APPENDIX 4E

PRELIMINARY FINAL REPORT

MESBON CHINA NYLON LIMITED

ABN 77 123 178 852

Report for the Year Ended 31 December 2008
(Previous Corresponding Period is for the year ended 31 December 2007)

The report is based on accounts which are in the process of audit review and which is not yet complete. The company is not aware of any dispute or qualification which would have a material impact on the results represented within these accounts.

Mesbon China Nylon Limited was incorporated in Australia on 18 December 2006. It acquired the trading operations of Meibang International Holding Limited in November 2007.

Mesbon was founded in 2002 by by Mr Zhehao Shen, a civil engineer with 20 years experience in textile manufacturing. Mr Shen anticipated the emergence of nylon yarn, especially high quality nylon textile yarn, as a fundamental product for use by the China textile and apparel industries. Within a short period, Mesbon has emerged as one of the five largest nylon textile yarn manufacturers in China, and the largest in Zhejiang Province, based on production capacity. Mesbon's production facility is ideally located in Xiaoshan District, Hangzhou City, Zhejiang Province, within the heart of the textile manufacturing base in East China.
Mesbon's production capacity has grown from 20,000 tonnes per annum in 2004, to 45,000 tonnes currently.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key Financial Summary

	Consolidated Entity		
	31 December 2008 $	31 December 2007 $	% Change
Revenues from ordinary activities	102,728,680	88,753,612	16%
Cost of Sales	(98,663,429)	(78,549,530)	26%
Gross Profit	4,065,251	10,204,082	-60%
Other Income	3,442,801	1,276,326	170%
Distribution Costs	(680,694)	(232,751)	192%
General and Administration costs	(2,840,706)	(1,687,372)	68%
Finance Costs	(3,302,221)	(1,344,018)	146%
Equity based Remuneration Expense	-	(466,832)	N/A
Profit from ordinary activities	684,431	7,749,435	-91%
Income tax expense relating to ordinary activities	(92,823)	-	N/A
Net Profit attributable to members of the parent entity	591,608	7,749,435	-92%

Net Tangible Assets

	December 2008	December 2007
Net tangible asset backing per ordinary security	37.71 cents	30.90 cents

Dividends

On 29 August 2008 Mesbon declared an unfranked interim dividend of 2 cents per Share. In the Prospectus it had been proposed that a final dividend of 2 cents per share also be declared once the full year results were known.

Because of the small profit achieved for the full year, the board has resolved that no final dividend be declared.

Commentary on Results

The first six months of the year saw a series of unprecedented eventsthrough snow and earthquake which affected the Chinese economy. The Chinese Government response was to mobilise massive amounts of resources to assist in the recovery and mandated measures were put in place to guarantee support. This focus diverted resources away from personal consumption and a tightening of the Chinese credit market also impacted market sentiment in relation to spending.

The sale of Mesbon products was also affected by this change in market sentiment during the six months. However, the company performed reasonably during that time, although below company projections for the first six months.

The company also completed construction of the building for the expanded operation and the production lines were installed ready for operation in the early part of September 2008.

However, in the last months of 2008, the global economic environment deteriorated rapidly and this had a major impact on the Chinese economy with the growth rate slowing to 7%. Domestic demand for the company's products was able to be maintained with the overall result that sales revenue increased by 15.7% for the year, but only by reducing margins dramatically. The gross margins during the latter part of the year meant an overall decline of gross profit from 11% in 2007 to 4% in 2008.

Because of the expansion of the facilities, part of which was paid for through borrowings, finance costs have increased significantly in 2008 compared to 2007. With the lower gross margin, this has impacted significantly on the result for the year and the net profit of $591,608 was disappointing.

The further deterioration of the global economy has also impacted the expansion plans of the company and the Phase 3 development, whilst complete, was not brought into production during the year. Some of the capacity of the expanded facility is expected to be brought into production in March 2009.

Outlook for 2009

With the global economy not yet showing signs of stability, Mesbon is expecting another difficult year for the sale of its products. The move towards high quality product will continue and should provide better margins overall during the year than were achieved during the latter part of 2008. The company will concentrate on the quality of earnings and whilst confident of success for the future, it will be difficult to achieve the same returns during the year as was achieved in 2007.

The company will be doing everything possible to improve results as the economy stabilises and returns to normal.

Mesbon China Nylon Limited

Income Statement
For the Year Ended 31 December 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Revenue from operating activities	3	102,728,680	88,753,612	-	-
Cost of goods sold	3	(98,663,429)	(78,549,530)	-	-
Gross profit		4,065,251	10,204,082	-	-
Other income	3	3,442,801	1,276,326	2,966,073	23,098
Dividend revenue		-	-	-	-
Distribution costs	3	(680,694)	(232,751)	-	-
General and administration costs	3	(2,840,706)	(1,687,372)	(308,262)	(272,966)
Finance costs	3	(3,302,221)	(1,344,018)	-	-
Equity based remuneration		-	(466,832)	-	(466,832)
Profit before income tax expense		684,431	7,749,435	2,657,811	(716,700)
Income tax expense	4	(92,823)	-	(92,823)	-
Profit from ordinary activities after income tax expense		591,608	7,749,435	2,564,988	(716,700)
Profit attributable to members of the parent entity		591,608	7,749,435	2,564,988	(716,700)
Earnings per share for profit from continuing operations:					
Basic earnings per share	8	0.46 cents	48.83 cents		
Diluted earnings per share	8	0.45 cents	46.93 cents		

The accompanying notes form part of the above income statement.

Mesbon China Nylon Limited
Balance Sheet
as at 31 December 2008

	Note	Consolidated		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	9	42,343,680	32,982,025	240,821	607,683
Trade and other receivables	10	15,080,895	7,672,422	1,253,911	98,774
Inventories	11	17,514,997	13,266,210	-	-
Notes receivable	12	15,556,416	5,493,590	-	-
Prepayments	13	1,157,946	2,123,364	24,721	25,603
Current tax assets		402,604			
Other current assets	13	-	48,235	-	-
TOTAL CURRENT ASSETS		92,056,538	61,585,846	1,519,453	732,060
NON-CURRENT ASSETS					
Property, plant & equipment	15	54,135,534	18,540,995	-	-
Trade and other receivables	16	-	-	17,662,744	17,662,744
Financial assets	2,17	-	-	19,447,584	19,447,584
Deferred tax asset	4	371,292	464,115	371,292	464,115
TOTAL NON-CURRENT ASSETS		54,506,826	19,005,110	37,481,620	37,574,443
TOTAL ASSETS		146,563,364	80,590,956	39,001,073	38,306,503
CURRENT LIABILITIES					
Trade and other payables	18	5,602,607	10,441,561	33,686	71,487
Notes payable	19	40,375,000	4,290,840	-	-
Current tax liabilities	4	-	-	-	-
Financial Liabilities	20	50,596,605	26,611,880	-	-
TOTAL CURRENT LIABILITIES		96,574,212	41,344,281	33,686	71,487
NON-CURRENT LIABILITIES					
Trade and other payables	21	-	-	-	119,792
TOTAL NON-CURRENT LIABILITIES		-	-	-	119,792
TOTAL LIABILITIES		96,574,212	41,344,281	33,686	191,279
NET ASSETS		49,989,152	39,246,675	38,967,387	38,115,224
EQUITY					
Issued capital	22	28,334,616	27,507,044	38,789,113	37,961,532
Reserves	23	11,462,258	(401,446)	870,393	870,393
Retained earnings	26	10,192,278	12,141,077	(692,119)	(716,701)
TOTAL EQUITY		49,989,152	39,246,675	38,967,387	38,115,224

The accompanying notes form part of the above balance sheet.

Mesbon China Nylon Limited

Statement of Changes in Equity
For the Year Ended 31 December 2008

Consolidated

	Issued capital $	Retained Earnings $	Share Option Reserve $	Foreign Currency Translation Reserve $	Total $
Balance at 31 December 2006	**8,993,086**	**4,391,642**	**-**	**(690,669)**	**12,694,059**
Profit attributable to members of parent entity	-	7,749,435	-	-	7,749,435
Foreign currency translation differences	-	-	-	(581,170)	(581,170)
Shares issued pursuant to IPO	20,000,000	-	-	-	20,000,000
Transaction costs on shares Issued	(1,486,052)	-	-	-	(1,486,052)
Equity based remuneration	-	-	870,393	-	870,393
Balance at 31 December 2007	**27,507,034**	**12,141,077**	**870,393**	**(1,271,839)**	**39,246,665**
Profit attributable to members of parent entity	-	591,608	-	-	591,608
Foreign currency translation differences	-	-	-	11,863,704	11,863,704
Shares issued pursuant to IPO	827,581	-	-	-	827,581
Transaction costs on shares Issued	-	-	-	-	-
Dividends paid	-	(2,540,406)	-	-	(2,540,406)
Equity based remuneration	-	-	-	-	-
Balance at 31 December 2008	**28,334,615**	**10,192,279**	**870,393**	**10,591,865**	**49,989,152**

Parent

	Issued Capital $	Retained Earnings $	Share Option Reserve $	Foreign Currency Translation Reserve $	Total $
Balance at 31 December 2006	**100**	**-**	**-**	**-**	**100**
Profit attributable to members of parent entity	-	(716,701)	-	-	(716,701)
Shares issued pursuant to acquisition of Meibang International Holdings Limited Group	19,447,484	-	-	-	19,447,484
Shares issued pursuant to IPO	20,000,000	-	-	-	20,000,000
Transaction costs on shares Issued	(1,486,052)	-	-	-	(1,486,052)
Equity based remuneration	-	-	870,393	-	870,393
Balance at 31 December 2007	**37,961,532**	**(716,701)**	**870,393**	**-**	**38,115,224**
Profit attributable to members of parent entity	-	2,564,988	-	-	2,564,988
Shares issued pursuant to acquisition of Meibang International Holdings Limited Group	-	-	-	-	-
Shares issued pursuant to IPO	827,581	-	-	-	827,581
Transaction costs on shares Issued	-	-	-	-	-
Dividends paid	-	(2,540,406)	-	-	(2,540,406)
Equity based remuneration	-	-	-	-	-
Balance at 31 December 2007	**38,789,113**	**(692,119)**	**870,393**	**-**	**38,967,387**

The accompanying notes form part of the above statements of changes in equity.

Mesbon China Nylon Limited

Cash Flow Statement
For the Year Ended 31 December 2008

	Note	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Cash Flows From Operating Activities:					
Receipts from customers		88,553,727	91,568,615	1,811,827	-
Payments to suppliers and employees		(72,337,449)	(94,527,939)	(465,855)	(325,856)
Interest received		746,952	501,988	-	23,098
Finance costs		(3,275,078)	(1,344,016)	-	-
Taxes paid		(402,604)	(75,715)	-	-
Net cash provided by/(used in) operating activities	27	**13,285,548**	**(3,877,067)**	**1,345,972**	**(302,758)**
Cash Flows from Investing Activities:					
Proceeds - sale of property, plant & equipment		724,246	835,144	-	-
Payment for property, plant and equipment		(26,268,753)	(6,602,064)	-	-
Net cash provided by/(used in) investing activities		**(25,544,507)**	**(5,766,920)**	**-**	**-**
Cash Flows From Financing Activities:					
Proceeds from issue of shares		-	20,000,000	-	20,000,000
Proceeds of borrowings		71,127,289	50,291,190	-	-
Repayment of borrowings		(59,350,198)	(43,543,355)	-	-
Dividends paid		(1,712,834)		(1,712,834)	
Loans to Subsidiaries		-	-	-	(17,662,744)
Share issue costs paid		-	(1,546,606)	-	(1,426,815)
Net cash provided by/(used in) financing activities		**10,064,257**	**25,201,229**	**(1,712,834)**	**910,441**
Net increase/(decrease) in cash		(2,194,702)	15,557,242	(366,862)	607,683
Cash at the beginning of the financial year	9	32,982,025	17,424,783	607,683	-
Effect of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the financial year		11,556,358	-	-	-
Cash at the end of the financial year	9	**42,343,681**	**32,982,025**	**240,821**	**607,683**

The accompanying notes form part of the above cash flow statement.

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report includes the consolidated financial statements and notes of Mesbon China Nylon Limited and controlled entities, and the separate financial statements and notes of Mesbon China Nylon Limited as an individual parent entity. Mesbon China Nylon Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below.

Reporting basis and Conventions
The financial report has been prepared on an accruals basis and is based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The accounting policies have been consistently applied, unless otherwise stated.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity over which Mesbon China Nylon Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a December financial year end.

As at the reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was gained (ceased).

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 1 (Cont)

Investments in subsidiaries are accounted for at cost in the individual financial statements of Mesbon China Nylon Limited.

(c) Income Tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted or are substantially enacted as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to bepaid to (recovered from) the relevant taxation authorities.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

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 income tax assets are recognised to the extent that it is probable that future tax profits will be available against which the benefits of the deferred tax asset can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(d) Incorporation

The Company was incorporated on 18 December 2006.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

- Sale of goods - on delivery of the goods to the customer; and
- Interest - on a time proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and service tax (GST).

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 1 (Cont)

(f) Business Combination

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Reverse acquisitions, where the cost of the business combination is deemed to have been incurred by the legal subsidiary (ie the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (ie the acquiree for accounting purposes), are accounted for using AASB 3 Business Combinations. The method calculates the fair value of the instruments issued by the legal parent on the basis of the fair value of existing instruments in the legal subsidiary.

(g) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

(h) Cash and Cash Equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original 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.

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 1 (Cont)

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. The cost of manufactured products includes sirect materials, direct labour and an appropriate proportion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity.

Allowance is made, where necessary, for obsolete, slow-moving and defective inventories in arriving at the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(j) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(k) Financial Instruments

Recognition

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit and loss. Transaction costs related instruments classified as at fair value through profit and loss are expensed to profit and loss immediately. Financial instruments are classified and measured as set out below.

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 subsequently measured at amortised cost using the effective interest rate method.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 1 (Cont)

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

(l) Property, Plant & Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged directly to the income statement. Each year the difference between depreciation based on the revalyed carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Note 1 (Cont)

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation Rate
Buildings	2%
Land use rights	5%
Plant & Equipment	5 - 33%
Motor Vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount isn written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(m) Trade and Other Payables

Trade and other payables amounts represent liabilities for goods and services provided to the consolidate group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(o) Issued Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 1 (Cont)

(p) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rate prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(q) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows for those benefits.

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 1 (Cont)

Equity settled compensation
The group operates an employee option plan. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions.The number of shares and opotions expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(r) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates – Impairment
The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

(s) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST and VAT except:

- when the GST or VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items as applicable; and

- receivables and payables are stated inclusive of the amount of GST/VAT.

The net amount of GST or VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are ipresented in the Cash Flow Statement on a gross basis and the GST and VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST and VAT recoverable from or payable to the taxation authority.

(t) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(u) Earnings per Share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 2 - Business Combination

Reverse acquisition

Pursuant to a share purchase and sale agreement dated 5 November 2007, Meibang International Holdings Limited (MIH Ltd) became a wholly owned subsidiary of Mesbon China Nylon Limited (MCHL).

Through this transaction effective control of MCHL was passed to the exising shareholders of MIH Ltd. The transaction is one referred to in AASB 3 as a reverse acquisition, where the acquirer is MIH Ltd (ie. the entity whose equity interests have been acquired) and MCHL is seen to be acquiree (ie. the issuing entity).

As MCHL was incorporated specifically for the purpose of this transaction and equity raising, the fair value of the equity instruments issued has been estimated by reference to the fair value of the acquirer's (MIH Ltd's) net assets.

Fair value of the 87,020,300 ordinary shares and 25,480,000 performance rights issued to the existing shareholders of Meibang International Holding Limited in exchange for control is $19,447,584.

The assets and liabilities of Meibang International Holding Limited as at 5 November 2007 were:

	Fair Value $
Cash and cash equivalents	15,189,861
Trade and other receivables	10,229,874
Inventories	11,648,678
Other assets	1,424,246
Property, plant and equipment	16,563,711
Trade and other payables	(8,401,495)
Borrowings	(27,207,291)
Total net assets acquired	19,447,584
Accounted for as:	
Share capital	8,993,096
Reserves	(1,580,536)
Retained earnings	12,035,024
	19,447,584

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 3 - Revenue and Expenses

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
Revenue				
Sale of Goods	102,728,680	88,753,612	-	-
Other Income				
Interest income	1,273,671	501,988	18,446	23,098
Foreign exchange gains	1,754,854	694,852	-	-
Non operating income income	385,557	-	-	-
Subsidy income	-	61,123	-	-
Dividend revenue	-	-	2,600,000	-
Other income	28,719	18,363	382,639	-
	3,442,801	1,276,326	3,001,085	23,098
Cost of Goods sold				
Cost of goods	96,899,748	77,261,979	-	-
Depreciation for use of plant and equipment	1,763,681	1,287,551	-	-
	98,663,429	78,549,530	-	-
Expenses				
General and Administration Costs				
Employee benefit expenses	464,183	354,478	-	-
Research & Development	253,196	-	-	-
Commissions paid	225,658	247,877	-	-
Depreciation	81,103	108,751	-	-
Water	101,133	72,942	-	-
Legal Expenses	69,554	186,665	35,000	186,665
Doubtful debts provision	1,027,534	-	-	-
Other	618,345	716,659	273,262	86,301
	2,840,706	1,687,372	308,262	272,966
Finance Costs				
Interest payments	2,832,374	1,230,473	-	-
Bank fees	404,685	97,332	-	-
Other	65,162	16,213	-	-
	3,302,221	1,344,018	-	-
Distribution Costs	680,694	232,751	-	-

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 4 - Income Tax

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Income Tax Expense	-	-	-	-

Zhejiang Mesbon Chemical Fiber Limited (ZMCF) has a two year enterprise income tax exemption and has a 50% tax concession from the People's Republic of China (PRC) for the following three years.

The company also has tax rebates for the purchase of China made capital equipment to the extent of RMB7,481,709 (Approximately AUD$1,292,000.

The current taxation rate in PRC is 25.0%.

The Australian company tax rate will remain at 30%.

As a result, ZMCF is exempt from enterprise income tax until the tax credits are used.

For the financial years 2008, 2009 and 2010, the enterprise income tax rate in PRC is expected to remain at 25.0% on profits, resulting in a tax rate of 12.5% under the 50% tax concession.

Deferred Tax Asset	371,292	464,115	371,292	464,115

The deferred tax assets relate to the future taxation benefit of the cash-based capital raising costs, calculated as follows:

Capital raising costs(excluding broker share options) during 2007:	$1,547,050
At the Group's statutory income tax rate of 30%	$464,115

The utilisation of these assets is expected to be recouped due to future trading income arising predominantly from profitable trading.

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 5 - Key Management Personnel Compensation

The names and positions held of the Group's key management personnel in office at any time during the financial year are as follows:

Zhehao Shen - Chairman and Managing Director
Bolong Xing - Non-Executive Director
Yanfu Jiang - Non-executive Director (retired 31 December 2008)
Paul Teisseire - Non-executive Director
Fai-Peng Chen - Non-executive Director
Chengjun Hu - General Manager - Finance
Weijei Gu - Executive Director (appointed 1 January 2009) - Sales and Marketing
Yingzhang Zhou - General Manager - Administration and Company Secretary
Graham Seppelt - Australian Company Secretary

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

Number of Options held by Key Management Personnel

	Balance 31.12.2007	Granted as Compensation	Options Exercised	Net Change Other	Balance 31.12.2008	Total Vested	Total Exercisable
Yanfu Jiang	700,000	-	-	-	700,000	700,000	700,000
Paul Teisseire	700,000	-	-	-	700,000	700,000	700,000
Fai-Peng Chen	700,000	-	-	-	700,000	700,000	700,000

Shareholdings of Key Management personnel (consolidated)

	Balance at 31.12.2007	Exercise of Options	Net change Other	Balance at 31.12.2008
Directors				
Zhehao Shen*	100	-	-	100
Bolong Xing	-	-	-	-
Yanfu Jiang	-	-	-	-
Paul Teisseire	100,000	-	13,368	113,368
Fai-Peng Chen	-	-	-	-
Executives				
Yingzhang Zhou	-	-	-	-
Chengjun Hu	-	-	-	-
Weijie Gu	-	-	-	-
Graham Seppelt	-	-	-	-

* MSB International Trading Limited, a company associated with Mr Shen, holds 78,911,499 shares. Mr Shen is a director and shareholder of MSB International Trading Limited.

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 6 - Auditors Remuneration

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Remuneration of the auditor for the consolidated entity for:				
Auditing or reviewing the financial report	108,000	100,000	22,000	20,000
Provision of an independent accountants report for inclusion in the prospectus	-	65,000	-	65,000
	108,000	165,000	22,000	85,000

Note 7 - Dividends

During October 2008 the company paid an unfranked interim dividend of 2.0 cents per share. No final dividend is proposed for the year ended 31 December 2008.

During the year, the company commenced operation of the Dividend Reinvestment Plan and applied the DRP to the interim dividend declared. As per the Purchase and Sale Agreement with MSB International Trading Limited, MSB reinvested 50% of its dividend entitlement in shares under the DRP.

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Distributions paid				
Interim unfranked ordinary dividend of 2.0 cents per share (2007: Nil)	2,540,406	-	2,540,406	-

Note 8 - Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share.

	Consolidated	
	2008	2007
	$	$
Net profit attributed to ordinary equity holders of the parent	591,608	7,749,435
Weighted average number of shares for basic earnings per share	128,217,410	15,871,692
Weighted average number of options assuming issued at average market rate	3,974,700	642,486
Weighted average number of ordinary shares adjusted for the effect of dilution*	132,192,110	16,514,178
Earnings per Share	0.46	48.83
Diluted Earnings per share	0.45	46.93

* The performance rights issued as part of the acquisition of Meibang International Holding Limited have been excluded from the diluted earnings per share calculation.

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 9 - Cash and Cash Equivalents

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Cash on hand	18,873	47,931	-	-
Cash at bank	14,674,307	17,111,230	240,821	607,683
Other monetary assets	27,650,500	15,822,864	-	-
	42,343,680	32,982,025	240,821	607,683

The effective interest rate on short term bank deposits and other monetary assets is 3.14% (2007: 2.99%). Other monetary assets have an average maturity of 87 days.

Other monetary assets act as security for letters of credit for the purchase of raw materials ($1,428,000), notes payable ($20,825,000) and financial liabilities ($5,397,000).

Note 10 - Current Trade and Other Receivables

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Trade receivables	14,148,485	6,494,251	-	-
Provision for impairment of receivables	(1,027,534)	(46,479)	-	-
	13,120,951	6,447,772	-	-
Other receivables				
Land deposits	-	74,291	-	-
Interest revenue	690,382	163,663	-	-
Dividend receivable	-	-	800,000	-
Related party receivables	1,264,084	887,922	-	-
Goods & Services Tax receivable	5,477	98,774	11,013	98,774
	15,080,894	7,672,422	811,013	98,774

Related party receivables relate to sales to Hangzhou Zhebang Chemical Fibre Trading Co Ltd, a company that is related to Mr Zhehao Shen.

Provision for Impairment of Receivables

Current trade and other receivables are non-interest bearing loans and generally on 30 day terms. Non-current trade and other receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is an objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

There are no balances within trade and other receivables that contain assets that are not impaired and are past due. It is expecred that these balances will be received when due. Impaired assets are provided for in full.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance 1.01.2008 $	Charge for the year $	Amounts written off $	Closing balance 31.12.2008 $
Consolidated Group				
Trade receivables impairment	-	1,027,534	-	1,027,534
Parent Entity				
Trade receivables impairment	-	-	-	-

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 11 - Inventories

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Raw materials (at cost and net realizable value)	8,650,301	5,292,826	-	-
Work in progress	183,036	120,610	-	-
Finished goods	8,681,660	7,852,774	-	-
	17,514,997	13,266,210	-	-

Note 12 - Notes Receivable

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Notes receivable	15,556,416	5,493,590	-	-

Notes Receivable are bills received from customers which are then endorsed to accounts payable providers where possible.

Note 13 - Prepayments and Other Current Assets

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Prepayments	1,157,946	2,123,364	24,721	25,603
Other current assets	-	48,235	-	-
	1,157,946	2,171,599	24,721	25,603
Prepayments represent amounts for the construction of Phase 3 development:				
Building construction	-	502,278	-	-
Equipment deposits	-	1,621,086	-	-
	-	2,123,364	-	-

Note 14 - Controlled Entities

Interests held in controlled entities are as follows:

Name of Entity	Country of Incorporation	Ownership Interest* 2008 %	Ownership Interest* 2007 %
Parent Entity			
Mesbon China Nylon Limited	Australia	-	-
Subsidiaries of Mesbon China Nylon Limited			
Mesbon International Holdings Limited	British Virgin Islands	100%	100%
Zheijang Mesbon Chemical Fiber Limited	People's Republic of China	100%	100%
Mesbon China Nylon (Australia) Pty Ltd	Australia	100%	100%

* Percentage of voting power is proportional to ownership.

Note 15 - Property Plant and Equipment

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Buildings on Leasehold Land				
Opening balance	3,640,528	3,008,907	-	-
Additions	-	43,144	-	-
Transfers from capital works in progress	-	881,001	-	-
Currency translation difference	1,247,935	(112,811)	-	-
Reclassification				
Accumulated Depreciation				
Opening balance	-	-	-	-
Depreciation for the year	(223,613)	(179,713)	-	-
Net book value of buildings on leasehold land	**4,664,850**	**3,640,528**	**-**	**-**
Leasehold Land (Land Use Rights)				
Opening balance	1,970,444	977,916	-	-
Additions	-	1,088,370	-	-
Currency translation difference	677,551	(36,664)	-	-
Accumulated Depreciation				
Opening balance	-	-	-	-
Depreciation for the year	(111,909)	(59,178)	-	-
Net book value of leasehold land	**2,536,086**	**1,970,444**	**-**	**-**
Motor Vehicles				
Opening balance	107,684	81,249	-	-
Additions	265,625	52,131	-	-
Currency translation difference	29,781	(3,046)	-	-
Accumulated Depreciation				
Opening balance	-	-	-	-
Depreciation for the year	(45,984)	(22,650)	-	-
Net book value of motor vehicles	**357,106**	**107,684**	**-**	**-**

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 15 - Property, Plant & Equipment (cont)

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Plant & Equipment				
Opening balance	11,487,056	9,769,029	-	-
Additions	640,398	3,996,033	-	-
Disposals	(724,246)	(835,143)	-	-
Transfers	-	58,162	-	-
Currency translation difference	3,473,801	(366,264)	-	-
Accumulated Depreciation				
Opening balance	-	-	-	-
Depreciation for the year	(1,463,311)	(1,134,761)	-	-
Net book value of plant & equipment	**13,413,698**	**11,487,056**	-	-
Capital Works in Progress				
Opening balance	1,335,283	659,594	-	-
Additions	31,351,866	1,639,582	-	-
Transfers to buildings on leasehold land	-	(939,163)	-	-
Currency translation difference	476,645	(24,730)	-	-
Reclassification	-	-	-	-
Net book value of works in progress	**33,163,794**	**1,335,283**	-	-
TOTAL NET BOOK VALUE OF PROPERTY, PLANT & EQUIPMENT	**54,135,534**	**14,496,694**	-	-

The Phase 3 facility as detailed in the Prospectus dated 9 November 2007 is now complete but not in use because of the downturn in the world economy. These assets continue to be held in capital works in progress until such time as production requirements dictate the classification of this facility as 'open for use'.

At that time, the capital works in progress will be transferred to property, plant and equipment and depreciation will be commenced.

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Note 16 - Non Current Trade and Other Receivables				
Loans to subsidiary	-	-	17,662,744	17,662,744

Trade and other receivables refers to the proceeds of capital raising by the parent company now loaned to a subsidiary company. The amount of the loan has not been impaired.

Note 17 - Financial Assets

Financial assets	-	-	19,447,584	19,447,584

Financial assets refer to the acquisition of the fair value of the assets of Meibang International Holdings Limited on 5 November 2007. (See Note 2).

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Note 18 - Current Trade and Other Payables				
Trade Creditors	1,573,968	7,679,291	2,763	71,487
Other payables	1,713,296	204,471	-	-
Accrued Expenses	2,315,343	2,557,799	30,923	-
	5,602,607	10,441,561	33,686	71,487

Note 19 - Notes Payable

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Notes Payable	40,375,000	4,290,840	-	-

The notes payables are non-interest bearing and are secured by a cash deposit of $16,000,000, in a range between 40 - 100% of the outstanding balance, and a corporate guarantee provided by Zhejiang Yinan Chemicle Fibre Company Ltd, a director related entity of Zhehao Shen.

Note 20 - Financial Liabilities

Term Loans		**Currency**	**Bank**	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Term Loan	(a)	Renminbi	CCOB	3,187,500	-	-	-
Term Loan	(b)	Renminbi	CCB	15,937,500	-	-	-
Term Loan	(c)	Renminbi	SPD	7,650,000	-	-	-
Term Loan	(d)	Renminbi	CMB	2,125,000	-	-	-
Term Loan	(e)	Renminbi	ICBC	4,250,000	-	-	-
Term Loan	(h)	Renminbi	CBB	4,250,000	-	-	-
Term Loan	(i)	Renminbi	CEB	2,125,000	-	-	-
Term Loan	(c)	Renminbi	CMB	-	783,000	-	-
Term Loan	(d)	Renminbi	SPD	-	5,637,600	-	-
Term Loan	(e)	Renminbi	ICBC	-	3,132,000	-	-
Term Loan	(a)	Renminbi	RCB	-	1,957,500	-	-
Term Loan	(f)	Renminbi	CCB	-	7,830,000	-	-
Term Loan	(f)	USD	CCB	3,631,254	-	-	-
Term Loan	(g)	USD	CITIC	1,510,601	-	-	-
Term Loan	(e)	USD	ICBC	1,254,496	-	-	-
Term Loan	(a)	USD	CCOB	2,677,482	-	-	-
Term Loan	(i)	USD	GUDB	1,997,772	-	-	-
Term Loan	(f)	USD	CCB	-	2,516,580	-	-
Term Loan	(e)	USD	ICBC	-	1,372,680	-	-
Term Loan	(g)	USD	CITIC	-	3,382,520	-	-
				50,596,605	26,611,880	-	-

Financial liabilities consist of Term Loans provided by lending authorities. Current loan terms are no longer than 12 months and conclude during 2009. Interest rates are in a range from 5.04% p.a. to 8.22% p.a.

Loan Provider Banks	
Rural Corporation Bank	RCB
Guangzhou Development Bank	GDB
China Merchant Bank	CMB
Shanghai Pudong Development Bank	SPD
ICBanking Corporation	ICBC
China Construction Bank	CCB
CITIC Bank	CITIC
Country Cooperative Bank	CCOB
Guangdong Development Bank	GUDB
China Bohai Bank	CBB
China Everbright Bank	CEB

Note 20 - Cont

(a) The term loans provided by Rural Corporation Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Zhejiang Yinan Chemical Fibre Co Ltd, a director related entity of Mr Zhehao Shen.
(b) The term loan provided by Guangzou Development Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Zhejiang Yinan Chemical Fibre Co Ltd.
(c) The term loans provided by China Merchant Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by existing cash deposits held with the bank.
(d) The term loans provided by Shanghai Pudong Development Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Zhejiang Yinan Chemical Fibre Co Ltd.
(e) The term loans provided by ICBanking Corporation are denominated in Chinese Renminbi or US Dollars and are secured by existing cash deposits held within the bank.
(f) The term loans provided by China Construction Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Hangzhou Yibang Spandex Co Ltd, a director related entity.
(g) The term loans provided by China Citic Bank are denominated in US Dollars and are secured by existing cash deposits held within the bank.
(h) The term loans provided by China Bohai Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by existing cash deposits held with the bank.
(i) The term loans provided by China Everbright Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by existing cash deposits held with the bank.

Note 21 - Non Current Trade and Other Payables

	Consolidated		**Parent**	
	2008	**2007**	**2008**	**2007**
Non-current payables	-	-	-	119,792

Parent non-current payables relate to IPO costs paid by the subsidiary company prior to IPO on behalf of the parent company.

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 22 - Issued Capital

(a) Share Capital

	Consolidated		Parent	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
At beginning of the reporting period	27,507,034	100	37,961,532	100
Shares issued during the year				
Issued to existing shareholders under sale and purchase agreement	-	8,992,996	-	15,042,853
25,480,000 unissued performance shares (refer Note 23 (b))	-	-	-	4,404,631
8,493,000 unissued performance shares lapsed (refer Note 23 (b)	-	-	(1,468,153)	-
Shares issued for the initial public offering	-	20,000,000	-	20,000,000
Less Capital Raising Costs	-	(1,486,052)	-	(1,486,052)
Shares issued under Dividend Reinvestment Plan	827,581	-	836,480	-
	28,334,615	27,507,044	37,329,859	37,961,532

	No.	**No.**	**No.**	**No.**
At beginning of the reporting period	127,020,300	100	127,020,300	100
Shares issued during the year				
Issued to existing shareholders under sale and purchase agreement	-	87,020,200	-	87,020,200
Shares issued for the initial public offering	-	40,000,000	-	40,000,000
Shares issued under Dividend Reinvestment Plan	5,531,933	-	5,531,933	-
	132,552,233	127,020,300	132,552,233	127,020,300

87,020,200 fully paid ordinary shares were issued to Meibang International Holdings Limited (MIH) under the share sale agreement dated 5 November 2007 wherein MIH became a wholly owned subsidiary of Mesbon China Nylon Limited. These shares are free from any encumbrance and were issued with all rights of ordinary shares in the company including dividend and voting rights.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Ordinary shares participate in dividends and the proceeds on widing up of the parent entity in proportion to the number of shares held.

For the consolidated entity the comparative information is based on Mesbon China Nylon Limited in accordance with AASB 3 "Business Combinations" as the acquisition was a reverse acquisition.
(Refer Note 2)

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
22(b) Performance Rights				
At beginning of the reporting period	-	-	4,404,631	-
Performance Rights issued during the year				
Issued to existing shareholders under sale and purchase agreement	-	-	-	4,404,631
Performance Rights lapsed during the year	-	-	(1,468,153)	-
	-	-	2,936,478	4,404,631
	No.	No.	No.	No.
At beginning of the reporting period	-	-	25,480,000	-
Shares issued during the year				
Issued to existing shareholders under sale and purchase agreement	-	-	-	25,480,000
Performance Rights lapsed during the year			(8,493,000)	-
	-	-	16,987,000	25,480,000

25,480,000 Performance Rights were issued to the existing shareholders upon the acquisition of Meibang International Holdings Limited. In determining the fair value of the assets and liabilities acquired in Meibang International Holding Limited, an assumption has been made that 25,480,000 Performance Shares will be issued subject to the satisfaction of the Performance Conditions in Section 16.4 of the Prospectus. Refer to Note 2 for the fair value of the assets and liabilities acquired in Meibang International Holding Limited.

8,493,000 Performance Rights lapsed during the year ended 31 December 2008 as a result of the company not ahieving the Prospectus net profit after tax forecast of $9,766,000.

22 (c) Share options

Information relating to the Mesbon China Nylon Limited Employee Share Option Plan, including details of options issued, during the financial year and options outstanding at the end of the financial year is set out in Note 28.

22 (d) Capital Management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains under 45%. The gearing ratios for the years ended 31 December 2007 and 31 December 2008 are as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Total borrowings	81,017,796	35,850,691	0	191,279
Less cash and cash equivalents	(42,343,680)	(32,982,025)	(240,821)	(607,683)
Net debt	38,674,116	2,868,666	(240,821)	(416,404)
Total equity	49,989,152	39,246,675	39,002,399	38,115,224
Total capital	88,663,268	42,115,341	38,761,578	37,698,820
Gearing ratio	44%	7%	-1%	Nil

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 23 - Reserves

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Foreign Currency Translation Reserve				
Balance at beginning of financial year	(1,271,839)	(690,669)	-	-
Net exchange difference on translation of foreign controlled entities	11,863,704	(581,170)	-	-
Balance at end of financial year	10,591,865	(1,271,839)	-	-

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

	Consolidated		Parent	
Share Option Reserve				
Balance at beginning of financial year	870,393	-	870,393	-
Issue of options to directors pursuant to the Company's prospectus	-	870,393	-	870,393
Balance at end of financial year	870,393	870,393	870,393	870,393

The share option reserve records items recognised as expenses on valuation of employee share options.

Note 24 - Contingent Assets and Contingent Liabilities

At the date of signing this report, the Group is not aware of any contingent assets or contingent liabilities that should be disclosed in accordance with AASB 137.

Note 25 - Segment Information

Primary Reporting - Business Segments

The Group is engaged in the production, sale and development of premium nylon textile yarn throughout China and internationally.The group operates predominantly in China with all goods being manufactured and distributed from a single facility in China.

2008	China	International	Total
	$	$	$
Revenue from operating activities	91,577,378	10,601,722	102,179,100
Less:			
Other income	3,540,234	411,359	3,951,593
Cost of goods sold	(88,580,676)	(10,064,164)	(98,644,840)
Distribution costs	(479,299)	(201,395)	(680,694)
General and administration costs	(2,744,957)	(308,506)	(3,053,463)
Finance costs	(2,878,793)	(3,948)	(2,882,741)
Other costs	(184,523)	-	(184,523)
Net Profit	**249,364**	**435,068**	**684,432**

2007	China	International	Total
	$	$	$
Revenue from operating activities	69,620,222	19,133,390	88,753,612
Less:			
Other income	1,276,326	-	1,276,326
Cost of goods sold	(61,065,531)	(17,483,999)	(78,549,530)
Distribution costs	(232,751)	-	(232,751)
General and administration costs	(1,358,271)	(329,101)	(1,687,372)
Finance costs	(1,276,735)	(67,283)	(1,344,018)
Other costs	(466,832)	-	(466,832)
Net Profit	**6,496,428**	**1,253,007**	**7,749,435**

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any expenses where a reasonable basis for allocation exists. Segment assets include all assets used by the segment and consist principally of cash, receivables, and property, plant and equipment and accumulated depreciation and amortisation. Whilst most assets can be directly attributable to the segments on a reasonable basis, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's

Note 26 - Retained Earnings

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Balance at beginning of the financial year	12,141,077	4,391,642	(716,701)	-
Net profit attributable to members of the parent entity	(1,948,800)	7,749,435	59,594	(716,701)
Balance at end of the financial year	10,192,277	12,141,077	(657,107)	(716,701)

Note 27 - Reconciliation of Net Profit after Tax to Net Cash Flows from Operations

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Net Profit	**591,608**	**7,749,435**	**2,564,988**	**(716,700)**
Adjustments for non cash items				
Depreciation	1,844,818	1,396,303	-	-
Provisions	-	-	-	29,166
Net exchange differences	600,496	(377,525)	-	-
Equity based remuneration	-	466,832	-	466,832
Net loss on sale of net current assets	-	-	-	-
Changes in assets and liabilities				
(increase)/decrease in inventories	(4,248,787)	(5,483,482)	-	-
(increase)/decrease in trade and other receivables	(6,621,800)	1,941,892	(1,154,246)	-
(increase)/decrease in notes receivable	(10,062,826)	(5,145,882)	-	-
(increase)/decrease in other current assets	226,980	26,336	-	-
(increase)/decrease in other receivables	-	-	-	(124,377)
(increase)/decrease in current tax assets	(402,604)	-	-	-
(increase)/decrease in deferred tax assets	92,823	-	92,823	-
(decrease)/increase in trade and other payables	(4,819,320)	6,603,563	(157,593)	42,321
(decrease)/increase in notes payables	36,084,160	(10,978,824)	-	-
(decrease)/increase in tax liabilities	-	(75,715)	-	-
Net cash from operating activities	**13,285,548**	**(3,877,067)**	**1,345,972**	**(302,758)**

Credit Standby Arrangements with Banks

At 31 December 2008, the Group had total bank facilities available of $99,960,000 of which there was an unutilised facility of $49,363,395.

Note 28 - Share Based Payments

EMPLOYEE SHARE OPTION PLAN

The Company has established an Employee Share Option Plan (Plan) with the following key features:

(a) Eligibility
The Board may issue Options under the Plan to any officer or employee of the Company and any subsidiary (Eligible Employee).
(b) General Terms of the Options
Options will be issued free of charge. Each Option is to subscribe for one Share and, when issued, the Share will rank equally with other Shares. The Options are not transferable. Quotation of the Options on the ASX will not be sought but the Company will apply to the ASX for official quotation of Shares issued on the exercise of Options. Options may be granted subject to conditions specified by the Board, which must be satisfied, before the Option can be exercised.

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 28 - Share Based Payments

EMPLOYEE SHARE OPTION PLAN

(c) Exercise of Options
Subject to satisfaction of the Conditions of Exercise of Options, Options may be exercised at any time within 5 years of the date of grant, provided however that the number of Options the Eligible Employee may exercise during any period of 12 consecutive months shall not exceed that number of Options that equals one third of the total number of Options issued to the Eligible Employee under the Plan (whether or not exercised prior to the time of calculation). Options lapse upon termination of the Eligible Employee's employment by the Company and, unless the terms of the offer of the Option specify otherwise, each Option lapses 5 years after the date upon which it was granted.
(d) Exercise Price
The exercise price per Share for an option will be the amount determined by the Board at the time of the grant of the Option.
(e) New Issue of Securities
Option holders will not be entitled to participate in any new issue of securities in the Company unless they exercise their Options prior to the record date for the determination of entitlements to the new issue.
(f) Bonus Issues
If the Company makes a bonus issue of securities to ordinary shareholders, each unexercised Option will, on exercise, entitle its holder to receive the bonus securities as if the Option had been exercised before the record date for the bonus issue.
(g) Rights Issues
If the Company makes a pro-rata rights issue of Shares for cash to its ordinary shareholders, the exercise price of the unexercised Options will be adjusted to reflect the diluting effect of the issue.
(h) Capital Reorganisations
If there is any reorganisation of the capital of the Company, the number of Options and their exercise price will be adjusted in accordance with the Listings Rules.
(i) Limit on Number of Options
The maximum number of Options on issue under the Plan must not at any time exceed 5% of the total number of Shares on issue at that time.

OPTIONS ISSUED PURSUANT TO THE PROSPECTUS

On 2 November 2007, options were granted in the company on the successful completion of the Mesbon China Nylon Limited initial public offering.

The number of options and the terms of those options on issue are:

(a) 1,500,000 'A' Class options exerciseable by 31 December 2010 at $0.50 each, shared equally by Yanfu Jiang, Paul Teisseire and Fai-Peng Chen. The fair value of these options is $322,900.

(a) 600,000 'B' Class options exerciseable by 31 December 2012 at $0.65 each, shared equally by Yanfu Jiang, Paul Teisseire and Fai-Peng Chen. The fair value of these options is $143,932.

Note 28 - Share Based Payments (cont)

OPTIONS ISSUED PURSUANT TO THE PROSPECTUS (Cont)

The fair value of the share options listed above were calculated using the Black-Scholes methodology and the following assumptions:

	'A' Class Options	'B' Class Options
Share Price ($)	0.50	0.50
Exercise Price	0.50	0.65
Expected Volatility*	55%	55%
Option Life (years)	3	5
Risk Free Interest Rate	6.40%	6.40%

*Volatility has been based on the average volatility of manufacturing companies listed on the Australian Securities Exchange with a market capitalisation of less than $90 million.

OPTIONS ISSUED DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

No options were issued during the financial year ended 31 December 2008

Note 29 - Subsequent Events

There has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely in the opinion of directors to effect significantly the operations, results of those operations, or the state of affairs of Mesbon China Nylon Limited and its controlled entities, in future financial years.

Note 30 - Related Party Disclosures and Key Management Personnel Remuneration

Related Party Transactions - Director Related Transactions

During the year the Group sold product to a value of $20,671,908 and purchased product to the value of $166,888,815 from Hangzhou Zhebang Chemical Fibre Trading Co Ltd, a party related to Mr Zhehao Shen.
During the year the Group transferred money to a value of $1,242,749 to Hangzhou Zhebang Chemical Fibre Trading Co Ltd, a party related to Mr Zhehao Shen. This amount is recorded in the Other Receivables account as disclosed in Note 10.
As at 31 December 2008, the Group has three Notes Payable totalling AUD$637,500 to Hangzhou Zhebang Chemical Fibre Trading Co Ltd.

During the year the Group purchased services to the value of $78,329 from Minter Ellison Lawyers, a party related to Mr Fai-Peng Chen.

There are no guarantees or securities in relation to the balance of the related party receivable from Hangzou Zhebang Chemical Fibre Trading Co Ltd.

Related party balances are settled by cash. Transactions with director related entities are made on an arms length basis.

There have been no disputes, bad debts or discounts between related parties and no related party balances have been expensed either in part or in full.

Notes to the Financial Statements
For the Financial Year ended 31 December 2008

Note 30 - Related Party Disclosures and Key Management Personnel Remuneration (cont)

Related Party Disclosures - Intra-Group Transactions

Throughout the period ended 31 December 2008, sales and purchases have been made between Mesbon China Nylon Limited and other members of the group. All sales/purchases transacted between the group have been eliminated on consolidation and have been entered into on an arms length basis.

Note 31 - Financial Instruments

(a) Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, accounts receivable and payable, loans to and from subsidiaries and bills. The main purpose of non-derivative financial instruments is to raise finance for group operations.

Activities undertaken by Mesbon China Nylon Limited and its subsidiaries may expose the group to risk. 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.

(i) Treasury Risk Management

A finance committee consisting of senior executives of the group meet on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The committee's overaall risk management strategy seeks to assist the consolidated group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

(ii) Financial Risks

Interest rate risk
Interest rate risk is managed through the use of short term bills at fixed interest rates competitively negotiated between several lending authorities.

Foreign Currency Risk
The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency.

Liquidity risk
The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Notes to the Financial Statements

For the Financial Year ended 31 December 2008

Note 31 - Financial Instruments (cont)

The group does have material credit risk exposure to a group of receivables in respect of major customers. However, group policy is that sales are only made to customers that are credit worthy.

On balance sheet financial instruments

The credit risk exposure of the group to financial assets, excluding investments in shares, which have been recognised in the balance sheet is generally the carrying amounts, net of any provisions for doubtful debts.

The consolidated entity attempts to minimise credit risk exposure on trade debtors by undertaking transactions with a large number of customers and counter parties in various countries and business sectors.

(b) Interest Rate Risk Exposures

The group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the Group intends to hold fixed rate assets and liabilities to maturity.

The group's financial instruments consists mainly of deposits with banks, accounts receivable and payable and bills. All Notes Receivable and Notes Payable are due within one year.

						Fixed Interest Rate Maturing					
	Note	Weighted average effective interest rate		Floating interest rate		Within 1 year		Non-Interest bearing		Total	
		2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
		%	%	$	$	$	$	$	$	$	$
Financial Assets											
Cash and deposits	9	2.99	3.14	32,982,025	42,343,680	-	-	-	-	32,982,025	42,343,680
Trade and other receivables	10	-	-	-	-	-	-	7,672,422	13,120,951	7,672,422	13,120,951
Notes receivable	12	-	-	-	-	5,493,590	15,556,416	-	-	5,493,590	15,556,416
				32,982,025	42,343,680	5,493,590	15,556,416	7,672,422	13,120,951	46,148,037	71,021,047
Financial Liabilities											
Trade and other payables	19	-	-	-	-	-	-	10,441,561	5,602,607	10,441,561	5,602,607
Notes payable	20	-	-		-	4,290,840	40,375,000	-	-	4,290,840	40,375,000
Financial liabilities	21	6.89	7.18		-	26,611,880	50,596,605	-	-	26,611,880	50,596,605
				-	-	30,902,720	90,971,605	10,441,561	5,602,607	41,344,281	96,574,212
Net financial assets/(liabilities)			0	32,982,025	42,343,680	(25,409,130)	(75,415,189)	(2,769,139)	7,518,344	4,803,756	(25,553,165)

Note 31 - Financial Instruments (cont)

(c) Sensitivity Analysis

Interest Rate Risk, Foreign Currency Risk and Price Risk

The group has performed sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 31 December 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
Change in profit				
- Increase in interest rate by 10%	(1,160,223)	(86,060)	7,225	12,492
- Decrease in interest rate by 10%	1,160,223	86,060	(7,225)	(12,492)
Change in equity				
- Increase in interest rate by 10%	(1,160,223)	(86,060)	7,225	12,492
- Decrease in interest rate by 10%	1,160,223	86,060	(7,225)	(12,492)

Foreign Currency Risk Sensitivity Analysis

At 31 December 2008, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, with all other variables remaining constant is as follows:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
Change in profit				
- Improvement in RMB to USD by 8%	34,805	100,241	-	-
- Decline in RMB to USD by 8%	(34,805)	(100,241)	-	-
Change in equity				
- Improvement in RMB to USD by8%	34,805	100,241	-	-
- Decline in RMB to USD by 8%	(34,805)	(100,241)	-	-

Price Risk Sensitivity Analysis

At 31 December 2008, the effect on profit and equity as a result in changes in the price risk, with all other variables remaining constant would be as follows:

	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	$000	$000	$000	$000
Change in profit				
- Improvement in polymide chips by 5%	2,959,345	2,356,486	-	-
- Decline in polymide chips by 5%	(2,959,345)	(2,356,486)	-	-
Change in equity				
- Improvement in polymide chips by 5%	2,959,345	2,356,486	-	-
- Decline in polymide chips by 5%	(2,959,345)	(2,356,486)	-	-

Note 32 - Changes in Accounting Policy

There have been no changes in accounting policy during the year.

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and consolidated group but are not yet effective. They have not been adopted in the preparation of the financial statements at reporting date.

AASB Amendments	Standards Affected		Outline of Amendment	Application Date of Standard	Application Date for Group
AASB 2007-3 Amendments to Australian Accounting Standards	AASB 5 AASB 102 AASB 107 AASB 119 AASB 127 AASB 134 AASB 136 AASB 1023 AASB 1038	Non-current Assets Held for Sale and Discontinued Operations Inventories Cash Flow Statements Employee Benefits Consolidated and Separate Financial Statements Interim Financial Statements Impairment of assets General Insurance Contracts Life Insurance Contracts	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB : Segment Reporting in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on the recognition and measurement criteria amounts included in the financial report.	1.1.2009	1.7.2009
AASB 8 Operating Segments	AASB 114	Segment Reporting	As above.	1.1.2009	1.7.2009
AASB 2007-6 Amendments to Australian Accounting Standards	AASB1 AASB 101 AASB 107 AASB 116 AASB138	First time adoption OF AIFRS Presentation of Financial Statements Cash Flow Statements Property, Plant and Equipment Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.	1.1.2009	1.7.2009
AASB 123 Borrowing Costs	AASB 123	Borrowing Costs	As above.	1.1.2009	1.7.2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101	Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and market changes to the statement of changes in equity.	1.1.2009	1.7.2009
AASB 101 Presentation of Financial Statements	AASB 101	Presentation of Financial Statements	As above.	1.1.2009	1.7.2009