



Results for Announcement to the Market

APPENDIX 4E PRELIMINARY FINAL REPORT GIVEN TO ASX UNDER LISTING RULE 4.3A

Name of entity	Mesbon China Nylon Limited
ABN	77 123 178 852
Preliminary final for year ended	31 December 2010
Previous corresponding period	31 December 2009

The information contained in this report should be read in conjunction with the most recent annual financial report and half yearly financial report and other announcements made to the market during this time.

Contents	Item
Results for announcement to the market	1.
Net tangible assets per ordinary share	2.
Details of entities over which control has been gained	3.
Details of associates and joint venture entities	4.
Development of Phase 4 production facility	5.
Dividends	6.
Accounting standards	7.
Audit status	8.
Auditing Disputes	9.
Review of operations	10.

1. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue from ordinary activities	up	35.21%	to	\$'000 172,281
Profit/(loss) from ordinary activities after income tax attributable to members	up	144.68%	to	6,624
Net profit/(loss) attributable to members	up	144.68%	to	6,624

Dividends per share	Amount per share	Franked amount per share at 100% tax
Interim – FY 2010	0.0 cents	0.0 cents
Final – FY 2010	0.0 cents	0.0 cents

Record date for determining entitlements to dividends: N/A

Payment date for dividend: N/A

Explanation of revenue

The increase in revenue for the period over the corresponding period last year was as a result of the successful expansion of Phase 3 production. In 2009 Mesbon did not have all of its Phase 3 production lines in operation until August 2009. As a result, and with the production capacity increased from 25,000 tonnes pre Phase 3 to now 45,000 tonnes, sales have increased proportionately. The increased production capacity has been fully utilised for high quality Nylon 6-FDY products which sell at higher margins than other Mesbon products. As well, there has been increased domestic demand in the Chinese economy.

Using the functional currency basis (Chinese Renmimbi (RMB)), total revenue for the operating China company improved from RMB701.5million to RMB1,070.4million, an increase of 52.6%.

Sales of the premium FDY product have increased in line with the commissioning of production facilities. FDY sales in 2010 totalled 21.6million Kg (2009: 13.5million Kg), totalling RMB497.6million (2009: 256.9million). Average FDY sales price in 2010 was RMB23.00 p/kg (2009: 19.04 p/kg).

Using the reporting currency basis, (Australian dollars (AUD)) Mesbon's total revenue for the twelve months increased to **\$172.3 million** (2009: \$127.4M), a 35.2% increase.

Explanation of Net Profit after Tax

The increase in profitability for the period over the corresponding period last year was as a result of the return to normal trading conditions in China. Unit sales prices have increased and gross margins have returned to levels anticipated by management. The effective investment in high technology manufacturing equipment has resulted in

premium nylon products and product mix which has improved gross margins.

Gross Margin increased from RMB58.9million to RMB77.7million, reflecting the recovery in 2010 from a challenging period with negative margins in the first four months of 2009. Gross margins are consistent with the movement in the CPL (Polyamide Chip) price index. CPL prices approximated RMB 19,500 p/t in July 2010 and increased to RMB 23,000 p/t in November 2010. The two month lag between ordering and usage of the polyamide Chips has resulted in increased gross margins in the months leading up to December 2010.

Net profit after tax increased from RMB17.2million in 2009 to a profit of RMB43.2million in 2010, an increase of 151.2%.

Using the reporting currency basis, (Australian dollars (AUD)) Mesbon's net profit after tax (NPAT) increased to \$6.6 million (2009: (\$2.7M)), an increase of 144.68%.

Gross Margins have increased to \$12.5 million (2009: \$4.0M).

Other Income includes \$1.3million of local China government R&D subsidies received during 2010.

Distribution expenses have increased proportionately with sales.

General and administration costs in 2009 included a one-off depreciation adjustment of \$1.8million which is reflected in the cost of sales in 2010. However, General expenses in 2010 include Research and Development expenses of \$462,761 and a debtor impairment of \$300,000.

2. NET TANGIBLE ASSETS PER ORDINARY SHARE (NTA backing)

Current period	Previous corresponding period
32.57 cents	31.70 cents

3. DETAILS OF CONTROLLED ENTITIES

3.1 Control gained over entities during the period Nil

3.2 Loss of control of entities during the period Nil

4. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

4.1 Equity accounted Associates and Joint Venture Entities Nil

5. CONSTRUCTION OF PHASE 4 PRODUCTION FACILITY

During the last months, Mesbon China has reviewed the opportunity for the further expansion of production facilities.

As proposed in the Prospectus dated 9 November 2007, the development of Phase 4 production facility was to follow the successful commissioning of Phase 3. The global financial crisis created a twelve month deferral of consideration of Phase 4, but during 2010, the Phase 3 facility has been continually operating at optimal capacity. This position had led the company to successfully develop a plan for the development and operation of additional production facilities.

As a result, the Phase 4 facility will be developed and commissioned during 2011 and 2012.

The estimated cost of Phase 4 is as follows:

	RMB	AUD
Main Building construction	20,000,000	2,986,000
Support buildings, electrical, sundries	10,000,000	1,493,000
Imported plant and equipment	100,000,000	14,930,000
Domestic plant and equipment	50,000,000	7,465,000
	180,000,000	26,874,000

Building construction is expected to be completed by August 2011 with the first stage of production ready for operation by January 2012. The second stage of production is scheduled for 2013, or as demand permits.

Contracts for the construction of the building have been let and construction has commenced.

Contracts have also been let for plant and equipment at a value of RMB47.4million (AUD: 7.1million).

The product from Phase 4 will be focussed on N6 FDY with a fine denier of less than 40d. Stage 1 sales are expected to commence in January 2012. Stage 2 sales are expected to commence in April 2013.

Phase 4 is to be funded through profitable trading and bank loans.

6. DIVIDENDS

Current period \$'000	Previous corresponding period \$'000
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5.1 Dividends per share

(a) Dividends not recognised at the end of the current period

Directors have not declared a final unfranked dividend for the current financial year (2009: 0.5 cents per share).

Nil	662.7
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Directors have noted the need for funds to complete Phase 4 production facilities during 2011 and 2012.

As a result, directors have not declared a final dividend for the year ended 31 December 2010.

7. ACCOUNTING STANDARDS

AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Interpretations have been used in compiling the information in this Appendix 4E.

8. AUDITING STATUS

The Preliminary Final Financial Report is in the process of being audited.

9. AUDIT DISPUTES OR QUALIFICATIONS

There are no audit disputes or qualifications.

10. REVIEW OF OPERATIONS

General China Market Overview - 2010

The year saw the continuing strength of the Chinese economy. In particular:

- During the early part of the year the easing of monetary policy assisted the domestic economy but this has now been tightened as the macro economy maintains strong growth momentum;
- China's GDP grew 9.2% in 2009 and 10.3% in 2010, year on year; and
- The purchasing managers' index (PMI) remains above the watershed mark of 50, indicating an expansion of manufacturing activity.

The sale of Mesbon products has followed the change in market sentiment during this period, and Mesbon has been able to increase its sales of premium nylon products as the market in China has recovered.

General Market Expectations – 2011

The consumption of the group's nylon products continues to be strong. At the same time, the China economy remains strong with normal business operations expected generally in 2011.

As a result, Mesbon is also expecting solid results for this period. However, the Company has identified the following factors that may affect its trading conditions in 2011:-

- Continued core inflationary pressures globally and within China which exert cost pressures on manufacturing and consumption;
- Tighter government monetary policies aimed to combat inflation is reducing credit and increasing the cost of borrowings. These factors may dampen and reduce investment and consumption;
- The continued rise of RMB will reduce overseas sales and erode gross profit margins as not all of the increase in the rise of RMB can be translated into higher sale prices in USD;
- The increased volatility and the rise of crude oil and the resultant rise of polyamide chips price will increase cost and will introduce greater risk to Mesbon's inventory; and
- Global economic recovery remains uncertain and volatile, external unexpected factors such as a rapid rise in the price of crude oil or political unrest in oil producing countries may lead to widespread inflation, global slowdown and economic recession.

Market Guidance

Because of the above mentioned global uncertainties and the micro economic factors that will have a direct impact on the financial performance and the business outlook of Mesbon in 2011, the directors are currently reviewing the management financial forecast for Mesbon in FY 2011 and are also monitoring the impact of the above mentioned factors on Mesbon's performance. Consequently, Mesbon is not in the position to make any quantitative forecasts of its financial expectations for 2011 until at least the first quarter results are known. The Company however will provide market guidance in a timely manner and when the impact of these factors on Mesbon can be quantified and the trading conditions and trends are ascertained. It is anticipated that the company should be in a position to update the market with greater details at the Annual General Meeting scheduled for May 2011.

Mesbon China Nylon Limited

Statement of Comprehensive Income For the Year Ended 31 December 2010

		Consolidated Group	
	Note	2010	2009
		\$	\$
Revenue from operating activities	2	172,281,030	127,415,868
Cost of goods sold	2	(159,795,576)	(117,011,634)
Gross profit		12,485,454	10,404,234
Other income	2	2,762,180	664,740
Distribution costs	2	(1,191,565)	(780,841)
General and administration costs	2	(3,338,606)	(3,887,814)
Finance costs	2	(3,585,891)	(3,600,358)
Profit before income tax expense		7,131,572	2,799,961
Income tax expense	3	(507,829)	(92,823)
Profit for the year from continuing operations		6,623,743	2,707,138
Profit attributable to members of the parent entity		6,623,743	2,707,138
Other comprehensive income			
Exchange differences on translating foreign operations		(4,169,959)	(10,672,646)
Total comprehensive income/(loss) for the year		2,453,784	(7,965,508)
Earnings per share for profit from continuing operations:			
Basic earnings per share	7	4.93 cents	2.04 cents
Diluted earnings per share	7	4.93 cents	2.04 cents

The accompanying notes form part of these financial statements.

Mesbon China Nylon Limited
Statement of Financial Position
as at 31 December 2010

		Consolidated Group	
	Note	2010	2009
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	8	37,344,418	24,116,119
Trade and other receivables	9	28,535,112	19,766,403
Inventories	10	31,098,741	26,478,708
Notes receivable	11	22,092,901	19,915,998
Prepayments	12	222,690	176,662
Current tax assets		174,220	405,750
TOTAL CURRENT ASSETS		<u>119,468,082</u>	<u>90,859,640</u>
NON-CURRENT ASSETS			
Trade and other receivables	9	480,384	-
Property, plant & equipment	14	36,339,006	40,270,591
Deferred tax asset	3	185,645	278,469
TOTAL NON-CURRENT ASSETS		<u>37,005,035</u>	<u>40,549,060</u>
TOTAL ASSETS		<u>156,473,117</u>	<u>131,408,700</u>
CURRENT LIABILITIES			
Trade and other payables	15	26,359,729	19,982,034
Notes payable	16	34,980,991	23,002,000
Financial liabilities	17	51,093,134	46,401,022
TOTAL CURRENT LIABILITIES		<u>112,433,854</u>	<u>89,385,056</u>
TOTAL LIABILITIES		<u>112,433,854</u>	<u>89,385,056</u>
NET ASSETS		<u>44,039,263</u>	<u>42,023,644</u>
EQUITY			
Issued capital	18	28,559,242	28,334,616
Reserves	19	(3,380,347)	789,612
Retained earnings	20	18,860,368	12,899,416
TOTAL EQUITY		<u>44,039,263</u>	<u>42,023,644</u>

The accompanying notes form part of these financial statements.

Mesbon China Nylon Limited

Statement of Changes in Equity For the Year Ended 31 December 2010

Consolidated Group

	Issued Capital \$	Retained Earnings \$	Share Option Reserve \$	Foreign Currency Translation Reserve \$	Total \$
Balance at 31 December 2008	28,334,616	10,192,278	870,393	10,591,865	49,989,152
Total comprehensive income for the period	-	2,707,138	-	(10,672,646)	(7,965,508)
Balance at 31 December 2009	28,334,616	12,899,416	870,393	(80,781)	42,023,644
Issued shares under dividend reinvestment plan	224,626	-	-	-	224,626
Dividends paid	-	(662,791)	-	-	(662,791)
Total comprehensive income for the period	-	6,623,743	-	(4,169,959)	2,453,784
Balance at 31 December 2010	28,559,242	18,860,368	870,393	(4,250,740)	44,039,263

The accompanying notes form part of these financial statements.

Mesbon China Nylon Limited

Statement of Cash Flows For the Year Ended 31 December 2010

		Consolidated Group	
	Note	2010	2009
		\$	\$
Cash Flows From Operating Activities:			
Receipts from customers		161,121,039	112,207,505
Payments to suppliers and employees		(148,028,594)	(128,654,992)
Interest received		828,231	3,772,688
Finance costs		(3,481,639)	(3,536,529)
Taxes paid		(183,475)	(405,751)
Net cash provided by/(used in) operating activities	23	10,255,562	(16,617,079)
Cash Flows from Investing Activities:			
Proceeds from sale of property, plant & equipment		37,623	-
Payment for property, plant and equipment		(3,367,773)	(1,693,075)
Net cash provided by/(used in) investing activities		(3,330,150)	(1,693,075)
Cash Flows From Financing Activities:			
Proceeds of borrowings		112,081,230	112,910,165
Repayment of borrowings		(102,437,646)	(104,586,964)
Dividends paid		(438,165)	-
Loans from subsidiaries		-	-
Net cash provided by/(used in) financing activities		9,205,419	8,323,201
Net increase/(decrease) in cash		16,130,831	(9,986,953)
Cash at the beginning of the financial year	8	24,116,119	42,343,680
Effect of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the financial year		(2,902,531)	(8,240,608)
Cash at the end of the financial year	8	37,344,418	24,116,119

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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 (the Group). Mesbon China Nylon Limited is a listed public company, incorporated and domiciled in Australia.

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 Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

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 consolidated financial statements are presented in currency (AUD), which is also the functional currency of Mesbon China Nylon Limited.

(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 13 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 Group during the year, their operating results have been included (excluded) from the date control was gained (ceased).

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

All inter-company balances and transactions between entities in the 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.

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

(b) 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 be paid 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 Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Incorporation

The Company was incorporated on 18 December 2006.

(d) 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:

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

- 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).

(e) 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.

(f) 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 Statement of Comprehensive Income.

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.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

(g) Cash and Cash Equivalents

For statement of cash flows 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.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of manufactured products includes direct 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.

(i) 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.

(j) 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 Statement of Comprehensive Income 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.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

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.

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 Statement of Comprehensive Income.

(k) 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, plant and equipment is measured on the cost basis.

The carrying amount of property, 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 Statement of Comprehensive Income 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 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.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

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

Class of fixed asset	Depreciation Rate
Buildings	5%
Land use rights	2 -5%
Plant & Equipment	10-20%
Motor Vehicles	20%

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

An asset's carrying amount is 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 Statement of Comprehensive Income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(l) 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.

(m) 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 the Statement of Comprehensive Income in the period in which they are incurred.

(n) 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 2010

Note 1 (Cont)

(o) 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 presentation currency.

Transactions 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 Statement of Comprehensive Income, 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 Statement of Comprehensive Income.

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 Statement of Financial Position. These differences are recognised in the Statement of Comprehensive Income in the period in which the operation is disposed.

(p) 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 2010

Note 1 (Cont)

Equity settled compensation

The Group operates an Employee Share 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 vesting conditions. The number of shares and options 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.

(q) 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.

(r) 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 Statement of Financial Position.

Cash flows are presented in the Statement of Cash Flows 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.

(s) Comparative figures

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

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

(t) 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.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)**(u) Changes in Accounting Policy**

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.

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	AASB 132 Financial Instruments: Presentation	AASB 2009-10 makes amendments which clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its non-derivative equity instruments.	31 January 2011	As the entity does not have any rights, options or warrants to acquire their own equity instruments, these amendments will not have any impact on the entity's financial report.	AASB 132	Unlikely to have a significant impact on the group.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 9 Financial Instruments	AASB 139 Financial Instruments: Recognition and Measurement (part)	AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. AASB 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31 December 2013	AASB 9 amends the classification and measurement of financial assets; the effect on the entity will be that more assets are held at fair value and the need for impairment testing has been limited to assets held at amortised cost only.	AASB 9	Unlikely to have a significant impact on the group.
AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9		<p>In addition, the majority of requirements from AASB 139 for the classification and measurement of financial liabilities has been carried forward unchanged, except in relation to own credit risk where an entity takes the option to measure financial liabilities at fair value. AASB 9 requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income (OCI), unless there is a accounting mismatch in the profit or loss, in which case all gains or losses are to be presented in the profit or loss.</p> <p>The requirements from AASB 139 related to the derecognition of financial assets and liabilities have been incorporated unchanged into AASB 9.</p>		Minimal changes have been made in relation to the classification and measurement of financial liabilities, except 'own credit risk' instruments. The effect on the entity will be that the volatility in the profit or loss will be moved to the OCI, unless there is an accounting mismatch.		Unlikely to have a significant impact on the group.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 124 Related Party Disclosures	AASB 124 Related Party Disclosures	This revision amends the disclosure requirements for government related entities and the definition of a related party.	31 December 2011	Since the entity is not a government related entity; there is not expected to be any changes arising from this standard.	AASB 2009-12	Unlikely to have significant impact in Australia.
AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124.						
AASB 2009-13 Amendments to AASB 1 arising from Interpretation 19	Interpretation 19	This standard amends AASB 1 to allow a first-time adopter to use the transitional provisions in Interpretation 19 as identified in AASB 1048.	30 June 2011	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.	AASB 2009-13	Unlikely to have significant impact.
AASB 2009-14 Prepayments of a Minimum Funding Requirement (Amendments to Interpretation 14)	Interpretation 14	This amendment to Interpretation 14 addresses the unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan.	31 December 2011	As the entity does not have a defined benefit pension plan this amendment to Interpretation 14 is not expected to have any impact on the entity's financial report.	None	Unlikely to have significant impact.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2010-01 Limited exemption from comparative AASB 7 disclosures for first time adopters (Amendments to AASB 1 and AASB 7)	AASB 1: First-time adoption of Australian Accounting Standards AASB 7 Financial instruments: Disclosures	These amendments principally give effect to extending the transition provisions of AASB 2009-2 Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments to first-time adopters of Australian Accounting Standards.	30 June 2011	As the entity is not a first-time adopter of IFRS, this standard will not have any impact.	None	Unlikely to have significant impact on the group.
AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure requirements	None	This Standard gives effect to Australian Accounting Standards - Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	30 June 2014	AASB 2010-2 sets out the relevant disclosures that will not be required to be made if it is a Tier 2 entity that nominates to comply.	AASB 2010-2	Reduced note disclosures in the following main areas: AASB 7 Financial Instruments; Disclosures AASB 101 Presentation of Financial Statements AASB 108 Accounting Policies AASB 123 Borrowing Costs AASB 124 Related Party Disclosures AASB 128 Accounting for Associates
AASB 2010-3	None	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value.	30 June 2011	Given the number of standards amended by AASB 2010-3, an example disclosure is not included.	AASB 2010-3	Unlikely to have significant impact on the group.
Amendments to Australian Accounting Standards arising from the Annual Improvements Project		Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.		Entities assess the impact of each of the amendments on their organisation.		
[AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]		Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.				

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	None	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken in account.</p>	31 December 2011	<p>Given the number of standards amended by AASB 2010-4, an example disclosure is not included.</p> <p>Entities assess the impact of each of the amendments on their organisation.</p>	AASB 2010-4	Unlikely to have significant impact on the group.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 1053 Application of Tiers of Australian Accounting Standards	None	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <p>a) Tier 1: Australian Accounting Standards; and b) Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements.</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and b) the Australian Government and State, Territory and Local Governments.</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>a) for-profit private sector entities that do not have public accountability; b) all not-for-profit private sector entities; and c) public sector entities other than the Australian Government and State, Territory and Local Governments.</p>	30 June 2014	<p>This depends on the classification of the entity as a Tier 1 or 2.</p> <p>For Tier 1 entities or Tier 2 that prepare special purpose financial reports, there will be no impact on the financial statements as the reduced disclosure will not be available to apply.</p> <p>Tier 2 entities that prepare general purpose financial reports will be able to apply the reduced disclosures within the financial instruments, related parties, accounting policies, borrowing costs, and financial statement disclosures</p>	AASB 1053	Unlikely to have significant impact on the group.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
Interpretation 19	None	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are 'consideration paid' in accordance with AASB 139. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.	30 June 2011	The amendments are not expected to have a significant impact on the financial statements.	Interpretation 19	Unlikely to have significant impact.
Extinguishing Financial Liabilities with Equity Instruments		The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.				

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 2010-05 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	None	The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board.	31 December 2011	These amendments have no major impact on the requirements of the amended pronouncements	AASB 2010-5	No major impact

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 1 (Cont)

New/revised pronouncement	Superseeded pronouncement	Explanation of amendments	Effective date (i.e. Annual reporting periods ending on or after)	Example disclosure of impact of new standard on the financial report	Related pronouncement which must be early adopted if this standard is early adopted	Likely impact
AASB 7 Financial Instruments: Disclosures (Transfers of Financial Assets)	AASB 7	The Standard amends the disclosures required,, to help users of financial statements evaluate the risk exposures relating to more complex transfers of financial assets (eg. securitisations) and the effect of those risks on an entity's financial position.	30 June 2012	The Amendments will introduce more extensive and onerous quantitative and qualitative disclosure requirements for de- recognition of financial assets.	AASB 7	Unlikely to have significant impact on the group.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 2 - Revenue and Expenses

	Consolidated Group	
	2010	2009
	\$	\$
Revenue		
Sale of Goods	172,281,030	127,415,868
Other Income		
Interest income	836,183	531,972
Foreign exchange gains	88,443	-
Subsidy income	1,837,554	53,060
Other income	-	79,708
	<u>2,762,180</u>	<u>664,740</u>
 Cost of Goods Sold		
Cost of goods sold	155,995,897	115,147,441
Depreciation	3,799,679	1,864,193
	<u>159,795,576</u>	<u>117,011,634</u>
 Expenses		
Distribution Costs	<u>1,191,565</u>	<u>780,841</u>
General and Administration Costs		
Employee benefit expenses	802,208	501,476
Research & Development	462,761	-
Commissions paid	99,853	139,160
Depreciation	179,825	1,798,327
Water	170,700	127,024
Legal Expenses	114,144	60,000
Doubtful debts provision	92,485	47,375
Impairment Expense	300,000	-
Other	1,116,630	1,214,452
	<u>3,338,606</u>	<u>3,887,814</u>
Finance Costs		
Interest payments	3,267,340	3,196,652
Bank fees	278,998	292,286
Other	39,553	111,420
	<u>3,585,891</u>	<u>3,600,358</u>

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 3 - Income Tax Expense

	Consolidated Group	
	2010	2009
	\$	\$
(a) The components of income tax expense comprise:		
Current tax	415,005	-
Deferred tax	<u>92,824</u>	<u>92,823</u>
	<u>507,829</u>	<u>92,823</u>
(b) The prima facie tax benefit on the profit/(loss) from ordinary activities is reconciled to the income tax expense in the accounts as follows:		
Net Profit	<u>7,131,572</u>	<u>2,799,961</u>
Prima facie income tax on the profit from ordinary activities before income tax at 30% (2009: 30%)	2,139,472	839,988
Add:		
Tax effect of:		
- Income tax losses not recognised	(150,518)	(27,847)
- Movement in deferred tax assets related to amounts in equity	<u>92,823</u>	<u>92,823</u>
	<u>2,081,777</u>	<u>904,964</u>
Less:		
Tax effect of:		
- Differences in tax rate for China controlled entities	<u>(1,573,948)</u>	<u>(812,141)</u>
Total income tax expense	<u>507,829</u>	<u>92,823</u>

Zhejiang Mesbon Chemical Fiber Limited (ZMCF) has a two year enterprise income tax exemption (2006-2007) and has a 50% tax concession from the People's Republic of China (PRC) for the following three years (2008-2010).

The company has fully utilised tax rebates available from purchases of capital equipment in China during 2010.

The current taxation rate in PRC is 25.0%.
The Australian company tax rate will remain at 30%.

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.

During 2010 ZMCF was successful in its application as a High Tech Company for China tax purposes. As such the company will be taxed at a reduced rate of 15% during 2011 and 2012.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 3 - Income Tax Expense (cont)

	Consolidated Group	
	2010	2009
	\$	\$
Deferred Tax Asset	185,645	278,469

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

Note 4 - 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
 Paul Teisseire - Non-executive Director
 Fai-Peng Chen - Non-executive Director
 Chengjun Hu - General Manager - Finance
 Jianxiang Xiang - General Manager - Production and Quality
 Yiqun Yue - General Manager - Research & Development
 Weijie Gu - Executive Director - Sales and Marketing and China 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 31.12.2009	Granted as Compensation	Options Exercised	Options Expired	Balance 31.12.2010	Total Vested	Total Exercisable
Paul Teisseire	700,000	-	-	(500,000)	200,000	200,000	200,000
Fai-Peng Chen	700,000	-	-	(500,000)	200,000	200,000	200,000

No other key management personnel hold options over shares in the company.

Shareholdings of Key Management personnel

	Balance at 31.12.2009	Exercise of Options	Net change Other	Balance at 31.12.2010
Directors				
Zhehao Shen*	100	-	-	100
Paul Teisseire	113,368	-	266,670	380,038

* MSB International Trading Limited, a company associated with Mr Shen, holds 81,377,847 (2009: 78,911,499) shares. Mr Shen is a director and shareholder of MSB International Trading Limited.

No other key management personnel hold shares in the company.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 5 - Auditors Remuneration

	Consolidated Group	
	2010	2009
	\$	\$
Remuneration of the auditor of the Group for:		
Auditing or reviewing the financial report	150,000	150,000
Taxation compliance	22,200	15,900
	<u>172,200</u>	<u>165,900</u>

Note 6 - Dividends

During May 2010 the company paid an unfranked interim dividend of 0.5 cents per share. No final dividend was paid for the year ended 31 December 2010.

Distributions paid

Interim unfranked ordinary dividend of 0.5 cents per share (2009: Nil)	662,791	-
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Note 7 - 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.

Net profit attributed to ordinary equity holders of the parent	<u>6,623,743</u>	<u>2,707,138</u>
Weighted average number of shares for basic earnings per share	134,224,496	132,552,233
Weighted average number of options assuming issued at average market rate	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares adjusted for the effect of dilution*	<u>134,224,496</u>	<u>132,552,233</u>
Earnings per Share	4.93 cents	2.04 cents
Diluted Earnings per share	4.93 cents	2.04 cents

* 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 2010

Consolidated Group 2010 2009 \$ \$

Note 8 - Cash and Cash Equivalents

Cash on hand	6,037	9,817
Cash at bank	10,293,262	2,917,470
Other monetary assets	27,045,119	21,188,832
	<u>37,344,418</u>	<u>24,116,119</u>

The effective interest rate on short term bank deposits and other monetary assets is 1.76% (2009: 1.94%).

Other monetary assets act as security for letters of credit for the purchase of raw materials (\$5,665,934), notes payable (\$17,383,746) and financial liabilities (\$3,995,439).

Note 9 - Trade and Other Receivables

Current

Trade receivables	28,919,021	19,102,609
Provision for impairment	<u>(762,495)</u>	<u>(841,839)</u>
	<u>28,156,526</u>	<u>18,260,770</u>

Other receivables

Accrued Interest	178,547	94,078
Related party receivables	200,039	1,411,555
	<u>28,535,112</u>	<u>19,766,403</u>

Non Current

Trade receivables	<u>480,384</u>	<u>-</u>
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Related party trade receivables total \$2,214,5300 (2009: \$4,162,2078) related to Zhejiang Yinan Chemical Group Co Ltd.

Related party other receivables relates to Hangzhou Zhebang Chemical Fibre Trading Co Ltd of nil (2009: \$411,555) and Hangzhou Yibang Spandex Co Ltd of \$200,000 (2009: \$1,000,000) both director related entities of Mr Zhehao Shen.

Trade receivables past due but not impaired:

Current trade receivables are non-interest bearing. They are generally on 30 day terms, however longer credit terms are given to customers with long relationships. As of 31 December 2010, trade receivables of \$15,350,073 were past due but not impaired. These relate to customers in which there is no recent history of default. The ageing analysis of these receivables is as follows:

	\$
30-90 days	12,217,468
90-365 days	2,652,221
> 365 days	<u>480,384</u>
Total	15,350,073

Impaired trade receivables:

As at 31 December 2010, trade receivables of \$1,062,495 were considered doubtful. These relate to customers which are in long relationships but outstanding balances are outside agreed trading terms. Analysis of doubtful trade receivables is as follows:

	\$
90-365 days	-
> 365 days	<u>762,495</u>
Total	762,495

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 9 - Trade and Other Receivables (cont)

Movement in the provision for impairment is as follows:

	Opening Balance 01.01.2010 \$	Charge for the year \$	Difference on conversion to AUD \$	Closing balance 31.12.2010 \$
Consolidated Group				
Provision for impairment	<u>841,839</u>	<u>(2,488)</u>	<u>(76,856)</u>	<u>762,495</u>

Note 10 - Inventories

At cost and net realisable value

	Consolidated Group 2010 \$	Consolidated Group 2009 \$
Raw materials	22,464,204	15,625,897
Work in progress	280,818	213,733
Finished goods	<u>8,353,719</u>	<u>10,639,078</u>
	<u>31,098,741</u>	<u>26,478,708</u>

Note 11 - Notes Receivable

Notes receivable	<u>22,092,901</u>	<u>19,915,998</u>
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Notes receivable are bank endorsed notes that Mesbon receives from its customers. Notes receivable may be redeemed for cash or used as payment for Mesbon's suppliers.

Related party notes receivables of \$15,596,273 (2009: \$13,144,000) relate to Hangzhou Zhebang Chemical Fibre Trading Co Ltd, a director related entity of Mr Zhehao Shen.

Note 12 - Prepayments

Prepayments	<u>222,690</u>	<u>176,662</u>
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Note 13 - Controlled Entities

Interests held in controlled entities are as follows:

Name of Entity	Country of Incorporation	Ownership Interest*	
		2010 %	2009 %
Parent Entity			
Mesbon China Nylon Limited	Australia	-	-
Subsidiaries of Mesbon China Nylon Limited			
Meibang International Holdings Limited	British Virgin Islands	100%	100%
Zhejiang 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.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 14 - Property Plant and Equipment

	Consolidated Group	
	2010	2009
	\$	\$
Buildings on Leasehold Land		
At cost	10,287,587	10,846,657
Accumulated amortisation	(1,713,859)	(1,323,439)
Total Buildings on Leasehold Land	8,573,728	9,523,218
Leasehold Land (Land use rights)		
At cost	2,887,926	3,097,219
Accumulated depreciation	(434,697)	(385,134)
Total Leasehold Land	2,453,229	2,712,085
Motor Vehicles		
At cost	471,380	425,362
Accumulated depreciation	(223,164)	(163,126)
Total Motor Vehicles	248,216	262,236
Plant and Equipment		
At cost	31,813,239	34,645,531
Accumulated depreciation	(9,241,150)	(6,878,229)
Total Plant and Equipment	22,572,089	27,767,302
Capital Works in Progress		
At cost	2,491,744	5,750
Accumulated depreciation	-	-
Total Capital Works in Progress	2,491,744	5,750
TOTAL NET BOOK VALUE OF PROPERTY PLANT & EQUIPMENT	36,339,006	40,270,591

(a) Movements in Carrying Amounts

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

Leasehold Land (Land Use Rights)		
Opening balance	2,712,085	2,536,086
Additions	58,542	779,569
Currency translation difference	(225,873)	(452,364)
Depreciation for the year	(91,525)	(151,206)
Net book value of leasehold land	2,453,229	2,712,085
Buildings on Leasehold Land		
Opening balance	9,523,218	4,664,850
Additions	251,881	-
Transfers from capital works in progress	179,309	6,412,346
Currency translation difference	(829,999)	(1,117,070)
Depreciation for the year	(550,681)	(436,908)
Net book value of buildings on leasehold land	8,573,728	9,523,218

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Consolidated Group

2010 2009
\$ \$

Note 14 - Property Plant and Equipment (cont)

Motor Vehicles

Opening balance	262,236	357,106
Additions	84,853	50,639
Currency translation difference	(17,956)	(77,415)
Depreciation for the year	(80,917)	(68,094)
Net book value of motor vehicles	248,216	262,236

Plant & Equipment

Opening balance	27,767,302	13,413,698
Additions	344,294	109,634
Disposals	(37,624)	-
Transfers	-	19,950,136
Currency translation difference	(2,245,502)	(2,699,854)
Depreciation for the year	(3,256,381)	(3,006,312)
Net book value of plant & equipment	22,572,089	27,767,302

Capital Works in Progress

Opening balance	5,750	33,163,794
Additions	2,665,828	726,767
Transfers to buildings on leasehold land	(179,309)	(26,362,481)
Currency translation difference	(525)	(7,522,330)
Net book value of works in progress	2,491,744	5,750

TOTAL NET BOOK VALUE OF PROPERTY, PLANT & EQUIPMENT

36,339,006	40,270,591
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Note 15 - Current Trade and Other Payables

Trade creditors	21,889,450	14,837,165
Unearned revenue	3,510,627	2,137,004
Other payables	327,000	1,301,869
Related party payables	46,199	1,079,451
Accrued Expenses	586,453	626,545
	26,359,729	19,982,034

Related party payables relate to Hangzhou Zhebang Chemical Fiber Trading Co Ltd, a director related entity of Mr Zhehao Shen.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Consolidated Group
2010 **2009**
\$ **\$**

Note 16 - Notes Payable

Notes payable	<u>34,980,991</u>	<u>23,002,000</u>
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The notes payable are non-interest bearing and are secured by cash under restriction of \$17,383,746 (refer note 8).

Related party notes payable of \$11,092,990 (2009: \$4,929,000) relate to Hangzhou Zhebang Chemical Fiber Trading Co Ltd, a director related entity of Mr Zhehao Shen.

Note 17 - Financial Liabilities

Term Loans		Currency	Bank		
Term Loan	(a)	Renminbi	CCOB	2,239,500	-
Term Loan	(j)	Renminbi	BOC	4,479,000	4,929,000
Term Loan	(m)	Renminbi	BOS	-	1,643,000
Term Loan	(h)	Renminbi	CBB	4,479,000	3,286,000
Term Loan	(g)	Renminbi	CITIC	-	1,643,000
Term Loan	(f)	Renminbi	CCB	10,451,000	8,215,000
Term Loan	(i)	Renminbi	CEB	1,493,000	1,643,000
Term Loan	(c)	Renminbi	CMB	746,500	2,464,500
Term Loan	(e)	Renminbi	ICBC	1,493,000	5,421,900
Term Loan	(n)	Renminbi	RCB	-	657,200
Term Loan	(d)	Renminbi	SPD	5,330,010	9,151,510
Term Loan	(b)	Renminbi	GUDB	2,986,000	
Term Loan	(k)	Renminbi	EB	1,493,000	
Term Loan	(l)	Renminbi	BON	7,465,000	
Term Loan	(j)	USD	BOC	1,225,915	3,159,004
Term Loan	(g)	USD	CITIC	2,675,214	998,467
Term Loan	(i)	USD	CEB	2,493,992	-
Term Loan	(c)	USD	CMB	757,603	-
Term Loan	(a)	USD	CCOB	1,285,400	-
Term Loan	(e)	USD	ICBC	-	945,694
Term Loan	(n)	USD	RCB	-	2,243,747
				<u>51,093,134</u>	<u>46,401,022</u>

Financial liabilities consist of Term Loans provided by lending authorities. Current loan terms are no longer than 12 months and conclude during 2010.

Loan Facilities

	Consolidated Group	
	2010	2009
	\$	\$
Loan facilities	54,079,134	57,325,329
Amount utilised	<u>(51,093,134)</u>	<u>(46,401,022)</u>
	<u>2,986,000</u>	<u>10,924,307</u>

Loan facilities are short term loans repayable within twelve months and with interest rates varying between 2.9 - 6.9%.

There are no banking covenants or externally imposed requirements other than the recurring provision of management accounts to the banks.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 17 - Financial Liabilities (cont)

Loan providers as at 31 December 2010 are as follows:

Rural Cooperative Bank	RCB
Guangzhou Development Bank	GDB
China Merchant Bank	CMB
Shanghai Pudong Development Bank	SPD
Industrial and Commercial Banking 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
Bank of China	BOC
Bank of Shanghai	BOS
Bohai Bank	BB

Financial liabilities are secured at 31 December 2010 as follows:

- (a) The term loans provided by Country Cooperative Bank are denominated in Chinese Renminbi and US Dollars and are secured by corporate guarantee provided by Zhejiang Yinan Fibre Group Ltd, a director related entity.
- (b) The term loan provided by Guangdong Development Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Zhejiang Jiangnan Polyesterification Co Ltd.
- (c) The term loans provided by China Merchant Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Hangzhou Yibang Spandex Co Ltd, a director related entity.
- (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 a director related entity and existing cash deposits.
- (e) The term loans provided by Industrial and Commercial Banking Corporation are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Hangzhou Xiaoshan Qianchao Polyamide Fibre Ltd, an external customer.
- (f) The term loans provided by China Construction Bank are denominated in Chinese Renminbi and are secured by a corporate guarantee provided by Zhejiang Meibang Industrial Group Co Ltd and land and buildings of Mesbon China Nylon Limited totalling \$6,186,992 (RMB 41,440,000).
- (g) The term loans provided by China Citic Bank are denominated in US Dollars and are secured by corporate guarantee provided by Zhejiang Yinan Fibre Group Ltd, a director related entity.
- (h) The term loans provided by China Bohai Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Zhejiang Jiangnan Polyesterification Co Ltd.
- (i) The term loans provided by China Everbright Bank are denominated in Chinese Renminbi and US Dollars and are secured by corporate guarantee provided by Hangzhou Shenshi Fibre Ltd, a director related entity and existing cash deposits.
- (j) The term loans provided by Bank of China are denominated in Chinese Renminbi and US Dollars and are secured by corporate guarantee provided by existing cash deposits held with the bank and Zhejiang Jiangnan Polyesterification Co Ltd.
- (k) The term loan provided by Evergrowing Bank are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Hangzhou Xiaoshan Qianchao Nylon Co Ltd.
- (l) The term loans provided by Bank of Nanjing are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Zhejiang Jiangnan Polyesterification Co Ltd.
- (m) The term loans provided by Bank of Shanghai are denominated in Chinese Renminbi and are secured by corporate guarantee provided by Hangzhou Yibang Anlun Ltd, a director related entity.
- (n) The term loans provided by Rural Corporation Bank are denominated in Chinese Renminbi and US Dollars and are secured by corporate guarantee provided by Zhejiang Yinan Fibre Group Ltd, a director related entity.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 18 - Issued Capital

(a) Share Capital

	Consolidated Group	
	2010	2009
	\$	\$
At beginning of the reporting period	28,334,616	28,334,616
Shares issued under Dividend Reinvestment Plan	224,626	-
	<u>28,559,242</u>	<u>28,334,616</u>
	No.	No.
At beginning of the reporting period	132,552,233	132,552,233
Shares issued under Dividend Reinvestment Plan	2,642,321	-
	<u>135,194,554</u>	<u>132,552,233</u>

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 winding up of the parent entity in proportion to the number of shares held.

(b) 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 24.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

18 (c) 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. The company operates on a sound commercial basis of conserving cash and taking buying opportunities as they come, through the use of bank guaranteed notes. The gearing ratios for the years ended 31 December 2009 and 31 December 2010 are as follows:

	Consolidated Group	
	2010	2009
	\$	\$
Total borrowings	112,433,854	89,385,056
Less notes receivable	(22,092,901)	(19,915,998)
Total borrowings	<u>90,340,953</u>	<u>69,469,058</u>
Less cash and cash equivalents	<u>(37,344,418)</u>	<u>(24,116,119)</u>
Net debt	52,996,535	45,352,939
Total equity	44,039,263	42,023,644
Total capital	<u><u>97,035,798</u></u>	<u><u>87,376,583</u></u>
Gearing ratio	55%	52%

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 19 - Reserves

	Consolidated Group	
	2010	2009
	\$	\$
Foreign Currency Translation Reserve		
Balance at beginning of financial year	(80,781)	10,591,865
Net exchange difference on translation of foreign controlled entities	(4,169,959)	(10,672,646)
Balance at end of financial year	<u>(4,250,740)</u>	<u>(80,781)</u>

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

Share Option Reserve

Balance at beginning of financial year	870,393	870,393
Issue of options to directors pursuant to the Company's prospectus	-	-
Balance at end of financial year	<u>870,393</u>	<u>870,393</u>

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

Reserves Reconciliation

Reserves are reconciled to the Statement of Financial Position as follows:

Foreign currency translation reserve	(4,250,740)	(80,781)
Share option reserve	870,393	870,393
	<u>(3,380,347)</u>	<u>789,612</u>

Note 20 - Retained Earnings

Balance at beginning of the financial year	12,899,416	10,192,278
Dividends paid	(662,791)	-
Net profit attributable to members of the parent entity	6,623,743	2,707,138
Balance at end of the financial year	<u>18,860,368</u>	<u>12,899,416</u>

Note 21 - Contingent Assets and Contingent Liabilities

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

The company has contingent liabilities at 31 December 2010 in the form of guarantee contracts totalling \$36,578,500 (RMB 245,000,000) as follows:

- Hangzhou Jiangnan Dihua Ltd	\$16,423,000
- Hangzhou Yibang Spandex Co Ltd	\$10,451,000
- Hangzhou Yinan Fibre Co Ltd	\$ 9,704,500

The company provides guarantees over bank loans held by the above entities. The guarantee contracts have 12 to 24 month terms. Hangzhou Yibang Spandex Co Ltd and Hangzhou Yinan Fibre Co Ltd are director related entities of Mr Zhehao Shen.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 22 - Segment Information

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

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.

The following operating segments have been noted:

Domestic - represents domestic China sales of premium nylon textile yarn produced in the China operating facility.

Export - represents export sales of premium nylon textile yarn produced in the China operating facility.

Corporate - represents corporate overheads which are unable to be allocated to either of the above segments.

Types of segments - Assets/liabilities by geographic region

China - represents assets and liabilities of the Chinese operating entity used to service domestic and export sales.

Other - represents assets and liabilities held outside of the China operating entity namely Australia and British Virgin Islands.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter segment transactions

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables and certain direct borrowings.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

(i) Performance by operating segment

2010	Domestic \$	Export \$	Corporate \$	Total \$
Total segment revenue	160,315,770	11,965,260	-	172,281,030
Other revenue	2,761,624	-	420,780	3,182,404
Cost of sales	(151,477,118)	(8,318,458)	-	(159,795,576)
Distribution costs	(1,108,808)	(82,757)	-	(1,191,565)
General and administration costs	(3,207,360)	-	(357,107)	(3,564,467)
Finance costs	(3,780,254)	-	-	(3,780,254)
Segment result	3,503,854	3,564,045	63,673	7,131,572
Income tax expense	(415,005)	-	(92,824)	(507,829)
Net profit from continuing operations	3,088,849	3,564,045	(29,151)	6,623,743
2009	Domestic \$	Export \$	Corporate \$	Total \$
Total segment revenue	115,886,256	11,529,612	-	127,415,868
Other revenue	664,369	-	371	664,740
Cost of sales	(106,606,831)	(10,404,803)	-	(117,011,634)
Distribution costs	(710,184)	(70,657)	-	(780,841)
General and administration costs	(3,585,587)	-	(302,227)	(3,887,814)
Finance costs	(3,600,358)	-	-	(3,600,358)
Segment result	2,047,665	1,054,152	(301,856)	2,799,961
Income tax expense	-	-	(92,823)	(92,823)
Net profit from continuing operations	2,047,665	1,054,152	(394,679)	2,707,138

Interest revenue of \$836,183 represents bank and related party interest revenue in respect of the domestic segment (refer Note 2). Intergroup interest charges of \$194,806 are eliminated between the corporate and domestic segments. Depreciation expense of \$3,979,494 relates to the domestic segment (refer note 14).

(ii) Assets/liabilities by geographic region

2010	China \$	Other \$	Total \$
Segment assets	154,898,585	1,574,532	156,473,117
Segment liabilities	112,396,662	37,191	112,433,853
2009	China \$	Other \$	Total \$
Segment assets	129,454,881	1,953,819	131,408,700
Segment liabilities	89,359,693	25,363	89,385,056

Additions to property, plant and equipment in 2010 and 2009 relate to the China geographic segment (refer Note 14).

(iii) Major customers

The Group has a number of customers to which it provides both products and services. The Group supplies one single external customer in the manufacturing segment which accounts for 20.32% (2009: 11.33%) of external revenue. The next most significant client accounts for 14.74% (2009: 6.8%) of external revenue.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Consolidated Group
2010
\$

2009
\$

Note 23 - Cash Flow Information

Reconciliation of Net Profit after Tax to Net Cash Flows from Operations

Net profit from continuing operations	6,623,743	2,707,138
Non cash flows in profit		
Depreciation	3,979,504	3,662,520
Net exchange differences	(2,936,669)	(3,055,324)
Changes in assets and liabilities		
(increase)/decrease in inventories	(4,620,033)	(8,963,711)
(increase)/decrease in trade and other receivables	(9,249,090)	(4,685,509)
(increase)/decrease in notes receivable	(2,176,903)	(4,359,582)
(increase)/decrease in other current assets	(46,027)	1,383,888
(increase)/decrease in current tax assets	231,529	(405,750)
(increase)/decrease in deferred tax assets	92,824	92,823
(decrease)/increase in trade and other payables	6,377,694	14,379,428
(decrease)/increase in notes payables	11,978,990	(17,373,000)
Net cash from operating activities	<u>10,255,562</u>	<u>(16,617,079)</u>

Note 24 - 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 2010

Note 24 - Share Based Payments (Cont)

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 exercisable 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. These options have lapsed as at 31 December 2010.

(b) 600,000 'B' Class options exercisable 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.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 24 - 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 2010

No options were issued during the financial year ended 31 December 2010.

Note 25 - 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 affect 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.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 26 - Related Party Disclosures

Related Party Transactions - Director Related Transactions

	Consolidated Group	
	2010	2009
	\$	\$
Transactions between related parties are on normal commercial terms and conditions more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
(a) Associated Companies		
(i) Between Zheijiang Mesbon Chemical Fiber Limited (ZMCF) and Hangzhou Zhebang Chemical Fibre Trading Co Ltd (HZCT)		
Sales of product to HZCT	4,550,857	2,185,931
Purchases of product from HZCT	(16,368,082)	(29,398,452)
Transfers of cash to HZCT	213,921,817	178,156,387
Receipts of cash from HZCT	(202,467,391)	(150,746,099)
Interest revenue from HZCT	324,151	240,831
(ii) Between Zheijiang Mesbon Chemical Fiber Limited (ZMCF) and Zhejiang Meibang Industry Group Co Ltd (ZMIG)		
Transfers of cash to ZMIG	4,039,658	37,564
Receipts of cash from ZMIG	(4,039,658)	(37,564)
(iii) Between Zheijiang Mesbon Chemical Fiber Limited (ZMCF) and Hangzhou Yibang Spandex Co Ltd (HYSC)		
Sales of product to HYSC	-	52,841
Purchases of product from HYSC	-	(52,841)
Transfers of cash to HYSC	-	488,332
Receipts of cash from HYSC	-	(488,332)
(iv) Between Zheijiang Mesbon Chemical Fiber Limited (ZMCF) and Zhejiang Yinan Chemical Group Co Ltd (ZYCC)		
Sales of product to ZYCC	12,264,193	3,874,581
Purchases of product from ZYCC	-	(2,894,566)
Transfers of cash to ZYCC	9,775,581	-
Receipts of cash from ZYCC	(20,732,279)	-
(v) Between Zheijiang Mesbon Chemical Fiber Limited (ZMCF) and Sigma International Trade Co Ltd (SITC)		
Sales of product to SITC	35,073,531	6,162,219
Purchases of product from SITC	-	(2,619,397)
(b) Key Management Personnel		
During the year, the group purchased services from Minter Ellison Lawyers, a party related to Mr FaiPeng Chen		
Purchases of services	60,000	60,000

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 26 - Related Party Disclosures (cont)

There are no guarantees or securities in relation to the balance of the related party receivables and payables at 31 December 2010 and 31 December 2009.

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

At 31 December 2010 the company has contingent liabilities in the form of guarantee contracts to Hangzhou Yibang Spandex Co Ltd (\$10,451,000) and Hangzhou Yinan Fibre Co Ltd (\$9,704,500), both entities being director related entities of Mr Zhehao Shen. The company provides guarantees over bank loans held by the above entities.

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.

Related Party Disclosures - Intra-Group Transactions

Throughout the period ended 31 December 2010, 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 27 - 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, notes receivable/payable and bank loans. 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

The Managing Director and the senior finance, accounting and management team of the Group meet and confer on regular basis to review the overall currency, borrowing and interest rate exposure of the Group against the macro credit and banking environment and the prevailing policies within China and review the treasury exposure of the trading countries where the Group conducts its business. The management evaluates and formulates its strategies in the context of that macro credit and foreign exchange conditions as well as the trading position and forecast of the Group. As and when required, suitable and proactive counter measures are adopted to manage and mitigate the overall treasury risk of the Group to enhance the overall financial performance of the Group.

(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 functional currency (RMB).

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 27 - Financial Instruments (Cont)

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 Statement of Financial Position and notes to the financial statements.

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.

The Group 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 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.

Interest Rate Exposure									
	Note	Weighted average effective interest rate		Floating interest rate		Non-Interest bearing		Total	
		2010	2009	2010	2009	2010	2009	2010	2009
		%	%	\$	\$	\$	\$	\$	\$
Financial Assets									
Cash and deposits	8	1.76	1.94	37,344,418	24,116,119	-	-	37,344,418	24,116,119
Trade and other receivables	9	-	-	-	-	29,015,495	19,766,403	29,015,495	19,766,403
Notes receivable	11	-	-	-	-	22,092,901	19,915,998	22,092,901	19,915,998
				37,344,418	24,116,119	51,108,396	39,682,401	88,452,814	63,798,520
Financial Liabilities									
Trade and other payables	15	-	-	-	-	26,359,729	19,982,034	26,359,729	19,982,034
Notes payable	16	-	-	-	-	34,980,991	23,002,000	34,980,991	23,002,000
Financial liabilities	17	5.14	4.56	51,093,134	46,401,022	-	-	51,093,134	46,401,022
				51,093,134	46,401,022	61,340,720	42,984,034	112,433,854	89,385,056
Net financial assets/ (liabilities)				(13,748,716)	(22,284,903)	(10,232,324)	(3,301,633)	(23,981,040)	(25,586,536)

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 27 - Financial Instruments (Cont)

(c) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages the risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Management does not believe that there is any material risk that the banks will terminate such facilities at the conclusion of the life of each of the facilities. The banks however reserve the right not to roll over the loans into new facilities at the conclusion of the contractual terms and as a result, all loans could become repayable within twelve months. Financial guarantee liabilities are treated as being payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Consolidated Group	Within 1 Year		Greater than 5 Years		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment						
Financial liabilities	51,093,134	46,401,022	-	-	51,093,134	46,401,022
Trade and other payables	26,359,729	19,982,034	-	-	26,359,729	19,982,034
Notes payable	34,980,991	23,002,000	-	-	34,980,991	23,002,000
Total expected outflows	112,433,854	89,385,056	-	-	112,433,854	89,385,056
Financial assets - cash flows realisable						
Cash and cash equivalents	37,344,418	24,116,119	-	-	37,344,418	24,116,119
Trade and other receivables	28,535,112	19,766,403	480,384	-	29,015,496	19,766,403
Notes receivable	22,092,901	19,915,998	-	-	22,092,901	19,915,998
Total anticipated inflows	87,972,431	63,798,520	480,384	-	88,452,815	63,798,520
Net (outflow)/inflow on financial instruments	(24,461,423)	(25,586,536)	-	-	(23,981,039)	(25,586,536)

There is no liquidity risk for the Consolidated Group within the period 1 - 5 years.

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 27 - Financial Instruments (cont)

(d) Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates, exchange rates and commodity prices. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

Interest Rate Risk, Foreign Currency Risk and Price Risk

The Group has performed sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price 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 2010, 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	
	2010	2009
	\$	\$
Change in profit		
- Increase in interest rate by 10%	(263,640)	(307,139)
- Decrease in interest rate by 10%	263,640	307,139
Change in equity		
- Increase in interest rate by 10%	(263,640)	(307,139)
- Decrease in interest rate by 10%	263,640	307,139

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 27 - Financial Instruments (cont)

Foreign Currency Risk Sensitivity Analysis

At 31 December 2010, the effect on profit and equity as a result of changes in the value of the American Dollar to the Chinese Renmimbi, with all other variables remaining constant is as follows:

	Consolidated Group	
	2010	2009
	\$	\$
Change in profit		
- Improvement in USD to RMB by 10%	1,096,666	1,760,073
- Decline in USD to RMB by 10%	(1,096,666)	(1,760,073)
Change in equity		
- Improvement in USD to RMB by 10%	1,096,666	1,760,073
- Decline in USD to RMB by 10%	(1,096,666)	(1,760,073)

Raw Material Price Risk Sensitivity Analysis

At 31 December 2010, 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	
	2010	2009
	\$	\$
Change in profit		
- Improvement in price of polyamide chips by 5%	6,391,823	4,680,465
- Decline in price of polyamide chips by 5%	(6,391,823)	(4,680,465)
Change in equity		
- Improvement in price of polyamide chips by 5%	6,391,823	4,680,465
- Decline in price of polyamide chips by 5%	(6,391,823)	(4,680,465)

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 28 - Capital Commitments

Planned capital expenditure:

	\$
- not later than 12 months	17,601,958
- between 12 months and 2 years	<u>7,465,000</u>
	<u>25,066,958</u>

The company has commenced work on Phase 4 production facility. At the date of signing this financial report contracted commitments include buildings \$1,178,957 and production equipment \$7,081,251.

The company is currently renegotiating borrowing terms with its lenders in respect of Phase 4 construction.

Note 29 - Financial Instruments measured at fair value

The Group adopted the amendments to IFRS 7 *Improving disclosures about Financial Instruments* effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the Statement of Financial Position.

The following table presents financial assets and liabilities measured at fair value in the Statement of Financial Position in accordance with the fair value hierarchy.

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2010		Level 1	Level 2	Level 3	Total
	Note	\$	\$	\$	\$
Assets					
Loans to subsidiaries	(a)	-	-	4,637,680	4,637,680
Investment in subsidiary	(b)	-	-	14,500,746	14,500,746
Deemed investment	(c)	-	-	19,447,584	19,447,584
Total		-	-	38,586,010	38,586,010
Liabilities					
		-	-	-	-
Net fair value		-	-	38,586,010	38,586,010
31 December 2009		Level 1	Level 2	Level 3	Total
	Note	\$	\$	\$	\$
Assets					
Loans to subsidiaries	(a)	-	-	4,573,238	4,573,238
Investment in subsidiary	(b)	-	-	14,500,746	14,500,746
Deemed investment	(c)	-	-	19,447,584	19,447,584
Total		-	-	38,521,568	38,521,568
Liabilities					
		-	-	-	-
Net fair value		-	-	38,521,568	38,521,568

Notes to the Financial Statements

For the Financial Year Ended 31 December 2010

Note 29 - Financial Instruments measured at fair value (Cont)

Measurement of fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

(a) Loans to subsidiaries

Loans to subsidiaries from the parent entity are valued at the value of the Australian Dollar (AUD) on the date that the loans were made. Changes in the loan balance outstanding are valued in AUD on the date of any change.

(b) Investment in subsidiary

Investments in subsidiaries by the parent entity are valued at the value of the AUD on the date that the investments were made. Changes in the investment balance are valued in AUD on the date of any change.

(c) Deemed investment

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). 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 \$19,447,584.00

Note 30 - Mesbon China Nylon Limited Parent Company Information

	Consolidated Group	
	2010	2009
	\$	\$
Parent Entity		
Assets		
Current assets	203,659	192,713
Non-current assets	38,771,655	38,800,037
Total assets	38,975,314	38,992,750
Liabilities		
Current liabilities	37,191	25,363
Non-current liabilities	-	-
Total liabilities	37,191	25,363
Equity		
Issued capital	34,609,107	34,384,482
Retained earnings	3,458,623	3,712,512
Reserves		
Share option reserve	870,393	870,393
Financial performance		
Profit for the year	(408,901)	2,936,478
Other comprehensive income	-	-
Total comprehensive income	(408,901)	2,936,478

Commitments and Contingencies

As at the reporting date the Australian parent entity did not have any commitments or contingencies.