

Novarise Renewable Resources International Limited

ACN 138 537 596

Half Year Report

Ended 30 June 2015

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- Consolidated Financial Statements

CORPORATE DIRECTORY

Novarise Renewable Resources International Limited ACN 138 537 596

Directors

Mr Qingyue Su (Chairman, Managing Director)
Mr Chung Yi So (Executive Director)
Mr Xiaobin Zhuang (Executive Director)
Mr Fai-Peng Chen (Independent Director)
Mr Liandong Tu (Independent Director)

Company Secretary

Ms Winnie Chen
Mr Xiaobin Zhuang

Registered Office

Suite 5, Level 1, 325 Pitt Street,
Sydney, AUSTRALIA, 2000

Australian Business Office

Suite 5, Level 1, 325 Pitt Street,
Sydney, AUSTRALIA, 2000

China Business Office

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

Bankers

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

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

Share Registrar

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

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008
Australia

Internet Address

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

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

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

Name of entity

NOVARISE RENEWABLE RESOURCES INTERNATIONAL LIMITED

ABN

48 138 537 596

Reporting period

Half Year ended 30 June 2015

Previous corresponding period

Half Year ended 30 June 2014

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

Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Consolidated Financial Statements

For the Period Ended 30 June 2015

1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue from continuing operations	Down	69	%	To \$23,396,795
Profit from ordinary operations after income tax attributable to members	Down	733	%	To a loss of \$15,077,967
Net profit for the period attributable to members	Down	733	%	To a loss of \$15,077,967
Net tangible asset value per share		As at 30 June 2015		\$0.22
		As at 31 December 2014		\$0.24

2. REVIEW OF OPERATIONS

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

3. DETAILS OF CONTROLLED ENTITIES

No gain or lose control of entities incurred in the period.

4. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

The Group has no associates or joint venture entities.

5. DIVIDENDS

No dividend was paid or proposed for the period to 30 June 2015 or the comparative period.

6. AUDIT DISPUTES OR QUALIFICATIONS

The review report has a Disclaimer Conclusion.

7. ACCOUNTING STANDARDS

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

Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Consolidated Financial Statements

For the Period Ended 30 June 2015

Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Consolidated Financial Statements

For the Half Year Ended 30 June 2015

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Novarise Renewable Resources International Limited and its Subsidiaries

ABN 48 138 537 596

Directors' Report

30 June 2015

Your directors present their Report on the Company and its subsidiaries (the Group) for the half year ended 30 June 2015.

1. General information

Directors

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

Mr Qingyue Su

Mr Chung Yi So

Mr Xiaobin Zhuang

Mr Liandong Tu

Mr Fai-Peng Chen

Mr John O'Brien (resigned 18/03/2015)

2. Business review

Review of operations

Business Report in the First Half Year of 2015

In the first half year of 2015, the Group's overall scale of the business operation reduced significantly due to the negative impact by the domestic economic environment in China. The projects in the new plant in Nan'an have been stopped. The production lines in Nan'an were not in full capacity, the production reduced and an over-capacity appeared. The overall profitability was lower than expected.

Due to the impact by the market environment in the first half year of 2015, the Group mainly used polypropylene as the raw material in the production, which accounted for 80% of the main raw material. The rate of waste utilisation was reduced, which directly reduced the Group's profitability. The production in the first half year of 2015 only reached 30% of the corresponding period of 2014. The production decreased significantly, which resulted in the significant increase of the manufacturing costs and thereby the increase of the product cost per unit.

The Group's Research and Development department developed and installed 70 "cylinder automatic switch filters". Forty of these filters have been used in production. The Group is the sole owner of this technology in China and is the only organisation using this technology. The technology is used to provide a spiral filter that can increase the flow of raw materials in the process of filtering. It will also prevent raw materials blocking the filter, which improves the utilisation of raw materials and ensures the filtering rate of raw materials will increase to more than 98%.

Affected by the domestic economic environment in China, the Group's overall operation and production has slowed down in the first half year of 2015. The construction projects have been stopped. In the future, the Group will focus on the development of new customers, making efforts on improving the production scale, and improving the operation rate of the production equipment.

Novarise Renewable Resources International Limited and its Subsidiaries

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Directors' Report

30 June 2015

2. Business review (Continued)

Review of financials

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

	Segment Revenues		Segment Result – Gross (Loss)/Profit	
	2015	2014	2015	2014
	\$	\$	\$	\$
Polypropylene yarns PP	7,996,642	6,855,263	(60)	1,656,529
Polypropylene straps and ropes	6,589,018	27,868,336	(219,339)	8,398,077
Recycled Polypropylene pellets	708,512	4,731,240	(93,330)	312,025
Polypropylene Trading	7,609,814	32,910,482	(104,715)	489,307
Other revenue	5,842	168,272	213	(7,853)
	<u>22,909,828</u>	<u>72,533,593</u>	<u>(417,231)</u>	<u>10,848,085</u>

The results of the first half year of 2015 and 2014 are listed below:

The Group recorded sales revenue of \$22,909,828 (or RMB108 million) for the 6 months period to June 2015, compared to \$72,533,593 (or RMB407 million) for the corresponding period of 2014. This represents a decrease of 68% in A\$ or 73% in RMB.

The net loss after tax for the 6 months to June 2015 was \$15,077,967 (or RMB72,243,068) compared to previous corresponding period of 2014 of a profit of \$2,380,841 (or RMB13,374,617), a decrease of 773% in A\$ and a decrease of 640% in RMB.

The decrease in the Group's revenue in the first half year of 2015 was mainly negatively impacted by the domestic economic environment in China.

The Group was in a loss position in the first half year 2015 mainly due to the significant decrease in gross margin by \$11 million compared to the gross margin for the corresponding period of 2014. The increase in the production cost per unit was a major factor impacted on the negative margin of \$417,231 in the first half year 2015. In addition, the Group provided impairment provision for trade receivables, prepayments for raw material purchases and long term prepayment for property, plant and equipment in the first half year of 2015, amounting \$6,042,246 in total (2014: nil).

Outlook and Prospect for 2016

The market demand for recycled polypropylene yarn and other finished polypropylene products has slowed down with the slowdown in the Chinese economy. The past year has seen the market demand reduced due to the international oil prices fall and the weakened demand for recycled polypropylene pellets in China market. The Group anticipates that the sales and the use of its products will stabilise and grow over the medium to long term. However, there remain significant challenges in the short term with respect to achieving sales at the previous gross margins.

The management remains confident that the demand and market acceptance of Novarise's recycled products are expected to grow in China and internationally in time as governments and consumer behaviours encourage the wider use of Green PP products such as green shopping bags.

Novarise Renewable Resources International Limited and its Subsidiaries

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Directors' Report

30 June 2015

2. Business review (Continued)

Outlook and Prospect for 2016 (Continued)

If the low oil prices were to continue as anticipated, the Group's comparative advantage as producer of recycled PP pallets, yarns and downstream products as well as the demand for the recycled PP products will continue to be adversely affected. The depressed oil price has resulted in the loss of profit margins vis-a-vis the conventional PP manufacturers. As the result of the loss of this comparative advantage and the slowdown in demands, the Group currently intends to keep the current production level, continuous R&D investment in the manufacturing and industrial process underpins Novarise 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 products development.

The Company wishes to highlight the following factors that might adversely and materially affect its outlook for 2016:

- The constant fluctuation in Renminbi will invariably affect the profit margins of international sales denominated in USD. The future movement of Renminbi is difficult to predict;
- The global economic recovery remains unstable and volatile. It may be interrupted by sudden and rapid rise in crude oil prices due to other factors, such as geopolitical in Europe and the Middle East;
- The structure changes in the Chinese economy impacts on some labour-intensive businesses. Although the Company is affected at short term, it is anticipated that it will benefit from the changes in the long run; and

The company has \$211 million of unsecured loans owing to it. This exposes the Company to significant risk should the counterparties not be able to settle. Mr Su has provided personal guarantees on those loans. He will assume all legal liabilities and he will use his own assets to repay all loans if those loans cannot be recovered.

3. Auditors Independence Declaration

A copy of the independence declaration by the lead auditor under section 307C is included on Page 9 to this half year financial statements.

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



Mr Qingyue Su
Chairman
Quanzhou, P.R. China

Dated this 17th day of June 2016

DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF NOVARISE
RENEWABLE RESOURCES INTERNATIONAL LIMITED

As lead auditor for the review of Novarise Renewable Resources International Limited for the half-year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 17 June 2016

Novarise Renewable Resources International Limited and its Subsidiaries

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Consolidated Financial Statements

For the Period Ended 30 June 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2015

	Note	Consolidated Entity Half – Year	
		2015 \$	2014 \$
Sales revenue		22,909,828	72,533,593
Cost of sales		(23,327,059)	(61,685,508)
Gross profit		(417,231)	10,848,085
Interest revenue		486,967	1,877,945
Other income		314,022	83,375
Distribution expenses		(493,645)	(284,890)
Marketing expenses		(100,733)	(193,067)
Administration expenses		(1,507,844)	(1,951,507)
Occupancy expenses		(94,984)	(88,556)
Finance costs	4	(7,180,355)	(7,480,760)
Impairment	5	(6,042,246)	-
Other expenses		(41,918)	(99,300)
(Loss)/profit before income tax expense		(15,077,967)	2,711,325
Income tax expense		-	(330,484)
(Loss)/profit after income tax for the half-year		(15,077,967)	2,380,841
Other comprehensive income			
Foreign currency translation differences		6,390,749	(7,679,845)
Other comprehensive income/(loss) for the half-year, net of tax		6,390,749	(7,679,845)
Total comprehensive income with loss for the half-year		(8,687,218)	(5,299,004)
(Loss)/profit for the half-year is attributable to:			
Equity holders of Novarise Renewable Resources International Limited		(15,077,967)	2,380,841
		(15,077,967)	2,380,841
Total comprehensive income with loss for the half-year is attributable to:			
Equity holders of Novarise Renewable Resources International Limited		(8,687,218)	(5,299,004)
		(8,687,218)	(5,299,004)
Earnings/(loss) per share for profit attributable to owners of Novarise Renewable Resources International Limited			
Basic earnings/(loss) per share		(3.63) cents	0.57 cents
Diluted earnings/(loss) per share		(3.63) cents	0.57 cents

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Novarise Renewable Resources International Limited and its Subsidiaries

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Consolidated Financial Statements

For the Period Ended 30 June 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 30 JUNE 2015

	Note	Consolidated Entity 30 June 2015 \$	31 December 2014 \$
CURRENT ASSETS			
Cash and cash equivalents		460,441	2,232,696
Term deposits with maturity over three months		17,475,294	45,161,804
Trade and other receivables	6	250,831,858	217,997,278
Inventories		23,285,580	16,688,789
Other assets		2,784,041	2,477,919
TOTAL CURRENT ASSETS		<u>294,837,214</u>	<u>284,558,486</u>
NON-CURRENT ASSETS			
Property, plant and equipment	7	103,323,949	99,929,477
Land use rights		10,016,671	9,468,102
Other receivables	6	2,491,907	2,333,746
TOTAL NON-CURRENT ASSETS		<u>115,832,527</u>	<u>111,731,325</u>
TOTAL ASSETS		<u>410,669,741</u>	<u>396,289,811</u>
CURRENT LIABILITIES			
Trade and other payables		41,700,143	32,799,992
Borrowings		230,779,102	205,367,567
Current tax liabilities		2,539,576	2,657,562
Other liabilities		3,342,326	2,969,983
TOTAL CURRENT LIABILITIES		<u>278,361,147</u>	<u>243,795,104</u>
NON-CURRENT LIABILITIES			
Borrowings		38,630,078	50,351,844
Deferred tax liabilities		3,511,445	3,288,574
TOTAL NON-CURRENT LIABILITIES		<u>42,141,523</u>	<u>53,640,418</u>
TOTAL LIABILITIES		<u>320,502,670</u>	<u>297,435,522</u>
NET ASSETS		<u>90,167,071</u>	<u>98,854,289</u>
EQUITY			
Contributed equity		32,066,227	32,066,227
Reserves		43,016,888	36,626,139
Retained earnings		15,083,956	30,161,923
TOTAL EQUITY		<u>90,167,071</u>	<u>98,854,289</u>

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

Novarise Renewable Resources International Limited and its Subsidiaries

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Consolidated Financial Statements

For the Period Ended 30 June 2015

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2015

CONSOLIDATED ENTITY	Contributed Equity	Retained Earnings	Surplus Reserves	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
At 1 January 2014	32,066,227	55,101,349	13,507,701	15,045,370	115,720,647
Total comprehensive income for the half-year					
Profit for the half-year	-	2,380,841	-	-	2,380,841
<i>Other comprehensive income</i>					
Exchange differences on translation of foreign operations	-	-	-	(7,679,845)	(7,679,845)
Total comprehensive income/(loss) for the half-year	-	2,380,841	-	(7,679,845)	(5,299,004)
Appropriation to surplus reserves	-	(1,122,993)	1,122,993	-	-
Transactions with owners in their capacity as owners	-	(1,122,993)	1,122,993	-	-
At 30 June 2014	32,066,227	56,359,197	14,630,694	7,365,525	110,421,643
At 1 January 2015	32,066,227	30,161,923	14,644,926	21,981,213	98,854,289
Total comprehensive income for the half-year					
Loss for the half-year	-	(15,077,967)	-	-	(15,077,967)
<i>Other comprehensive income</i>					
Exchange differences on translation of foreign operations	-	-	-	6,390,749	6,390,749
Total comprehensive income/(loss) for the half-year	-	(15,077,967)	-	6,390,749	(8,687,218)
Appropriation to surplus reserves	-	-	-	-	-
Transactions with owners in their capacity as owners	-	-	-	-	-
At 30 June 2015	32,066,227	15,083,956	14,644,926	28,371,962	90,167,071

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

Novarise Renewable Resources International Limited and its Subsidiaries

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2015

	Consolidated Entity Half – Year	
	2015 \$	2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	29,873,146	86,058,687
Payments to suppliers and employees	(42,234,115)	(85,052,278)
Interest received	749,230	2,309,008
Interest paid	4,369,726	(2,024,303)
Income tax paid	(292,113)	(1,174,783)
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	(7,534,126)	116,331
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in term deposits with maturity over 3 months	30,130,484	33,598,045
Proceeds from sale of property, plant and equipment	44,834	127
Payments for purchase of property, plant and equipment	(1,513,646)	(3,693,472)
Payment for capitalised interest	-	(343,506)
Loans to third parties	(20,618,886)	(39,373,245)
Loan repayments made by third parties	23,777,120	33,483,967
Loans to related parties	(25,071,160)	(46,870,956)
NET CASH PROVIDED BY /(USED IN) INVESTING ACTIVITIES	6,748,746	(23,199,040)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	130,354,974	135,360,978
Repayment of borrowings	(133,900,239)	(113,726,438)
Payment of finance lease liabilities	-	(39,572,059)
Net proceeds from sale and leaseback	-	39,572,059
Loans from related parties	2,445,659	1,521,536
Repayment of loans to third parties	-	(1,246,084)
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	(1,099,606)	21,909,992
NET DECREASE IN CASH HELD	(1,884,986)	(1,172,717)
Effect of exchange rate changes on the balance of cash held in foreign currency	112,731	(63,365)
Cash and cash equivalents at beginning of the period	2,232,696	1,540,957
CASH AT END OF PERIOD	460,441	304,875

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

Notes to the Consolidated Financial Statements

1. Basis of Preparation of Half-Year Financial Statements

These general purpose financial statements for the half-year reporting period ended 30 June 2015 have been prepared in accordance with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The historical cost basis has been used.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 31 December 2014 and any public announcements made by Novarise Renewable Resources International Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

2. 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 30 June 2015 the Group has current borrowings of \$230,779,102 of which \$129,443,931 was due for renewal by 30 June 2015 and \$75,923,626 was due for renewal by 31 December 2015 and \$4,197,958 of capital commitments due before 31 December 2015. These loans and commitments are now overdue and payable.

It is anticipated that completion of the Nan'an project will require further funds of approximately \$2.13m (RMB 10m) of which \$1.06m (RMB 5m) is expected to be spent between January to December 2016. Four production lines were commissioned for production in 2014. The remaining 4 production lines are expected to start production in different stages in 2016 and will require additional funds to fund working capital as the plant comes on stream. The completion of the project will be funded by the rolling over of short term loans and banking facilities, the recovery of loans made to third parties and the generation of positive operating cash flows.

As at 30 June 2015 the Group has \$16,476,067 of net current assets, including \$17,935,735 of cash and cash deposits and \$247,823,032 of loans receivable (including interest receivable) from related parties and third parties. The full amount of loans receivable and interest receivable from third parties and related party are expected to be repaid by 31 December 2016. For the year ended 30 June 2015 the group generated a loss after tax of \$15,077,967 and cash flows used in operating activities of \$7,534,124.

The ability of the group to continue as going concern is dependent on the repayment of unsecured receivables of \$247,823,032 or the injection of funds by the Chairman Mr Qingyue Su.

As disclosed in note 14, the group has entered into multiple cross-guarantees with a number of related and non-related parties with total exposure of RMB 979,891,200 (\$208,791,900). Should any of these guarantees be called upon, the group's ability to continue as going concern will be significantly impacted.

As stated above, should the company be unsuccessful in recovering the unsecured receivables of \$247,823,032 or injection of funds by the chairman Mr Qingyue Su in full by the due date, there is a significant risk that the consolidated entity may not be able to continue as a going concern. Should the consolidated entity not continue as a going concern, it may be unable to discharge its assets and liabilities in the normal course of business.

Notes to the Consolidated Financial Statements (continued)

2. Going Concern (Continued)

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;
- The group has successfully obtained several new borrowings since 30 June 2015 (note 15);
- While the group is currently experiencing negative gross margin and operating losses due to the fall of international oil price, the directors expect the group will return to generating positive cash flows from existing operation and Nan'an factory once it comes to operation.
- 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.

Notes to the Consolidated Financial Statements (continued)

3. Segment Reporting

Management has determined the operating segments based on reports reviewed by the chief operating decision makers for making strategic decision. The chief operating decision makers comprise the managing director, finance director and other directors. The chief operating decision makers monitor the business based on product factors and have identified 4 reportable segments. The basis of determining segments has not changed from the last annual financial statements.

Type of products

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

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

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

Polypropylene trading: Sale of polypropylene purchased to customers located in mainland China.

Segment information

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

	Polypropylene yarns	Polypropylene straps and ropes	Recycled Polypropylene pellets	Polypropylene trading	Total
	\$	\$	\$	\$	\$
Half-year ended 30 June 2015					
Total segment revenue	7,996,642	6,589,018	708,512	7,609,814	22,903,986
Revenue from external customers	7,996,642	6,589,018	708,512	7,609,814	22,903,986
Gross loss	(60)	(219,339)	(93,330)	(104,715)	(417,444)
Half-year ended 30 June 2014					
Total segment revenue	6,855,263	27,868,336	4,731,240	32,910,482	72,365,321
Revenue from external customers	6,855,263	27,868,336	4,731,240	32,910,482	72,365,321
Gross profit	1,656,529	8,398,077	312,025	489,307	10,855,938

Notes to the Consolidated Financial Statements (continued)

3. Segment Reporting (continued)

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

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

	Consolidated Entity Half – Year	
	30 June 2015	30 June 2014
	\$	\$
Gross (loss)/profit	(417,444)	10,855,938
Gross profit/(loss) from unallocated sales	213	(7,853)
Gross (loss)/profit per Statement of Comprehensive Income	<u>(417,231)</u>	<u>10,848,085</u>
Interest revenue	486,967	1,877,945
Other income	314,022	83,375
Distribution expense	(493,645)	(284,890)
Marketing expense	(100,733)	(193,067)
Administration expense	(1,507,844)	(1,951,507)
Occupancy expense	(94,984)	(88,556)
Finance costs	(7,180,355)	(7,480,760)
Impairment	(6,042,246)	-
Other expenses	(41,918)	(99,300)
(Loss)/profit before income tax	<u>(15,077,967)</u>	<u>2,711,325</u>

4. Finance costs

	Consolidated Entity Half – Year	
	30 June 2015	30 June 2014
	\$	\$
Bank charges	96,924	495,616
Interest expenses	7,083,431	4,221,909
Cancellation cost of terminating initial finance lease	-	2,763,235
	<u>7,180,355</u>	<u>7,480,760</u>

5. Impairment

	Consolidated Entity Half – Year	
	30 June 2015	30 June 2014
	\$	\$
Trade receivables	2,709,731	-
Prepayments for raw material	3,396,175	-
Long-term prepayments for property, plant and equipment	(63,660)	-
	<u>6,042,246</u>	<u>-</u>

Notes to the Consolidated Financial Statements (continued)

6. Trade and other receivables

		Consolidated Entity	
		30 June	31 December
		2015	2014
		\$	\$
Current			
Trade receivables		11,058,698	11,474,683
Allowance for doubtful debts		(8,049,872)	(4,949,261)
		<u>3,008,826</u>	<u>6,525,422</u>
Other receivables	(a)	13,295,701	12,771,987
Loan to related party	(b)	36,556,046	10,275,482
Loan to third parties	(c)	197,971,285	188,424,387
		<u>250,831,858</u>	<u>217,997,278</u>
Non-current			
Other receivables	(d)	2,491,907	2,333,746
		<u>2,491,907</u>	<u>2,333,746</u>

(a) Other receivables

Included above are interest receivables of \$13,227,261 (2014: \$12,638,373).

		Consolidated Entity	
		30 June	31 December
		2015	2014
		\$	\$
Interest receivables			
Interest receivables-third parties		13,137,228	12,303,410
Interest receivables-banks		90,033	334,963
		<u>13,227,261</u>	<u>12,638,373</u>

(b) Loan to related parties

		Consolidated Entity	
		30 June	31 December
		2015	2014
		\$	\$
	Entity Name		
Non-interest bearing loan	Quanzhou Sanhong Trading Co., Ltd.	24,613,295	2,024,732
Non-interest bearing loan	Quanzhou Zhengrong Trading Co., Ltd.	11,942,751	8,250,750
Total loan to related parties		<u>36,556,046</u>	<u>10,275,482</u>

(c) Loan to third parties

Loan to third parties are interest free and unsecured loans, which are past due but not impaired.

The Group does not hold any collateral in relation to the receivables (2014: nil).

(d) Other receivables

Non-current receivable balance represents the deposit paid for finance lease.

Notes to the Consolidated Financial Statements (continued)

7. Property, Plant and Equipment

	Consolidated Entity	
	30 June 2015 \$	31 December 2014 \$
Property, plant and equipment	<u>103,323,949</u>	<u>99,929,477</u>

Included in property, plant and equipment is \$17,064,269 of capital works in progress (2014: \$15,838,630).

8. Dividends

No dividend was paid or proposed for the period to 30 June 2015 (half-year ended 30 June 2014: Nil)

9. Revisions in Estimates

During the half-year ended 30 June 2015, there were no major changes in estimates made.

10. Seasonality and Irregular Trends

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

11. Equity Securities Issued

During the half-year ended 30 June 2015, there were no shares issued.

12. Contingent Liabilities

There have been no changes in contingent liabilities or contingent assets since the last annual reporting date, 31 December 2014.

13. Acquisitions from entities under Common Control

There were no acquisitions incurred in the half-year ended 30 June 2015.

14. Commitment and Contingencies

As disclosed in the 31 December 2014 annual financial report, the group has entered into loan guarantee arrangements to guarantee the bank debts of a number of entities. The total amount of guarantee to third party is RMB 233,000,000(A\$49,646,900) and to related parties is RMB 746,891,200(A\$ 159,145,000). The directors are unable to provide a fair value for these guarantees in accordance with AASB139 at 30 June 2015.

15. Events subsequent to the end of the reporting period

New borrowings

Since 30 June 2015 the Group has entered several short-term borrowings from the bank amounting to RMB 199,183,608.00 (A\$ 40,475,157)

Termination of Proposed Selective Capital Reduction

On 29 July 2013, Novarise announced that it had entered into an implementation and funding agreement with its majority shareholder, Great Rises International Investment Ltd, Great Rises New Resources Technology Co., Ltd and Great Rises International Group Investment Ltd (together, GRIL) regarding a proposal for the privatisation of Novarise.

This proposal was to privatise Novarise through a selective reduction of capital involving the cancellation of all shares in Novarise other than those held by GRIL.

The consideration for the cancellation of the shares in Novarise held by all shareholders other than GRIL and other connected parties was offered at \$0.23 per share.

Notes to the Consolidated Financial Statements (continued)

15. Events subsequent to the end of the reporting period (Continued)

Termination of Proposed Selective Capital Reduction (Continued)

As announced on 9 February 2015, the independent directors of Novarise (Independent Directors) had, following representations from GRIL, agreed to allow GRIL until 15 March 2015 to provide to Novarise in clear funds 30% of the total proposed consideration for the Capital Reduction (ie. approximately A\$7.32 million) (30% Consideration).

No part of the 30% Consideration has been received by Novarise and the Independent Directors did not consider that there is any reasonable prospect of the 30% Consideration being received in the short term and following extensions offered by Novarise to GRIL to provide the funding in order to complete the transaction.

Accordingly, Novarise terminated the implementation and funding agreement relating to the Capital Reduction, with immediate effect. This means that the Capital Reduction will not proceed.

The Independent Directors have not made this decision lightly. However, GRIL has failed to demonstrate, over an extended period of time, that it has access to the funding necessary in order for the Capital Reduction to be implemented. In these circumstances, the Independent Directors did not consider that there was any viable option at this time other than to terminate the Capital Reduction in March 2015.

Current Privatization Proposal

On 15 September 2015, Novarise Renewable Resources International Ltd (Novarise) announces that it has received a preliminary, incomplete and non-binding proposal for the privatisation of Novarise from its controlling shareholders, Great Rises International Investment Ltd, Great Rises New Resources Technology Co., Ltd and Great Rises International Group Investment Ltd (together, GRIL).

The proposal, similar to the aborted arrangement Novarise entered into in 2013 with GRIL, is to privatise Novarise through a selective reduction of capital involving the cancellation of all shares in Novarise other than those held as at the relevant record date by GRIL and its associates (Privatisation Proposal). (GRIL is controlled by interests associated with Mr Qingyue Su, the Executive Chairman and Managing Director of Novarise).

GRIL and their associates currently hold in aggregate 314,536,785 shares in Novarise, which equates to approximately 75.78% of the total number of Novarise shares.

If the Privatisation Proposal is implemented, Novarise will be delisted from ASX.

Under the Privatisation Proposal, the proposed consideration for the cancellation of the shares in Novarise held by all shareholders other than GRIL and their associates (Exiting Shareholders) is \$0.16 cash per share.

The amount of this total consideration which is expected to constitute a return of capital and a dividend respectively to Exiting Shareholders is subject to further analysis and will be advised in due course.

The Exiting Shareholders currently hold approximately 100,520,952 shares in Novarise (in aggregate), which equates to approximately 24.22% of the total number of Novarise shares. If the Privatisation Proposal is implemented all of the approximately 100,520,952 Novarise shares held by Exiting Shareholders will be cancelled. The aggregate consideration for the Novarise shares held by the Exiting Shareholders amounts to approximately \$16,083,353 (SCR Consideration)

Notes to the Consolidated Financial Statements (continued)

15. Events subsequent to the end of the reporting period (Continued)

SCR Funding & Implementation Agreement

Following its relevant announcement dated 15 September 2015 (September 2015 Announcement), Novarise announced that it has entered into an implementation and funding agreement (Agreement) with its controlling shareholders, GRIL in relation to the proposed privatization of Novarise (Capital Reduction) on 9 November 2015.

Pursuant to the Agreement, Novarise agrees to implement the Capital Reduction, through funding from GRIL in relation to the SCR Consideration as well as the costs and expenses of Novarise in implementing the Capital Reduction. The implementation of the Capital Reduction is subject to the following conditions being satisfied (or waived by Novarise):

- the necessary approvals by special resolution of Novarise's shareholders to the Capital Reduction including a separate approval by special resolution of Exiting Shareholders in general meeting (Special Meeting) are obtained;
- GRIL provides funds for the implementation of the Capital Reduction to Novarise in the manner prescribed in the Agreement (refer to the 'Funding' section below for further details);
- Requisite approvals from ASIC and ASX are obtained; and The independent expert concludes in the Independent Expert's Report that the Capital Reduction is fair and reasonable to Exiting Shareholders and, if applicable, Novarise shareholders as a whole.

Update of funding for Selective Capital Reduction (CR)

On 26 February, 2016 GRIL advised and updated that the Company that it has received preliminary non-binding letter of loan offer from an international Hongkong bank to enable GRIL to fund and complete the Capital Reduction. GRIL, through its controlling shareholder Mr Qingyue Su, has advised the Company that as at the date of this report and subject to finalising the terms of the loan that GRIL will likely accept the loan offer

On 3 June, 2016 GRIL through Mr Qingyue Su, advised and updated the market that GRIL is anticipating to receive formal approval of the loan documentation to fund the Capital Reduction in June 2016

Notices of meetings

In accordance with the terms and conditions of the Agreement and when the loan to GRIL is formally finalised, it is anticipated that Novarise will prepare notices of meeting documentation for the purpose of calling and arranging to hold shareholder meetings at which shareholders will be asked to consider and, if thought fit, approve the Capital Reduction.

Details of the two necessary special resolutions (to be passed at two separate general meetings, the second commencing immediately after the conclusion or adjournment of the first) will be set out in the notice of meetings documentation to be sent to shareholders. The report of the independent expert (to be appointed shortly) will be included in the documentation.

It is currently proposed that the notices of meeting and independent expert's report will be dispatched to shareholders in around the third week of August to the second week of September 2016, with the shareholder meetings proposed to be held in around mid October 2016 to mid November 2016.

Notes to the Consolidated Financial Statements (continued)

DECLARATION BY DIRECTORS

The directors of the company declare that:

- (a) The financial statements and notes set out on page 10 to 21 are in accordance with the *Corporations Act 2001* and:
- (i) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date.
- (b) In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Mr Qingyue Su
Chairman
Quanzhou, P.R. China

Dated this 17th day of June 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Novarise Renewable Resources International Ltd

Report on the Financial Report

We were engaged to review accompanying half-year financial report of Novarise Renewable Resources International Ltd, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on conducting our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity. Because of the matters described in the Basis for Disclaimer Conclusion paragraph, however, we were not able to obtain sufficient appropriate evidence to provide a basis for expressing a conclusion on the half-year financial report.

Independence

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

Basis for Disclaimer Conclusion

We have been unable to obtain sufficient appropriate evidence on the books and records and basis of accounting of the consolidated entity. Specifically, we have been unable to satisfy ourselves on the following areas:

- i. Recoverability of Loan Receivables - included in current assets, as at 30 June 2015, the consolidated entity had a loan receivables balance of \$247,823,032. (Note 6) This balance includes loans to third parties and related parties, including interest.

These loans are now overdue and management were unable to provide support for the recoverability of the receivables and we were unable to obtain sufficient appropriate evidence by alternative means to determine the recoverability of these loan receivables balance stated in the consolidated statement of financial position.

- ii. Valuation of financial guarantees - the consolidated entity provided financial guarantees to third parties and related parties. The guarantees provided included instances where the consolidated entity solely provided the guarantees and instances where the guarantees were provided collectively with other parties. The total amounts guaranteed to third parties and related parties were RMB 233, 000,000 (A\$49,646,900) and RMB746, 891, 200 (A\$ 159,145,000) respectively (Note 14). The Directors were unable to provide a fair value for these guarantees in accordance with AASB 139 at 30 June 2015.
- iii. Going concern - the consolidated entity has reported a loss of \$15,077,967 (including an impairment charge of \$6,042,246) for the half-year ended 30 June 2015 and has \$230,779,102 worth of borrowings as current liability in the statement of financial position. The half-year financial report has been prepared on a going concern basis, however the directors have not provided an update of their assessment of the consolidated entity's ability to pay their debts as and when they fall due, and have stated in note 2 that the ability of the consolidated entity to continue as a going concern is dependent on the repayment of the unsecured receivable of \$247,823,032 or the injection of funds by the Chairman Mr Qingque Su.

We have been unable to obtain alternative evidence which would provide sufficient appropriate evidence as to whether the consolidated entity may be able to continue as a going concern and hence remove significant doubt of its ability to continue as a going concern for a period of 12 months of from the date of this review report.

- iv. Valuation and impairment of assets - as at the date of this report the construction of the Nan'an plant has ceased and with the negative impact of the domestic economic environment this has created an impairment indicator with Property, plant and equipment and associated assets of \$103,323,949, Inventories of \$23,285,580 and Land use rights and Prepayments of \$10,016,671. The Directors have not provided evidence to support the carrying value of these assets. As a result, we are unable to obtain sufficient appropriate evidence to determine the recoverability of the Property, plant and equipment and associated assets, inventories and the Land use rights and Prepayments stated in the consolidated statement of financial position.

As a result of all the matters stated above, we were unable to determine whether any adjustments might have been found necessary in respect of the elements making up the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows and disclosures thereto.



Disclaimer Conclusion

Because of the significance of the matters described in the Basis for Disclaimer Conclusion paragraphs, we have not been able to obtain sufficient appropriate evidence to form a conclusion on the accompanying half-year financial report. Accordingly, we do not express a conclusion on these financial statements.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'P. Murdoch', is written over a horizontal line.

Phillip Murdoch

Director

Perth, 17 June 2016