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Novarise Renewable Resources International Limited

ACN 138 537 596

Half Year Report

Ended 30 June 2010

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Novarise Renewable Resources International Limited – Half Year Report

CORPORATE DIRECTORY

Novarise Renewable Resources International Limited ACN 138 537 596

Directors

Mr Qingyue Su (Chairman, Managing Director)
Mr Chung Yi So (Executive Director)
Mr Xiaobin Zhuang (Executive Director)
Mr Fai-Peng Chen (Independent Director)
Mr Phillip Fook Weng Au (Independent Director)
Mr Chenzhang Li (Independent Director)
Mr John Keiran O'Brien (Independent Director)
Mr Liandong Tu (Independent Director)

Company Secretary

Mr Fai-Peng Chen
Mr Xiaobin Zhuang

Registered Office

Level 10, 25 Grenfell Street, ADELAIDE,
SA, AUSTRALIA, 5000

Australian Business Office

c/o Level 10, 25 Grenfell Street, ADELAIDE,
SA, AUSTRALIA, 5000

China Business Office

Address: No.2-16A Quanzhou Economy & Technology Development Zone(QingMeng), P.R. China 362005
Telephone: 86 595 22353329
Fax: 86 595 22353392

Bankers

ANZ Bank
8/20 Martin place, Sydney 2000, Australia

China Construction Bank
Quanzhou Bincheng Branch
No. 10-14 Haosheng Garden, Pingshan Road, Quanzhou, P.R. China

Share Registrar

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide, SA 5000
Telephone: 1300 787 272

Auditors

BDO Audit (NSW-VIC) Pty Ltd
Level 19, 2 Market Street
Sydney NSW 2000

Internet Address

<http://www.novarise.com.au/>

Novarise Renewable Resources International Limited – Half Year Report
Appendix 4D

HALF YEAR INFORMATION GIVEN TO THE ASX UNDER LISTING RULE 4.2A

Name of entity

NOVARISE RENEWABLE RESOURCES INTERNATIONAL LIMITED

ABN

48 138 537 596

Reporting period

Half Year ended 30 June 2010

Previous corresponding period

Half Year ended 30 June 2009

The information contained in this report should be read in conjunction with the most recent annual financial report.

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1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue from continuing operations	Up	4.35	%	to	\$31,835,169
Profit from ordinary operations after income tax attributable to members	Down	13.77	%	to	\$5,299,549
Net profit for the period attributable to members	Down	13.77	%	to	\$5,299,549
Net tangible asset value per share	Up	30.72	%	to	\$0.25

2. REVIEW OF OPERATIONS

A review of operations is included in the Directors' Report.

3. DETAILS OF CONTROLLED ENTITIES

During the period the Group gained control of Great Rises International New Resources Limited and its controlled subsidiaries. A summary is included in the half year financial report.

4. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

The Group has no associates or joint venture entities.

5. DIVIDENDS

5.1 Dividends per share	Amount per share (cents)	Franked amount per share (cents)	Amount per share of foreign source dividend (cents)
Final			
- current period	-	-	-
- previous corresponding period	-	-	-
Interim			
- current period	-	-	-
- previous corresponding period	1.91	-	1.91

5.2 Total dividends

Interim	
- current period	-
- previous corresponding period	5,716,477

No dividend is proposed for the period to 30 June 2010

6. AUDIT DISPUTES OR QUALIFICATIONS

There are no audit disputes or qualifications.

7. ACCOUNTING STANDARDS

Australian Accounting Standards have been used in complying the information contained in Appendix 4D.

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Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Consolidated Financial Statements

For the Half Year Ended 30 June 2010

Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Consolidated Financial Statements

For the Period Ended 30 June 2010

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Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Directors' Report

30 June 2010

Your directors present their Report on the Company and its subsidiaries (the Group) for the half year ended 30 June 2010.

1. General information

Directors

The directors in office at any time during, or since the end of, the period are:

Mr Qingyue Su

Mr Chung Yi So

Mr Xiaobin Zhuang

Mr Liandong Tu

Mr Chenzhang Li

Mr Fai-Peng Chen

Mr Phillip Fook Weng Au

Mr John O'Brien

2. Business review

Review of operations

The listing at the ASX on 29 April, 2010 was a monumental and significant milestone of the Company.

This reporting period of January to June 2010 represents the first half annual report the Company is making to its shareholders since its listing.

During the first six months of the year, the Chinese economy grew strongly. China's GDP grew from 9.1% in 2009 to 11.1% year on year in the first half of 2010. A sharp decline in the trade surplus during the first half of 2010 indicates that China, the world's fastest-growing major economy, has significantly lifted domestic demand to drive economic growth.

Fuelled by strong economic growth, the Group experienced strong growth of revenue and profitability during the reporting period which is consistent with the Directors' Forecasts disclosed in Part 9 of the Prospectus dated 4 February, 2010.

The company is dedicated to research and develop improved production technologies for the utilization of Polypropylene (PP) waste. There are more than 30 types of recycled PP waste. The company will continue to strive for improvement and optimization in its technology and production processes. In June 2010, the company obtained three patents for technologies. These were for the cooling tank of the plastic granulator, the granules filling device of the plastic granulator and the formwork of the plastic granulator.

China's Recycling Polypropylene Industry

In May 2010, the Ministry of Industry and Information Technology (MIIT) of China announced that the Chinese government will make favourable policies to support the development of a recycling or circular economy.

The ministry will put the circular economy sustainable industrial model into the 12th Five-Year Plan and improve the participation of circular economy by key industries, including the recycling of plastic products (PP plastics). MIIT's policies with other government policies announced earlier provide impetus for the growth of plastics recycling industries in China.

In January 2010, the Company's Chinese subsidiary became the first PP recycling manufacturer accredited with certification by the China's Ministry of Environmental Protection for its products – PP filament yarn, PP webbing and PP green shopping bags.

Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Directors' Report

30 June 2010

The Group remains the largest producer of recycling PP yarn in China with annual capacity of approximately 35,000 tonne of PP yarn. While the PP yarn industry in China is fragmented and competitive, the Group has the leading position to be both the largest PP yarn producer as well as the only one using recycled PP waste.

Currently the Group has invested to establish a factory in Nan'an and the new production line of recycling PP pellets which will be completed and put into production in April 2011. The new production capacity is indicated to be 75 thousand tonnes per year and management expects the production line to be at operating capacity by the Quarter 2 of 2011.

Review of financials

A summary of the consolidated revenues and results by significant industry segment is set out below:

	Segment Revenues		Segment Result – Gross Profit	
	2010	2009	2010	2009
	\$	\$	\$	\$
Polypropylene yarns	6,809,969	7,482,357	1,509,030	1,713,707
Polypropylene straps and ropes	23,210,763	22,407,356	7,180,779	5,832,506
Recycled Polypropylene pellets	1,619,771	-	514,030	-
	<u>31,640,503</u>	<u>29,889,713</u>	<u>9,203,839</u>	<u>7,546,213</u>

The Group recorded revenue of \$31,835,169 (or RMB 194 million) for the 6 months period to June 2010, compared to \$30,508,791 (or RMB 147 million) for the corresponding period of 2009. This represents an increase of 4.35% in A\$ or 32% in RMB.

The NPAT for the 6 months to June 2010 was \$5,299,549 (or RMB 32,387,983). Compared to previous corresponding period of 2009 of \$6,146,028 (or RMB 29,695,251), this represents a decrease of 13.77% but an increase of 9.07% in RMB.

The discrepancies in the percentages between reporting currency in Australian Dollars and the functional currencies for the previous corresponding periods of 2009 and 2010 was due to the rise of the Australian Dollars against RMB by 26% during the comparison period. Taking into account the appreciation of the Australian Dollars against RMB during the periods under comparison, the financial metrics of the Group are positive.

The Group is experiencing optimum and full utilization of its production capacities and expects utilization to be near optimum for the remaining months of 2010 with strong demands for all its products.

Export revenues have also grown as the international markets for Chinese PP yarn expanded. Export revenues increased from RMB22.38 million (A\$4.63million) in 2009 to RMB25.68 million (A\$4.2million) in 2010.

Outlook and Prospect for Second Six Months of 2010

The Group reaffirms its Directors' Forecasts that it is on track to achieve its revenue and profit forecasts for 2010 as disclosed in Part 9 of its Prospectus dated 4 February 2010.

Driven by strong demands for its recycled PP yarn and other finished products, the Group anticipates that its production and its utilization will be near capacities for the remaining of calendar year 2010 and this trend is expected to continue for first half of 2011.

The demands for PP yarn is expected to remain strong in China with strong domestic demands and export of premium PP yarn finished products such as laptop bags and tents etc remain strong.

The Group anticipates that its Nan'an facility is expected to be completed in Quarter 2 of 2011. The advanced and integrated facilities will enable efficient manufacturing process for the recovery of PP pellets from recycled waste to spinning of yarn. When production commences, the Group will be the largest producer of PP yarn in China and the only one relying on recycled PP waste.

Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Directors' Report

30 June 2010

For the current year, the Group is focused on:

- Expanding its sales and marketing network within China and international markets;
- Establishing its procurement networks for PP waste in Australia and other countries;
- Progressing towards completion the construction of the 75,000 tonne capacity new production facilities at Nan'an ;
- Undertaking marketing and promotion activities to promote the Group as the producer of green and environmentally friendly PP yarn; and
- Maintaining and strengthening its overall market position and core competitiveness through technological innovation and expansion in production and growth strategies in both China and internationally.

3. Auditors Independence Declaration

A copy of the independence declaration by the lead auditor under section 307C is included on Page 10 to this half year financial statements.

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

Chairman:



Mr Qingyue Su

Quanzhou, P.R. China

Dated this 30th day of August 2010

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

As lead auditor for the review of Novarise Renewable Resources International Limited for the half-year ended 30 June 2010, 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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



Wayne Basford

Director

BDO Audit (NSW-VIC) Pty Ltd
Sydney, 30th day of August 2010

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE HALF-YEAR ENDED 30 JUNE 2010

	Consolidated Entity Half – Year	
	2010 \$	2009 \$
Revenue	31,835,169	30,508,791
Cost of sales	(22,436,665)	(22,343,500)
Gross profit	9,398,504	8,165,291
Other income	82,141	134,445
Distribution expenses	(97,270)	(81,441)
Marketing expenses	(45,656)	(48,558)
Administration expenses	(1,147,879)	(745,910)
Occupancy expenses	(58,455)	(29,872)
Finance costs	(626,186)	(942,538)
Other expenses	(1,252,017)	(124,194)
Profit before income tax expense	6,253,182	6,327,223
Income tax expense	(953,633)	(181,195)
Net profit for the half-year	5,299,549	6,146,028
Other comprehensive income		
Foreign currency translation differences	3,070,357	(4,475,665)
Other comprehensive income for the half-year, net of tax	3,070,357	(4,475,665)
Total comprehensive income for the half-year	8,369,906	1,670,363
Profit for the half-year is attributable to:		
Equity holders of Novarise Renewable Resources International Limited	5,299,549	6,146,028
	5,299,549	6,146,028
Total comprehensive income for the half-year is attributable to:		
Equity holders of Novarise Renewable Resources International Limited	8,369,906	1,670,363
	8,369,906	1,670,363
Earnings per share for profit attributable to owners of Novarise Renewable Resources International Limited		
Basic earnings per share	1.59 cents	2.06 cents
Diluted earnings per share	1.59 cents	2.06 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 FOR THE HALF-YEAR ENDED 30 JUNE 2010

	Consolidated Entity	
	30 June 2010 \$	31 December 2009 \$
CURRENT ASSETS		
Cash and cash equivalents	25,555,344	4,236,477
Term Deposits With Maturity over three months	15,293,072	20,625,621
Trade and other receivables	12,523,804	8,063,075
Inventories	5,438,706	3,611,472
Other assets	11,302,260	7,195,251
TOTAL CURRENT ASSETS	<u>70,113,186</u>	<u>43,731,896</u>
NON-CURRENT ASSETS		
Property, plant and equipment	12,913,649	13,039,651
Lease prepayments	332,232	322,388
Deferred tax assets	46,298	42,532
TOTAL NON-CURRENT ASSETS	<u>13,292,179</u>	<u>13,404,571</u>
TOTAL ASSETS	<u>83,405,365</u>	<u>57,136,467</u>
CURRENT LIABILITIES		
Trade and other payables	4,586,857	7,087,009
Borrowings	24,252,356	26,534,605
Current tax liabilities	1,155,913	250,750
Other liabilities	2,450,037	2,593,088
TOTAL CURRENT LIABILITIES	<u>32,445,163</u>	<u>36,465,452</u>
NON-CURRENT LIABILITIES		
Deferred tax liabilities	-	30,060
TOTAL NON-CURRENT LIABILITIES	<u>-</u>	<u>30,060</u>
TOTAL LIABILITIES	<u>32,445,163</u>	<u>36,495,512</u>
NET ASSETS	<u>50,960,202</u>	<u>20,640,955</u>
EQUITY		
Contributed equity	29,264,099	7,314,758
Reserves	6,480,236	2,401,342
Retained earnings	15,215,867	10,924,855
TOTAL EQUITY	<u>50,960,202</u>	<u>20,640,955</u>

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

NOVARISE RENEWABLE RESOURCES INTERNATIONAL LIMITED
 FINANCIAL REPORT
 FOR THE HALF-YEAR ENDED 30 JUNE 2010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR THE HALF-YEAR ENDED 30 JUNE 2010

CONSOLIDATED ENTITY	Contributed Equity	Retained Earnings	Surplus Reserves	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
At 1 January 2009	11,554,898	5,544,710	1,460,880	5,273,002	23,833,490
Total comprehensive income for the half-year					
Profit for the half-year	-	6,146,028	-	-	6,146,028
<i>Other comprehensive income</i>					
Exchange differences on translation of foreign operations	-	-	-	(4,475,665)	(4,475,665)
Total comprehensive income for the half-year	-	6,146,028		(4,475,665)	1,670,363
Dividends paid	-	(5,716,477)	-	-	(5,716,477)
Transactions with owners in their capacity as owners	-	(5,716,477)	-	-	(5,716,477)
At 30 June 2009	11,554,898	5,974,261	1,460,880	797,337	19,787,376
Total comprehensive income for the half-year					
Profit for the half-year	-	7,168,258	-	-	7,168,258
<i>Other comprehensive income</i>					
Exchange differences on translation of foreign operations	-	-	-	(2,074,539)	(2,074,539)
Total comprehensive income for the half-year	-	7,168,258	-	(2,074,539)	5,093,719
Contributions of equity, net of transaction costs	94,028	-	-	-	94,028
Repayment of shareholders equity contribution	(4,334,168)	-	-	-	(4,334,168)
Appropriation to surplus reserves	-	(2,217,664)	2,217,664	-	-
Transactions with owners in their capacity as owners	(4,240,140)	(2,217,664)	2,217,664	-	(4,240,140)
At 31 December 2009	7,314,758	10,924,855	3,678,544	(1,277,202)	20,640,955
Total comprehensive income for the half-year					
Profit for the half-year	-	5,299,549	-	-	5,299,549
<i>Other comprehensive income</i>					
Exchange differences on translation of foreign operations	-	-	-	3,070,357	3,070,357
Total comprehensive income for the half-year	-	5,299,549	-	3,070,357	8,369,906
Issue of share capital, net of transaction costs	21,949,341	-	-	-	21,949,341
Appropriation to surplus reserves	-	(1,008,537)	1,008,537	-	-
Transactions with owners in their capacity as owners	21,949,341	(1,008,537)	1,008,537	-	21,949,341
At 30 June 2010	29,264,099	15,215,867	4,687,081	1,793,155	50,960,202

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

CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE HALF-YEAR ENDED 30 JUNE 2010

	Consolidated Entity	
	Half – Year	
	2010	2009
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	31,552,242	36,278,514
Payments to suppliers and employees	(37,168,836)	(35,781,209)
Interest received	171,962	1,704,942
Interest paid	(430,030)	(942,538)
Income tax paid	(131,932)	(29,643)
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	(6,006,594)	1,230,066
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in term deposits with maturity over 3 months	5,945,628	1,444,150
Payments for purchase of property, plant and equipment	(4,937,615)	(5,544,182)
Repayment of loans by related parties	-	25,332,684
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,008,013	21,232,652
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	21,350,779	23,032,020
Repayment of borrowings	(17,802,401)	(25,433,988)
Repayment of loans to related parties	-	(1,210,557)
Proceeds from issue of shares, net of transaction costs	22,779,942	-
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	26,328,320	(3,612,525)
NET INCREASE IN CASH HELD	21,329,739	18,850,193
Effect of exchange rate changes on the balance of cash held in foreign currency	(10,872)	(3,152,798)
Cash and cash equivalents at beginning of the period	4,236,477	6,205,251
CASH AT END OF PERIOD	25,555,344	21,902,646

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

Notes to the Consolidated Financial Statements For the Half-Year Ended 30 June 2010

1. Corporate information

The financial statements of Novarise Renewable Resources International Limited for the half-year ended 30 June 2010 covers the consolidated entity consisting of Novarise Renewable Resources International Limited and its subsidiaries as required by the *Corporations Act 2001*.

The financial statements are presented in the Australian currency.

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 Level 10, 25 Grenfell Street, Adelaide, SA, Australia, 5000.

The address of the principal place of business is as follows: 2-16A Quanzhou Economic and Technological Development Zone (QingMeng), P.R. China 362005.

2. Summary of significant accounting policies

a) Basis of Preparation

These general purpose financial statements for the half-year reporting period ended 30 June 2010 have been prepared in accordance with Australian Accounting Standard *134 Interim Financial Reporting* and the *Corporations Act 2001*.

The historical cost basis has been used.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 31 December 2009 and any public announcements made by Novarise Renewable Resources International Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent annual financial statements.

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

b) Basis of Consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of Novarise Renewable Resources International Limited and its subsidiaries at each reporting date ("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. Consolidated financial statements include all subsidiaries 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.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Notes to the Consolidated Financial Statements (continued)

2. Summary of significant accounting policies (continued)

b) Basis of Consolidation (continued)

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 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 are 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.

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.

Notes to the Consolidated Financial Statements (continued)

2. Summary of significant accounting policies (continued)

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 are also recognised directly in other comprehensive income.

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.

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.

Collectibility 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 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 profit or loss.

Notes to the Consolidated Financial Statements (continued)

2. Summary of significant accounting policies (continued)

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.

j) Financial instruments

Financial assets

Recognition and derecognition

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 income statement. 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 one category 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 balance date, which are classified as non-current.

Impairment of financial assets

At each reporting date, 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)

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 fixed assets 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:

	2010	2009
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.

m) Land use rights

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 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) 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.

Notes to the Consolidated Financial Statements (continued)

2. Summary of significant accounting policies (continued)

o) 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.

p) 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.

q) 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. Those liabilities 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.

r) Contributed equity

Contributions to the Group by shareholders are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

s) 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.

t) Value added tax (VAT)

The Group 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 recognized 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 recognized 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.

Notes to the Consolidated Financial Statements (continued)

2. Summary of significant accounting policies (continued)

u) 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.

Estimated impairment of tangible and other non-current assets

The Group considers annually whether any impairment indicators 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.

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Notes to the Consolidated Financial Statements (continued)

3. Segment Reporting

Management has determined the operating segments based on reports reviewed by the chief operating decision makers for making strategic decision. The chief operating decision makers comprise the managing director, finance director and other directors. The chief operating decision makers 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.

Type of products

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.

Segment information

Segment information provided to the board of directors is as follows:

Half-year ended 30 June 2010	Polypropylene yarns \$	Polypropylene straps and ropes \$	Recycled Polypropylene pellets \$	Total \$
Total segment revenue	6,809,969	23,210,763	1,619,771	31,640,503
Revenue from external customers	6,809,969	23,210,763	1,619,771	31,640,503
Gross profit	1,509,030	7,180,779	514,030	9,203,839
Half-year ended 30 June 2009	Polypropylene yarns \$	Polypropylene straps and ropes \$	Recycled Polypropylene pellets \$	Total \$
Total segment revenue	7,482,357	22,407,356	-	29,889,713
Revenue from external customers	7,482,357	22,407,356	-	29,889,713
Gross profit	1,713,707	5,832,506	-	7,546,213

Notes to the Consolidated Financial Statements (continued)

3. Segment Reporting (continued)

The board of directors monitors segment performance based on gross profit. This measure excludes interest revenue and other operational and non-operational expenses. This 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:

	Consolidated Half - Year	
	30 June 2010	30 June 2009
	\$	\$
Gross profit	9,203,839	7,546,213
Interest revenue	194,665	619,078
Other income	82,141	134,445
Distribution expense	(97,270)	(81,441)
Marketing expense	(45,656)	(48,558)
Administration expense	(1,147,879)	(745,910)
Occupancy expense	(58,455)	(29,872)
Finance costs	(626,186)	(942,538)
Other expenses	(1,252,017)	(124,194)
Profit before income tax	6,253,182	6,327,223

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Notes to the Consolidated Financial Statements (continued)

4. Individually Significant Items

	Consolidated Half – Year	
	30 June 2010 \$	30 June 2009 \$
Profit for the half-year includes the following items:		
Interest revenue from related parties	-	506,218
IPO Costs	259,254	-
Foreign exchange loss on IPO proceeds	1,159,073	-

5. Dividends

Dividends paid during the half-year	-	5,716,477
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In prior half-year, dividends have been paid to shareholders by a related party on behalf of the Group.

6. Revisions in Estimates

During the half-year ended 30 June 2010, there were no major changes in estimates made.

7. Seasonality and Irregular Trends

The sales of goods are dependent on the ability of the Group to obtain sales orders from both existing and potential customers. Sales are not seasonally affected but are more market driven.

8. Equity Securities Issued

	Consolidated Half – Year		Consolidated Half – Year	
	30 June 2010 shares	30 June 2010 shares	30 June 2010 \$	30 June 2009 \$
Issues of Ordinary Shares During the Half-Year				
Issue of shares due to IPO	100,254,908	-	21,949,341	-
Issue of shares as consideration for acquisition of an entity under common control	298,999,998	-	-	-
	399,254,906	-	21,949,341	-

On 28 April 2010, Novarise Renewable Resources International Limited completed its initial public offering and was listed on the ASX. The number of ordinary shares at 30 June 2010 amounted to 399,254,908 shares.

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.

9. Contingent Liabilities

There have been no changes in contingent liabilities or contingent assets since the last annual reporting date, 31 December 2009.

Notes to the Consolidated Financial Statements (continued)

10. Acquisitions from entities under Common Control

As part of the IPO restructuring Novarise Renewable Resources International Limited ('Novarise') acquired 100% of the equity in Great Rises International New Resources Limited ('Great Rises'), a company registered in Hong Kong, by way of issuing equity. The transaction interposed Novarise as the ultimate parent company of the Group, which comprised the two operating subsidiaries based in P.R. China, Quanzhou Sanhong Chemical Fibre Company Limited and Fujian Sanhong Renewable Resources Technology Company Limited. Both subsidiaries in China are involved in manufacturing and sales of polypropylene yarns and straps, as well as recycled polypropylene pellets.

11. Events subsequent to the end of the reporting period

No matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in subsequent financial years.

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DECLARATION BY DIRECTORS

The directors of the company declare that:

- (a) The financial statements and notes set out on pages 11 to 25 are in accordance with the Corporations Act 2001 and:
- (i) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the half-year ended on that date.
- (b) 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.

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

Qingyue Su
Director



Quanzhou P.R. China
30 August 2010

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Novarise Renewable Resources International Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Novarise Renewable Resources International Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Novarise Renewable Resources International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independence

In conducting our review, 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.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

A stylized, handwritten-style logo of the letters 'BDO' in black ink.

BDO Audit (NSW-VIC) Pty Ltd

A handwritten signature in black ink that reads 'Wayne Basford'. The signature is written in a cursive style with a long horizontal stroke extending to the right.

Wayne Basford

Director

Sydney, 30th day of August 2010

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