products. The first production line was commissioned for production in October 2012. Another four production lines are in the process of being installed.

Directors' Report (continued)

Review of Operations (continued)

2. Commentary on results (continued)

Two of them are scheduled to enter production in April 2013, whilst the other two production lines are scheduled for commissioning in June 2013. The remaining three production lines are scheduled to be installed in May 2013 and production scheduled to commence in November 2013.

Production line equipment installation and production schedule

Production line	Status of installation	Schedule for production
First line	Installation completed in October 2012	October 2012
Second line	In process of installation and expected to be completed in March 2013	April 2013
Third line	In process of installation and expected to be completed in March 2013	April 2013
Fourth line	In process of installation and expected to be completed in May 2013	June 2013
Fifth line	In process of installation and expected to be completed in May 2013	June 2013
Sixth line	Scheduled for installation in May 2013 and expected to be completed in October 2013	November 2013
Seventh line	Scheduled for installation in May 2013 and expected to be completed in October 2013	November 2013
Eighth line	Scheduled for installation in May 2013 and expected to be completed in October 2013	November 2013

During 2012, the Group borrowed funds totalling RMB250 million (AUD38million) from third parties. These funds were partly used to fund the development of the Nan'an project. In addition, the Group took advantage of a short term opportunity to arbitrage interest rates and lent a total of RMB263,400,000 (AUD40,293,713) to a Xiamen based company Leiqiang Company. The terms of this loan agreement were deemed favourable by the management of the Group and the funds will be repaid in full in June 2013. The management of the Group carefully assessed the risk of default on this unsecured loan and believed that it was in the best interest of the Group to take advantage of this opportunity.

3. Main operating business

Novarise's main operating business is the production of fibre-grade recycled polypropylene pellets, polypropylene filament yarn and cloth as well as other related polypropylene products, and the cleaning & reuse of waste plastic as raw material inputs.

Directors' Report (continued)

Review of Operations (continued)

4. Business by Region

Region	Sales Revenue AUD$000	Rate (%)	Sales ratio at home and abroad in 2011
China	74,246	90	90
Overseas	8,204	10	10
Total	82,451		

From the above data it can be seen that the Group's main sales region is China. Many of these (Chinese) domestic customers, however, have points of sale overseas. They are the suppliers of components and completed products for many global brands including HP, IBM, LENOVO, DELL, TOSHIBA, ACER, BENQ and ASUS. Those relevant and substantial quantities of indirect exports are not included in the above Novarise export statistics.

5. Major suppliers and customers

The value of purchases from our top five major suppliers represents 40.21% of our total purchases. The value of sales to our top five major customers represents 23.50% of our total sales.

6. Significant expenditure

Items	Currency	Amount （AUD$）
Machinery & Equipment	AUD$	11,157,612
Factory Building	AUD$	8,108,735
Land use right	AUD$	172,690
Total		19,439,037

7. Business Update

For the year ended 31 December 2012, the Group can report that:

(1) Novarise continues to research different production processes for PP waste and continues to look for additional sources and treatment methods. To date there are more than 30 kinds of PP waste which can be productively used.

(2) With its green business philosophy, & proven fibre-grade recycled PP technology, Novarise has successfully developed 100% recyclable PP woven cloth and various new products, such as a range of bags & cases, garments & shoes, daily necessities and outdoor applications. Some new products have been put into trial production in 2012 and will be expanded into full production in 2013. This will provide additional profit streams for Novarise.

Directors' Report (continued)

Significant changes in the nature of activities

Other than as otherwise disclosed in this Report, there were no other changes in the nature of activities that occurred during the course of the financial year under review.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs, in subsequent financial years other than as disclosed in Note 32 in the accompanying financial report.

Likely developments and expected results of operations

1. Outlook

The Group anticipates that its sales and revenue for 2013 will grow by increasing the sales volume, particularly of recycled PP granules and new products such as computer bags. The company also expects to expand its domestic and international sales to more regions, countries and buyers.

Demand and market acceptance of Novarise's recycled products are expected to grow in China and internationally as governments and consumer behaviours encourage the wider use of Green PP products such as green shopping bags.

Continuous R&D investments in the manufacturing and industrial process underpin Novarise's ongoing intent to become the global industry leader in PP recycling. The Group will continue to invest in R&D in its manufacturing and industrial process, quality improvement and new product development.

With the growth and expansion of its business, the Group will need to raise more capital to fund its growth. The Group is looking at raising more capital through options such as private placements.

The Group wishes to highlight the following factors that might adversely and materially affect its outlook for 2013:

- The continued rise of the RMB will affect the profit margins of international sales denominated in USD as not all of the rise of RMB can be passed to all international buyers; and

- The global economic recovery remains erratic and volatile and may be interrupted by "shock" factors such as sudden and rapid rise of the price of crude oil due to, for example, political unrest in the Middle East.

Directors' Report (continued)

Likely developments and expected results of operations (continued):

2. Operating Plans and Objectives in 2013

(1) Purchases: the Group will continue to search for new types of recyclable PP waste and more business relationships in different regions & countries to ensure the ongoing supply of PP waste. Simultaneously, the Group is considering the formal establishment of an overseas procurement network to lock in raw material supplies.

(2) In 2013, the sales model in domestic markets will be to search directly for the end-users who need the products (i.e. without intermediate agents in the domestic market). There will then be two kinds of sales patterns in the international market. One of these is to make full use of our business networking to find potential end-users, in order to better control the distribution of profits and have a better understanding of timely and accurate market information. The other is to set up intermediate agent arrangements in different countries or regions to expand our market and increase market share.

(3) Capacity: 8 production lines would be put into use by November 2013 and the Group annual output will reach 80,000 tons.

(4) Human resources: after the completion of our new production facility, the Group will search for new human resources by various means to satisfy labour demand.

In summary, 2013 will be a very important year for the Group's development. Putting the new facility into production will bring large economic benefits and returns to the Group and will lead to a step change in the performance and growth of the Group.

Environmental Regulation

The Group is subject to significant environmental regulation in respect of its use of technology to process polypropylene (PP) waste material into fibre-grade PP pellets. The re-cycled PP pellets are used to produce polypropylene filament yarns, PP consumer webbing products and agricultural twine. Novarise utilises up to 100 per cent of re-cycled PP waste materials to produce its PP filament yarn and other products.

The process of recycling wasted PP does not only save resources consumption, but also minimizes the landfill and incineration of the wasted PP, and reduces greenhouse gas discharge. This meets the requirement of the Twelfth Five-year Program (2011-2015) of China. Our Group plays a positive role in achieving the Chinese emission reduction targets.

To the best of the directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation described above and we are not aware of any breach of those requirements during the financial year and up to the date of the Directors' Report.

The Group believes it is the only company in China currently recycling polypropylene (PP) waste to produce fibre-grade recycled PP pellets. The Group is a pioneer of the green economy and the recycling economy. The Group works on the principles of efficient resource use, resource re-use and resource recycling. In order to operate efficiently and minimize pollution, the Group requires that production targets must be achieved by using minimum resources.

Directors' Report (continued)

Environmental Regulation (continued)

Products made by the Company are designed to be reused as a raw resource after their useful life. After recovering the product by the Group, it can again be recycled to produce fibre-grade recycled PP pellets, then change to a new product again. The recycling cycle is thereby achieved.

Meetings of Directors

The numbers of meetings of the Group's Board of Directors held during the year ended 31 December 2012, and the numbers of meetings attended by each director are as follows:

	Board		**Audit committee**		**Remuneration Committee**	
Name:	Held	Attended	Held	Attended	Held	Attended
Mr. Qingyue Su	6	6	2	1	-	-
Mr. Xiaobin Zhuang	6	6	2	2	-	-
Mr. Chung Yi So	6	4	2	2	-	-
Mr. Liandong Tu	6	6	2	2	-	-
Mr. John O'Brien	6	6	2	2	-	-
Mr. Fai Peng Chen	6	4	2	-	-	-

Meeting	**Date of Board Meeting Held**	**Date of Audit Committee Meeting Held**	**Date of Remuneration Committee Meeting Held***
1	24 February 2012	24 February 2012	-
2	26 March 2012	22 August 2012	-
3	6 June 2012	-	-
4	21 June 2012	-	-
5	27 July 2012	-	-
6	29 August 2012	-	-

* No separate remuneration committee meeting was held, but directors' remuneration was discussed and agreed upon during the Board meeting held on 27 July 2012.

Share Options

There are no options on issue during the year and up to the date of the directors' report.

Directors' Report (continued)

Remuneration Report - Audited

(a) Policy for determining the nature and amount of key management personnel remuneration

The remuneration committee of the Group is to help the Board in determining and reviewing compensation arrangements for the directors, and the executive team.

The Board's remuneration policy is:-

c) To ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

d) To reward directors and executives having regards to the performance of the Group, the performance and the general pay environment.

e) To issue options free of charge to any officer or employee of the Company and any subsidiary (Eligible Employee) under an established Employee Option Plan. Options may be granted subject to conditions specified by the Board, which must be satisfied, before the Option can be exercised. Options may be exercised at any time within five years of the date of grant.

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Remuneration of non-executive directors is determined by the Board. The Board intends to undertake an annual review of its performance.

Each director receives a fee for being a director of the Group. Directors who are called upon to perform extra services beyond the director's ordinary duties may be paid additional fees for those services.

Directors' Report (continued)

Remuneration Report – Audited (continued)

(b) Company performance, shareholder wealth and directors and executive remuneration

	2010 $	2011 $	2012 $
Revenue	74,627,039	82,071,659	82,450,642
Net Profit after income tax/(Loss)	15,217,563	17,004,206	16,720,300
Dividend paid	3,992,549	-	-
Share price at year end	0.225	0.18	0.20

Although the Group continuously made profit in the current financial year, the Group did not distribute any dividend or perform a detailed review of executive remuneration as funds are to be retained for use in the completion of the construction in Nan'an. A discretionary cash bonus was distributed as detailed in note (e).

The Director fee for the 12 months commencing on 1 January 2012 is as followings:

Name	Position	Director fee per annum (GST exclusive) AUD $	Director fee paid AUD $
Mr. Qingyue Su	Chairman and Managing Director	7,641	7,641
Mr. Xiaobin Zhuang	Executive Director	7,641	7,641
Mr. Chung Yi So	Non-Executive Director	7,641	7,641
Mr. Liandong Tu	Non-Executive Director	7,641	7,641
Mr. John O'Brien	Non-Executive Director	40,000	30,000
Mr. Fai Peng Chen	Non-Executive Director	40,000	30,000

Directors' Report (continued)

Remuneration Report – Audited (continued)

(c) Key management personnel and executives

Unless otherwise stated, the following persons were key management personnel and executives of Novarise during the financial year under review:

Name	Date appointed	Date resigned	Position held
Mr. Qingyue Su	6 August 2009		Chairman and Managing Director
Mr. Xiaobin Zhuang	9 December 2009		Executive Director / Company Secretary / Chief financial officer
Mr. Chung Yi So	9 December 2009		Non-Executive Director
Mr. Liandong Tu	9 December 2009		Non-Executive Director
Mr. John O'Brien	9 December 2009		Non-Executive Director
Mr. Fai Peng Chen	6 August 2009		Non-Executive Director
Mr. Zhenwen Zhang	21 June 2008		Chief Operating Officer
Mr. Wenpo Xie	1 March 2008		Chief Marketing Officer
Mr. Sing Sha SO	1 September 2009		Director of QZSH/FJSH

There are no additional persons not disclosed above that are among the five highest remunerated Group and Company Executives.

(d) Details of remuneration

Compensation paid, payable or provided by the Group or on behalf of the Group, to key management personnel is set out below.

Key management personnel include all directors of the Company and certain executives who, in the opinion of the Board and Managing Director, have authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly.

Directors' Report (continued)

Remuneration Report – Audited (continued)

(d) Details of remuneration (continued)

Details of compensation key management personnel and other executives of Novarise are set out below:

2012	Short-term employee benefits		Post-employment benefits		Proportion of remuneration that is performance based
	Salaries and fees	Cash bonus	Super-annuation	Total	
	$	$	$	$	%
Directors					
Mr. Qingyue Su	41,453	6,113	363	47,929	-
Mr. Chung Yi So	7,641	-	-	7,641	-
Mr. Xiaobin Zhuang	26,095	4,890	363	31,348	-
Mr. Liandong Tu	7,641	-	-	7,641	-
Mr. John Keiran O'Brien	40,000	-	-	40,000	-
Mr. FaiPeng Chen	40,000			40,000	-
	162,830	11,003	726	174,559	

^ Mr. Sing Sha So is a non-executive director and is not involved in daily management of FJSH and QZSH. Mr. Sing Sha So is the father of Mr. Tse Lit So who is a director of Great Rises International Group Investment Ptd (BVI), a shareholder of the Group. Mr. Sing Sha So provides his director services to the Group at no charge.

Directors' Report (continued)

Remuneration Report – Audited (continued)

(d) Details of remuneration (continued)

2011	Short-term employee benefits		Post-employment benefits		Proportion of remuneration that is performance based
	Salaries and fees	Cash bonus	Super-annuation	Total	
	$	$	$	$	%
Directors					
Mr. Qingyue Su	30,935	6,773	690	38,398	-
Mr. Chung Yi So	9,010	6,773	-	15,783	-
Mr. Xiaobin Zhuang	21,024	6,773	673	28,470	-
Mr. Liandong Tu	7,508	-	-	7,508	-
Mr. Phillip Fook Weng Au	3,300			3,300	
Mr. John Keiran O'Brien	40,000	-	-	40,000	-
Mr. FaiPeng Chen	40,000	-	-	40,000	-
Mr. Chenzhang Li	-	-	-	-	-
	151,777	20,319	1,363	173,459	

^ Mr. Sing Sha So is a non-executive director and is not involved in daily management of FJSH and QZSH. Mr. Sing Sha So is the father of Mr. Tse Lit So who is a director of Great Rises International Group Investment Ptd (BVI), a shareholder of the Group. Mr. Sing Sha So provides his director services to the Group at no charge.

(e) Cash bonuses

The board of directors ratified the payment of cash bonuses as disclosed in (d) above in accordance with reasonable remuneration practice in China. The cash bonuses were awarded to Mr. Qingyue Su, Mr. Xiaobin Zhuang and members of the senior management team, including Mr. Zhenwen Zhang and Mr. Wenpo Xie, on an accruals basis on 31 December, 2012 for the whole of the financial year 2012.

Directors' Report (continued)

Remuneration Report – Audited (continued)

(e) Cash bonuses (continued)

There are no specific guidelines for the distribution of cash bonuses within the Group and the distribution of cash bonuses is based on the performance of the Group as a whole. The Group performed well in 2012 and 2011 therefore cash bonuses were distributed to both executive officers and employees. The bonus reflects the Group's satisfaction with the overall performance of the respective executives and employees and of the Group as a whole.

No specific performance criteria were attached to these cash bonuses.

(f) Share – based payment bonuses

No share based payment bonuses were paid during the financial year ended 31 December 2012 to directors or key management personnel or other employees.

(g) Options and rights granted as remuneration

No options and rights were granted during the financial year ended 31 December 2012 to directors or key management personnel or other employees.

(h) Equity Instruments issued on exercise of remuneration options

No equity instruments were issued on exercise of remuneration options during the financial year ended 31 December 2012 to directors or key management personnel.

(i) Value of options to key management personnel and executives

No options or rights were granted during the financial year ended 31 December 2012 to directors or key management personnel.

(j) Executive Contracts

Service agreement have been entered into by the Group with all key management personnel and executives, describing the components and amounts of remuneration applicable on their initial appointment, including terms and performance criteria for performance-related cash bonuses. These contracts do not fix the amount of remuneration increases from year to year. Remuneration levels are reviewed generally each year by the Remuneration Committee to align with changes in job responsibilities and market salary expectations.

All contracts are ongoing and there is mutual understanding between the executive directors and the Group that contracts can be terminated by either party with 3 months notice, subject to termination payments as described below.

Directors' Report (continued)

Remuneration Report – Audited (continued)

(k) Non-Executive Director (NED) Remuneration

NEDs are not currently covered by any contract of employment and therefore have no contract duration, notice period for termination or entitlement to termination payments. NEDs have signed Letters of Consent to Act under an oral agreement.

Mr. Liandong TU has an ongoing oral contract arrangement.

NEDs receive an annual fee paid quarterly for their services.

NEDs also receive reimbursement for reasonable travel, accommodation and other expenses incurred in travelling to or from meetings of the Board or when otherwise engaged in the business of the Company in accordance with Board's policy.

(l) Contracts with Executive Directors are summarised as below

Chairman and Managing Director

SU Qingyue

Ongoing contract commenced on 15 March 2008
Base Salary: Not specified in the contract. Set to be RMB269,000(A$41,109) p.a. inclusive of superannuation and board fees, to be reviewed annually by the Remuneration Committee plus a performance bonus payable annually.

Termination payments: Termination payment is not applicable.

Executive Director & Joint Secretary

ZHUANG Xiaobin
Ongoing contract commenced on 15 March 2008.
Base Salary: Not specified in the contract. Set to be RMB168,500 (A$25,751)p.a. inclusive of superannuation, to be reviewed annually by the Remuneration Committee plus a performance bonus payable annually.

Termination payments: Termination payment is not applicable.

Non-executive directors only have oral agreements with the Group which are summarised as below:

Non-Executive Director
SO Chung Yi
Commenced on 15 March 2008.
Base Salary: Not specified in the contract. Set to be RMB50,000 (A$7,641) p.a. inclusive of superannuation and board fees, to be reviewed annually by the Remuneration Committee.

Directors' Report (continued)

Remuneration Report – Audited (continued)

(I) Contracts with Executive Directors are summarised as below (continued)

Non-Executive Director
TU Liandong
Ongoing oral agreement commenced on 9 December 2009.
Base Salary: RMB50,000 (A$7,641) p.a. inclusive of superannuation, to be reviewed annually by the Remuneration Committee.

Termination payments: Termination payment is not applicable.

Non-Executive Director
O'BRIEN John
Commenced on 9 December 2009 and the continuance of his term as director shall be subject to normal director rotation rules.
Base Salary: AUD$ 40,000 p.a. to be reviewed annually by the Remuneration Committee.

Termination payments: Termination payment is not applicable.

Non-Executive Director
CHEN Fai Peng
Commenced on 6 August 2009 and the continuance of his term as director shall be subject to normal director rotation rules.
Base Salary: AUD$40,000 p.a. to be reviewed annually by the Remuneration Committee.

Termination payments: Termination payment is not applicable.

Voting and comments made at the company's 2011 Annual General Meeting
Novarise received more than 99% of "yes" votes on its remuneration for the 2011 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

End of Audited Remuneration Report

Directors' Report (continued)

Indemnification of officers and Auditors

During or since the end of the year, the Group has not given any indemnity to a current or former officer or auditor against a liability or made any agreement under which an officer or auditor may be given any indemnity of the kind covered by the Corporations Act 2001.

During the year, the Group paid premiums in respect of directors' and officers' indemnity insurance contracts for the year ended 31 December 2012.

The insurance contracts offer continued indemnity to officers of the Group where the person is no longer an officer at the time the claim is made. The Company paid a premium to insure the directors and company secretaries of the company during the financial year.

This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amount relating to insurance against legal costs and those relating to other liabilities.

Non – Audit Services

During the financial year, the following fees for non–audit services were paid or payable to the auditor, BDO Australia:

	Consolidated	
	2012	2011
	$	$
Non-audit services		
Tax advice	15,000	-
Total fees for non-audit services	**15,000**	**-**

Proceedings on behalf of the Company

The Company is not aware that any person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings in which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Directors' Report (continued)

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out at page 21.

The report is made in accordance with a Resolution of Directors.

Qingyue Su
Managing Director

Quanzhou, P.R. China

28 March 2013

BDO

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Fax: +8 6382 4601
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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

28 March 2013

Novarise Renewable Resources International Limited
Suite 5, Level 1
325 Pitt Street
SYDNEY NSW 2000

Dear Sirs,

DECLARATION OF INDEPENDENCE BY WAYNE BASFORD TO THE DIRECTORS OF NOVARISE RENEWABLE RESOURCE INTERNATIONAL LIMITED

As lead auditor for the audit of Novarise Renewable Resources International Limited for the year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Novarise Renewable Resources International Limited and the entities it controlled during the period.

Wayne Basford
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Consolidated 2012 $	2011 $
Sales revenue	4	82,450,642	80,304,361
Cost of sales		(57,660,359)	(56,193,283)
Gross profit		24,790,283	24,111,078
Interest revenue	4	4,203,219	1,767,298
Other income	5	636,874	893,277
Distribution expenses		(276,896)	(314,763)
Marketing expenses		(616,012)	(499,887)
Administration expenses		(3,142,353)	(3,271,056)
Occupancy expenses		(152,049)	(144,786)
Finance costs	6	(4,443,550)	(2,540,298)
Other expenses		(10,269)	(57,570)
Profit before income tax expense	6	20,989,247	19,943,293
Income tax expense	7	(4,268,947)	(2,939,087)
Net profit after income tax expense		16,720,300	17,004,206
Other comprehensive income			
Foreign currency translation differences		(783,415)	2,398,613
Other comprehensive income/(loss) for the year, net of tax		(783,415)	2,398,613
Total comprehensive income for the year		15,936,885	19,402,819
Profit for the year is attributable to:			
Owners of Novarise Renewable Resources International Ltd		16,720,300	17,004,206
		16,720,300	17,004,206
Total comprehensive income for the year is attributable to:			
Owners of Novarise Renewable Resources International Ltd		15,936,885	19,402,819
		15,936,885	19,402,819

Earnings per share for profit from continuing operations

Basic Earnings per Share	11	4.03 cents	4.10 cents
Diluted Earnings per Share	11	4.03 cents	4.10 cents

Earnings per share for profit for the year

Basic Earnings per Share	11	4.03 cents	4.10 cents
Diluted Earnings per Share	11	4.03 cents	4.10 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Notes	Consolidated 31 December 2012 $	Consolidated 31 December 2011 $
CURRENT ASSETS			
Cash and cash equivalents	12	2,162,932	7,067,316
Term deposits with maturity over three months	13	33,068,441	62,824,805
Trade and other receivables	14	123,594,661	75,305,556
Inventories	15	6,498,252	5,487,091
Other assets	16	1,443,377	6,439,960
TOTAL CURRENT ASSETS		166,767,663	157,124,728
NON-CURRENT ASSETS			
Term deposits with maturity over three months	13	10,685,330	-
Property, plant and equipment	17	60,422,430	47,185,487
Land use rights	19	7,052,864	7,103,520
Long-term prepayment for property, plant and equipment	18	9,024,997	8,013,746
Deferred tax assets	23	529,188	100,113
TOTAL NON-CURRENT ASSETS		87,714,809	62,402,866
TOTAL ASSETS		254,482,472	219,527,594
CURRENT LIABILITIES			
Trade and other payables	20	20,120,698	15,352,159
Borrowings	21	114,698,110	112,468,410
Current tax liabilities	7	2,614,108	2,279,606
Other liabilities	22	2,849,369	2,604,861
TOTAL CURRENT LIABILITIES		140,282,285	132,705,036
NON-CURRENT LIABILITIES			
Borrowings	21	24,626,587	14,637,250
Deferred tax liabilities	23	1,872,266	420,859
TOTAL NON-CURRENT LIABILITIES		26,498,853	15,058,109
TOTAL LIABILITIES		166,781,138	147,763,145
NET ASSETS		87,701,334	71,764,449
EQUITY			
Contributed equity	24	32,066,227	32,066,227
Reserves	25	8,046,936	6,024,290
Retained earnings		47,588,171	33,673,932
TOTAL EQUITY		87,701,334	71,764,449

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Contributed Equity	Retained Earnings	Surplus Reserves	Foreign Currency Translation Reserve	Total
	$	$	$	$	$
At 1 January 2011	32,066,227	19,335,349	6,493,064	(5,533,010)	52,361,630
Total comprehensive income for the year					
Profit for the year	-	17,004,206	-	-	17,004,206
Other comprehensive income					
Exchange differences on translation of foreign operations	-	-	-	2,398,613	2,398,613
Total comprehensive income for the year	-	17,004,206	-	2,398,613	19,402,819
Appropriation to surplus reserve	-	(2,665,623)	2,665,623	-	-
Transaction with owners in their capacity as owners	-	(2,665,623)	2,665,623	-	-
At 31 December 2011	**32,066,227**	**33,673,932**	**9,158,687**	**(3,134,397)**	**71,764,449**
Total comprehensive income for the year					
Profit for the year	-	16,720,300	-	-	16,720,300
Other comprehensive income					
Exchange differences on translation of foreign operations	**-**	**-**	**-**	(783,415)	(783,415)
Total comprehensive income/(loss) for the year	-	16,720,300	-	(783,415)	15,936,885
Appropriation to surplus reserve	-	(2,806,061)	2,806,061	-	-
Transaction with owners in their capacity as owners	-	(2,806,061)	2,806,061	-	-
At 31 December 2012	**32,066,227**	**47,588,171**	**11,964,748**	**(3,917,812)**	**87,701,334**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		94,412,120	87,936,474
Payments to suppliers and employees		(67,378,913)	(65,392,574)
Interest received		730	888,708
Interest paid		(632,602)	(426,008)
Income tax paid		(2,884,500)	(2,346,994)
NET CASH PROVIDED BY OPERATING ACTIVITIES	30	**23,516,835**	**20,659,606**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant & equipment		(19,266,347)	(29,790,705)
Payments for land use rights		(172,690)	(2,554,392)
Proceeds from sale of property, plant & equipment		591,433	-
Decrease/(increase) in term deposits with maturity over three months		18,352,401	(9,719,217)
Payment for capitalised interest		(1,530,679)	(999,685)
Loans to related party		(15,633,284)	-
Loans to third party		(45,518,448)	(61,073,327)
Repayment of loans by third party		18,696,722	-
NET CASH USED IN INVESTING ACTIVITIES		**(44,480,892)**	**(104,137,326)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		150,579,664	124,230,426
Repayment of borrowings		(129,316,001)	(84,322,320)
Loans from related parties		1,640,131	3,481,633
Loans from non-bank third party		8,521,802	40,378,051
Repayment of loans to non-bank third party		(15,282,341)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		**16,143,255**	**83,767,790**
NET (DECREASE)/INCREASE IN CASH HELD		**(4,820,802)**	**290,070**
Effects of exchange rate changes on the balance of cash held in foreign currency		(83,582)	245,013
Cash and cash equivalents at beginning of the year		7,067,316	6,532,233
CASH AT END OF YEAR	12	**2,162,932**	**7,067,316**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012

Contents of the notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
Contents of the notes to the consolidated financial statements (continued)

Notes to the Consolidated Financial Statements

Note 1: Corporate Information

The financial statements of Novarise Renewable Resources International Ltd for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 28 March 2013 and covers the consolidated entity consisting of Novarise Renewable Resources International Ltd (Novarise) and its subsidiaries as required by the Corporation Act 2001.

The financial statements are presented in Australian dollars.

Novarise Renewable Resources International Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The registered office is Suite 5, Level 1 325 Pitt Street, Sydney Australia, 2000.

Great Rises International New Resources Pty Ltd (Great Rises) is a 100% owned subsidiary of Novarise and is a company limited by the shares incorporated in Hong Kong. Great Rises is an intermediate company of the Group and undertakes administration function of the Chinese subsidiaries.

The principal activities of the Group are the use of technology to process polypropylene (PP) waste material into fibre-grade PP pallets. The re-cycled PP pallets are used to produce polypropylene filament yarns, PP consumer webbing products and agricultural twine.

Note 2: Summary of significant accounting policies

a) Basis of Preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have been prepared on accruals basis and are based on historical costs and do not take into account changing money values, except for derivatives that have been measured at fair value.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Novarise Renewable Resources International Limited and its subsidiaries at 31 December 2012 and 31 December 2011 ("the Group"). Subsidiaries are entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all the subsidiaries other than those acquired in business combinations involving entities under common control from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

b) Basis of Consolidation (continued)

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless costs cannot be recovered unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income and statement of financial position respectively.

Investments in subsidiaries are accounted for in the parent entity financial statements at cost.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group equity and any gain/loss arising is recognised directly in equity.

c) Foreign Currency Translation

The functional currency of Novarise Renewable Resources International Limited and its subsidiaries is Chinese Yuan (Renminbi). The presentation currency is Australian dollars (A$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

At the end of the reporting period, the assets and liabilities of the Group are translated into the presentation currency at the closing rate at the end of the reporting period and income and expenses are translated at the weighted average exchange rates for the period. All resulting exchange difference is recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

d) Revenue recognition

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue from sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to buyer when goods have been delivered to the customer. Revenue excludes value added tax or other sales taxes.

Interest
Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

Government grants
Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

e) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income and equity are also recognised directly in other comprehensive income and equity, respectively.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

f) Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

g) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities 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 and bank overdrafts.

Term deposits with maturity over three months include bank deposits with fixed terms over three months period. For the purpose of the Consolidated Statement of Cash Flows, term deposits with maturity over three months are shown as cash flows from investing activities.

h) Trade receivables

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 60 and 90 days.

Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidences of impairment include financial difficulties of the debtor, or debtor ceased its production and business. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

The amount of the impairment loss is recognised in the profit or loss. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the profit or loss.

i) Inventories

Inventories consist of raw materials, finished goods and packaging materials.

Inventories are measured at the lower of cost and net realisable value. Costs are determined using the weighted average method and include direct materials, direct labour, other direct costs and an appropriate proportion of variable and fixed overhead expenses. Fixed overheads are allocated on the basis of normal capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

j) Financial instruments

Financial assets

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit or loss. Financial assets are derecognised when rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Classification

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets of the Group are classified in two categories as following:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit or loss.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

k) Fair value

Fair values may be used for financial asset and liability measurement and well as for sundry disclosures.

Fair values for financial instruments traded in active markets are based on quoted market prices at the end of the reporting period. The quoted market price for financial assets is the current bid price and the quoted market price.

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at the end of the reporting period. The fair value of long-term debt instruments is determined using quoted market prices for similar instruments. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

l) Property, plant and equipment

Property, plant and equipment is stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

The depreciable amounts of all property, plant and equipment including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a straight line basis over their estimated useful lives to the economic entity commencing from the time the assets are held ready for use.

Assets are depreciated over their useful lives as follows:

	2012	**2011**
Buildings	20 years	20 years
Machinery and vehicles	10 years	10 years
Furniture, fittings and equipment	5 years	5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in profit or loss in the year that the item is derecognised.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

m) Land use rights and operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The upfront prepayment made for land use rights are accounted for as an operating lease and are expensed in profit or loss on a straight line basis over the period of the lease or, when there is impairment, it is recognized immediately. The lease period is 50 years.

n) Research costs

Research costs are expenses as incurred.

o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 90 day payment terms.

p) Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

q) Borrowings costs

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that it is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed when incurred.

r) Employee benefit provisions

The permanent Chinese employees of the Group participate in employee social security plans, including pension, medical insurance, unemployment insurance, maternity insurance and work related injury insurance, organized and administered by the governmental authorities. The Group has no other substantial commitments to employees.

Liabilities for wages and salaries and welfare expected to be settled within 12 months of the end of the reporting period are recognised in respect of employees' services rendered up to the end of the reporting period and measured at amounts expected to be paid when the liabilities are settled. Liabilities for wages and salaries are included as part of other payables and liabilities for welfare are included as part of other liabilities.

Contributions are made by the Group to an employee welfare funds and are charged as expenses when incurred.

The Group recognises an expense and a liability for bonuses when the entity is contractually obliged to make such payments or where there is past practice that has created a constructive obligation.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

s) Contributed equity

Contributions by shareholders are classified as equity. Costs directly attributable to capital raising are shown as a deduction from the equity proceeds, net of any income tax benefit.

t) Dividends

Provision is made for dividends declared and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

u) Value added tax (VAT)

The Group's sales of self-manufactured products are subject to Value Added Tax (VAT). The applicable tax rate for domestic sales is 17%. The Group has been approved to use the "exempt, credit, refund" method on goods exported providing a tax refund at the rate of 11% - 14%. Effective 1 February 2009, amendments to regulations on the tax refund rate provide a revised refund rate of 15% - 16%.

Revenues, cost of sales are recognised net of VAT except where VAT incurred on a purchase of goods is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the VAT components of investing and financing activities, which are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the Chinese Taxation Bureau.

v) Earnings per Share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to owners of Novarise Renewable Resources International Limited by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

Diluted earnings per share
Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

w) Critical accounting estimates & judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

w) Critical accounting estimates & judgements (continued)

***(i)* Estimated impairment of tangible and other non-current assets**

The Group considers annually whether any impairment indictors exist which suggest tangibles and other non-current assets have suffered an impairment, in accordance with the accounting policy stated in note 2 (f).

No impairment of tangibles or other non-current assets was necessary during the year based on management's assessment. Any unfavourable variances in actual results may require an impairment write-down of tangibles and other non-current assets in future periods.

***(ii)* Recoverability of loans granted and provision for doubtful debts**

As discussed in Note 14 (c) the Group made unsecured loans to third parties during the financial year of $89,062,651. The Board has carefully assessed and continues to monitor the risk of default on these loans and believe no provision for impairment is required as at 31 December 2012.

x) Accounting standards issued, not yet effective

The following new/amended accounting standards have been issued, but are not mandatory for financial year ended 31 December 2012. They have not been adopted in preparing the financial statements for the year ended 31 December 2012. These standards are expected to impact the Group in the period of initial application. In all cases the Group intends to apply these standards from the mandatory application date as indicated in the table below.

Standards likely to have a financial impact

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 9 (issued December 2009 and amended December 2010)	Financial Instruments	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to: • Classification and measurement of financial liabilities; and • Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	Adoption of AASB 9 is only mandatory for the 31 December 2015 year end. The Group has not yet made an assessment of the impact of these amendments.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

x) Accounting standards issued, not yet effective (continued)

Standards likely to have a financial impact (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 13 (issued September 2011)	Fair Value Measurement	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 31 December 2013, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 January 2013.
AASB 13 (issued September 2011)	Fair Value Measurement	Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time on 1 January 2013, additional disclosures will be required about fair values.
AASB 2011-9 (issued September 2011)	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. Various name changes of statements in AASB 101 as follows: • 1 statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income' • 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'. OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot.	Annual periods commencing on or after 1 July 2012	When this standard is first adopted for the year ended 31 December 2013, there will be no impact on amounts recognised for transactions and balances for 31 December 2012 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

x) Accounting standards issued, not yet effective (continued)

Standards likely to have a financial impact (continued)

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 2012-9 (issued December 2012)	Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039	Deletes Australian Interpretation 1039 Substantive Enactment of Major Tax Bills In Australia from the list of mandatory Australian Interpretations to be applied by entities preparing financial statements under the Corporations Act 2001 or other general purpose financial statements.	Annual reporting periods beginning on or after 1 January 2013	There will be no impact on first-time adoption of this amendment as the Group does not account for proposed changes in taxation legislation until the relevant Bill has passed through both Houses of Parliament, which is consistent with the views expressed by the Australian Accounting Standards Board in their agenda decision of December 2012.

Standards likely to have a disclosure impact only

AASB reference	Title and Affected Standard(s):	Nature of Change	Application date:	Impact on Initial Application
AASB 12 (issued August 2011)	Disclosure of Interests in Other Entities	Combines existing disclosures from AASB 127 Consolidated and Separate Financial Statements, AASB 128 Investments in Associates and AASB 131 Interests in Joint Ventures. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	Annual reporting periods beginning on or after 1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.
AASB 2012-6 (issued September 2012)	AASB 2012-6 (issued September 2012)	Defers the effective date of AASB 9 to 1 January 2015. Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.	Annual reporting periods beginning on or after 1 January 2015	As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.

All other pending Standards issued between the previous financial report and the current reporting dates have no application to the Group.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

y) Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal trading activities and realisation of assets and settlement of liabilities in the normal course of business. The China subsidiaries will continue its financial support provided to Novarise Renewable Resources International Limited in the form of intercompany loans so that the Group may exercise the dividend policy announced to the market.

As at 31 December 2012 the Group has $95,824,632 of loans and notes payables due for renewal by 30 June 2013, a further $16,552,382 due for renewal by 31 December 2013 and $6,206,179 of capital commitments due before 31 December 2013.

During 2012, the Group borrowed additional funds totalling $16,143,255 (included in the borrowings described above). These funds were partly used to fund the development of the Nan'an project. Due to the expected timing and usage of these funds, the Group took advantage of a short term opportunity to arbitrage interest rates and lend a total of $50,548,687 (of which $40,293,713 is interest bearing) to an unrelated company (the "Borrower") based in Xiamen. The terms of this loan agreement were favourable to the Group and the funds are due to be repaid in full in by 30 June 2013. The Group carefully assessed the risk of default on this unsecured loan, including reviewing the financial statements of the Borrower, and believed that it was in the best interest of the Group to take advantage of this opportunity. The Borrower is in the process of refinancing its business and will be in a position to repay the loan once this process is completed. In the event that the refinancing is unsuccessful, the Group would seek to recover the debt through a liquidation of the Borrower's assets.

It is anticipated that completion of the Nan'an project will require further funds of approximately $15m (RMB 100m) of which $13.5m (RMB 90m) is expected to be spent between January to December 2013 with the remainder to be paid in 2014. The first production line was commissioned for production in October 2012. The remaining 7 production lines are expected to start production in different stages in 2013 and will require additional funds to fund working capital as the plant comes on stream. The completion of the project will be funded by the rolling over of short term loans and banking facilities, the recovery of loans made to third parties and the generation of positive operating cash flows.

As at 31 December 2012 the Group has $26,485,378 of net current assets, including $35,231,373 of cash and cash deposits and $89,062,651 of loans receivable and $7,283,811 interest receivable from third parties, and $15,648,829 of loans receivable from related party. The full amount of loans receivable and interest receivable from third parties and related party are expected to be repaid by 30 June 2013. For the year ended 31 December 2012 the group generated a profit after tax of $16,720,300 and cash flows from operating activities of $23,516,835.

Should the company be unsuccessful in recovering the unsecured receivable in full by the due date, there exsits a risk that the consolidated entity may not be able to continue as a going concern. Should the consolidated entity not continue as a going concern, it may be unable to discharge its liabilities in the normal course of business.

After taking into account all available information, the Directors have concluded that there are reasonable grounds to believe that:

- The Borrower will be able to successfully refinance its business and will therefore be in a position to repay its loan (including interest receivable) to the Group at the due date;
- Short term borrowings due for renewal by 30 June 2013 and by 31 December 2013 will be successfully rolled over as required. The group has successfully obtained several new borrowings since 31 December 2012 (note 32);
- The Group will continue to generate positive cash flows from its existing operations and the Nan'an factory once it comes into operation;

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

y) Going concern (continued)

- As a result of the above the Group will have sufficient funds available to complete the Nan'an construction and bring the plant into production in accordance with the planned timetable; and
- The preparation of the financial statements on a going concern basis is appropriate.

The Directors will continue to monitor the situation and the development of the above conditions to ensure that the consolidated entity continues as a going concern.

Note 3: Segment Reporting

Operating segments have been determined on the basis of reports reviewed by the chief operating decision makers ("CODM") for making strategic decisions. The CODM comprise the managing director, finance director and other directors of the Group. The CODM monitor the business based on product factors and have identified 3 reportable segments. The basis of determining segments has not changed from the last annual financial statements.

a. Description of segments

Polypropylene yarns: Sale of polypropylene yarns to international customers as well as customers located in mainland China and Hong Kong.

Polypropylene straps and ropes: Sale of polypropylene straps and ropes to international customers as well as customers located in mainland China and Hong Kong.

Recycled polypropylene pellets: Sale of polypropylene pellets produced from recycled materials to customers located in mainland China.

b. Segment information

Segment information provided to the board of directors for the year ended 31 December 2012 is as follows:

2012	**Polypropylene yarns**	**Polypropylene straps and ropes**	**Recycled polypropylene pellets**	**Total**
	$	$	$	$
Total segment revenue	10,999,203	51,905,258	18,496,110	81,400,571
Revenue from external customers	10,999,203	51,905,258	18,496,110	81,400,571
Gross profit	2,788,738	16,720,335	5,056,150	24,565,223

2011	**Polypropylene yarns**	**Polypropylene straps and ropes**	**Recycled polypropylene pellets**	**Total**
	$	$	$	$
Total segment revenue	11,632,036	52,657,908	15,349,437	79,639,381
Revenue from external customers	11,632,036	52,657,908	15,349,437	79,639,381
Gross profit	2,130,345	18,020,334	3,570,405	23,721,084

Notes to the Consolidated Financial Statements (continued)

Note 3: Segment Reporting (continued)

c. Other segment information

(i) Segment revenue

The revenue from external parties reported to the CODM is measured in a manner consistent with that in the profit or loss.

Revenues from external customers are derived from the sale of polypropylene yarns, the sales of polypropylene straps and ropes, and the sales of recycled polypropylene pellets to P.R. China and international customers. A breakdown of revenue and results is provided in the tables above.

Segment revenue reconciles to total revenue as follows:

	Consolidated	
	2012	**2011**
	$	**$**
Total Segment Revenue	81,400,571	79,639,381
Other revenue	1,050,071	664,980
Total sales revenue (note 4)	82,450,642	80,304,361
Interest revenue (note 4)	4,203,219	1,767,298

(ii) Gross profit

The CODM monitors segment performance based on gross profit. This measure excludes interest revenue and other operational and non-operational expenses. The basis of measuring segment profit or loss has not changed from the last annual financial statements.

Reconciliation of adjusted gross margin to profit before income tax is as follows:

Gross profit	24,565,223	23,721,084
Gross profit from unallocated sales	225,060	389,994
Gross profit per Statement of Comprehensive Income	24,790,283	24,111,078
Interest revenue	4,203,219	1,767,298
Other income	636,874	893,277
Distribution expenses	(276,896)	(314,763)
Marketing expenses	(616,012)	(499,887)
Administration expenses	(3,142,353)	(3,271,056)
Occupancy expenses	(152,049)	(144,786)
Finance costs	(4,443,550)	(2,540,298)
Other expenses	(10,269)	(57,570)
Profit before income tax	**20,989,247**	**19,943,293**

Notes to the Consolidated Financial Statements (continued)

Note 3: Segment Reporting (continued)

	Consolidated 2012 $	2011 $

d. Entity-wide disclosures

The trading entities in the Group are domiciled in China. The Group's revenue from external customers by geographical location is detailed below:

	2012 $	2011 $
P.R. China	74,246,485	72,306,390
Hong Kong	2,009,263	1,816,802
Philippines	823,229	971,839
Russia	716,853	619,061
Turkey	1,066,496	1,046,775
Indonesia	437,722	689,817
India	189,248	207,056
Colombia	422,874	692,392
Sri Lanka	111,280	109,526
Estonia	760,582	328,961
USA	547,599	-
Other Asian countries	147,552	250,940
Other non Asian countries	971,459	1,264,802
	82,450,642	**80,304,361**

In 2012 revenue of $9,122,023 was derived from a single external customer. These revenues are attributable to recycled Polypropylene pellets segment and amount to more than 10% the Group's revenue from external customers.

In 2011 no revenue from a single external customer exceeded 10% of the Group's total revenue from external customers.

As at 31 December 2012 and 31 December 2011, all non-current assets of the Group were located in P.R. China.

Note 4: Revenue

	2012	2011
Sales of goods	**82,450,642**	**80,304,361**
Interest revenue	**4,203,219**	**1,767,298**

Note 5: Other Income

	2012	2011
Government grant	433,682	482,946
Net foreign exchange gain	175,744	366,437
Sundry income	27,448	43,894
	636,874	**893,277**

Government Grants

Government grant of $433,682 was recognised by the Group in the current year (2011:$482,946). The grant of $183,388 (RMB1,200,000) (2011: $180,204) is the government's subsidies for public rental housing and the award of $69,076 (RMB452,000) (2011:$150,170) is for scientific and technological achievements. There are no unfulfilled conditions or other contingencies attaching to those grants.

Notes to the Consolidated Financial Statements (continued)

Note 6: Expenses

Profit before income tax is derived at after taking the following into account:

	Consolidated 2012 $	2011 $
Finance costs		
Interest expenses	4,157,908	2,252,377
Bank fees	285,642	287,921
	4,443,550	2,540,298
Depreciation expense		
Leasehold improvement	5,498	3,077
Buildings	279,138	274,291
Machinery and vehicles	1,080,811	1,015,288
Furniture, fittings and equipment	6,875	6,206
	1,372,322	1,298,862
Amortisation of operating lease prepayment		
Land use rights	144,184	141,710
Employee benefits expense		
Wages and salaries	3,263,054	2,973,343
Defined contribution superannuation costs	51,961	52,421
Other welfare expense	75,349	65,706
	3,390,364	3,091,470
Research and development expenditures	128,998	97,026

Note 7: Income Tax Expense

Major components of income tax expense are:

	2012 $	2011 $
Current tax expense		
Current tax expense	3,218,108	2,591,265
Adjustments for previous years	25,951	-
	3,244,059	2,591,265
Deferred tax expense		
Origination and reversal of temporary differences	953,261	347,822
Changes in tax rates	71,627	-
	1,024,888	347,822
Total income tax expense in income statement	4,268,947	2,939,087

Notes to the Consolidated Financial Statements (continued)

Note 7: Income Tax Expense (continued)

Applicable income tax rate

The applicable income tax rate in 2012 for Fujian Sanhong Renewable Resources Technology Co., Limited, is 12.5% (2011:12.5%). It is changed from 12.5% to 15% from 1 January 2013.

The applicable income tax rate for other subsidiaries in P.R. China is 25% (2011:25%), and remains the same in the future.

A deferred tax asset has not been recognized in respect of the unused tax losses of Novarise Renewable Resources International Limited, its Hong Kong subsidiary, Great Rises International New Resources Pty Ltd, and its subsidiaries in P.R. China of $1,676,428 (2011: $1,055,542) arising from current year losses because neither of the entities will be generating business income in the foreseeable future therefore the tax losses are not expected to be realised.

	Consolidated	
	2012	**2011**
	$	**$**
Reconciliation of the effective tax rate		
Accounting profit before income tax	20,989,247	19,943,293
Prima facie tax payable on profit at the Australian tax rate of 30% (2011: 30%)	6,296,774	5,982,988
Add/(Less) Tax effect of:		
-Deferred tax asset not recognized for losses	159,368	212,341
- Deferred tax assets not brought to account for other temporary differences	61,438	-
-Impact of overseas tax differential	(4,306,710)	(3,328,496)
- Non-deductible Entertainment expenses	4,856	15,558
- Non-deductible interest expenses	-	61,950
- Dividend declared to Great Rises from its subsidiaries	1,854,254	-
- Changes in tax rates	71,627	-
- Other difference	127,340	(5,254)
Income tax expense at effective tax rate of 20% (2011: 15%)	4,268,947	2,939,087
Income tax payable	2,614,108	2,279,606

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in the statement of financial position for the following items:		
Unused tax losses	1,676,428	1,055,542
Potential benefit at 30% in Australia, 16.5% in Hong Kong and 25% in P.R China	457,047	297,679

Included in unused tax losses were $319,471 for the subsidiaries in P.R.China (2011:Nil). The tax losses in P.R China can be carried forward for five consecutive years.

There is no expiry date on the future deductibility of unused tax losses in Australia and Hong Kong entities.

Notes to the Consolidated Financial Statements (continued)

Note 8: Key Management Personnel Disclosures

	Consolidated 2012 $	Consolidated 2011 $
(a) Compensation		
Short-term employee benefits	173,833	172,092
Post-employment benefits	726	1,363
Total	174,559	173,459

(b) Guarantees provided by key management personnel

As required by Chinese banking systems and operational processes, the company's legal representative must provide a guarantee to be jointly and severally liable in loan contracts.

Mr. Qingyue Su, as a legal representative, has provided guarantees of up to RMB2,030,000,000 (equivalent to A$310,540,003) to the Group's subsidiaries effective up to 31 December 2013 for their borrowings.

In addition, Mr. Qingyue Su and his wife Ms. Yulu Pan have provided joint guarantees of up to RMB739,010,000 (equivalent to A$113,050,329) to the Group's subsidiaries effective up to 31 December 2013 for their borrowings.

Guarantee by related parties and third parties as at 31 December 2012

Guarantor	Maximum amount of guarantee provided RMB	Maximum amount of guarantee provided AUD	Notes
SU, Qingyue and PAN, Yu Lulu jointly	739,010,000	113,050,329	26 (b)
SU, Qingyue	2,030,000,000	310,540,003	26 (b)
Other related parties	245,000,000	37,478,966	27 (d)
Third parties	311,035,000	47,580,695	

Financial institutions in China normally require multiple guarantors to guarantee funds lent to companies. The total amount of guarantees provided by related parties and third parties to the Group is greater than the total borrowings.

Notes to the Consolidated Financial Statements (continued)

Note 8: Key Management Personnel Disclosures (continued)

(c) Shareholdings

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

2012	Balance at 31/12/2011	Received as remuneration	Group Restructuring	Net Change/ Other	Balance At 31/12/2012
Mr. Qingyue Su	269,698,187	-	-	790,000	270,488,187
Mr. Chung Yi So	31,561,111	-	-	-	31,561,111
Mr. Xiaobin Zhuang	-	-	-	-	-
Mr. Liandong Tu	-	-	-	-	-
Mr. John Keiran O'Brien	-	-	-	-	-
Mr. Faipeng Chen	8,000	-	-	-	8,000
Total	301,267,298	-	-	790,000	302,057,298

2011	Balance at 31/12/2010	Received as remuneration	Net Change/ Other	Dividend Reinvestment	Balance At 31/12/2011
Mr. Qingyue Su	268,269,444	-	-	1,428,743	269,698,187
Mr. Chung Yi So	31,561,111	-	-	-	31,561,111
Mr. Xiaobin Zhuang	-	-	-	-	-
Mr. Liandong Tu	-	-	-	-	-
Mr. John Keiran O'Brien	-	-	-	-	-
Mr. Faipeng Chen	-	-	8,000	-	8,000
Mr. Chenzhang Li	-	-	-	-	-
Mr. Phillip Fook Weng Au	-	-	-	-	-
Total	299,830,555	-	8,000	1,428,743	301,267,298

Notes to the Consolidated Financial Statements (continued)

Note 8: Key Management Personnel Disclosures (continued)

	Consolidated 2012 $	2011 $

(d) Dividend Distributed to Directors

During the period for the year ended 31 December 2012 no dividends were distributed to or received by directors from the Group with the capacity of major shareholders (2011: nil).

(e) Other transactions and balances

For the financial year ended 31st December 2012 fees paid to Minter Ellison $2,668. The payments were in respect of the reimbursement of travelling expenses and remuneration for secretarial services provided by Mr. Fai Peng Chen. No such kind of transactions occured in the prior financial year.

Mr. Sing Sha So provides his director services at no charge to FJSH and QZSH because Mr. Sing Sha So is Mr. Tse Lit So's father who is a director of Great Rises International Group Investment Ltd (BVI), a shareholder of the Group.

Note 9: Auditor's Remuneration

Remuneration of the auditor of the Group:

	2012 $	2011 $
Audit services		
Amounts paid/payable to BDO for audit or review of the financial statements for the Group		
- BDO Australia	85,000	150,750
- BDO China	30,000	26,250
	115,000	177,000
Non – Audit related services		
Tax advice	15,000	-
Total	**130,000**	**177,000**

Notes to the Consolidated Financial Statements (continued)

	Consolidated	
	2012 $	2011 $
Note 10: Dividends		
Total unfranked dividend for year ended 31 December 2012 nil per share (2011: Nil)	-	-

The Group generated all operating profits from overseas subsidiaries in P.R. China therefore all dividends were unfranked dividends. The franking credit account had nil balance throughout the year.

Note 11: Earnings per share

	Number of shares		Profit attributable to the owners of the company used to calculate basic earnings per share and diluted earnings per share	
	Consolidated		Consolidated	
	2012	2011	2012	2011
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and diluted earnings per share	**415,057,737**	**415,057,737**	**16,720,300**	**17,004,206**

Note 12: Cash & Cash Equivalents

Cash in hand	17,199	13,359
Cash at bank	2,145,733	925,944
Short-term deposits with maturity less than three months	-	6,128,013
Cash and cash equivalents	2,162,932	7,067,316

Cash in hand is non-interest bearing. Cash at bank bears a floating interest rate at 0.35% (2011: 0.5%).

Concentration of risk by bank credit rating

A-1	-	631,249
A-1+	-	20,928
A-	2,094,913	20,307
A-2	26,208	153,406
AA-	16,355	-
Ba1	-	6,123,209
Unrated	8,257	104,858
Total	**2,145,733**	**7,053,957**

Notes to the Consolidated Financial Statements (continued)

		Consolidated	
		2012 $	2011 $

Note 12: Cash & Cash Equivalents (continued)

Credit risk

The maximum exposure to credit risk is the fair value of cash and cash equivalents. Refer to note 26 for more information relating to the risk management policy of the Group.

Note 13: Term Deposits with Maturity over three months

		2012 $	2011 $
Current			
Term deposits with maturity over three months	(a)	**33,068,441**	**62,824,805**
Non-current			
Term deposits with maturity over three months	(b)	**10,685,330**	**-**

(a) As at 31 December 2012, there were current short-term deposits with maturity over three months of $31,519,257 (2011: $33,590,855) that are pledged as collateral for bank loans, bank acceptance notes and letter of credit issued by the Group. These include pledged short-term deposits of $19,740,941 (2011:$32,794,451) bearing fixed interest rates of 3.05% (2011:2.5%~3.3%)and have a maturity of 4~12 months, and pledged short-term deposits of $11,778,316 (2011:$796,404) bearing floating interest rate of 0.1%~0.5% (2011:0.5%). The remaining unpledged short-term deposits with maturity over three months of $1,549,184 (2011: $29,233,950) bear fixed interest rates of 4.4% (2011:3.25%) and have an average maturity of 6 months.

(b) As at 31 December 2012, the non-current term deposits with maturity over three months is unpledged and bears fixed interest rates of 4.4%. It will mature in March 2014.

Concentration of risk by bank credit rating

	2012 $	2011 $
A	25,052,247	-
A-1	-	27,166,681
A-	1,973,382	8,431,924
A-2	-	14,834,648
BBB	11,796,798	-
Ba1	-	3,109,552
Unrated	4,931,344	9,282,000
Total	**43,753,771**	**62,824,805**

Credit risk

The maximum exposure to credit risk is the fair value of term deposits. Refer to note 26 for more information relating to the risk management policy of the Group.

Notes to the Consolidated Financial Statements (continued)

Note 14: Trade and other receivables

		Consolidated 2012 $	Consolidated 2011 $
Current	**Note**		
Trade receivables	(a)	11,568,712	10,225,245
Other receivables	(b)	7,314,469	2,164,658
Loan to related party	27(c)	15,648,829	-
Loan to third parties	(c)	89,062,651	62,915,653
		123,594,661	**75,305,556**

(a) Age analysis of trade receivables that are past due but not impaired at the reporting date

	Year ended 31 Dec 2012			Year ended 31 Dec 2011		
	Amount not impaired	Amount Impaired	Total	Amount not impaired	Amount Impaired	Total
Not past due	10,549,760	-	10,549,760	9,925,841	-	9,925,841
Past due < 3 months	1,018,952	-	1,018,952	299,404	-	299,404
Past due 3- 9 months	-	-	-	-	-	-
Total	11,568,712	-	11,568,712	10,225,245	-	10,225,245

As at 31 December 2012, trade receivables of $1,018,952 (2011: $299,404) were past due but not impaired. Payment terms on receivables past due but not considered impaired have not been re-negotiated. The Group has been in direct contact with the relevant customers and are reasonably satisfied that payment will be received in full.

All other trade receivables, which are neither past due nor impaired, are with long standing customers who have sound credit histories. It is expected that these amounts will be received when due.

(b) Other receivables
Included above are interest receivables of $7,283,811 (2011: $2,036,441) including interest on loans to third parties refer to in (c) below, which are not past due or impaired. Remaining other receivables of $30,658 (2011: $128,217) are not past due or impaired. The Group has been in direct contact with the relevant customers and are reasonably satisfied that payment will be received in full.

(c) Loan to third parties
Included above is an unsecured loan to a third party of $50,548,687 (2011: $43,989,346) which is repayable by 30 June 2013. It includes $40,293,713 (2011: $40,747,980) bearing an interest rate of 12%, and the remaining balance of $10,254,974 (2011: $3,241,366) is interest free.

The remaining balance of loans to other third parties is interest free, and is neither past due nor impaired.

The Group does not hold any collateral in relation to the receivables (2011: nil).

The Board has carefully assessed and continues to monitor the risk of default on these loans and believe no provision for impairment is required as at 31 December 2012.

Fair value and credit risk
Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Refer to note 26 for more information relating to the risk management policy of the Group.

Notes to the Consolidated Financial Statements (continued)

Note 15: Inventories

	Consolidated 2012 $	Consolidated 2011 $
At cost		
Raw materials	5,187,061	4,505,844
Goods shipped in transit	189,305	-
Finished goods		
- at cost	1,113,953	864,053
- at net realisable value	-	101,849
	1,113,953	965,902
Other inventories	7,933	15,345
	6,498,252	5,487,091

Inventory expense

Inventories recognised as expense during the year ended 31 December 2012 and included in cost of sales amounted to $57,660,359 (2011:$56,193,283).

Note 16: Other assets

	2012 $	2011 $
Current		
Prepayments to suppliers	1,443,377	6,439,415
Recoverable VAT	-	545
	1,443,377	6,439,960

Note 17: Property, Plant and Equipment

	2012 $	2011 $
Buildings		
At cost	5,882,438	5,948,756
Accumulated depreciation	(2,230,756)	(1,973,339)
	3,651,682	3,975,417
Leasehold improvements		
At cost	282,209	285,391
Accumulated depreciation	(67,429)	(60,227)
	214,780	225,164
Machinery and vehicles		
At cost	14,931,996	12,320,538
Accumulated depreciation	(5,199,097)	(6,495,149)
	9,732,899	5,825,389
Furniture, fittings and equipment		
At cost	99,012	98,121
Accumulated depreciation	(84,388)	(78,380)
	14,624	19,741
Capital Works in Progress	46,808,445	37,139,776
Total property, plant and equipment		
At cost	**68,004,100**	**55,792,582**
Accumulated depreciation	**(7,581,670)**	**(8,607,095)**
	60,422,430	**47,185,487**

Notes to the Consolidated Financial Statements (continued)

Note 17: Property, Plant and Equipment (continued)

Movement in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year is as follows:

	Buildings	Lease hold improvement	Machinery and vehicles	Furniture, fittings and equipment	Capital Works in Progress	Total
	$	$	$	$	$	$
Carrying amount at 1 January 2011	4,109,353	220,363	6,276,004	13,040	5,241,571	15,860,331
Additions	-	-	357,519	12,254	30,780,117	31,149,890
Depreciation expense	(274,291)	(3,077)	(1,015,288)	(6,206)	-	(1,298,862)
Effect of movement in foreign exchange	140,355	7,878	207,154	653	1,118,088	1,474,128
Carrying amount at 31 December 2011	3,975,417	225,164	5,825,389	19,741	37,139,776	47,185,487
Additions	-	-	2,277,095	1,983	14,536,762	16,815,840
Transfers	-	-	3,355,791	-	(3,355,791)	-
Disposals	-	-	(583,567)	-	-	(583,567)
Depreciation expense	(279,138)	(5,498)	(1,080,811)	(6,875)	-	(1,372,322)
Effect of movement in foreign exchange	(44,597)	(4,886)	(60,998)	(225)	(1,512,302)	(1,623,008)
Carrying amount at 31 December 2012	3,651,682	214,780	9,732,899	14,624	46,808,445	60,422,430

Non-current assets pledged as security

Refer note 21 for information on non-current assets pledged as security by the Group.

Capitalisation of Borrowing Costs

During current financial year, significant loans and notes payables were incurred to support both the operations as well as the construction of Nan'an project. No specific loan agreement made a reference to Nan'an project therefore the weighted average borrowing rate 9.72% (2011:4.78%) was used to calculate the capitalised borrowing costs included in Capital Work in Progress. The amount of borrowing cost capitalised during the year is $590,389 (2011:$999,685)

Note 18: Long Term Prepayment for Property, Plant and Equipment

	Consolidated 2012	Consolidated 2011
	$	$
Long Term Prepayment for Property, Plant and Equipment	**9,024,997**	**8,013,746**

Long term prepayment for property, plant and equipment represented the prepayments made to suppliers for purchases of equipment and construction services in relation to Nan'an project development. The prepayment was expected to form property, plant and equipments therefore were classified as non-current assets.

Notes to the Consolidated Financial Statements (continued)

	Consolidated 2012 $	Consolidated 2011 $

Note 19: Land Use Rights

The Group's interest in land use rights represents prepaid operating lease payments in the People's Republic of China ("PRC") with lease periods for 50 years.

	2012 $	2011 $
At 1 January	7,103,520	4,456,858
Additions	172,690	2,554,392
Amortisation charge	(144,184)	(141,710)
Effect of movement in foreign exchange	(79,162)	233,980
At 31 December	**7,052,864**	**7,103,520**

Non-current assets pledged as security

Refer note 21 for information on non-current assets pledged as security by the Group.

Note 20: Trade and Other Payables

	2012 $	2011 $
Current		
Trade payables	7,520,827	7,720,133
Other payables and accruals	6,023,879	2,754,398
Salary payables	327,502	218,963
Related party payables	6,248,490	4,658,665
	20,120,698	**15,352,159**

Further information relating to loans from related party is set out in note 27.

Note 21: Borrowings

	2012 $	2011 $
Current		
Secured:		
Bank loans	18,380,897	19,393,155
Third party loans	38,243,843	46,410,000
Note payables	58,073,370	46,665,255
	114,698,110	112,468,410
Non-current		
Secured:		
Bank loans	24,626,587	14,637,250

Further information relating to bank loans facilities is set out in note 26.

Notes to the Consolidated Financial Statements (continued)

	Consolidated	
	2012	**2011**
	$	**$**

Note 21: Borrowings (continued)

Terms and conditions

Bank loans

Current bank loans' terms are within 12 months. The final instalments are due on 4 December 2013. As at 31 December 2012, $10,560,379 current bank loans bear floating interest rate (2011: $13,752,147). $7,820,518 current bank loans bear interest at fixed rate (2011: $5,641,008).

All non-current bank loans bear floating interest rate. The final instalment is due on 10 April 2018.

Notes payable

Notes payable are the bank acceptance notes issued to suppliers by the Group. Note payables are non-interest bearing and issued with a term of 6 months.

Third party loans

$30,595,074 third party loans bear a fixed interest rate at 12% and $7,648,769 third party loans bear a fixed interest rate at 6.6%. The final instalment is due on 18 October 2013.

Assets pledged as security

The bank loans and notes payable are all secured by the Group's short term cash deposits, buildings, machinery, capital works in progress and land use right. The managing director, related parties and third parties have also provided guarantees. For details of all guarantees refer to note 26 (b).

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Note	**2012 $**	**2011 $**
Current			
Short-term deposits with maturity over three months	13	31,519,257	33,590,855
		31,519,257	33,590,855
Non-current			
Land Use rights	19	7,052,864	7,103,520
Lease hold improvement	17	214,780	225,164
Buildings	17	3,651,682	3,975,417
Machinery	17	4,789,792	
Capital Works in Progress	17	46,808,445	7,875,955
		62,517,563	19,180,056
		94,036,820	**52,770,911**

Apart from the assets pledged for borrowings, the Group's 100% shareholding in its subsidiary-Fujian Renewable Resources Technology Co., Ltd is pledged against the Group's third party loans.

Notes to the Consolidated Financial Statements (continued)

	Consolidated 2012 $	Consolidated 2011 $

Note 22: Other Liabilities

	2012 $	2011 $
Current		
Deferred revenue	1,122,741	948,867
Welfare payables	10,179	-
Other tax payables	1,716,449	1,655,994
	2,849,369	2,604,861

Note 23: Deferred Tax

	2012 $	2011 $
Accruals	529,188	100,113
Total deferred tax assets	529,188	100,113
Accrued interest income	(1,872,266)	(420,859)
Total deferred tax liabilities	(1,872,266)	(420,859)

Movements in deferred tax assets

	Opening balance at 1 January 2011 $	Origination of deferred tax assets $	Effect of movement in foreign exchange $	Closing balance at 31 December 2011 $
Amounts recognised in profit or loss				
Accruals	36,256	60,714	3,143	100,113
Total	36,256	60,714	3,143	100,113

	Opening balance at 1 January 2012 $	Originatio nof deferred tax assets $	Effect of movement in foreign exchange $	Closing balance at 31 December 2012 $
Amounts recognised in profit or loss				
Accruals	100,113	429,764	(689)	529,188
Total	100,113	429,764	(689)	529,188

Movements in deferred liabilities

	Opening balance at 1 January 2011 $	Originatio nof deferred tax liabilities $	Effect of movement in foreign exchange $	Closing balance at 31 December 2011 $
Amounts recognised in profit or loss				
Accrued interest income	-	(408,536)	(12,323)	(420,859)
Total	-	(408,536)	(12,323)	(420,859)

Notes to the Consolidated Financial Statements (continued)

Note 23: Deferred Tax (continued)

Movements in deferred liabilities (continued)

	Opening balance at 1 January 2012	Originatio nof deferred tax liabilities	Effect of movement in foreign exchange	Closing balance at 31 December 2012
	$	$	$	$
Amounts recognised in profit or loss				
Accrued interest income	(420,859)	(1,454,652)	3,245	(1,872,266)
Total	(420,859)	(1,454,652)	3,245	(1,872,266)

Note 24: Contributed Equity

	Consolidated	
	2012	2011
	$	$
415,057,737 (2011: 415,057,737) Fully paid ordinary shares		
415,057,737 (2011: 415,057,737)	32,066,227	32,066,227
Total	32,066,227	32,066,227

(a) *Movements in ordinary share capital*

Date	Details	Number of shares	Issue price$	$
1 January 2011	Opening balance	415,057,737		32,066,227
31 December 2011		415,057,737		32,066,227
31 December 2012		415,057,737		32,066,227

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. Every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

As at 31 December 2012 there were no unpaid shares(2011:nil).

Employee option plan
No shares or options were issued in current financial year under the employee option plan. Refer to remuneration report for details.

(b) Capital risk management

The Group considers its capital to comprise the equity as shown in the statement of financial position plus borrowings (including borrowings from bank, third party and related parties) net of cash and cash deposits.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

Notes to the Consolidated Financial Statements (continued)

Note 24: Contributed Equity (continued)

(b) Capital risk management (continued)

It is the Group's policy to maintain a gearing level of less than 60%. The Group's gearing ratio at the end of the reporting period is shown below:

		Consolidated	
		2012	2011
		$	$
Gearing ratios	**Note**		
Total borrowings			
- borrowings from bank and third parties	21	139,324,697	127,105,660
- loans from related parties	20	6,248,490	4,658,665
Less: cash and cash equivalents	12	(2,162,932)	(7,067,316)
term deposits with maturity over three months	13	(43,753,771)	(62,824,805)
Net debt		99,656,484	61,872,204
Total equity		87,701,334	71,764,449
Total capital		187,357,818	133,636,653
Gearing ratio		**53%**	**46%**

Gearing Ratio

Due to changes in Chinese credit policy, the Group increased its loans from various financing institutions and third party lenders to ensure it has sufficient funds to support the construction of its new factory in Nan'an. Considering the timing of the usage of the funds on the construction of Nan'an project, the Group decided to lend part of the funds to a third party in order to earn a better rate of interest in the short-term. This year the gearing ratio increased to 53% from 46% due to more loans borrowed from banks and related parties in 2012.

There have been no significant changes to the Group's capital management objectives, policies, and processes in the year nor has there been any change in what the Group considers to be its capital.

Notes to the Consolidated Financial Statements (continued)

Note 25: Reserves

	Consolidated	
	2012 $	2011 $
Surplus reserve	11,964,748	9,158,687
Foreign currency translation reserve	(3,917,812)	(3,134,397)
	8,046,936	6,024,290

Surplus reserves comprise the statutory surplus reserve of $8,558,980 (2011: $6,832,000) and other surplus reserve of $3,405,768 (2011: $2,326,687).

Statutory surplus reserve

The Chinese subsidiaries are required to appropriate 10% of its profit after income tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders and be approved by its board of directors. The statutory reserve can be utilised to offset prior year's losses or to issue bonus shares. However, such statutory reserve must be maintained at a minimum of 25% of the entity's share capital after such issuance.

Other surplus reserve

Other surplus reserve includes the staff and workers' bonus and welfare fund, which is available to fund payments of special bonuses to staff and for collective welfare benefits, and the Enterprise Expansion Fund, which can be used to expand production.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of the aggregated Group to the presentation currency.

Note 26: Financial Risk Management

General objectives, policies and processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Activities undertaken by the Group may expose the Group to market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to its finance team, for designing and operating processes that ensure the effective implementation of the objectives and policies of the Group. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material. The Board receives monthly reports from the Group Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

Notes to the Consolidated Financial Statements (continued)

Note 26: Financial Risk Management (continued)

At 31 December 2012 and 31 December 2011, the Group held the following financial instruments:

		Consolidated	
		2012	2011
		$	$
Financial Assets	**Note**		
Current			
Cash and cash equivalents	12	2,162,932	7,067,316
Term deposits with maturity over 3 months	13	33,068,441	62,824,805
Trade and other receivables	14	123,594,661	75,305,556
		158,826,034	145,197,677
Non-current			
Term deposits with maturity over 3 months	13	10,685,330	-
Cash and receivables		169,511,364	145,197,677
Financial liabilities			
Current			
Trade and other payables	20	20,120,698	15,352,159
Borrowings	21	114,698,110	112,468,410
Non-current			
Borrowings	21	24,626,587	14,637,250
Financial liabilities measured at amortised cost		159,445,395	142,457,819

The fair value of these financial instruments is assumed to approximate their carrying value.

(a) Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

Policy of the Group is that sales are only made to customers that are credit worthy. Credit limits for each customer are reviewed and approved by the general manager.

Receivable balances are monitored on an ongoing basis. To mitigate the credit risk associated with cash and cash equivalents, contracts are taken out only with reputable financial institutions.

Credit risk further arises in relation to loans to third parties(see Note 14). Such loans are only provided in exceptional circumstances and are subject to specific board approval.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of financial asset is the carrying amount of those assets, which is net of impairment losses. Refer to the summary of financial instruments table above for the total carrying amount of financial assets.

Concentration of credit exposure analysis

The concentration of credit risk is monitored by the Group through geographical areas. The following tables show the maximum exposure to credit risk at reporting date by geographical areas.

Notes to the Consolidated Financial Statements (continued)

Note 26: Financial Risk Management (continued)

(a) Credit risk (continued)

Analysis of credit exposure by geographical areas

	Consolidated 2012 $	Consolidated 2011 $
Cash and Cash equivalents		
China	2,135,459	7,047,237
Hong Kong	11,116	4,192
Australia	16,357	15,887
	2,162,932	**7,067,316**
Term deposits with maturity over 3 months		
China	**43,753,771**	**62,824,805**
Trade and other receivables		
China mainland	122,078,626	74,657,299
Hong Kong	761,793	-
Russia	-	102,065
Colombia	-	45,357
Philippines	319,151	154,990
Indonesia	-	46,820
Turkey	-	97,781
India	-	9,003
Others	435,091	192,241
	123,594,661	**75,305,556**
Total Cash, loans and receivables	**169,511,364**	**145,197,677**

Except for the fact that the Group made a loan to a third party of $50,548,687 (refer to note 14) which consists of 30% of total loans and receivable balance at the reporting date, there was no concentration of credit risk with respect to current receivables as the group.

(b) Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments.

Prudent liquidity risk management implies maintaining sufficient cash and ensuring the availability of funding through an adequate amount of committed credit facilities. Flexibility in funding is maintained by keeping committed credit lines available.

Financing arrangements

Bank facilities	2012 $	2011 $
Total facilities	51,246,749	40,686,100
Used at the end of the reporting period	(31,255,316)	(18,035,220)
Unused at the end of the reporting period	19,991,433	22,650,880

Included within the unused bank facilities above are trade finance facilities totalling $10,803,733 (2011: $17,994,410).

The bank facilities may be drawn down at any time prior to maturity and have any average maturity of 6 months to one year.

The Group manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the Consolidated Financial Statements (continued)

Note 26: Financial Risk Management (continued)

(b) Liquidity risk (continued)

Guarantee by related parties and third parties for borrowings

Guarantor	Maximum amount of guarantee provided		Notes
	RMB	AUD	
SU, Qingyue and PAN, Yu Lulu jointly	739,010,000	113,050,329	8 (b)
SU, Qingyue	2,030,000,000	310,540,003	8 (b)
Other related parties	245,000,000	37,478,966	27 (d)
Third parties	311,035,000	47,580,695	

Financial institutions in China normally require multiple guarantors to guarantee funds lent to companies. The total amount of guarantees provided by related parties and third parties to the Group is greater than the total borrowings.

Maturity Analysis

The table below summarises the maturity profile of the Group's financial liabilities based on contractual commitments.

	Carrying Amount	Contractual Cash flows	< 6 mths	6- 12 mths	1-3 year	〉 3 years
	$	$	$	$	$	$
2012						
Non-derivatives						
Non-interest bearing	20,120,698	20,120,698	20,120,698	-	-	-
Interest free borrowings	58,073,370	58,073,370	58,073,370	-	-	-
Fixed rate borrowings	46,064,391	54,031,837	43,187,188	10,844,649	-	-
Floating rate borrowings	35,186,936	42,359,797	4,205,339	8,523,702	9,718,889	19,911,867
	159,445,395	174,585,702	125,586,595	19,368,351	9,718,889	19,911,867
2011						
Non-derivatives						
Non-interest bearing	10,693,494	10,693,494	10,693,494	-	-	-
Interest free borrowings	51,323,920	51,323,920	51,323,920	-	-	-
Fixed rate borrowings	52,051,008	56,949,819	52,260,990	4,688,829	-	-
Floating rate borrowings	28,389,397	33,980,190	6,666,827	8,894,793	3,337,574	15,080,996
	142,457,819	152,947,423	120,945,231	13,583,622	3,337,574	15,080,996

Notes to the Consolidated Financial Statements (continued)

Note 26: Financial Risk Management (continued)

(c) Market risk

Market risk arises from the use of interest bearing, and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

(i) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to cash at bank and floating rate borrowings of the Group.

It is the Group's policy to eliminate interest rate risk over the cash flows on its short-term debt finance through the use of fixed rate instruments. The Group monitors its interest rate exposure continuously. The Group also considers on a continuous basis alternative financing opportunities and renewal of existing positions.

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the tables below:

	Weighted average interest rate	Floating rates $	Fixed rates < 1 year $	Non-interest bearing $	Total $
2012					
Financial Assets					
Cash and cash equivalents	0.33%	2,145,733	-	17,199	2,162,932
Term deposits with maturity over 3 months	2.71%	11,813,044	31,940,727	-	43,753,771
Trade receivables		-	-	11,568,712	11,568,712
Other receivables		-	-	7,314,469	7,314,469
Loans to related parties		-	-	15,648,829	15,648,829
Loans to third parties	12.00%	-	40,293,713	48,768,938	89,062,651
Financial Liabilities					
Trade and other payables		-	-	(20,120,698)	(20,120,698)
Bank loans	6.62%	(35,186,936)	(7,820,548)	-	(43,007,484)
Third party loans	10.92%	-	(38,243,843)	-	(38,243,843)
Notes payable		-	-	(58,073,370)	(58,073,370)
		(21,228,159)	**26,170,049**	**5,124,079**	**10,065,969**
2011					
Financial Assets					
Cash and cash equivalents	2.75%	925,944	6,128,013	13,359	7,067,316
Term deposits with maturity over 3 months	3.01%	796,404	62,028,401	-	62,824,805
Trade receivables	-	-	-	10,225,245	10,225,245
Other receivables	-	-	-	2,164,658	2,164,658
Loans to third parties	12.00%	-	40,747,980	22,167,673	62,915,653
Financial Liabilities					
Trade and other payables	-	-	-	(15,352,159)	(15,352,159)
Bank loans	6.46%	(28,389,397)	(5,641,008)	-	(34,030,405)
Third party loans	12.00%	-	(46,410,000)	-	(46,410,000)
Notes payable		-	-	(46,665,255)	(46,665,255)
		(26,667,049)	**56,853,386**	**(27,446,479)**	**2,739,858**

Notes to the Consolidated Financial Statements (continued)

Note 26: Financial Risk Management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate financial assets and financial liabilities).

	2012		2011	
	+0.4% (40 basis points)	-0.4% (40 basis points)	+0.4% (40 basis points)	-0.4% (40 basis points)
	$	$	$	$
Cash and cash deposits	55,835	(55,835)	6,890	(6,890)
Floating rate borrowings	(140,748)	140,748	(101,182)	101,182
Tax charge at 25% (2011: 25%)	21,228	(21,228)	23,573	(23,573)
After tax increase / (decrease)	(63,685)	63,685	(70,719)	70,719

(ii) Foreign currency risk
The Group's functional currency is Renminbi (RMB). The Group exports its products to overseas customers and is mainly exposed to foreign exchange risk arising from currency exposure to the United States dollar.

The Group's policy of managing this risk is to constantly monitor its exposure to trends and fluctuations in foreign exchange rates.

The Group's major exposure to foreign currency risk is as follows:

	2012	2011
	USD$	USD$
Cash at bank	107,202	163,530
Trade receivables	1,538,504	938,279
Trade payables	(5,188,830)	-
Short term borrowings	(350,477)	(6,537,080)
	(3,893,601)	(5,435,271)

<u>Sensitivity Analysis</u>

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit after tax (due to changes in fair value of monetary assets).

	2012		2011	
	+10% (USD/RMB)	-10% (USD/RMB)	+1% (USD/RMB)	-1% (USD/RMB)
	$	$	$	$
Cash and cash deposits	10,308	(10,308)	15,877	(15,877)
Trade receivables	147,947	(147,947)	91,426	(91,426)
Trade payables	(498,920)	498,920	-	-
Borrowings	(33,699)	33,699	637,778	(637,778)
Tax charge	93,591	(93,591)	(186,270)	186,270
After tax increase / (decrease)	(280,773)	280,773	558,811	(558,811)

Notes to the Consolidated Financial Statements (continued)

Note 27: Related Party Transactions

	Consolidated 2012 $	Consolidated 2011 $

(a) ***Ultimate parent***

The parent entity and the ultimate parent of the Group is Novarise Renewable Resources International Limited (Novarise).

(b) Transactions with related parties

The following transactions occurred with related parties:

Other related parties paid on behalf of the Group on purchase of goods

	2012 $	2011 $
Other related parties	10,546,163	21,806,523

(c) Outstanding balances

Loans from other related parties
Current

	2012 $	2011 $
Balance at beginning of the year	4,658,665	126,606
Advances by other related parties	15,025,050	7,909,358
Repayments to other related parties	(13,384,919)	(3,513,875)
Effect of movement in foreign exchange	(50,306)	136,576
Balance at end of year	6,248,490	4,658,665

Loans from related parties are unsecured, interest free and repayable on demand.

Loans to other related parties
Current

	2012 $	2011 $
Balance at beginning of the year	-	-
Advances by other related parties	19,741,117	-
Repayments to other related parties	(4,107,833)	-
Effect of movement in foreign exchange	15,545	-
Balance at end of year	15,648,829	-

Loans to related parties are unsecured, interest free and repayable by related parties on demand.

Other related parties paid on behalf of the Group
Current

	2012 $	2011 $
Balance at beginning of the year	207,262	1,996,304
Related parties paid on behalf of the Group	10,546,163	21,806,523
Repayments to other related parties	(10,750,912)	(23,613,267)
Effect of movement in foreign exchange	(2,513)	17,702
Balance at end of year	-	207,262

Other related parties settled liabilities of the Group on its behalf during the period therefore the liabilities owed to related parties in this regard were treated as part of the normal payables included in Note 20 as accounts payables.

Notes to the Consolidated Financial Statements (continued)

	2012	2011
	$	$

Note 27: Related Party Transactions (continued)

(d) Guarantee provided by other related party to the Group

Details of guarantees provided by other related parties are disclosed in Note 26(b).

(e) Guarantee provided by the Group to related parties

In the year ended 31 December 2012, the Group provided financial guarantees in relation to bank loans of a related party and a third party amounting to $22,487,380. The guarantees contracts will expire on 12 July 2013.

Note 28: Parent Entity

The following information relates to the parent entity Novarise Renewable Resources International Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 2.

	2012	2011
	$	$
Current assets	22,451,036	22,634,453
Non-current assets	7,169,079	7,249,902
Total assets	**29,620,115**	**29,884,355**
Current liabilities	2,793,651	2,900,979
Non-current liabilities	-	-
Total liabilities	**2,793,651**	**2,900,979**
Contributed equity	32,066,227	32,066,227
Accumulated losses	(4,317,948)	(4,461,710)
Foreign currency translation reserve	(921,815)	(621,141)
Total equity	**26,826,464**	**26,983,376**
Profit/(loss) for the year	143,762	(527,443)
Other comprehensive /(loss)/income for the year	(300,674)	944,945
Total comprehensive (loss)/income for the year	**(156,912)**	**417,502**

Notes to the Consolidated Financial Statements (continued)

Note 29: Subsidiaries

The consolidated financial statements of Novarise Renewable Resources International Ltd incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2 (b).

Name of entity	Country of Incorporation	Class of shares	Equity holding*	
			2012 %	2011 %
Novarise Australia Pty Ltd	Australia	Ordinary	100	100
Great Rises International New Resources Pty Ltd	Hong Kong	Ordinary	100	100
Fujian Sanhong Renewable Resources Technology Co Ltd Pty Ltd	PR China	**	100	100
			(via Great Rises International New Resources Pty Ltd)	
Quanzhou Sanhong Chemical Fibre Co Ltd	PR China	**	100	100
			(41.72% via Fujian Sanhong Renewable Resources Technology Co Ltd) (58.28% via Great Rises International New Resources Pty Ltd)	
Fujian Sungreen Eco-friendly Technology Co., Ltd	PR China	**	100	100
			(100% via Fujian Sanhong Renewable Resources Technology Co Ltd)	
Fujian Sanhong Eco-friendly Technology Co., Ltd	PR China	**	100	100
			(100% via Fujian Sanhong Renewable Resources Technology Co Ltd)	

* The proportion of ownership interest is equal to the proportion of voting power held.

** No ordinary shares are issued for Chinese subsidiaries. The voting rights of every ordinary shareholder are in accordance with the percentage of share holding.

Notes to the Consolidated Financial Statements (continued)

Note 30: Cash Flow Information

	2012 $	2011 $
Reconciliation of the profit after tax to the net cash flows from operations:		
Operating profit after tax	16,720,300	17,004,206
Depreciation of noncurrent assets	1,372,322	1,298,862
Amortisation of prepayments (land use rights)	144,184	141,710
Changes in Assets and Liabilities:		
Increase in trade and other receivables	(5,690,022)	(5,394,005)
(Increase) /decrease in inventory	(1,071,266)	562,961
Decrease in other assets	4,851,126	3,170,473
Increase in deferred tax assets	(429,764)	(97,181)
Increase in trade and other payables	5,421,600	5,258,617
Increase/(decrease) in other liabilities	384,145	(1,975,312)
Increase in income tax liabilities	359,558	244,272
Increase in deferred tax liabilities	1,454,652	445,003
Net cash flow from operating activities	23,516,835	20,659,606

Note 31: Commitments and Contingencies

	2012 $	2011 $
Capital commitments		
Property, plant and equipment		
Payable within one year	6,206,179	5,466,818
Lease commitment		
Non-cancellable operating leases – future minimum lease payments		
Payable within one year	-	40,078
Later than one year but not later than 5 years	-	66,796
	-	106,874

The operating lease contract has been terminated early in 2012 as Nan'an factory can provide sufficient storage space to the group.

Note 32: Events after the end of the reporting period

Since 31 December 2012 the Group has entered several short-term borrowings from the bank amounting to RMB 56,443,000 and US Dollar 306,550.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, or the results of those operations.

Notes to the Consolidated Financial Statements (continued)

Note 33: Company details

Principal place of business
2-16A Quanzhou Economy & Technology Development Area,
The People's Republic of China

Registered office
Suite 5, Level 1 325 Pitt Street
Sydney NSW Australia 2000

Note 34: Changes of results from 4E

On 28 February 2013 the Group announced to the market its preliminary financial results for the financial year ended 31 December 2012 for $16,990,013. The audited profit after income tax of the Group for relevant period was $16,720,300, $269,713 less than the preliminary financial results. The changes represented 1.6% of the final financial results and were caused by adjustments in deferred income tax expenses.

DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   b. give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Qingyue Su
Managing Director

Quanzhou, P.R. China

Date: 28 March 2013

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOVARISE RENEWABLE RESOURCES INTERNATIONAL LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Novarise Renewable Resources International Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Novarise Renewable Resources International Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Novarise Renewable Resources International Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(y) of the financial report, which indicates that the consolidated entity has $95,824,632 of loans and notes payables due for renewal by 30 June 2013, a further $16,552,382 due for renewal by 31 December 2013 and $13,500,000 of capital expenditure due to be paid before 31 December 2013 in addition to an unsecured receivable of $89,062,651 due from third parties (the "Borrowers") due to be repaid in full in by 30 June 2013. Should the company be unsuccessful in renewing existing borrowings or obtaining new loans as required and the receivable due from the Borrower is not recovered in full by the due date, the condition, along with the other matters as set force in Note 2(y) indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 18 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Novarise Renewable Resources International Limited for the year ended 31 December 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Wayne Basford
Director

Perth, Western Australia
Dated this 28th Day of March 2013