NOVARISE RENEWABLE RESOURCES INTERNATIONAL LTD
ABN – 48 138 537 596

FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011.

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	06 Aug 2009	
Mr. Xiaobin Zhuang	Executive Director	09 Dec 2009	
Mr. Chung Yi So	Non-Executive Director	09 Dec 2009	
Mr. Liandong Tu	Non-Executive Director	09 Dec 2009	
Mr. John O'Brien	Non-Executive Director	09 Dec 2009	
Mr. Fai Peng Chen	Non-Executive Director	06 Aug 2009	
Mr. Phillip Fook Weng Au	Non-Executive Director	27 Jan 2010	28 Jan 2011
Mr. Chenzhang Li	Non-Executive Director	27 Jan 2010	31 Jan 2011

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 ("PP") 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.

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 1,428,743 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

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 Su, 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. 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

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: Nil

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

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 company utilises recycling technology and is focussed on further broadening the application of its technology from the consumer area to requirements in the industrial and construction industries.

The company 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 the 2011 financial year in the Board Meeting held on 24 February 2012.

- Total Dividend declared = A$0 (2010: A$3,992,549)
- Total Dividend paid by Cash = A$0 (2010: A$1,148,040)
- Total Dividend Reinvestment Plan: A$0 (2010: A$2,844,509)

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 2011:

Items	2011 (AUD$'000)	2010 (AUD$'000)	2011 (RMB'000)	2010 (RMB'000)
Revenue including interest income	82,072	74,627	546,523	462,774
NPAT	17,004	15,217	113,233	94,367

1. Results as announced to the market

	$A'000			
Revenue from continuing operations	Up	9.98 %	to	$ 82,072
Other income	Up	33.68%	to	$ 893
Total revenue and other income from ordinary activities	Up	10.19 %	to	$ 82,965
Profit from ordinary activities after tax attributable to Members	Up	11.74 %	to	$ 17,004
Total comprehensive income for the period attributable to members	Up	77 %	to	$ 19,403

2. Commentary on results

Revenue during the reporting period grew by 9.98% compared to previous corresponding period. NPAT rose from $15,217,563 in FY 2010 to $17,004,206 in FY 2011.

Revenue grew significantly during the period due to the increase in customer numbers and the sales volume of regenerated fibre granules. Manufacturing and process improvements which increased productivity and efficiency also contributed to the unit cost reduction and improved overall gross profit margins.

Sales in recycled PP yarn and PP webbing products grew due to growing market acceptance of Novarise's products and quality. Overall demand for PP yarn expanded in China and internationally in 2011 driven by the global economic recovery. Sale prices of PP yarn and webbing products were maintained and grew as the result of this strong demand. Consistent with its intent to be a profitable, integrated manufacturer the Company began to develop finished products such as notebook bags, shopping bags, hotel slippers and work clothing.

Procurement of post-consumer PP feedstock grew by volume and expanded geographically as the company's demand for PP waste increased in 2011. The supply and procurement costs for PP waste and feedstock remained stable during the year.

During 2011, Novarise was issued a patent of invention certificate in relation to producing PP fibre by using waste polypropylene as well as a utility model patent in relation to a rinser of cleaning waste polypropylene plastics. The company was also awarded as the national manufacturing and R&D base for polypropylene renewable products.

The Nan’an Facility which was expected to be put into trial production in November 2011 was delayed due to two main reasons: firstly, the Nan’an factory is located in mountainous area where the rainy season is relatively long, which was not factored into the original schedule; and secondly, the construction contractor changed their management teams frequently which has resulted in additional delays. It is currently forecast that the trial production of Nan’an facility will now commence in June 2012.

During 2011, the Company borrowed additional funds totalling A$46,410,000. These funds were partly used to fund the development of the Nan'an project. In addition, the Company took advantage of a short term opportunity to arbitrage interest rates and lend a total of

A$43,989,346 to a third party. The terms of this loan agreement were favourable to the Company and the funds will be repaid in full in the third quarter of 2012. The Company carefully assessed the risk of default on this unsecured loan and believed that it was in the best interest of the Company 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.

4. Business by Region:

Region	Sales Revenue （AUD$）	Rate (%)	Sales ratio at home and abroad in 2010
China	72,306	90	85
Overseas	7,998	10	15
Total	80,304		

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 38.60 % of our total purchases. The value of sales to our top five major customers represents 24.26 % of our total sales.

6. Significant expenditure:

Items	Currency	Amount （AUD$）
Machinery & Equipment	AUD$	12,081,418
Factory Building	AUD$	17,709,287
Land use right	AUD$	2,554,932
Total		32,345,637

7. Business Update:

For the year ended 31 December 2011, the Company 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) As part of the ongoing process of improving the existing manufacturing technology, in April, 2011 the Group obtained a patent over new technology which is producing polypropylene fibre by using waste polypropylene plastics, the Group also gained a utility model patent in relation to a rinser of cleaning waste polypropylene plastics in October 2011.

(3) 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. All of these are 100% recyclable. Some new products are expected to be put into trial production in June 2012. Those products are expected to provide additional profit streams for Novarise.

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 2012 will grow by increasing the sales volume, particularly of regenerated fibre granules and new products like 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.

Gross margins of Novarise's products are expected to improve with the introduction of new production from the Nan'an facility in the third quarter of 2012. This will include new finished products with higher margins and the lowering of costs through manufacturing and process improvements.

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

The Group has established an international office in Xiamen to oversee its international operations and pursue its international objectives. These international objectives include expanding its international sales and procurement of post-consumer feedstock. The company will also work to develop, grow and enhance its corporate brand and profile as an emerging international recycler and manufacturer of PP yarn.

With the growth and expansion of its business, the company will need to raise more capital to fund its growth. During 2012, the Board will consider the various options to raise this additional capital.

The Group wishes to highlight the following factors that might adversely and materially affect its outlook for 2012:

- 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.

- If the Nan’an new factory cannot be put into trial production as scheduled, it will have an impact on the performance of the Group.

2. Operating Plans and Objectives in 2012

(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) Production capacity: the new Nan'an facility is expected to be put into trial production in June 2012, resulting in even more production lines. It is forecast that the production capacity of PP yarn by Novarise will reach 75,000 tonnes annually.

(3) Marketing: under Fujian Sanhong Renewable Resources Technology. Ltd,: the Group set up a wholly-owned subsidiary in Xiamen city (China), which is one of the first five Special Economic Zones in China and will be engaged in selling laptop bags, school bags, travelling bags, recyclable shopping bags, hotel slippers and working clothes. Subject to the product features and market conditions, the Group has developed a marketing plan for the Group.

In 2012, 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.

(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, 2012 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 Company and will lead to a step change in the performance and growth of the Company.

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 company 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. Product 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 2011, 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	14	13	3	2	-	-
Mr. Xiaobin Zhuang	14	14	3	3	-	-
Mr. Chung Yi So	14	14	3	3	-	-
Mr. Liandong Tu	14	14	3	3	-	-
Mr. John O'Brien	14	14	3	3	-	-
Mr. Fai Peng Chen	14	13	-	-	-	-

Meeting	**Date of Board Meeting Held**	**Date of Audit Committee Meeting Held**	**Date of Remuneration Committee Meeting Held***
1	09 February 2011	25 February 2011	-
2	24 February 2011	18 August 2011	-
3	04 March 2011	16 December 2011	-
4	10 March 2011		
5	28 March 2011		
6	24 May 2011		
7	15 June 2011		
8	24 June 2011		
9	13 July 2011		
10	19 August 2011		
11	26 October 2011		
12	18 November 2011		
13	24 November 2011		
14	14 December 2011		

* No separate remuneration committee meeting was held, but directors' remuneration was discussed and agreed upon during the Board meeting held on 24 May 2011.

Share Options

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

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:-

1. 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.

2. To reward directors and executives having regards to the performance of the Group, the overall performance of the management team and the general pay environment.

3. 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.

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

	2009 $	2010 $	2011 $
Revenue	63,363,547	74,627,039	82,071,659
Net Profit after income tax/(Loss)	13,314,286	15,217,563	17,004,206
Dividend paid	5,716,477	3,992,549	-
Share price at year end	NA	0.225	0.18

Although the Group made more 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, refer to (e) for details.

The Director fee for the first 12 months commencing on 1 January 2011 is as following –

Name	Position	Director fee per annum (GST exclusive) AUD $	Director fee paid AUD $
Mr. Qingyue Su	Chairman and Managing Director	7,508	7,508
Mr. Xiaobin Zhuang	Executive Director	7,508	7,508
Mr. Chung Yi So	Non-Executive Director	7,508	7,508
Mr. Liandong Tu	Non-Executive Director	7,508	7,508
Mr. John O'Brien	Non-Executive Director	40,000	40,000
Mr. Fai Peng Chen	Non-Executive Director	40,000	40,000
Mr. Phillip Fook Weng Au	Non-Executive Director (Resigned on 28 January 2011)	3,300	3,300
Mr.Chenzhang Li	Non-Executive Director (Resigned on 31 January 2011)	-	-

(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. Phillip Fook Weng Au	27 January 2010	28 January 2011	Non-Executive Director
Mr.Chenzhang Li	27 January 2010	31 January 2011	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
Ms Winnie Chen	1 December 2010		Company Secretary

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.

(d) Details of remuneration (continued)

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

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	-	-	-	-	-
Other Key Management Personnel					
Mr. Zhenwen Zhang	27,391	6,773	673	34,837	-
Mr. Wenpo Xie	14,416	6,773	673	21,862	-
Mr. Sing Sha SO^	-	-	-	-	-
Company Executives					
Ms Winnie Chen	43,331++	-	-	43,331	-
	236,915	33,865	2,709	273,489	

++This amount including Company Secretary fees and accounting fees (Novarise Australia only).

^ 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 share holder of the Group. Mr. Sing Sha So provides his director services to the Group at no charge.

(d) Details of remuneration (continued)

2010	Short-term employee benefits		Post-employment benefits		
	Cash salary and fees	Cash bonus	Super-annuation	Total	Proportion of remuneration that is performance based
	$	$	$	$	%
Directors					
Mr. Qingyue Su	33,530	16,126	292	49,948	-
Mr. Chung Yi So	17,739	16,126		33,865	-
Mr. Xiaobin Zhuang	22,846	16,126	290	39,262	-
Mr. Liandong Tu	8,063	-	-	8,063	-
Mr. Chenzhang Li	8,063			8,063	
Mr. Phillip Fook Weng Au	40,000			40,000	
Mr. John Keiran O'Brien	40,000	-	-	40,000	-
Mr. FaiPeng Chen#	40,000	-	-	40,000	-
Other Key Management Personnel					
Mr. Zhenwen Zhang	29,417	16,126	290	45,833	-
Mr. Wenpo Xie	14,783	16,126	290	31,199	-
Mr. Sing Sha SO^	-	-	-	-	-
Company Executives					
Ms Winnie Chen*	2,500++	-	-	2,500	-
Total key management personnel compensation	256,941	80,630	1,162	338,733	-

Mr. Fai Peng Chen resigned his position as Company Secretary of Novarise on 1 December 2010.

^ 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 share holder of the Group. Mr. Sing Sha So provides his director services to the Group at no charge.

* Ms Winnie Chen was appointed as Company Secretary of Novarise on 1 December 2010.

++ This amount including Company Secretary fees and accounting fees (Novarise Australia only).

(e) Cash bonuses

The board of directors approved and 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. Chung Yi So, 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 2011 for the whole of the financial year 2011.

(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 2011 and 2010 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 2011 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 2011 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 2011 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 2011 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 in (l) below.

(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 monthly 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 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 RMB210,597 (A$31,625) 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.

Non-Executive Director
SO Chung Yi
Ongoing contract commenced on 15 March 2008.
Base Salary: Not specified in the contract. Set to be RMB60,000 (A$9,010) 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 RMB144,483 (A$21,697) 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.

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

Non-Executive Director
TU Liandong
Ongoing oral agreement commenced on 9 December 2009.
Base Salary: RMB50,000 (A$7,509) 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.

Joint Secretary
CHEN Winnie Huei Chi
Ongoing contract commenced on 15 November 2010.
Base Salary: AUD$2,500 per month until 14 May 2011, AUD$4,166 per month until 14 November 2011, AUD$4,166 per month afterwards subject to review of the Remuneration Committee.

Termination payments: Termination payment is not applicable.

(m) Contracts of other key management personnel

Chief Operating Officer
ZHANG Zhen Wen
Contract Term: 21 June 2008 to 21 June 2013
Base Salary: Not specified in the contract. Set to be RMB182,400 (A$27,391) p.a. to be reviewed annually by the remuneration committee.

Termination payments: Termination payment is not applicable.

Chief Marketing Officer
XIE Wen Po
Contract Term: 1 March 2008 to 1 March 2013
Base Salary: Not specified in the contract. Set to be RMB96,000 (A$14,416) p.a. to be reviewed annually by the remuneration committee.

Termination payments: Termination payment is not applicable.

Director of QZSH/FJSH
SO Sing Sha
Contract Term: 1 March 2008 to 1 March 2013
There is nil remuneration according to the employment contract.

Termination payments: Termination payment is not applicable.

End of Audited Remuneration Report

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 2011.

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, there were no fees for non–audit services paid or payable to the auditor, BDO or their related practices.

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.

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

30 March 2012

< Insert Auditor‘s independence declaration>

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

		Consolidated	
	Notes	**2011 $**	**2010 $**
Sales revenue	4	80,304,361	74,073,112
Cost of sales		(56,193,283)	(51,349,404)
Gross profit		24,111,078	22,723,708
Interest revenue	4	1,767,298	553,927
Other income	5	893,277	667,883
Distribution expenses		(314,763)	(247,101)
Marketing expenses		(499,887)	(181,743)
Administration expenses		(3,271,056)	(3,458,352)
Occupancy expenses		(144,786)	(104,250)
Finance costs	6	(2,540,298)	(1,045,075)
Other expenses		(57,570)	(1,090,795)
Profit before income tax expense	6	19,943,293	17,818,202
Income tax expense	7	(2,939,087)	(2,600,639)
Profit after income tax expense		17,004,206	15,217,563
Other comprehensive income			
Foreign currency translation differences		2,398,613	(4,255,808)
Other comprehensive income for the year, net of tax		2,398,613	(4,255,808)
Total comprehensive income for the year		19,402,819	10,961,755
Profit for the year is attributable to:			
Owners of Novarise Renewable Resources International Ltd		17,004,206	15,217,563
		17,004,206	15,217,563
Total comprehensive income for the year is attributable to:			
Owners of Novarise Renewable Resources International Ltd		19,402,819	10,961,755
		19,402,819	10,961,755

Earnings per share for profit from continuing operations

Basic Earnings per Share	11	4.10 cents	4.14 cents
Diluted Earnings per Share	11	4.10 cents	4.14 cents

Earnings per share for profit for the year

Basic Earnings per Share	11	4.10 cents	4.14 cents
Diluted Earnings per Share	11	4.10 cents	4.14 cents

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Notes	Consolidated 31 December 2011 $	Consolidated 31 December 2010 $
CURRENT ASSETS			
Cash and cash equivalents	12	7,067,316	6,532,233
Term deposits with maturity over three months	13	62,824,805	50,968,916
Trade and other receivables	14	75,305,556	6,594,665
Inventories	15	5,487,091	5,855,258
Other assets	16	6,439,960	9,660,857
TOTAL CURRENT ASSETS		157,124,728	79,611,929
NON-CURRENT ASSETS			
Property, plant and equipment	17	47,185,487	15,860,331
Land use rights	19	7,103,520	4,456,858
Long-term prepayment for property, plant and equipment	18	8,013,746	4,872,321
Deferred tax assets	23	100,113	36,256
TOTAL NON-CURRENT ASSETS		62,402,866	25,225,766
TOTAL ASSETS		219,527,594	104,837,695
CURRENT LIABILITIES			
Trade and other payables	20	15,352,159	9,455,690
Borrowings	21	112,468,410	37,293,995
Current tax liabilities	7	2,279,606	1,957,176
Other liabilities	22	2,604,861	3,769,204
TOTAL CURRENT LIABILITIES		132,705,036	52,476,065
NON-CURRENT LIABILITIES			
Borrowings	21	14,637,250	-
Deferred tax liabilities	23	420,859	-
TOTAL NON-CURRENT LIABILITIES		15,058,109	-
TOTAL LIABILITIES		147,763,145	52,476,065
NET ASSETS		71,764,449	52,361,630
EQUITY			
Contributed equity	24	32,066,227	32,066,227
Reserves	25	6,024,290	960,054
Retained earnings		33,673,932	19,335,349
TOTAL EQUITY		71,764,449	52,361,630

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Contributed Equity	Retained Earnings	Surplus Reserves	Foreign Currency Translation Reserve	Total
	$	$	$	$	$
At 1 January 2010	7,314,758	10,924,855	3,678,544	(1,277,202)	20,640,955
Total comprehensive income for the year					
Profit for the year	-	15,217,563	-	-	15,217,563
Other comprehensive income					
Exchange differences on translation of foreign operations	-	-	-	(4,255,808)	(4,255,808)
Total comprehensive income for the year	-	15,217,563	-	(4,255,808)	10,961,755
Issue of share capital through IPO, net of transaction costs	21,906,960	-	-	-	21,906,960
Issue of share capital through dividend reinvestment plan, net of transaction costs	2,844,509	-	-	-	2,844,509
Appropriation to surplus reserve	-	(2,814,520)	2,814,520	-	-
Dividends paid	-	(3,992,549)	-	-	(3,992,549)
Transaction with owners in their capacity as owners	24,751,469	(6,807,069)	2,814,520	-	20,758,920
At 31 December 2010	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

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Consolidated 2011 $	Consolidated 2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		87,936,474	86,806,597
Payments to suppliers and employees		(65,392,574)	(76,240,846)
Receipts of subsidy income for successful IPO		-	532,158
Interest received		888,708	365,553
Interest paid		(426,008)	(790,691)
Income tax paid		(2,346,994)	(759,707)
NET CASH PROVIDED BY OPERATING ACTIVITIES	30	**20,659,606**	**9,913,064**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant & equipment		(29,790,705)	(7,786,015)
Payments for land use rights		(2,554,392)	(4,595,910)
Proceeds from sale of property, plant & equipment		-	60,801
Increase in term deposits with maturity over three months		(9,719,217)	(34,807,901)
Payment for capitalised interest		(999,685)	(243,660)
Loans to third party		(61,073,327)	-
NET CASH USED IN INVESTING ACTIVITIES		**(104,137,326)**	**(47,372,685)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		124,230,426	68,524,227
Repayment of borrowings		(84,322,320)	(54,286,358)
Dividends paid to Group shareholders		-	(1,240,754)
Loans from related parties		3,481,633	1,117,464
Proceeds from issue of shares, net of transaction costs		-	22,407,952
Loans from non-bank third parties		40,378,051	5,018,044
Realised foreign exchange losses for funds transfer		-	(1,183,531)
NET CASH PROVIDED BY FINANCING ACTIVITIES		**83,767,790**	**40,357,044**
NET INCREASE IN CASH HELD		**290,070**	**2,897,423**
Effects of exchange rate changes on the balance of cash held in foreign currency		245,013	(601,667)
Cash and cash equivalents at beginning of the year		6,532,233	4,236,477
CASH AT END OF YEAR	12	**7,067,316**	**6,532,233**

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

Contents of the notes to the financial statements

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 2011 were authorised for issue in accordance with a resolution of the directors on 30 March 2012 and covers the consolidated entity consisting of Novarise Renewable Resources International Ltd (Novarise) and its subsidiaries as required by the Corporation Act 2001. Separate financial statements for Novarise Renewable Resources International Limited as an individual entity are no longer presented as a consequence of a change to the Corporations Act 2001. However, limited financial information for Novarise Renewable Resources International Limited as an individual entity is included in note 27.

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.

As required by AASB 101 Presentation of Financial Statements paragraph 38, the financial statements for the year ended 31 December 2011 contain comparative information in respect of the previous period for all amounts reported in the current period's financial statements. Comparative information for narrative and descriptive information is provided and reclassified when it is relevant to an understanding of the current period's financial statements.

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:

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Novarise Renewable Resources International Limited and its subsidiaries at 31 December 2011 and 31 December 2010 ("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.

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.

Notes to the Consolidated Financial Statements (continued)

Note 2: Summary of significant accounting policies (continued)

c) Foreign Currency Translation (continued)

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.

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 balance date, which are classified as non-current.

Derivatives
The Group uses derivative financial instruments such as forward foreign currency contracts and interest rate swaps to hedge its risk associated with interest rate and foreign currency fluctuations. Such derivatives are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. The derivatives of the Group do not qualify for hedge accounting therefore any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

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:

	2011	**2010**
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 $62,915,653. 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 2011.

x) Accounting standards issued, not yet effective

The following new/amended accounting standards have been issued, but are not mandatory for financial years ended 31 December 2011. They have not been adopted in preparing the financial statements for the year ended 31 December 2011 and 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)

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).

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) Reclassification

Payments for capitalised interest amounting to $243,660 were reflected in the previous financial year as cash flows used in operating activities. During the current financial year, this amount has been classified as cash flows used in investing activities and as such prior year balances have also been reclassified.

z) 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 2011 the Group has $99,453,035 of loans and notes payables due for renewal by 30 June 2012, a further $12,298,650 due for renewal by 31 December 2012 and $5,506,896 of capital and lease commitments due before 31 December 2012.

During 2011, the Company borrowed additional funds totalling $46,410,000 (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 Company took advantage of a short term opportunity to arbitrage interest rates and lend a total of $43,989,345 (of which $40,747,980 is interest bearing) to an unrelated company (the “Borrower”) based in Xiamen. The terms of this loan agreement were favourable to the Company and the funds are due to be repaid in full in by 31 August 2012. The Company 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 Company 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 Company 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 $37m (RMB 240m) of which $22m (RMB 140m) is expected to be spent between January to December 2012 with the remainder to be paid in 2013. The Nan’an factory is expected to start production in mid-2012 and will also 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 2011 the Group has $24,419,692 of net current assets, including $69,892,121 of cash and cash deposits and $62,915,653 of loans receivable from third parties. $18,926,307 of loans receivable from third parties are expected to be repaid by 30 June 2012 and $43,989,346 are expected to be repaid by 31 August 2012. For the year ended 31 December 2011 the group generated a profit after tax of $17,004,206 and cash flows from operating activities of $20,659,605.

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 2012 and by 31 December 2012 will be successfully rolled over as required;

Notes to the Consolidated Financial Statements (continued)

z) Going concern (continued)

- The Group will continue to generate positive cash flows from its existing operations and the Nan'an factory once it comes into operation;
- 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 2011 is as follows:

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

2010	**Polypropylene yarns**	**Polypropylene straps and ropes**	**Recycled polypropylene pellets**	**Total**
	$	$	$	$
Total segment revenue	14,736,218	54,295,460	4,355,213	73,386,891
Revenue from external customers	14,736,218	54,295,460	4,355,213	73,386,891
Gross profit	3,406,276	17,504,671	1,152,888	22,063,835

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	
	2011	2010
	$	$
Total Segment Revenue	79,639,381	73,386,891
Other revenue	664,980	686,221
Total sales revenue (note 4)	80,304,361	74,073,112
Interest revenue (note 4)	1,767,298	553,927

(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	23,721,084	22,063,835
Gross profit from unallocated sales	389,994	659,873
Gross profit per Statement of Comprehensive Income	24,111,078	22,723,708
Interest revenue	1,767,298	553,927
Other income	893,277	667,883
Distribution expenses	(314,763)	(247,101)
Marketing expenses	(499,887)	(181,743)
Administration expenses	(3,271,056)	(3,458,352)
Occupancy expenses	(144,786)	(104,250)
Finance costs	(2,540,298)	(1,045,075)
Other expenses	(57,570)	(1,090,795)
Profit before income tax	**19,943,293**	**17,818,202**

Notes to the Consolidated Financial Statements (continued)

Note 3: Segment Reporting (continued)

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:

	Consolidated 2011 $	2010 $
P.R. China	72,306,390	62,814,254
Hong Kong	1,816,802	3,896,426
Philippines	971,839	1,902,715
Russia	619,061	1,478,806
Turkey	1,046,775	1,228,138
Indonesia	689,817	534,156
India	207,056	444,517
Colombia	692,392	412,990
Sri Lanka	109,526	193,500
Brazil	-	178,873
Other Asian countries	250,940	223,872
Other non Asian countries	1,593,763	764,865
	80,304,361	**74,073,112**

In 2010 & 2011 no revenue from a single external customer exceeded 10% of the Group's total revenue from external customers.

As at 31 December 2011 and 31 December 2010, all non-current assets of the Group were located in P.R. China.

Note 4: Revenue

	2011 $	2010 $
Sales of goods	**80,304,361**	**74,073,112**
Interest revenue	**1,767,298**	**553,927**

Note 5: Other Income

	2011 $	2010 $
Government grant	482,946	532,158
Net foreign exchange gain	366,437	-
Sundry income	43,894	135,725
	893,277	**667,883**

Government Grants

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

Notes to the Consolidated Financial Statements (continued)

Note 6: Expenses

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

	Consolidated 2011 $	2010 $
Finance costs		
Interest expenses	2,252,377	796,277
Bank fees	287,921	248,798
	2,540,298	1,045,075
Depreciation expense		
Leasehold improvement	3,077	5,802
Buildings	274,291	294,548
Machinery and vehicles	1,015,288	1,187,302
Furniture, fittings and equipment	6,206	9,056
	1,298,862	1,496,708
Amortisation of operating lease prepayment		
Land use rights	141,710	98,449
Employee benefits expense		
Wages and salaries	2,973,343	2,524,757
Defined contribution superannuation costs	52,421	39,829
Other welfare expense	65,706	73,007
	3,091,470	2,637,593
Net foreign exchange loss (included as "Other expenses")	-	1,072,543
IPO Costs	-	407,064
Research and development expenditures	97,026	249,243

Note 7: Income Tax Expense

Major components of income tax expense are:

	2011 $	2010 $
Current tax expense		
Current tax expense	2,591,265	2,624,423
	2,591,265	2,624,423
Deferred tax expense		
Origination and reversal of temporary differences	347,822	(23,784)
	347,822	(23,784)
Total income tax expense in income statement	2,939,087	2,600,639

Notes to the Consolidated Financial Statements (continued)

Note 7: Income Tax Expense (continued)

Applicable income tax rate

The applicable income tax rate for Quanzhou Sanhong Chemical Fibre Co., Limited, one of the Chinese subsidiaries, is 25% (2010: 25%).

The applicable income tax rate for Fujian Sanhong Renewable Resources Technology Co., Limited, another Chinese subsidiaries, is 12.5% (2010: 12.5%).

A deferred tax asset has not been recognized in respect of the unused tax losses of Novarise Renewable Resources International Limited and its Hong Kong subsidiary, Great Rises International New Resources Pty Ltd of $1,055,542 (2010: $296,299) 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	
	2011	**2010**
	$	**$**
Reconciliation of the effective tax rate		
Accounting profit before income tax	19,943,293	17,818,202
Prima facie tax payable on profit at the Australian tax rate of 30% (2010: 30%)	5,982,988	5,345,461
Add/(Less) Tax effect of:		
- Non-taxable government grant	-	(6,950)
-Deferred tax asset not recognized for losses in Novarise and Great Rises	212,341	514,492
-Impact of overseas tax differential	(3,328,496)	(3,193,793)
- Non-deductible Entertainment expenses	15,558	2,754
- Non-deductible interest expenses	61,950	-
Other difference	(5,254)	(61,325)
Income tax expense at effective tax rate of 15% (2010: 15%)	2,939,087	2,600,639
		-
Income tax payable	2,279,606	1,957,176

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in the statement of financial position for the following items:		
Unused tax losses	1,055,542	296,299
Potential benefit at 30% in Australia and 16.5% in Hong Kong (2010: 30%)	297,679	88,890

There is no expiry date on the future deductibility of unused tax losses.

Notes to the Consolidated Financial Statements (continued)

Note 8: Key Management Personnel Disclosures

	Consolidated 2011 $	Consolidated 2010 $
(a) Compensation		
Short-term employee benefits	227,449	335,071
Post-employment benefits	2,709	1,162
Total	230,158	336,233

(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 RMB456,000,000 (equivalent to A$ 70,543,200) 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 RMB 606,250,000 (equivalent to A$93,786,875) to the Group's subsidiaries effective up to 31 December 2013 for their borrowings.

Guarantee by related parties and third parties

Guarantor	Maximum amount of guarantee provided RMB	Maximum amount of guarantee provided AUD	Notes
SU, Qingyue and PAN, Yu Lulu jointly	606,250,000	93,786,875	8 (b)
SU, Qingyue	456,000,000	70,543,200	8 (b)
Other related parties	251,000,000	38,829,700	27 (d)
Third parties	204,870,000	31,693,389	

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:

2011	Balance at 31/12/2010	Received as remuneration	Group Restructuring	Net Change/ Other	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	-	-	-	-	-
Mr. Chenzhang Li	-	-	-	-	-
Mr. Phillip Fook Weng Au	-	-	-	-	-
Mr. Wenpo Xie	-	-	-	-	-
Mr. Zhenwen Zhang	-	-	-	-	-
Mr. Sing Sha So	-	-	-	-	-
Total	299,830,555	-	-	1,428,743	301,259,298

2010	Balance at 31/12/2009	Received as remuneration	Group Restructuring	Dividend Reinvestment	Balance At 31/12/2010
Mr. Qingyue Su	2	-	254,149,998	14,119,444	268,269,444
Mr. Chung Yi So	-	-	29,900,000	1,661,111	31,561,111
Mr. Xiaobin Zhuang	-	-	-	-	-
Mr. Liandong Tu	-	-	-	-	-
Mr. John Keiran O'Brien	-	-	-	-	-
Mr. Faipeng Chen	-	-	-	-	-
Mr. Chenzhang Li	-	-	-	-	-
Mr. Phillip Fook Weng Au	-	-	-	-	-
Mr. Wenpo Xie	-	-	-	-	-
Mr. Zhenwen Zhang	-	-	-	-	-
Mr. Sing Sha So	-	-	-	-	-
Total	2	-	284,049,998	15,780,555	299,830,555

Notes to the Consolidated Financial Statements (continued)

Note 8: Key Management Personnel Disclosures (continued)

	Consolidated 2011 $	Consolidated 2010 $

(d) Dividend Distributed to Directors

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

	2011 $	2010 $
Mr. Qing Yue Su	-	2,541,500
Mr. Chung Yi So	-	299,000
	-	2,840,500

(e) Other transactions and balances

For the financial year ended 31st December 2010 fees paid to Minter Ellison $24,312. 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 current 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:

	2011 $	2010 $
Audit services		
Amounts paid/payable to BDO for audit or review of the financial statements for the Group		
- BDO Sydney	150,750	109,075
- BDO China	26,250	36,358
Non – Audit related services	-	-
Total	**177,000**	**145,433**

Notes to the Consolidated Financial Statements (continued)

	Consolidated	
	2011 **$**	**2010** **$**

Note 10: Dividends

Total unfranked dividend for year ended 31 December 2011 nil per share (2010: 1 cent) per fully paid share paid on 13 December 2011	-	3,992,549

An unfranked dividend for 1 cent was declared and has been paid for the year ended 31 December 2010. 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	
	2011	**2010**	**2011**	**2010**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and diluted earnings per share	**415,057,737**	**367,666,345**	**17,004,206**	**15,217,563**

Note 12: Cash & Cash Equivalents

Cash in hand	13,359	13,146
Cash at bank	925,944	3,961,132
Short-term deposits with maturity less than three months	6,128,013	2,557,955
Cash and cash equivalents	7,067,316	6,532,233

Cash in hand is non-interest bearing. Cash at bank bears a floating interest rate at 0.5% (2010: 0.36%).

As at 31 December 2011, short-term deposits with maturity less than three months of $6,121,476 are pledged as collateral for the bank loans borrowed by a related party and a third party. Refer to note27(e) for details.

In the prior year short-term deposits with maturity less than three months of $2,552,216 were pledged as collateral for the bank accepted notes issued by the Group and bore fixed interest rates of 1.47% and had an average maturity of 3 months.

Notes to the Consolidated Financial Statements (continued)

Note 12: Cash & Cash Equivalents (continued)

	Consolidated	
	2011 $	2010 $
Concentration of risk by bank credit rating		
A1	-	1,494,029
A-1	631,249	-
A-1+	20,928	-
A-	20,307	-
A-2	153,406	3,825,883
Baa2	-	1,153,079
BBB+	-	3,575
Ba1	6,123,209	1,670
Unrated	104,858	40,851
Total	**7,053,957**	**6,519,087**

Note 13: Short Term Deposits with Maturity over three months

Short-term deposits with maturity over three months	**62,824,805**	**50,968,916**

As at 31 December 2011, there were short-term deposits with maturity over three months of $33,590,855 (2010: $12,389,389) 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 $32,794,451 bearing fixed interest rates of 2.5%~3.3% (2010:2.39%) and have an average maturity of 6 months, and pledged short-term deposits of $796,404 bearing floating interest rate of 0.5%. The remaining unpledged short-term deposits with maturity over three months of $29,233,950 (2010: $38,579,527) bear fixed interest rates of 3.25% (2010:2.61%)and have an average maturity of 6 months to 1 year.

Concentration of risk by bank credit rating

A1	-	780,839
A-1	27,166,681	-
A-	8,431,924	-
A-2	14,834,648	20,458,579
Baa2	-	12,542,004
BBB+	-	5,001,550
Ba1	3,109,552	3,001,009
Unrated	9,282,000	9,184,935
Total	**62,824,805**	**50,968,916**

Notes to the Consolidated Financial Statements (continued)

		Consolidated 2011 $	Consolidated 2010 $
Note 14: Trade and other receivables			
Current			
Trade receivables	(a)	10,225,245	6,382,702
Other receivables	(b)	2,164,658	211,963
Loan to third parties	(c)	62,915,653	-
		75,305,556	**6,594,665**

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

	Year ended 31 Dec 2011			Year ended 31 Dec 2010		
	Amount not impaired	Amount Impaired	Total	Amount not impaired	Amount Impaired	Total
Not past due	9,925,841		9,925,841	6,115,668	-	6,115,668
Past due < 3 months	299,404		299,404	267,034	-	267,034
Past due 3- 9 months	-		-	-	-	-
Total	10,225,245		10,225,245	6,382,702	-	6,382,702

As at 31 December 2011, trade receivables of $299,404 (2010: $267,034) 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 $2,036,441 (2010: $ 207,919) including interest on loans to third parties refer to in (c) below, which are not past due or impaired. Remaining other receivables of $128,217 (2010: $4,044) 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 a unsecured loan to a third party of $43,989,346 which is repayable on 31 August 2012. It includes $40,747,980 bearing an interest rate of 12%, and the remaining balance of $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 (2010: 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 2011.

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)

	Consolidated 2011 $	Consolidated 2010 $
Note 15: Inventories		
At cost		
Raw materials	4,505,844	5,179,728
Finished goods		
- at cost	864,053	575,219
- at net realisable value	101,849	98,294
	965,902	673,513
Other inventories	15,345	2,017
	5,487,091	5,855,258
Note 16: Other assets		
Current		
Prepayments to suppliers	6,439,415	9,652,959
Recoverable VAT	545	7,898
	6,439,960	9,660,857
Note 17: Property, Plant and Equipment		
Buildings		
At cost	5,948,756	5,741,108
Accumulated depreciation	(1,973,339)	(1,631,755)
	3,975,417	4,109,353
Leasehold improvements		
At cost	285,391	275,429
Accumulated depreciation	(60,227)	(55,066)
	225,164	220,363
Machinery and vehicles		
At cost	12,320,538	11,535,026
Accumulated depreciation	(6,495,149)	(5,259,022)
	5,825,389	6,276,004
Furniture, fittings and equipment		
At cost	98,121	82,514
Accumulated depreciation	(78,380)	(69,474)
	19,741	13,040
Capital Works in Progress	37,139,776	5,241,571
Total property, plant and equipment		
At cost	**55,792,582**	**22,875,648**
Accumulated depreciation	**(8,607,095)**	**(7,015,317)**
	47,185,487	**15,860,331**

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 2010	4,822,315	248,414	7,949,895	19,027	-	13,039,651
Additions	-	-	227,767	4,467	5,661,459	5,893,693
Disposals	-	-	(64,508)	-	-	(64,508)
Depreciation expense	(294,548)	(5,802)	(1,187,302)	(9,056)	-	(1,496,708)
Effect of movement in foreign exchange	(418,414)	(22,249)	(649,848)	(1,398)	(419,888)	(1,511,797)
Carrying amount at 31 December 2010	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

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 4.78%(2010:5.11%) was used to calculate the capitalised borrowing costs included in Capital Work in Progress.The amount of borrowing cost capitalised during the year is $999,685(2010:$243,660)

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

Long Term Prepayment for Property, Plant and Equipment	**8,013,746**	**4,872,321**

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)

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.

	Consolidated 2011 $	Consolidated 2010 $
At 1 January	4,456,858	322,388
Additions	2,554,392	4,595,910
Amortisation charge	(141,710)	(98,449)
Effect of movement in foreign exchange	233,980	(362,991)
At 31 December	**7,103,520**	**4,456,858**

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

	2011 $	2010 $
Current		
Trade payables	7,720,133	8,004,977
Other payables and accruals	2,754,398	404,187
Salary payables	218,963	919,920
Related party payables	4,658,665	126,606
	15,352,159	**9,455,690**

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

Note 21: Borrowings

	2011 $	2010 $
Current		
Secured:		
Bank loans	19,393,155	18,959,955
Third party loans	46,410,000	-
Note payables	46,665,255	18,334,040
	112,468,410	37,293,995
Non-current		
Secured:		
Bank loans	14,637,250	-

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

Notes to the Consolidated Financial Statements (continued)

	Consolidated	
	2011	**2010**
	$	**$**

Note 21: Borrowings (continued)

Terms and conditions

Bank loans

Current bank loans' terms are within 12 months. The final instalments are due on 2 December 2012. As at 31 December 2011, $13,752,147 current bank loans bear floating interest rate (2010: $7,762,455). $5,641,008 current bank loans bear interest at fixed rate (2010: $11,197,500). The weighted average interest rate of the fixed rate bank loans is 6.37% (2010: 5.44%).

All non-current bank loans bear floating interest rate. The final instalment is due on 23 March 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

All third party loans bear a fixed interest rate at 12%.The final instalment is due on 15 June 2012.

Assets pledged as security

The bank loans and notes payable are all secured by the Group's short term cash deposits, buildings, 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	2011	2010
Current			
Short-term deposits with maturity less than three months	12	-	2,552,216
Short-term deposits with maturity over three months	13	33,590,855	12,389,389
		33,590,855	14,941,605
Non-current			
Land Use rights	19	7,103,520	285,675
Lease hold improvement	17	225,164	220,363
Buildings	17	3,975,417	4,109,353
Capital Works in Progress	17	7,875,955	-
		19,180,056	4,615,391
		57,770,911	**19,556,996**

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. In addition, capital works in progress of $6,782,281 is pledged to secured an unused bank facility.

Notes to the Consolidated Financial Statements (continued)

	Consolidated 2011 $	Consolidated 2010 $
Note 22: Other Liabilities		
Current		
Deferred revenue	948,867	1,908,847
Welfare payables	-	8,568
Other tax payables	1,655,994	1,844,128
Other liabilities	-	7,661
	2,604,861	3,769,204

Note 23: Deferred Tax

	2011 $	2010 $
Accruals	100,113	36,256
Total deferred tax assets	100,113	36,256
Accrued interest income	(420,859)	-
Total deferred tax liabilities	(420,859)	-

Movements in deferred tax assets

	Opening balance at 1 January 2010 $	Origination of deferred tax assets $	Effect of movement in foreign exchange $	Closing balance at 31 December 2010 $
Amounts recognised in profit or loss				
Accruals	12,472	26,919	(3,135)	36,256
Total	12,472	26,919	(3,135)	36,256

	Opening balance at 1 January 2011 $	Originatio nof 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

Movements in deferred liabilities

	Opening balance at 1 January 2010 $	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 24: Contributed Equity

	Consolidated	
	2011 **$**	**2010** **$**
415,057,737 (2010: 415,057,737) Fully paid ordinary shares		
415,057,737 (2010: 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 2010	Opening balance	2		7,314,758
29 April 2010	Group restructuring	298,999,998		-
29 April 2010	Initial public offering on ASX	100,254,908	0.25	25,063,727
13 December 2010	Shares issued in accordance with the dividend reinvestment plan	15,802,829	0.18	2,844,509
	Less: transaction costs arising on shares issued	-		(3,156,767)
31 December 2010		415,057,737		32,066,227
31 December 2011		415,057,737		32,066,227

Before the group restructuring, ordinary shareholders participate in dividends and the proceeds on winding up of the Group in proportion to the percentage of share holding. The voting rights of every ordinary shareholder are in accordance with the percentage of share holding.

From 29 April 2010 when the Group was floated on ASX, 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 2011 there were no unpaid shares(2010: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	
		2011	**2010**
		$	**$**
Gearing ratios	**Note**		
Total borrowings			
- borrowings from bank or third parties	21	127,105,660	37,293,995
- loans from related parties	20	4,658,665	126,606
Less: cash and cash equivalents	12	(7,067,316)	(6,532,233)
Term deposits with maturity over three months	13	(62,824,805)	(50,968,916)
		61,872,204	(20,080,548)
Total equity		71,764,449	52,361,630
Total capital		133,636,653	32,281,082
Gearing ratio		**46%**	**-62%**

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 46% from -62% in 2010.

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	
	2011	**2010**
	$	**$**
Surplus reserve	9,158,687	6,493,064
Foreign currency translation reserve	(3,134,397)	(5,533,010)
	6,024,290	960,054

Surplus reserves comprise the statutory surplus reserve of $6,832,000 (2010: $5,139,643) and other surplus reserve of $2,326,687 (2010: $1,353,421).

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 2011 and 31 December 2010, the Group held the following financial instruments:

		Consolidated	
		2011	2010
		$	$
Financial Assets	**Note**		
Current			
Cash and cash equivalents	12	7,067,316	6,532,233
Term deposits with maturity over 3 months	13	62,824,805	50,968,916
Trade and other receivables	14	75,305,556	6,594,665
Cash and receivables		145,197,677	64,095,814
Financial liabilities			
Current			
Trade and other payables	20	15,352,159	9,455,690
Borrowings	21	112,468,410	37,293,995
Non-current			
Borrowings	21	14,637,250	-
Financial liabilities measured at amortised cost		142,457,819	46,749,685

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 balance 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 2011 $	Consolidated 2010 $
Cash and Cash equivalents		
China	7,047,237	4,620,520
Hong Kong	4,192	1,881,648
Australia	15,887	30,065
	7,067,316	**6,532,233**
Term deposits with maturity over 3 months		
China	**62,824,805**	**50,968,916**
Trade and other receivables		
China mainland	74,657,299	6,279,111
Russia	102,065	82,929
Colombia	45,357	45,444
Philippines	154,990	42,174
Indonesia	46,820	34,491
Turkey	97,781	32,456
India	9,003	30,927
Others	192,241	47,133
	75,305,556	**6,594,665**
Total Cash, loans and receivables	**145,197,677**	**64,095,814**

Except for the fact that the Group made a loan to a third party of $43,989,346 (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

	2011 $	2010 $
Bank facilities		
Total facilities	40,686,100	18,662,500
Used at the end of the reporting period	(18,035,220)	(13,283,278)
Unused at the end of the reporting period	22,650,880	5,379,222

Included within the unused bank facilities above are trade finance facilities totalling $17,994,410 (2010: $5,225,500).

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 RMB	AUD	Notes
SU, Qingyue and PAN, Yu Lulu jointly	606,250,000	93,786,875	8 (b)
SU, Qingyue	456,000,000	70,543,200	8 (b)
Other related parties	251,000,000	38,829,700	27 (d)
Third parties	204,870,000	31,693,389	

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
	$	$	$	$	$	$
2011						
Non-derivatives						
Non-interest bearing	10,693,494	10,693,493	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	152,947,422	120,945,231	13,583,622	3,337,574	15,080,996
2010						
Non-derivatives						
Non-interest bearing	9,329,084	9,329,084	9,329,084	-	-	-
Interest free borrowings	18,460,646	18,460,646	18,460,646	-	-	-
Fixed rate borrowings	11,197,500	11,617,269	4,634,002	6,983,267	-	-
Floating rate borrowings	7,762,455	7,919,429	7,919,429	-	-	-
	46,749,685	47,326,428	40,343,161	6,983,267	-	-

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
		$	$	$	$
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**
2010					
Financial Assets					
Cash and cash equivalents	0.79%	5,025,819	1,493,268	13,146	6,532,233
Term deposits with maturity over 3 months	2.56%	1,009,474	49,959,442	-	50,968,916
Trade and other receivables		-	-	6,594,665	6,594,665
Financial Liabilities					
Trade and other payables		-	-	(9,455,690)	(9,455,690)
Bank loans	5.14%	(7,762,455)	(11,197,500)	-	(18,959,955)
Notes payable		-	-	(18,334,040)	(18,334,040)
		(1,727,162)	**40,255,210**	**(21,181,919)**	**17,346,129**

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).

	2011		2010	
	+0.4% (40 basis points)	-0.4% (40 basis points)	+0.4% (40 basis points)	-0.4% (40 basis points)
	$	$	$	$
Cash and cash deposits	6,890	(6,890)	24,141	(24,141)
Floating rate borrowings	(101,182)	101,182	(31,050)	31,050
Tax charge at 25% (2010: 25%)	23,573	(23,573)	1,727	(1,727)
After tax increase / (decrease)	(70,719)	70,719	(5,182)	5,182

(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:

	2011	2010
	USD$	USD$
Cash at bank	163,530	1,979,947
Trade receivables	938,279	463,869
Trade payables	-	(907,980)
Short term borrowings	(6,537,080)	(3,283,455)
Other payable	-	(126,606)
	(5,435,271)	(1,874,225)

Notes to the Consolidated Financial Statements (continued)

Note 26: Financial Risk Management (continued)

(c) Market risk (continued)

(ii) Foreign currency risk (continued)

Sensitivity Analysis

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).

	2011		2010	
	+10% (USD/RMB)	-10% (USD/RMB)	+1% (USD/RMB)	-1% (USD/RMB)
	$	$	$	$
Cash and cash deposits	15,877	(15,877)	197,995	(197,995)
Trade receivables	91,426	(91,426)	46,387	(46,387)
Trade payables	-	-	(90,798)	90,798
Borrowings	637,778	(637,778)	(328,346)	328,346
Other payables			(12,661)	12,661
Tax charge	(186,270)	186,270	46,856	(46,856)
After tax increase / (decrease)	558,811	(558,811)	(140,567)	140,567

Note 27: Related Party Transactions

	Consolidated	
	2011	2010
	$	$

(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:

Purchases

	2011	2010
Purchase of goods from other related parties	-	217,701

All purchases from other related parties were on normal commercial terms.

Import/export agent services acquired from other related party

	2011	2010
Agent services	-	12,008,601

Payments for importation agency were treated as normal operation payables included in Note 20 as accounts payables.

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

	2011	2010
Other related parties	21,806,523	24,668,510

Notes to the Consolidated Financial Statements (continued)

Note 27: Related Party Transactions (continued)

(c) Outstanding balances

Loans from other related parties
Current

	2011 $	2010 $
Balance at beginning of the year	126,606	-
Advances by other related parties	7,909,358	491,700
Repayments to other related parties	(3,513,875)	(354,951)
Effect of movement in foreign exchange	137,152	(263,355)
Balance at end of year	4,658,665	126,606

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

Other related parties paid on behalf of the Group
Current

	2011 $	2010 $
Balance at beginning of the year	1,996,304	-
Related parties paid on behalf of the Group	21,806,523	24,668,510
Repayments to other related parties	(23,613,267)	(22,512,288)
Effect of movement in foreign exchange	17,702	(159,918)
Balance at end of year	207,262	1,996,304

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.

(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

The Group provided financial guarantees in relation to bank loans of a related party and a third party in the current financial year. Short-term deposits with maturity less than three months of $6,121,476 was pledged as collateral to secure these bank loans. These financial guarantee contracts expired without being called prior to the date of signing of this financial report, and no liability has been recognised in relation to these financial guarantees as at 31 December 2011.

Notes to the Consolidated Financial Statements (continued)

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.

	2011 $	2010 $
Current assets	22,634,453	22,250,030
Non-current assets	7,249,902	6,996,835
Total assets	**29,884,355**	**29,246,865**
Current liabilities	2,900,979	2,680,991
Non-current liabilities	-	-
Total liabilities	**2,900,979**	**2,680,991**
Contributed equity	32,066,227	32,066,227
Retained earnings	(4,461,710)	(3,934,267)
Foreign currency translation reserve	(621,141)	(1,566,086)
Total equity	**26,983,376**	**26,565,874**
(Loss)/profit for the year	(527,443)	58,282
Other comprehensive income/(loss) for the year	944,945	(1,566,086)
Total comprehensive income/(loss) for the year	**417,502**	**(1,507,804)**

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* 2011 %	Equity holding* 2010 %
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% via Fujian Sanhong Renewable Resources Technology Co Ltd)	
Fujian Sanhong Eco-friendly Technology Co., Ltd	PR China	**	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

	2011 $	2010 $
Reconciliation of the profit after tax to the net cash flows from operations:		
Operating profit after tax	17,004,206	15,217,563
Depreciation of noncurrent assets	1,298,862	1,496,708
Amortisation of prepayments (land use rights)	141,710	98,449
Net loss on sale of property, plant and equipment	-	3,706
Realised tax losses for financing activities	-	1,183,531
Exercise costs on dividend reinvestment	-	(87,632)
Changes in Assets and Liabilities:		
(Increase)/(decrease) in trade and other receivables	(5,394,005)	790,940
Decrease /(Increase) in inventory	562,961	(2,779,656)
Decrease /(Increase) in other assets	3,170,473	(6,375,888)
(Increase)/ decrease in deferred tax assets	(97,181)	2,585
Increase/(Decrease) in trade and other payables	5,258,617	(3,995,241)
(Decrease)/increase in other liabilities	(1,975,312)	2,519,649
Increase in income tax liabilities	244,272	1,867,850
Increase/(Decrease) in deferred tax liabilities	445,003	(29,504)
Effects of foreign currency	-	4
Net cash flow from operating activities	20,659,606	9,913,064
Non-cash financing and investing activities:		
Dividends satisfied by the issue of shares under the dividends re-investment plan – net of transaction costs	-	2,844,509

Note 31: Commitments and Contingencies

	2011 $	2010 $
Capital commitments		
Property, plant and equipment		
Payable within one year	5,466,818	32,637,666
	5,466,818	32,637,666
Lease commitments		
Non-cancellable operating leases - future minimum lease payments		
Payable within one year	40,078	21,498
Later than one year but not later than 5 years	66,796	-
	106,874	21,498

The Group leases premises under non-cancellable operating leases expiring in 2013.

Notes to the Consolidated Financial Statements (continued)

Note 32: Events after the end of the reporting period

Since 31 December 2011 the Group has lent additional funds totally $1,392,300 (RMB 9,000,000) to the same third party included in Note 14 (c) to whom the Group has made interest bearing loans. These additional loans are non-interest bearing and were repaid prior to the date of signing the financial report.

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.

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 29 February 2012 the Group announced to the market its preliminary financial results for the financial year ended 31 December 2011 for $17,052,734. The audited profit after income tax of the Group for relevant period was $17,004,206, $48,528 less than the preliminary financial results. The changes represented 0.29% 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

    b. give a true and fair view of the consolidated entity's financial position as at 31 December 2011 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 remuneration disclosures included in pages 12 to 19 of the directors' report (as part of audited Remuneration Report), for the year ended 31 December 2011, comply with section 300A of the *Corporations Act 2001*.

5. 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: 30 March 2012