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07

Mesbon China Nylon Limited

ANNUAL REPORT 07

ABN 77 123 178 852 and Subsidiaries

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MESBON CHINA NYLON LIMITED WAS INCORPORATED IN AUSTRALIA ON 18 DECEMBER 2006. IT ACQUIRED THE TRADING OPERATIONS OF MEIBANG INTERNATIONAL HOLDINGS LIMITED IN DECEMBER 2007.

MESBON WAS FOUNDED IN 2002 BY BY MR ZHEHAO SHEN, A CIVIL ENGINEER WITH 20 YEARS EXPERIENCE IN TEXTILE MANUFACTURING. MR SHEN ANTICIPATED THE EMERGENCE OF NYLON YARN, ESPECIALLY HIGH QUALITY NYLON TEXTILE YARN, AS A FUNDAMENTAL PRODUCT FOR USE BY THE CHINA TEXTILE AND APPAREL INDUSTRIES. WITHIN A SHORT PERIOD, MESBON HAS EMERGED AS ONE OF THE FIVE LARGEST NYLON TEXTILE YARN MANUFACTURERS IN CHINA, AND THE LARGEST IN ZHEJIANG PROVINCE, BASED ON PRODUCTION CAPACITY.

MESBON'S PRODUCTION FACILITY IS IDEALLY LOCATED IN XIAOSHAN DISTRICT, HANGZHOU CITY, ZHEJIANG PROVINCE, WITHIN THE HEART OF THE TEXTILE MANUFACTURING BASE IN EAST CHINA.

MESBON'S PRODUCTION CAPACITY HAS GROWN FROM 20,000 TONNES PER ANNUM IN 2004, TO 33,000 TONNES CURRENTLY. COMPLETION OF THE COMPANY'S EXPANSION PLANS UNDER PHASE 3 IS EXPECTED TO INCREASE PRODUCTION CAPACITY TO 45,000 TONNES PER ANNUM AND FOLLOWING COMPLETION OF MESBON'S PRODUCTION FACILITY EXPANSION UNDER PHASE 4 IN 2009, THE COMPANY EXPECTS PRODUCTION CAPACITY TO INCREASE TO 60,000 TONNES PER ANNUM.

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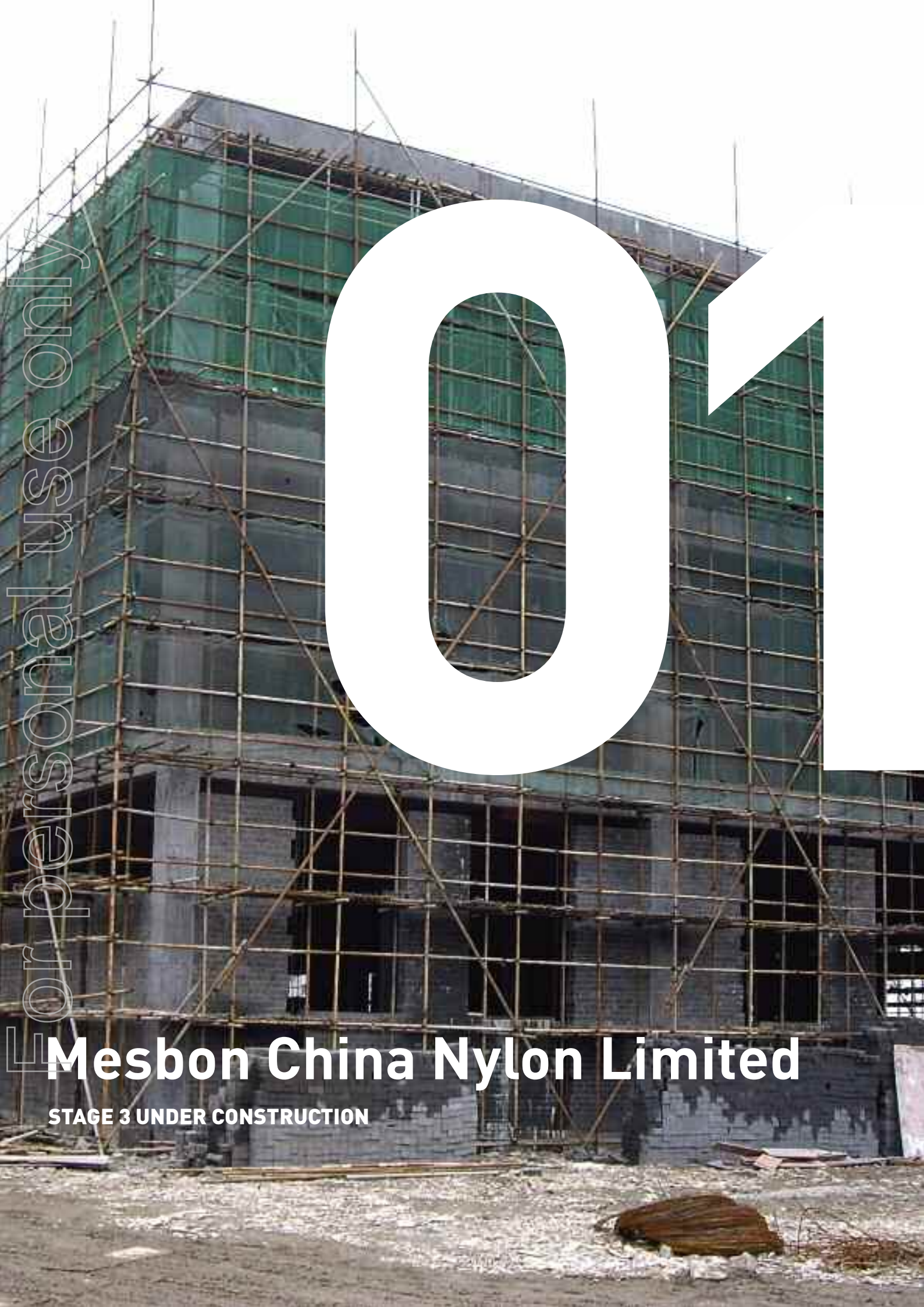
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01

Mesbon China Nylon Limited

STAGE 3 UNDER CONSTRUCTION



CHAIRMAN'S REPORT 07

IT GIVES ME GREAT PLEASURE TO ATTACH THE CHAIRMAN'S REPORT AND REVIEW OF OPERATIONS TO THIS, THE COMPANY'S FIRST ANNUAL REPORT, FOR THE YEAR ENDING 31ST DECEMBER 2007.

The company listed on the Australian Securities Exchange on the 11th of December 2007 after completing a successful fund-raising of \$20 million.

Although being only recently listed, the Company has achieved the first Prospectus Milestone and exceeded the Net Profit after Tax target of \$7.662 million for 2007. This profit can be attributed to the strong demand both from domestic Chinese and international customers, which we were able to generate due to our ongoing expansion of our manufacturing plant and our high quality outputs.

During the 2007 year the company completed Phase 2 of the company's expansion and as at March 2008, the Phase 3 expansion is well underway. This expansion will not only increase the company's volume capabilities, but also allow a further move into the premium nylon yarn market.

Whilst there is some turbulence in the world financial markets at the moment, the company's ability to increase its manufacture at the premium end of the market will assist China manufacturers to expand import replacement programs which in turn will help counteract international financial pressures on the company.

I would like to thank the company's management and staff for their support during this year of development. It is an outstanding effort by all people within the company.

Thanks also must be made to the teams of people who have enabled the listing of the company on the Australian Securities Exchange. This success has enabled the company to move forward with its plans for the future.

I welcome also the new shareholders to the company who have made the expansion of the company's manufacturing facilities possible.

We look forward to a very exciting next twelve months.

REVIEW OF OPERATIONS

Operational Highlights

During 2007 a number of significant developments occurred in the premium nylon textile industry.

Mesbon has been able to capitalise on increased demand because of the excellent support from the Executive Team, Management and staff who perform the work for our Company.

As Mesbon expands its market share in the premium nylon market, Chinese textile manufacturers will be able to source quality nylon yarns produced in China to replace currently imported yarns.

Mesbon is now one of the five largest nylon textile companies in China and with the completion of Phase 3, will possibly become one of the three largest producers. Phase 2 and now Phase 3 expansion is focused on the expansion in demand for premium nylon yarn.

Notable Events during the Year

Operational highlights for Mesbon during the year included:

- Completion of Phase 2 of the Company's expansion which has enabled production capacity to increase to 33,000 tonnes per annum at its base in Zhejiang Province;
- Commencement of Phase 3 of the expansion program to increase annual production capacity to 45,000 tonnes;
- First stage of Mesbon's growth into premium quality nylon yarn; and
- Export sales increased to 26% of Company revenue.

Financial Results

Mesbon's revenue from operating activities for the year grew 66.3% to \$88.75 million, up from \$53.38 million in 2006, with Earnings Before Interest, Tax and Depreciation (EBITDA) 89.9% higher at \$9.87 million, compared with \$5.20 million the previous year.

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CHAIRMAN'S REPORT 07

This is a significant improvement in terms of both revenue increase and profit margin across the business, and is testimony to management efficiency, the ongoing investment in people and systems, and the careful stewardship of the Company's core business activities.

Mesbon's net profit after tax (NPAT) of \$7.75 million - compared with \$4.54 million in the previous full year - exceeded forecasts in its Prospectus issued on 9 November 2007, ahead of the Company's listing on the Australian Securities Exchange on 11 December last year.

The company's equity position has also substantially improved. Total assets of Mesbon have grown to \$80.6 million from \$50.1 million last year. Shareholder equity rose accordingly to \$39.2 million from \$12.7 million.

Segment Results

During the period, the Group operated in the China and International geographic segments.

The performance of these business segments is detailed in the Directors' report and the Accompanying Financial Statements.

In summary, the segments contributed the following results for the period:

2008 OUTLOOK

Following its successful listing, Mesbon has continued with the Phase 3 expansion of its production facilities, including:

- Building and civil construction for Phase 3 development has been completed;
- The first production lines for Phase 3 have arrived and the second and final production lines will arrive by the end of March;
- Phase 3 is being completed nearly on time and within budget; and
- Production expansion from the 12 new lines for premium yarn is expected to be phased in from April 2008 with the manufacturing facility for Phase 3 fully operational by June 2008, taking Mesbon's total production capacity to 45,000 tonnes per annum.

Mesbon is confident of increasing sales and profit throughout all business units during 2008. The company's finished products are intermediate products used by textile manufacturers within China. At the same time, the US dollar is depreciating against the Chinese Renminbi (RMB). Because of this, and the fact that the company sells less than 30% of product to export markets, there are advantages from low imported raw materials costs and low finance risk with our Chinese customers.

	China		International		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue	69,620	49,362	19,133	4,019	88,754	53,382
Segment Result (pre tax)	6,496	3,735	1,253	801	7,749	4,536

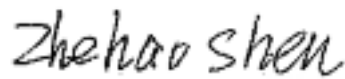
As the Company expands its premium nylon textile yarn (6 FDY), the gross contribution percentage is expected to increase, which will assist in countering any downturn in the market.

During 2008, the Company will pursue the following business objectives to:

- Grow into a world-class manufacturer of premium nylon textile yarn (6 FDY);
- Develop and strengthen Mesbon's quality branding in China and internationally;
- Expand the Company's sales and distribution network by targeting other textile manufacturing hubs within China;
- Increase the number of export countries and overseas customers;
- Focus on maintaining consistent high quality across all product lines;
- Provide a substitute for imported premium nylon products for the domestic Chinese market;
- Substantially increase production capacity in 2008 and 2009;
- Maximise production efficiency through cost control and process improvement;
- Invest considerable resources in research and development for product development and manufacturing processes; and
- Continue to upgrade to modern, advanced equipment and technologies.

Conclusion

The last 12 months has been a year of remarkable and outstanding progress which looks likely to continue into the future. Through a strong culture of dedication and delivery to our customers, Mesbon can expand into new markets achieving similar success. I am extremely proud of the commitment shown by staff throughout the company and the professionalism displayed by them. Operations on a scale the size of Mesbon can be complex but we have a team and plan to execute and deliver more consistently than others. We will continue to expand and develop so as to grow and prosper for our shareholders.



Chairman and Managing Director

Adelaide 31 March 2008

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Mesbon China Nylon Limited



CORPORATE GOVERNANCE STATEMENT

THE BOARD OF MESBON CHINA NYLON LIMITED (MESBON) SEEKS TO PRACTICE THE HIGHEST ETHICAL AND COMMERCIAL STANDARDS WHILE EXECUTING ITS RESPONSIBILITIES IN DIRECTING THE BUSINESS AND AFFAIRS OF THE COMPANY ON BEHALF OF ITS SHAREHOLDERS.

The Board of Mesbon has considered the principles of good corporate governance and best practice recommendations as published by the ASX Corporate Governance Council (ASXCGC) in March 2003 and the revised recommendations which take effect from January 2008. ASX Listing Rule 4.10.3 requires the Company to disclose the extent to which it follows or diverges from these best practice recommendations in its Annual Report.

This report discloses corporate governance practices Directors would like to highlight to stakeholders. As the company was only listed on the Australian Securities Exchange from 11 December 2007, a detailed review of the company's practices relative to corporate governance and the refining of the broad practices as stated below will be progressively undertaken with the support and recommendations from appropriate subcommittees of the board during 2008.

In particular, The Company will fully implement the following policies and procedures, to the extent required, having listed on ASX:

- statement of Board and Management Functions;
- policy and procedures for the election and appointment of new Directors;
- code of conduct for Directors and key executives;
- risk management policy; and
- process for performance evaluation of the Board, Board Committee and individual Directors and key executives.

Following this Corporate Governance Report (CGR), the board has provided details where the ASXCGC core principles and recommendations have not been followed including a full explanation as to why not.

BOARD RESPONSIBILITY

The Board of the Company is responsible for the overall corporate governance of the Mesbon Group, including its ethical behavior, strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimising Company performance and maximizing shareholder value.

The role of management is to support the managing director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Scheduled meetings of the Board are held and the Board meets on other occasions to deal with matters that require attention between scheduled meetings. The responsibility for the operation and administration of the consolidated entity is delegated by the Board to the Managing Director.

The Board is responsible for:

- Setting the strategic direction of the Company and establishing goals to ensure these strategic objectives are met;
- Appointing the Managing Director, setting objectives for the Managing Director and reviewing performance against those objectives, ensuring appropriate policies and procedures are in place for recruitment, training, remuneration and succession planning;
- Monitoring financial performance including approval of the annual and half-yearly financial reports and liaison with the Company's auditors;
- Ensuring that risks facing the Company and its controlled entities have been identified ensuring that appropriate and adequate controls, monitoring and reporting mechanisms are in place;

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CORPORATE GOVERNANCE STATEMENT

- Receiving detailed briefings from senior management on a regular basis during the year; and
- Ensuring the Company complies with the law and conforms to the highest standards of financial and ethical behavior.

The composition of the Board is determined in accordance with the Company's constitution and the following principles and guidelines:

- The Board should comprise of at least three Directors with at least two Non-Executive Directors;
- The Board should comprise of Directors with an appropriate range of qualifications and expertise; and
- The Board should meet formally at least six times per annum and informally on an as required basis with all Directors being made aware of, and having available, all necessary information, to participate in an informed discussion of all agenda items.

DIRECTOR INDEPENDENCE

The board considers three of Mesbon's directors as independent under the guidelines: Yanfu Jiang, Paul Teisseire and Fai-Peng Chen.

In assessing the independence of directors, the board follows the ASX guidelines as set out:

An independent director is a non-executive director (ie is not a member of management) and:

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;

- is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company;
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

CHAIRMAN

The ASXCGC Recommendations recommend that the chairperson be independent. Mr Shen is not considered independent by the board under the guidelines as set out.

APPOINTMENT TO THE BOARD

The Board has appointed a Nomination and Remuneration Committee and established a Charter for this Committee which includes the identification and recommendation of potential director appointments. Where a casual vacancy arises during the year, the Committee will have procedures to select the most suitable candidate with the appropriate experience and expertise to ensure a balanced and effective Board. Any director appointed during the year to fill a casual vacancy or as an addition to the current Board, holds office until the next Annual General Meeting and is then eligible for re-election by the shareholders.

INDEPENDENT ADVICE

The Board recognises that in certain circumstances individual directors may need to seek independent professional advice, at the expense of the Company. Any advice so received will be made available to other directors.

AUDIT AND RISK COMMITTEE

The Board has established an Audit and Risk Committee comprised of the three non-executive directors. This committee operates under a charter to enable it to perform its role and responsibilities. Where considered appropriate, the Company's external auditors and the Company's management are invited to attend meetings. The Members of the Audit and Risk Committee are:

Yanfu Jiang (chair), Paul Teisseire and Fai-Peng Chen.

The role of the Audit and Risk Committee is to assist the Board fulfill its responsibilities in relation to the identification of the areas of significant business audits and the monitoring of the following:

- Effective management of financial and other business audits;
- Reliable management reporting;
- Compliance with laws and regulations in respect to financial reporting;
- Maintenance of effective and efficient audits;
- Meeting with external auditors on a twice-yearly basis and informally as circumstances require; and
- Recommending to the Board the appointment, removal and remuneration of the external auditors, and review their terms of engagement, and the scope and quality of the audit.

The Audit and Risk Committee provides the Board with additional assurances regarding the reliability of financial information for inclusion in the financial statements.

NOMINATION & REMUNERATION COMMITTEE

The Board has established a Nomination & Remuneration Committee comprised of the three non-executive directors. This committee operates under a charter to enable it to perform its role and responsibilities. Where considered appropriate, the Company's management are invited to attend meetings. The Members of the Nomination & Remuneration Committee are:

Paul Teisseire (chair), Fai-Peng Chen and Yanfu Jiang. The Nomination and Remuneration Committee is responsible for:

- periodically determining the appropriate mix of experience and expertise required on the Board, assessing the extent to which the Board comprises those skills, and reviewing Board succession plans;
- making recommendations to the Board for the appointment and removal of Directors;
- evaluating the Board's performance, including by reference to key performance indicators of the Company; and
- ensuring that directors and management are remunerated fairly, by overseeing the remuneration and human resource policies and practices of the Company.

The Nomination and Remuneration Committee may obtain information from and consult with management and external advisers, if it considers appropriate.

CONTINUOUS DISCLOSURE

The Directors are committed to keeping the market fully informed of material developments to ensure compliance with the ASX Listing Rules and the Corporations Act. At each Board meeting, specific consideration is to be given as to whether any matters should be disclosed under the Company's continuous disclosure policy. The Company Secretary will act as ASX liaison officer to ensure timely and appropriate access to information for all investors.

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CORPORATE GOVERNANCE STATEMENT

SHARE TRADING

Trading of shares by directors is prohibited under certain circumstances and as described in the ASX Listing Rules and during certain periods of the financial year. A director must not deal in the Company shares at any time when he or she has unpublished information which, if generally available, might affect the share price.

Directors, management and other employees as nominated will normally be permitted to trade in securities of the Company throughout the year except in the following periods:

- the first day of January each year until midday Australian Eastern Standard Time on the business day after the day on which the Company releases its full-year financial results; and
- the first day of July each year until midday Australian Eastern Standard Time on the business day after the date on which the Company releases its half-year financial results.

RELATED PARTY MATTERS

Directors and senior management will be required to advise the Chair of any related party contract or potential contract. The Chair will inform the Board, and the reporting party will be required to remove himself/herself from all discussions and decisions involving the matter.

SHAREHOLDER RELATIONS

The Board aims to ensure that shareholders, on behalf of whom they act, are informed of all major developments affecting the Company's activities and its state of affairs, including information necessary to assess the performance of the Directors.

Communication with shareholders is achieved through the distribution of the following information:

- The Annual Report distributed to all shareholders;
- The Half Yearly Report distributed to all shareholders;
- The Annual General Meeting and other meetings so called to obtain shareholder approval for Board action as appropriate;
- Announcements to the Australian Securities Exchange; and
- Investor information through the Company's internet portal at www.mesbon.com.au.

The Company strives to ensure that company announcements via the ASX are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner.

SHAREHOLDERS' ROLE

The shareholders of the Company are responsible for voting on the election of Directors at the Annual General Meeting in accordance with the constitution.

All Directors (other than the Managing Director) are subject to re-election by rotation, no later than every three years.

The Annual General Meeting also provides shareholders with the opportunity to express their views on matters concerning the Company and to vote on other items of business for resolution by shareholders.

The Company's auditor, Grant Thornton Chartered Accountants, make available a partner of the firm (Mr Simon Gray or other), to be in attendance at the Annual General Meeting and available to answer shareholder questions in relation to the audit.

EXPLANATIONS FOR DEPARTURES FROM BEST PRACTICE RECOMMENDATIONS

As the company was listed on 11 December 2007, the charters and frameworks that will enable the company to comply with the ten essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations") are still in the process of development and will be completed during 2008.

The general principles and practices as described above have been implemented within the company. Specific areas where the company diverges from the ASX Principles and Recommendations are as follows:

Principle Recommendation 2.2 nominates the chair as an independent director and *Recommendation 2.3* nominates that the roles of chair and chief executive officer should not be exercised by the same individual.

Mr Zhehao Shen is both chair and chief executive officer of Mesbon. Mr Shen is the founder of the company and has 20 years experience in the textile and nylon manufacturing industries. The company believes that because of the structure of the company and his experience and qualifications, it is appropriate that Mr Shen fulfils both roles.

Principle Recommendation 4.4 nominates that the names and qualifications of members of the Audit and Risk Committee be disclosed in the corporate governance statement together with attendances at meetings.

The qualifications of the directors comprising the Audit and Risk Committee are disclosed in the directors' report. During 2007 the Audit and Risk Committee did not meet formally. However, during January and February 2008, informal discussions

were held between the Audit and Risk Committee, the external auditors and directors of the company, and a formal meeting was held in February 2008 to recommend the preliminary financial results to the board and again to recommend the annual report to the board in March 2008.

The role of the Audit and Risk Committee will be formalised during 2008.

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Mesbon China Nylon Limited

DIRECTORS' REPORT

THE DIRECTORS OF MESBON CHINA NYLON LIMITED (THE 'COMPANY') PRESENT THEIR ANNUAL FINANCIAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2007.

DIRECTORS

Directors in office during the year and at the date of this report were:

ZHEHAO SHEN

EMBA Civil Engineer (Zhejiang University)
EXECUTIVE CHAIRMAN AND MANAGING DIRECTOR

Mr Shen is the founder, Chairman and Managing Director of Mesbon. He graduated with a degree in Civil Engineering from the Zhejiang University, and an Executive MBA from the School of Business Management, Zhejiang University. He has 20 years experience in the textile and nylon manufacturing industries. Under his leadership, Mesbon has undergone rapid growth and has emerged as one of the leading manufacturers of premium nylon textile products in China. Mr Shen is recognised as a dynamic and leading entrepreneur in the nylon industry in China. He is also a director of Hangzhou Yibang Spandex Co., Ltd and several other private companies in China. Mr Shen is the Vice Chairman of the Zhejiang Chemical Fibre Association and a member of the Political Consultative Committee of the People's Government of Xiaoshan District, Hangzhou City, Zhejiang Province.

Mr Shen is a citizen of China and is aged 39 years.

BOLONG XING

Bachelor of Engineering (China Southeast University)
EXECUTIVE DIRECTOR

Mr Xing graduated from China Southeast University in 1975. He worked as a senior lecturer and a nationally-accredited consultant engineer with China's Ministry of Light Industry Research Institute and the Design Institute of the Ministry of Textile Industry. Before joining Mesbon, Mr Xing also held various senior positions with state-owned agencies and enterprises including Jiangsu Provincial Textile Industry Academy, Jiangsu Textile Group Company and Jiangsu General Textile Association. Mr Xing is highly regarded in China for his extensive experience in the industrial design of chemical fibre manufacturing plants. He holds various leadership positions in the textile industry's research and peak industry bodies and associations in China. Mr Xing is also an independent director of Sichuan Sofcra Special Typed Fiber

Company Ltd., a company listed on China's Shenzhen Stock Exchange, and is chairman of Hangzhou Yibang Spandex Co., Ltd.

Mr Xing is a citizen of China and is aged 55 years.

YANFU JIANG

Bachelor of Engineering, Senior Professor
(Tsinghua University)

NON-EXECUTIVE DIRECTOR

Professor Jiang graduated with a bachelor degree in electrical engineering from Tsinghua University and became a lecturer there following graduation. He is now the professor of the School of Economic Management at Tsinghua University. He is the director of China Entrepreneur Research Centre at Tsinghua University and he is a member of the Academic Affairs Committee of Tsinghua University.

Professor Jiang was an independent director of Shandong Sisha Co., Ltd, a company listed on the Shanghai Stock Exchange from August 2002 to August 2003. Professor Jiang is currently an independent director of the following companies:

- China Construction Investment Securities Co. Ltd since October 2005; and
- Beijing Tiantan Biological Products Co., Ltd (listed on Shanghai Stock Exchange) since April 2005.

Professor Jiang is a citizen of China and is aged 64 years.

PAUL DESMOND TEISSEIRE

Certificate in Law (Adelaide), Notary Public
NON-EXECUTIVE DIRECTOR

Mr Teisseire is the Non-Executive Chairman of Austin Exploration Limited and he is a non-executive director of Gunns Ltd, BSA Limited and Drake Supermarkets Pty Ltd. During the three years ended December 2007 Mr Teisseire has been the Non-Executive Chairman of Legend Corporation Limited and a Non-Executive Director of Auspine Limited. He is a former legal practitioner with extensive experience in corporate law and governance, international trade and taxation law.

Mr Teisseire is a resident of Australia and is aged 53 years.

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DIRECTORS' REPORT

FAI-PENG CHEN

Bachelor of Laws (University of Adelaide), MBA (RMIT)
NON-EXECUTIVE DIRECTOR

Mr Chen is special counsel with Minter Ellison and an independent director of TWT Group Ltd, a company listed on ASX. He graduated with a Bachelor of Laws from the University of Adelaide and graduated with a Master of Business Administration (International Management) from Royal Melbourne Institute of Technology. Mr Chen is also a Fellow of the Taxation Institute of Australia.

Mr Chen is a resident of Australia and is aged 45 years.

In addition to the above continuing directors, other directors were appointed to assist with the development of the company and the preparation of the Prospectus prior to the initial public offering. None of the following directors are continuing directors.

MR JIANMIN XIANG

Mr Xiang was a founding director being appointed upon incorporation of the company on 18 December 2006. He retired as director on 7 September 2007.

MR BRENDAN CONNELL

Mr Connell was a founding director being appointed upon incorporation of the company on 18 December 2006. He retired as director on 27 July 2007.

MR MARCUS LA VINCENTE

Mr La Vincente was appointed director on 27 July 2007 to fill the casual vacancy upon the retirement of Mr Connell. Mr La Vincente retired as director after the appointment of Messrs Xing, Jiang and Teisseire on 7 September 2007. Mr La Vincente also acted as Alternate Director for Mr Teisseire between 28 September and 9 November 2007.

DIRECTOR INDEPENDENCE

The board considers three of Mesbon's directors independent as defined under the guidelines being: Yanfu Jiang, Paul Teisseire and Fai-Peng Chen.

In assessing the independence of directors, the board follows the ASX guidelines as set out in the Corporate Governance Statement within this Annual Report.

PERFORMANCE OF DIRECTORS

Because the company was listed on 11 December 2007, the board has not conducted a review of the performance of its directors and the board's function as a whole during the period to enable compliance with Principle 8(1) of the ASX Corporate Governance Guidelines. The evaluation of directors will be undertaken in accordance with the process to be established by the board, led by the chair of the Remuneration and Nominations committee during calendar year 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were the manufacture and marketing of nylon textile yarn for the textile and industrial markets.

There were no significant changes to the company's activities throughout the year.

FINANCIAL HIGHLIGHTS

Mesbon's total revenue for the year grew to \$88.8 million (2006 \$53.4 million) with resultant Net Profit after provision for Income Tax (NPAT) increased to \$7.7 million (2006 \$4.5million). The increase in profit is attributed to the increased sales performance and increased gross profit margins.

EARNINGS PER SHARE

	2007	2006
Basic earnings per share	48.83 cents	N/A
Diluted earnings per share	46.93 cents	N/A

Earnings per share has been calculated on the weighted average number of shares issued during 2007 and reflects the timing of the issues of shares immediately prior to flotation of the company in December 2007.

OPERATIONAL HIGHLIGHTS

During this year, the company has been able to capitalise on the significant developments in the expanding demand for premium nylon textile yarn in China and the rest of the world. The performance of the company now enables it to actively plan its forward moves both with current customers and for reaching into new areas which capitalise on the skill sets of our people and systems.

During the year, the company expanded its marketing thrust by launching into export markets in Asia, Europe, Africa and South America. Export contributions to the company are now significant and expanding.

Also during the year the Phase 2 expansion of production capacity was completed and Phase 3 expansion was commenced. The Phase 3 development is expected to have 12 new production lines commissioned by June 2008.

Notable events during the year

Operational highlights for Mesbon during the year included:

- Completion of Phase 2 of the Company's expansion which has enabled production capacity to increase to 33,000 tonnes per annum at its base in Zhejiang Province;
- Commencement of Phase 3 of the expansion program to increase annual production capacity to 45,000 tonnes;

- First stage of Mesbon's growth into premium quality nylon yarn; and
- Export sales increased to 26% of Company revenue.

Outlook

Following its successful listing, Mesbon has continued with the Phase 3 expansion of its production facilities, including:

- Building and civil construction for Phase 3 development has been completed;
- The first production lines for Phase 3 have arrived and the second and final production lines will arrive by the end of March;
- Phase 3 is being completed nearly on time and within budget; and
- Production expansion from the 12 new lines for premium yarn is expected to be phased in from April 2008 with the manufacturing facility for Phase 3 fully operational by June 2008, taking Mesbon's total production capacity to 45,000 tonnes per annum.

Mesbon is confident of increasing sales and profit throughout all business units during 2008. The company's finished products are intermediate products used by textile manufacturers within China. At the same time, the US dollar is depreciating against the Chinese renminbi (RMB). Because of this, and the fact that the company sells less than 30% of product to export markets, there are advantages from low imported raw materials costs and low finance risk with our Chinese customers.

As the Company expands its premium nylon textile yarn (6 FDY), the gross contribution percentage is expected to increase, which will assist in countering any downturn in the market.

Directors are confident in being able to achieve the net profit after tax of \$9,766 million for 2008 which was forecasted in the Prospectus.

During 2008, the Company will pursue the following business objectives to:

- Grow into a world-class manufacturer of premium nylon textile yarn (6 FDY);
- Develop and strengthen Mesbon's quality branding in China and internationally;

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DIRECTORS' REPORT

- Expand the Company's sales and distribution network by targeting other textile manufacturing hubs within China;
- Increase the number of export countries and overseas customers;
- Focus on maintaining consistent high quality across all product lines;
- Provide a substitute for imported premium nylon products for the domestic Chinese market;
- Substantially increase production capacity in 2008 and 2009;
- Maximise production efficiency through cost control and process improvement;
- Invest considerable resources in research and development for product development and manufacturing processes; and
- Continue to upgrade to modern, advanced equipment and technologies.

OPERATING RESULTS

The net amount of profit of the Group for the financial year after income tax was \$7,749,435.

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or declared during the period. An interim dividend is proposed to be paid in the latter part of 2008 subject to performance targets being met for the first half of 2008.

FINANCIAL POSITION

The net assets of the consolidated group have increased by \$26,552,606 from 31 December 2006 to 31 December 2007. This increase has largely resulted from the following factors:

- Improved operating performance of the group; and
- Proceeds from share issues raising \$18,513,948.

During the past year the group has invested in buildings, plant and equipment to expand the production capacity of the business. This has resulted in higher revenues and improved margins as the company expands further into the premium nylon yarn market.

As a result of the capital raising and the strong profit performance, the group's working capital, being current assets less current liabilities, has improved from (\$1,802,625) in 2006 to \$20,241,565 in 2007.

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Changes in the state of affairs of the entity during the financial year were as follows:

net increase in the contributed equity of \$18,513,948 including \$1,486,052 of related fees as a result of:

- Issue of 87,020,200 fully paid ordinary shares under a sale and purchase agreement for the purchase of all of the shares of Meibang International Holdings Limited.
- Issue of 40,000,000 fully paid ordinary shares at \$0.50 each for the initial public offering.

EVENTS OCCURRING AFTER BALANCE DATE

No significant events have occurred within the company since balance date.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company was not subject to any particular or significant environmental regulations of the Peoples Republic of China during the financial year.

CORPORATE GOVERNANCE

The company continued to follow best practice recommendations as set out by the ASX Corporate Governance Council. Where the Company has not followed best practice for any recommendation, explanation is given in the Corporate Governance section in this annual report.

REMUNERATION REPORT

This remuneration report details the nature and amount of remuneration for each director of Mesbon China Nylon Limited, and for the executives receiving the highest remuneration.

Remuneration policy

The remuneration policy of Mesbon will be established during 2008 and will be designed to align executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The board of Mesbon believes the remuneration policy should be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

Board Remuneration

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. The maximum aggregate remuneration of the non-executive directors is presently fixed at \$500,000 AUD. Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee share plan.

Key Management Remuneration

The employment conditions of the managing director, Mr Zhehao Shen, are formalised in a contract of employment. Other than the Managing Director, all other key management personnel are permanent employees of Zhejiang Mesbon Chemical Fiber Limited (ZMCF).

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DIRECTORS' REPORT

Details of Remuneration for the Year Ended 31 December 2007

The remuneration for each director and each of the executive officers of the Group receiving the highest remuneration during the year was as follows:

	Salary, Fees and Commissions	Superannuation Contribution	Non Cash Benefits	Options	Total
Directors	\$	\$	\$	\$	\$
Zehao Shen	12,409	-	50,037	-	62,446
Bolong Xing	-	-	-	-	-
Yanfu Jiang	3,336	-	-	155,611	158,947
Paul Teisseire	3,667	-	-	155,611	159,278
Fai-Peng Chen**	3,667	-	-	155,611	159,278
Brendan Connell	-	-	-	-	-
Jianmin Xiang	-	-	-	-	-
Marcus La Vincente	-	-	-	-	-
Total	23,079	-	50,037	466,833	539,949
Specified Executives					
Weijie Gu	7,550	-	-	-	7,550
Chengjun Hu	7,008	542	-	-	7,550
Yingzhang Zhou	7,550	-	-	-	7,550
Jianxiang Xiang	7,008	542	-	-	7,550
Yiqun Yue	7,550	-	-	-	7,550
Graham Seppelt***	4,125	-	-	-	4,125
Total	40,791	1,084	-	-	41,875
Total	63,870	1,084	50,037	466,833	581,824

** Mr Chen had an interest as an associate/consultant of Minter Ellison Lawyers. Minter Ellison provided legal and consulting work to Mesbon China Nylon Limited in the ordinary course of business at a value of \$253,034 during the year.

*** Mr Seppelt is employed under contract to provide secretarial and accounting services.

Options issued as part of remuneration for the year ended 31 December 2007

During the financial year options were granted as equity compensation benefits under the employee share option plan to certain directors as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price equal to the market price of the shares on the date of grant. The contractual life of each option is shown below. There are no cash settlement alternatives. For further details relating to the options see Note 29 to the Financial Accounts.

Holder	Type of Option	Number of Options	Last Exercise Date	Exercise Price
Yanfu Jiang	'A' Class Options	500,000	31 December 2010	\$0.50
	'B' Class Options	200,000	31 December 2012	\$0.65
Fai-Peng Chen	'A' Class Options	500,000	31 December 2010	\$0.50
	'B' Class Options	200,000	31 December 2012	\$0.65
Paul Teisseire	'A' Class Options	500,000	31 December 2010	\$0.50
	'B' Class Options	200,000	31 December 2012	\$0.65

The fair value of the 'A' Class options calculated using the Black-Scholes methodology and the following assumptions is \$322,900.

The fair value of the 'B' Class options calculated using the Black-Scholes methodology and the following assumptions is \$143,932.

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 ASX with a market capitalisation of \$90 million.

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DIRECTORS' REPORT

Employment contracts of directors

An employment agreement has been agreed with Mr Zhehao Shen as follows:

Pursuant to the Employment contract between Zhehao Shen and Zhejiang Mesbon Chemical Fiber Limited (ZMCF) dated 1 October 2006 (as varied by the agreement dated 1 October 2007 between ZMCF and Mr Shen), ZMCF agreed to employ Mr Shen as Managing Director for a term from 1 October 2006 to 30 September 2011.

Pursuant to the contract, Mr Shen's total remuneration including his salary and non-cash benefits is \$74,400 per annum.

Mr Shen is also entitled to performance bonuses on an annual basis to be approved by the board of directors of ZMCF.

Mr Shen may terminate the contract upon giving 90 days notice and the Company may terminate the contract if Mr Shen engages in misconduct, negligence or criminal activity.

Under an agreement dated 31 October 2007 between Zhehao Shen and the Company, Mr Shen is appointed as Managing Director of the Company. The agreement has a term of five years from the date of listing on ASX unless terminated earlier in accordance with the agreement.

As part of the agreement, the Managing Director is required to manage and supervise the day-to-day operations of the Company in accordance with the Company's business plans and budgets. The Managing Director's duties are in addition to those under his employment contract with ZMCF.

The Managing Director will not be remunerated by the Company since Mr Shen is remunerated by ZMCF for his duties as managing director of that company.

The Managing Director will be reimbursed for all reasonable and necessary business expenses properly incurred in the performance of his duties under the agreement, including certain travel expenses to and from Australia and the People's Republic of China and other destinations directed by the Company from time to time.

The Managing Director may terminate his employment without cause by 90 days written notice to the Company. The Company may terminate the Managing Director Service Agreement for reasons which include:

- (a) if he engages in wilful misconduct which results in a material breach or substantial failure to materially perform his services under the agreement; or
- (b) if he is grossly negligent in the performance of his duties;
- (c) if the Managing Director fails to rectify any breach (that is capable of rectification) within 14 days of written notice from the Company;
- (d) if the Managing Director is no longer able to perform his services for a consecutive period of 150 days or more (or an aggregate of 200 days in any 12 month period) due to illness, incapacity or accident.

Performance Shares

The Company has entered into an agreement with MSB International Trading Limited (MSB) (a company associated with Mr Zhehao Shen) under which the Company has granted MSB 25,480,000 performance rights (Performance Rights) which entitles MSB to receive up to 25,480,000 Shares (Performance Shares), subject to the fulfilment of and on the terms set out below. Each Performance Right entitles MSB to one Share in the Company upon satisfaction of the relevant Performance Condition.

MSB is entitled to receive:

- (a) 8,493,000 Performance Shares on the Company achieving in Financial Year 2008, the forecast net profit after tax of \$9,766,000 (NPAT) for Financial Year 2008;
- (b) 8,493,000 Performance Shares on the Company achieving in Financial Year 2009, a 25% increase on the benchmark earnings per Share of 7.0 cents for Financial Year 2008; and
- (c) a further 8,494,000 Performance Shares on the Company achieving in Financial Year 2009, a 40% increase on the Benchmark EPS of 7.0 cents for Financial Year 2008,

In calculating the actual EPS for Financial Year 2009, the following assumptions and formula have been agreed:

- (i) subject to paragraph (ii) below, the deemed share capital of the Company for the purposes of the calculation of the actual EPS shall be 139,488,000 shares (being the number of shares on issue immediately following the allotment of shares pursuant to the Offer under the Prospectus, the number of shares comprising the first tranche of the Performance Shares under paragraph (a) above (whether issued or not) and the number of shares represented by the options issued as the date of the Prospectus) plus any other shares on issue at the relevant date; and
- (ii) when calculating the actual EPS for Financial Year 2009, the NPAT for Financial Year 2009 is to be divided by the deemed share capital.

The entitlement to be issued as Performance Shares is subject to the following further terms and conditions:

- (a) Each of the Performance Shares will be issued to MSB with 30 days of the Company's auditors confirming that the Performance Conditions have been met.
- (b) On satisfaction of the Performance Conditions, no amount is payable by MSB to the Company upon the issue of any of the Performance Shares.
- (c) All Performance Shares will rank equally with and carry the same rights as all existing ordinary shares on issue.
- (d) The Company agrees to apply for quotation of any issued Performance Shares.
- (e) Unless required by law, MSB's entitlement to the Performance Shares is not transferable.
- (f) MSB's entitlement to the Performance Shares does not, prior to the issue of the Performance Shares, give MSB the entitlement to participate or vote at general meetings of the Company, to receive dividends or to participate in any distribution of profit or capital or surplus assets of the Company, with respect to those Performance Shares.
- (g) If a Performance Condition is not satisfied, MSB's entitlement to the relevant Performance Shares lapses.

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DIRECTORS' REPORT

Information on Directors

At 31 December 2007, director's direct or director related interests in Mesbon shares and options were:

Director	Special Responsibilities	Ordinary Shares	Options	Escrowed Shares till 11 December 2009*
ZHEHAO SHEN Chairman Managing Director	Chairman of Board Managing Director	100	Nil	73,967,170
BOLONG XING Executive Director	Executive Director	Nil	Nil	Nil
YANFU JIANG Non-Executive Director	Chairman of Audit and Risk Committee Member of Nomination and Remuneration Committee	Nil	500,000 'A' Class Options 200,000 'B' Class Options	Nil
PAUL TEISSEIRE Non-Executive Director	Member of Audit and Risk Committee Member of Nomination and Remuneration Committee	100,000	500,000 'A' Class Options 200,000 'B' Class Options	Nil
FAI-PENG CHEN Non-Executive Director	Chairman of Nomination and Remuneration Committee Member of Audit and Risk Committee	Nil	500,000 'A' Class Options 200,000 'B' Class Options	Nil

* MSB International Trading Limited and which is a company associated with Mr Shen, holds 73,967,170 shares. Mr Shen is a director and shareholder of MSB International Trading Limited.

COMPANY SECRETARY

The following persons held the position of company secretary during and at the end of the financial year.

Mr Fai-Peng Chen

Mr Chen acted as secretary as well as director during the year from incorporation of the company until 27 September 2007.

Dr Yingzhang Zhou

Dr Zhou is General Manager – Administration and Company Secretary for Mesbon. Dr Zhou graduated from Zhejiang University in 2003 with a PhD in management. He has worked as senior project manager and assistant company manager for four years at the Investment Bank Headquarters of Tianyi Securities Co. Ltd and was the investment manager at Zhejiang Conba Group Company from 1998 to 1999.

Dr Zhou is the general manager and board secretary of Zhejiang Mesbon Chemical Fiber Limited and is responsible for the day to day operation of the business.

Mr Graham Seppelt

Mr Seppelt has had extensive experience as a contract accountant and in corporate advisory roles. He is currently company secretary for Austin Exploration Limited, Primary Resources Limited, Legend Corporation Limited and BSA Limited, all companies being listed on the Australian Securities Exchange.

MEETINGS OF DIRECTORS

The number of meetings of the company's board of directors and each board committee held during the period from 1 January to 31 December 2007, and the number of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Zehao Shen	9	9	*	*	*	*
Bolong Xing	6	6	*	*	*	*
Yanfu Jiang	5	6	-	-	-	-
Paul Teisseire	6	6	-	-	-	-
Fai-Peng Chen	9	9	-	-	-	-
Brendan Connell	1	1	*	*	*	*
Jianmin Xiang	2	2	*	*	*	*
Marcus La Vincente**	1	1	*	*	*	*

A Number of meetings attended

B Number of meetings held during the time the director held office or was a member of the committee during the year

* Not a member of the relevant committee

** Also attended one meeting as Alternate Director for Paul Teisseire

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DIRECTORS' REPORT

Retirement, election and continuation in office of directors

Directors are subject to retirement by rotation and election by shareholders at a general meeting. No director other than the Managing Director, may remain on the Board for more than three years without re-election. Where a director is appointed during the year, the director will hold office until the next Annual General Meeting and then be eligible for election.

All directors were appointed during the year ended 31 December 2007 and as such will retire at the Annual General Meeting of the company. Each of the directors, being eligible, will offer themselves for re-election.

OPTIONS

At the date of this report, the unissued ordinary shares of Mesbon China Nylon Limited under option are as follows:

Grant Date	Class	Date of Expiry	Exercise Price	Number under Option
2 November 2007	"A"	31 December 2010	\$0.50	3,374,000
2 November 2012	"B"	31 December 2012	\$0.65	600,000
				3,974,000

Indemnification of Officers and Auditors

The Company has entered into Deeds of Indemnity with each of the Directors and has taken out Directors and Officers Insurance (D&O) on behalf of each of the Directors at an annual premium of \$17,005.

No liability has arisen under this indemnity as at the date of this report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened on behalf of the company with leave of the court under section 237 of the Corporations Act 2001.

AUDITOR

Grant Thornton Chartered Accountants continues in office to act as auditor of the company until the first annual general meeting of the company. In accordance with section 327 of the Corporations Act 2001, an auditor will be appointed at the first annual general meeting of the company. Grant Thornton Chartered Accountants, being eligible, have consented to act as the continuing auditor of the company.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307c of the Corporations Act 2001 is set out on page 28 of this report.

NON AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or group are important.

AUDITORS' REMUNERATION

Details of the amounts paid or payable to the auditor (Grant Thornton) for audit and non-audit services during the year are set out below.

The board of directors has considered the position and in accordance with the advice received from the audit committee, is satisfied that the position of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the board to ensure they do not impact the impartiality and objectivity of the auditor; and
- The nature of services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional accountants set by the Accounting Profession and Ethical Standards Board.

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	\$	\$	\$	\$
Amounts paid/payable to Grant Thornton for:				
- auditing or reviewing the financial report	100,000	60,945	20,000	Nil
- provision of an independent accountants' report for inclusion in the prospectus	65,000	Nil	65,000	Nil

Auditors remuneration of \$60,945 in 2006 represents monies paid to related practices of the Grant Thornton Australian firm.

Signed in accordance with a resolution of the Board of Directors

Zhehao Shen

Zhehao Shen

MANAGING DIRECTOR

Date 31 March 2008

**Grant Thornton South Australian
Partnership**

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**AUDITOR'S INDEPENDENCE DECLARATION
TO THE MEMBERS OF MESBON CHINA NYLON LIMITED AND CONTROLLED
ENTITIES**

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Mesbon China Nylon Limited for the year ended 31 December 2007, I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b No contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Wayville this 31 day of March 2008

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Mesbon China Nylon Limited
FINANCIAL REPORT

04

INCOME STATEMENT

For the Year Ended 31 December 2007

Mesbon China Nylon Limited

		CONSOLIDATED		PARENT ENTITY	
	NOTE	2007	2006	2007	2006
		\$	\$	\$	\$
Revenue from operating activities	3,26	88,753,612	53,381,519	-	-
Cost of goods sold	3,26	(78,549,530)	(48,361,905)	-	-
Gross profit		10,204,082	5,019,614	-	-
Other income	3,26	1,276,326	898,986	23,098	-
Distribution costs	3,26	(232,751)	(184,564)	-	-
General and administration costs	3,26	(1,687,372)	(612,062)	(272,966)	-
Finance costs	3,26	(1,344,018)	(559,853)	-	-
Equity based remuneration		(466,832)	-	(466,832)	-
Profit before income tax expense		7,749,435	4,562,121	(716,700)	-
Income tax expense	4	-	(26,407)	-	-
Profit from ordinary activities after income tax expense		7,749,435	4,535,714	(716,700)	-
Profit attributable to members of the parent entity		7,749,435	4,535,714	(716,700)	-
Earnings per share for profit from continuing operations:					
Basic earnings per share	8	48.83 cents	N/A		
Diluted earnings per share	8	46.93 cents	N/A		

The accompanying notes form part of the above income statement.

BALANCE SHEET

as at 31 December 2007

Mesbon China Nylon Limited

	NOTE	<i>CONSOLIDATED</i>		<i>PARENT ENTITY</i>	
		2007 \$	2006 \$	2007 \$	2006 \$
CURRENT ASSETS					
Cash and cash equivalents	9	32,982,025	17,424,783	607,683	100
Trade and other receivables	10	7,672,422	9,614,313	98,774	-
Inventories	11	13,266,210	7,782,729	-	-
Notes receivable	12	5,493,590	347,708	-	-
Prepayments	13	2,123,364	395,410	25,603	-
Other current assets	13	48,235	74,571	-	-
TOTAL CURRENT ASSETS		61,585,846	35,639,514	732,060	100
NON-CURRENT ASSETS					
Property, plant & equipment	15	18,540,995	14,496,694	-	-
Trade and other receivables	17	-	-	17,662,744	-
Financial assets	2,18	-	-	19,447,584	-
Deferred tax asset	4	464,115	-	464,115	-
TOTAL NON-CURRENT ASSETS		19,005,110	14,496,694	37,574,443	-
TOTAL ASSETS		80,590,956	50,136,208	38,306,503	100
CURRENT LIABILITIES					
Trade and other payables	19	10,441,561	12,871,670	71,487	-
Notes payable	20	4,290,840	15,269,664	-	-
Current tax liabilities	4	-	75,715	-	-
Financial Liabilities	21	26,611,880	9,225,090	-	-
TOTAL CURRENT LIABILITIES		41,344,281	37,442,139	71,487	-
NON-CURRENT LIABILITIES					
Trade and other payables	22	-	-	119,792	-
TOTAL NON-CURRENT LIABILITIES		-	-	119,792	-
TOTAL LIABILITIES		41,344,281	37,442,139	191,279	-
NET ASSETS		39,246,675	12,694,069	38,115,224	100
EQUITY					
Issued capital	23	27,507,044	8,993,096	37,961,532	100
Reserves	24	(401,446)	(690,669)	870,393	-
Retained earnings	27	12,141,077	4,391,642	(716,701)	-
TOTAL EQUITY		39,246,675	12,694,069	38,115,224	100

The accompanying notes form part of the above balance sheet.

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STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2007

Mesbon China Nylon Limited

CONSOLIDATED

	Issued Capital	Retained Earnings	Share Option Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2006	8,993,096	(144,072)	-	-	8,849,024
Profit attributable to members of parent entity	-	4,535,714	-	(690,669)	3,845,045
Balance at 31 December 2006	8,993,096	4,391,642	-	(690,669)	12,694,069
Profit attributable to members of parent entity	-	7,749,435	-	-	7,749,435
Foreign currency translation differences	-	-	-	(581,170)	(581,170)
Shares issued pursuant to IPO	20,000,000	-	-	-	20,000,000
Transaction costs on shares Issued	(1,486,052)	-	-	-	(1,486,052)
Equity based remuneration	-	-	870,393	-	870,393
Balance at 31 December 2007	27,507,044	12,141,077	870,393	(1,271,839)	39,246,675

PARENT

	Issued Capital	Retained Earnings	Share Option Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2006	100	-	-	-	100
Profit attributable to members of parent entity	-	-	-	-	-
Balance at 31 December 2006	100	-	-	-	100
Profit attributable to members of parent entity	-	(716,701)	-	-	(716,701)
Shares issued pursuant to acquisition of Meibang International Holdings Limited Group	19,447,484	-	-	-	19,447,484
Shares issued pursuant to IPO	20,000,000	-	-	-	20,000,000
Transaction costs on shares Issued	(1,486,052)	-	-	-	(1,486,052)
Equity based remuneration	-	-	870,393	-	870,393
Balance at 31 December 2007	37,961,532	(716,701)	870,393	-	38,115,224

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

CASH FLOW STATEMENT

For the Year Ended 31 December 2007

Mesbon China Nylon Limited

	NOTE	CONSOLIDATED		PARENT	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash Flows From Operating Activities:					
Receipts from customers		91,568,615	44,963,632	-	-
Payments to suppliers and employees		(94,527,939)	(44,344,376)	(325,856)	-
Interest received		501,988	312,607	23,098	-
Finance costs		(1,344,016)	(559,852)	-	-
Taxes paid		(75,715)	(92,401)	-	-
Net cash provided by/(used in) operating activities	28	(3,877,067)	279,610	(302,758)	-
Cash Flows from Investing Activities:					
Proceeds - sale of property, plant & equipment		835,144	1,501,110	-	-
Payment for property, plant and equipment		(6,602,064)	(4,303,291)	-	-
Net cash provided by/(used in) investing activities		(5,766,920)	(2,802,181)	-	-
Cash Flows From Financing Activities:					
Proceeds from issue of shares		20,000,000	-	20,000,000	100
Proceeds of borrowings		50,291,190	34,599,596	-	-
Repayment of borrowings		(43,543,355)	(24,496,349)	-	-
Loans to Subsidiaries		-	-	(17,662,744)	-
Share issue costs paid		(1,546,606)	-	(1,426,815)	-
Net cash provided by/(used in) financing activities		25,201,229	10,103,247	910,441	100
Net increase/(decrease) in cash		15,557,242	7,580,676	607,683	100
Cash at the beginning of the financial year	9	17,424,783	9,844,108	-	-
Effect of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the financial year		-	-	-	-
Cash at the end of the financial year	9	32,982,025	17,424,784	607,683	100

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

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial report of Mesbon China Nylon Limited and controlled entities and Mesbon China Nylon Limited as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

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

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) New Accounting Standards and Interpretations

Certain new accounting standards and IFRIC interpretations have been published that are not mandatory for current reporting periods. The Company's assessment of the impact of these new standards and interpretations is that there would be no material impact on the historical or reported pro forma financial information.

(b) Principles of Consolidation

The Company and its controlled entities are together referred to in this financial report as the Group.

Controlled entities are all those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

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

Where controlled entities have entered or left the Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated 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.

(d) Incorporation

The Company was incorporated on 18 December 2006.

(e) Revenue Recognition

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

- Sale of goods - on delivery of the goods to the customer; and
- Interest - on a time proportion basis using the effective interest method.

(f) Business Combination

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

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

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

(g) Impairment of Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

(h) Cash and Cash Equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. The cost of manufactured inventories consists of the cost of raw materials, direct labour and an appropriate proportion of production overheads.

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

(j) Trade Receivables

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

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

(k) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are 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 stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Impairment

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

(l) Property, Plant & Equipment

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

Property

Freehold land and buildings are shown at their cost.

Plant and Equipment

Plant and equipment are measured on the cost basis.

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

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

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

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land is depreciated on a straight-line basis over their useful lives to the 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.

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

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

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

An asset's carrying amount 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 income statement.

(m) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Borrowing Costs

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

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

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

(o) Issued Capital

Ordinary shares are classified as equity.

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

p) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group Companies

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

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

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

(q) Employee benefits

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

Equity settled compensation

The Group operates an employee option plan. The bonus element over the exercise price of the options is recognised as an expense in the income statement. The total amount to be expensed is determined by reference to the fair value of the shares of the options granted.

(r) Critical Accounting Estimates and Judgements

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

(s) Other Taxes

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

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

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

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

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

(t) Comparative figures

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

(u) Earnings per Share*(i) Basic earnings per share*

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

ii) Diluted earnings per share

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

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 2 - BUSINESS COMBINATION

Reverse acquisition

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

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

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

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

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

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

NOTE 3 - REVENUE AND EXPENSES

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenue				
Sale of Goods	88,753,612	53,381,519	-	-
Other Income				
Interest income	501,988	814,766	23,098	-
Foreign exchange gains	694,852	-	-	-
Investment income	-	41,991	-	-
Subsidy income	61,123	37,945	-	-
Other income	18,363	4,284	-	-
	1,276,326	898,986	23,098	-
Cost of Goods sold				
Cost of goods	77,261,979	47,370,250	-	-
Depreciation for use of plant and equipment	1,287,551	991,655	-	-
	78,549,530	48,361,905	-	-
Expenses				
General and Administration Costs				
Employee benefit expenses	354,478	116,545	-	-
Commissions paid	247,877	70,492	-	-
Depreciation	108,751	51,861	-	-
Water	72,942	-	-	-
Legal Expenses	186,665	-	186,665	-
Other	716,659	373,164	86,301	-
	1,687,372	612,062	272,966	-
Finance Costs				
Interest payments	1,230,473	410,206	-	-
Bank fees	97,332	54,888	-	-
Other	16,213	94,759	-	-
	1,344,018	559,853	-	-
Distribution Costs				
	232,751	184,564	-	-

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 4 - INCOME TAX

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2007	2006	2007	2006
	\$	\$	\$	\$
Income Tax Expense	-	26,407	-	-

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

The current taxation rate in PRC is 26.4%.

The Australian company tax rate will remain at 30%.

As a result, ZMCF is exempt from enterprise income tax for the years 2006 and 2007.

For the financial years 2008, 2009 and 2010, the enterprise income tax rate in PRC is expected to remain at 26.4% on profits, resulting in a tax rate of 13.2% under the 50% tax concession.

Deferred Tax Asset	464,115	-	464,115	-
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The deferred tax assets relate to the future taxation benefit of the cash-based capital raising costs, calculated as follows:

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

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

NOTE 5 - KEY MANAGEMENT PERSONNEL COMPENSATION

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

Zhehao Shen - Chairman and Managing Director
 Bolong Xing - Executive Director
 Yanfu Jiang - Non-executive Director
 Paul Teisseire - Non-executive Director
 Fai-Peng Chen - Non-executive Director
 Brendan Connell - Non-executive Director
 Jianmin Xiang - Non-executive Director
 Marcus La Vincente - Non-executive Director
 Chengjun Hu - General Manager - Finance
 Weijie Gu - General Manager - Sales and Marketing
 Yingzhang Zhou - General Manager - Administration and Company Secretary

During the financial year options were granted as equity compensation benefits under the employee share option plan to certain directors and managers included above. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price equal to the market price of the shares on the date of grant.

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

	Balance 1.01.2007	Granted as Compensation	Options Exercised	Net Change Other	Balance 31.12.2007	Total Vested	Total Exercisable
Yanfu Jiang	-	700,000	-	-	700,000	700,000	700,000
Paul Teisseire	-	700,000	-	-	700,000	700,000	700,000
Fai-Peng Chen	-	700,000	-	-	700,000	700,000	700,000

Shareholdings of Key Management personnel (consolidated)

	Balance at 1.01.2007	Exercise of Options	Net change Other	Balance at 31.12.2007
Directors				
Zhehao Shen*	100	-	-	100
Bolong Xing	-	-	-	-
Yanfu Jiang	-	-	-	-
Paul Teisseire	-	-	100,000	100,000
Fai-Peng Chen	-	-	-	-
Executives				
Yingzhang Zhou	-	-	-	-
Chengjun Hu	-	-	-	-
Weijie Gu	-	-	-	-
Graham Seppelt	-	-	-	-

* MSB International Trading Limited, a company associated with Mr Shen, holds 73,967,170 shares. Mr Shen is a director and shareholder of MSB International Trading Limited.

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 6 - AUDITORS REMUNERATION

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$	\$	\$	\$
Remuneration of the auditor for the consolidated entity for:				
Auditing or reviewing the financial report	100,000	60,945	20,000	-
Provision of an independent accountants report for inclusion in the prospectus	65,000	-	65,000	-
	165,000	60,945	85,000	-

Auditors remuneration of \$60,945 in 2006 represents monies paid to related practices of the Grant Thornton Australian firm.

NOTE 7 - DIVIDENDS

No dividends were paid or declared during the period. An interim dividend is proposed to be paid in the latter part of 2008 subject to performance targets being met for the first half of 2008.

NOTE 8 - EARNINGS PER SHARE

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

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

Basic and diluted earnings per share are not shown for 2006 as the capital structure was not indicative of a publicly traded company.

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

	CONSOLIDATED	
	2007	2006
	\$	\$
Net profit attributed to ordinary equity holders of the parent	7,749,435	4,535,714
Weighted average number of shares for basic earnings per share	15,871,692	N/A
Weighted average number of shares assuming issued at average market rate	642,486	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution*	16,514,178	N/A
Earnings per Share	48.83	N/A
Diluted Earnings per share	46.93	N/A

* The 25,480,000 performance rights issued as part of the acquisition of Meibang International Holding Limited have been excluded from the diluted earnings per share calculation.

NOTE 9 - CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$	\$	\$	\$
Cash on hand	47,931	4,426	-	-
Cash at bank	17,111,230	1,494,198	607,683	100
Other monetary assets	15,822,864	15,926,159	-	-
	32,982,025	17,424,783	607,683	100

The effective interest rate on short term bank deposits and other monetary assets is 2.99% (2006: 2.79%).

Other monetary assets have an average maturity of 111 days.

Other monetary assets act as security for letters of credit for the purchase of raw materials and plant and equipment (\$4,563,324), notes payable (\$2,145,420) and financial liabilities (\$9,114,120).

NOTE 10 - CURRENT TRADE AND OTHER RECEIVABLES

Trade receivables	6,494,251	9,547,126	-	-
Allowance for doubtful debts	(46,479)	(48,290)	-	-
Other receivables	-	115,477	-	-
Land deposits	74,291	-	-	-
Interest revenue	163,663	-	-	-
Related party receivables	887,922	-	-	-
Goods & Services Tax receivable	98,774	-	98,774	-
	7,672,422	9,614,313	98,774	-

Related party receivables relate to sales to Zhejiang Mesbon Industrial Group Company Limited, a company that is related to Mr Zhehao Shen.

NOTE 11 - INVENTORIES

Raw materials (at cost)	5,292,826	3,747,089	-	-
Work in progress (at cost)	120,610	54,729	-	-
Finished goods (at cost)	7,852,774	3,980,911	-	-
	13,266,210	7,782,729	-	-

NOTE 12 - NOTES RECEIVABLE

Notes receivable	5,493,590	347,708	-	-
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Notes Receivable are bills received from customers which are then endorsed to accounts payable providers where possible.

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 13 - PREPAYMENTS AND OTHER CURRENT ASSETS

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$	\$	\$	\$
Prepayments	2,123,364	395,410	25,603	-
Other current assets	48,235	74,571	-	-
	2,171,599	469,981	25,603	-
Prepayments represent amounts for the construction of Phase 3 development:				
Building construction	502,278	-	-	-
Equipment deposits	1,621,086	-	-	-
	2,123,364	-	-	-

NOTE 14 - CONTROLLED ENTITIES

Interests held in controlled entities are as follows:

NAME OF ENTITY	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST*	
		2007	2006
		%	%
Parent Entity			
Mesbon China Nylon Limited	Australia	-	-
Subsidiaries of Mesbon China Nylon Limited			
Mesbon International Holdings Limited	British Virgin Islands	100%	N/A
Zhejiang Mesbon Chemical Fiber Limited	People's Republic of China	100%	N/A
Mesbon China Nylon (Australia) Pty Ltd	Australia	100%	N/A

* Percentage of voting power is proportional to ownership.

NOTE 15 - PROPERTY PLANT AND EQUIPMENT

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$	\$	\$	\$
Buildings on Leasehold Land				
Opening balance	3,008,907	3,659,985	-	-
Additions	43,144	46,370	-	-
Transfers from capital works in progress	881,001	-	-	-
Currency translation difference	(112,811)	-	-	-
Reclassification	-	(196,622)	-	-
Accumulated Depreciation				
Opening balance	-	(333,288)	-	-
Depreciation for the year	(179,713)	(167,538)	-	-
Net book value of buildings on leasehold land	3,640,528	3,008,907	-	-
Leasehold Land (Land Use Rights)				
Opening balance	977,916	1,085,568	-	-
Additions	1,088,370	-	-	-
Currency translation difference	(36,664)	-	-	-
Accumulated Depreciation				
Opening balance	-	(56,088)	-	-
Depreciation for the year	(59,178)	(51,564)	-	-
Net book value of leasehold land	1,970,444	977,916	-	-
Motor Vehicles				
Opening balance	81,249	32,694	-	-
Additions	52,131	80,842	-	-
Currency translation difference	(3,046)	-	-	-
Accumulated Depreciation				
Opening balance	-	(19,961)	-	-
Depreciation for the year	(22,650)	(12,326)	-	-
Net book value of motor vehicles	107,684	81,249	-	-
Plant & Equipment				
Opening balance	9,769,029	8,186,848	-	-
Additions	3,996,033	3,634,044	-	-
Disposals	(835,143)	-	-	-
Transfers	58,162	-	-	-
Currency translation difference	(366,264)	-	-	-
Accumulated Depreciation				
Opening balance	-	(1,239,775)	-	-
Depreciation for the year	(1,134,761)	(812,088)	-	-
Net book value of plant & equipment	11,487,056	9,769,029	-	-
Capital Works in Progress				
Opening balance	659,594	26,460	-	-
Additions	1,639,582	436,512	-	-
Transfers to buildings on leasehold land	(939,163)	-	-	-
Currency translation difference	(24,730)	-	-	-
Reclassification	-	196,622	-	-
Net book value of works in progress	1,335,283	659,594	-	-
TOTAL NET BOOK VALUE OF PROPERTY, PLANT & EQUIPMENT	18,540,995	14,496,694	-	-

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 16 - CAPITAL COMMITMENTS

As part of the continuing development of Phase 3 building program, Mesbon has signed contracts for the supply of \$9,975,494 of plant and equipment which will be delivered in the first quarter of 2008. This amount has not been brought to account within Mesbon financial records as at 31 December 2007.

NOTE 17 - NON CURRENT TRADE AND OTHER RECEIVABLES

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2007	2006	2007	2006
	\$	\$	\$	\$
Loans to subsidiary	-	-	17,662,744	-

Trade and other receivables refers to the proceeds of capital raising by the parent company now loaned to a subsidiary company for development of Stage 3 of production expansion.

NOTE 18 - FINANCIAL ASSETS

Financial assets	-	-	19,447,584	-
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Financial assets refer to the acquisition of the fair value of the assets of Meibang International Holdings Limited on 5 November 2007. (See Note 2).

NOTE 19 - CURRENT TRADE AND OTHER PAYABLES

Trade Creditors	7,679,291	12,702,333	71,487	-
Other payables	204,471	26,972	-	-
Accrued Expenses	2,557,799	142,365	-	-
	10,441,561	12,871,670	71,487	-

NOTE 20 - NOTES PAYABLE

Notes Payable	4,290,840	15,269,664	-	-
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The notes payables are non-interest bearing and are secured by a cash deposit of \$2,145,420, being 50% of the outstanding balance, and a corporate guarantee provided by Zhejiang Yinan Chemical Fibre Co Ltd, a director related entity of Zhehao Shen.

NOTE 21 - FINANCIAL LIABILITIES

			<i>CONSOLIDATED</i>		<i>PARENT</i>		
			2007	2006	2007	2006	
			\$	\$	\$	\$	
TERM LOANS	CURRENCY	BANK					
Term Loan	(a)	Renminbi	RCB	-	1,220,250	-	-
Term Loan	(b)	Renminbi	GDB	-	1,627,000	-	-
Term Loan	(c)	Renminbi	CMB	-	1,496,840	-	-
Term Loan	(d)	Renminbi	SPD	-	3,254,000	-	-
Term Loan	(e)	Renminbi	ICBC	-	1,627,000	-	-
Term Loan	(c)	Renminbi	CMB	783,000	-	-	-
Term Loan	(d)	Renminbi	SPD	5,637,600	-	-	-
Term Loan	(e)	Renminbi	ICBC	3,132,000	-	-	-
Term Loan	(a)	Renminbi	RCB	1,957,500	-	-	-
Term Loan	(f)	Renminbi	CCB	7,830,000	-	-	-
Term Loan	(f)	USD	CCB	2,516,580	-	-	-
Term Loan	(e)	USD	ICBC	1,372,680	-	-	-
Term Loan	(g)	USD	CITIC	3,382,520	-	-	-
				26,611,880	9,225,090	-	-

Financial liabilities consist of Term Loans provided by lending authorities. Current loan terms are no longer than 12 months and conclude during 2008. Interest rates are in a range from 5.83% p.a. to 7.29% p.a.

Loan Provider Banks

Rural Corporation Bank	RCB
Guangzhou Development Bank	GDB
China Merchant Bank	CMB
Shanghai Pudong Development Bank	SPD
ICBanking Corporation	ICBC
China Construction Bank	CCB
CITIC Bank	CITIC

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

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 22 - NON CURRENT TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$	\$	\$	\$
Non-current payables	-	-	119,792	-

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

NOTE 23 - ISSUED CAPITAL

(a) Share Capital

At beginning of the reporting period	100	100	100	100
Shares issued during the year				
Issued to existing shareholders under sale and purchase agreement	8,992,996	8,992,996	15,042,853	-
25,480,000 unissued performance shares (refer Note 23 (b))	-	-	4,404,631	-
Shares issued for the initial public offering	20,000,000	-	20,000,000	-
Less Capital Raising Costs	[1,486,052]	-	[1,486,052]	-
	27,507,044	8,993,096	37,961,532	100
	NO.	NO.	NO.	NO.
At beginning of the reporting period	100	100	100	100
Shares issued during the year				
Issued to existing shareholders under sale and purchase agreement	87,020,200	-	87,020,200	-
Shares issued for the initial public offering	40,000,000	-	40,000,000	-
	127,020,300	100	127,020,300	100

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.

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.

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

(Refer Note 2)

NOTE 23 - ISSUED CAPITAL (CONTINUED)

	CONSOLIDATED		PARENT	
	2007	2006	2007	2006
	\$	\$	\$	\$
(b) Performance Rights				
At beginning of the reporting period	-	-	-	-
Performance Rights issued during the year				
Issued to existing shareholders under sale and purchase agreement	-	-	4,404,631	-
	-	-	4,404,631	-
	NO.	NO.	NO.	NO.
At beginning of the reporting period	-	-	-	-
Shares issued during the year				
Issued to existing shareholders under sale and purchase agreement	-	-	25,480,000	-
	-	-	25,480,000	-

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

(c) Share options

Information relating to the Mesbon China Nylon Limited Employee Share Option Plan, including details of options issued, during the financial year and options outstanding at the end of the financial year is set out in Note 29.

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 24 - RESERVES

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2007	2006	2007	2006
	\$	\$	\$	\$
Foreign Currency Translation Reserve				
Balance at beginning of financial year	(690,669)	-	-	-
Net exchange difference on translation of foreign controlled entities	(581,170)	(690,669)	-	-
Balance at end of financial year	(1,271,839)	(690,669)	-	-

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

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

NOTE 25 - CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

NOTE 26 - SEGMENT INFORMATION

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.

2007

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

2006

Revenue from operating activities	49,362,241	4,019,278	53,381,519
Less:			
Other income	898,986	-	898,986
Cost of goods sold	(45,158,182)	(3,203,723)	(48,361,905)
Distribution costs	(184,564)	-	(184,564)
General and administration costs	(604,376)	(7,686)	(612,062)
Finance costs	(552,822)	(7,031)	(559,853)
Other costs	(26,407)	-	(26,407)
Net Profit	3,734,876	800,838	4,535,714

NOTE 27 - RETAINED EARNINGS

	CONSOLIDATED		PARENT	
	2007 \$	2006 \$	2007 \$	2006 \$
Balance at beginning of the financial year	4,391,642	(144,072)	-	-
Net profit attributable to members of the parent entity	7,749,435	4,535,714	(716,701)	-
Balance at end of the financial year	12,141,077	4,391,642	(716,701)	-

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 28 - RECONCILIATION OF NET PROFIT AFTER TAX TO NET CASH FLOWS FROM OPERATIONS

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2007 \$	2006 \$	2007 \$	2006 \$
Net Profit	7,749,435	4,535,714	(716,700)	-
Adjustments for non cash items				
Depreciation	1,396,303	1,043,516	-	-
Provisions	-	-	29,166	-
Net exchange differences	(377,525)	(164,332)	-	-
Equity based remuneration	466,832	-	466,832	-
Net loss on sale of net current assets	-	43,295	-	-
Changes in assets and liabilities				
(increase)/decrease in inventories	(5,483,482)	(4,686,704)	-	-
(increase)/decrease in trade and other receivables	(3,203,990)	(9,047,561)	-	-
(increase)/decrease in other current assets	26,336	-	-	-
(increase)/decrease in other receivables	-	-	(124,377)	-
(decrease)/increase in trade and other payables	(4,375,261)	8,621,677	42,321	-
(decrease)/increase in tax liabilities	(75,715)	(65,995)	-	-
Net cash from operating activities	(3,877,067)	279,610	(302,758)	-

Credit Standby Arrangements with Banks

At 31 December 2007, the Group had total bank facilities available of \$31,745,228 of which there was an unutilised facility of \$5,133,348.

NOTE 29 - SHARE BASED PAYMENTS

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.

(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 Listing 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.
- (a) 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 30 - SUBSEQUENT EVENTS

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

NOTE 31 - RELATED PARTY DISCLOSURES AND KEY MANAGEMENT PERSONNEL REMUNERATION

Related Party Transactions - Director Related Transactions

During the year the Group sold product to a value of \$2,798,689 and purchased product to the value of \$7,389,363 from Hangzhou Zhebang Chemical Fibre Trading Co Ltd, a party related to Mr Zhehao Shen.

During the year the Group sold product to a value of \$38,039 and plant & equipment to the value of \$838,358 to Zhejiang Meibang Industry Group Co Ltd, a party related to Mr Zhehao Shen.

During the year the Group purchased services to the value of \$253,034 from Minter Ellison Lawyers, a party related to Mr Fai-Peng Chen.

The balance of amounts receivable from director and director related entities are disclosed in Note 10.

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

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

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

Related Party Disclosures - Intra-Group Transactions

Throughout the period ended 31 December 2007, 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 32 - 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 and bills. The main purpose of non-derivative financial instruments is to raise finance for group operations.

Activities undertaken by Mesbon China Nylon Limited and its subsidiaries may expose the Group to risk. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material.

(i) Treasury Risk Management

A finance committee consisting of senior executives of the group meet on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

(ii) Financial Risks

Interest rate risk

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

Foreign Currency Risk

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

Liquidity risk

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

Credit Risk

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

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

On balance sheet financial instruments

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

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

(b) Interest Rate Risk Exposures

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 December 2007

Mesbon China Nylon Limited

NOTE 32 - FINANCIAL INSTRUMENTS (CONTINUED)

2007

Note	Weighted average effective interest rate		Floating interest rate		Fixed Interest Rate Maturing Within 1 year		Non-Interest bearing		Total		
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	
	%	%	\$	\$	\$	\$	\$	\$	\$	\$	
Financial Assets											
Cash and deposits	9	2.79	2.99	17,424,783	32,982,025	-	-	-	-	17,424,783	32,982,025
Trade and other receivables	10	-	-	-	-	-	-	9,614,313	7,672,422	9,614,313	7,672,422
Notes receivable	12	-	-	-	-	347,708	5,493,590	-	-	347,708	5,493,590
				17,424,783	32,982,025	347,708	5,493,590	9,614,313	7,672,422	27,386,804	46,148,037
Financial Liabilities											
Trade and other payables	19	-	-	-	-	-	-	12,871,670	10,441,561	12,871,670	10,441,561
Notes payable	20	-	-	-	-	15,269,664	4,290,840	-	-	15,269,664	4,290,840
Financial liabilities	21	5.98	6.89	-	-	9,225,090	26,611,880	-	-	9,225,090	26,611,880
				-	-	24,494,754	30,902,720	12,871,670	10,441,561	37,366,424	41,344,281
Net financial assets/(liabilities)				17,424,783	32,982,025	[24,147,046]	[25,409,130]	[3,257,357]	[2,769,139]	[9,979,620]	4,803,756

NOTE 33 - CHANGES IN ACCOUNTING POLICY

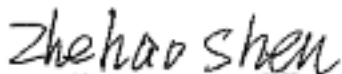
There have been no changes in accounting policy during the year.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The Financial Statements and Notes, as set out on pages 30 to 58:
 - a) comply with Accounting Standard and the Corporations Regulations 2001; and
 - b) give a true and fair view of the financial position as at 31 December 2007 and of the performance for the year ended on that date of the company and consolidated group;
2. The Chief Executive Officer, Chief Finance Officer and Company Secretary have each declared that:
 - a) the financial records for the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view;
3. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Zhehao Shen
CHAIRMAN

Adelaide

Dated this 31st day of March 2008

**Grant Thornton South Australian
Partnership**
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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MESBON CHINA NYLON LIMITED AND CONTROLLED
ENTITIES
ACN 123178852**

We have audited the accompanying financial report of Mesbon China Nylon Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the Directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards, which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MESBON CHINA
NYLON LIMITED AND CONTROLLED ENTITIES
ACN 123178852 (cont)**

Auditor's responsibility (cont)

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a the financial report of Mesbon China Nylon Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Wayville this 31 day of March 2008

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SHAREHOLDER INFORMATION

ADDITIONAL INFORMATION REQUIRED BY THE AUSTRALIAN SECURITIES EXCHANGE LIMITED LISTING RULES AND NOT DISCLOSED ELSEWHERE IN THIS REPORT IS SET OUT BELOW.

SHAREHOLDINGS AS AT 21 MARCH 2008

Substantial shareholders

The following were substantial shareholders as at 21 March 2008:

Name	Number of fully paid ordinary shares held	% held
MSB International Trading Limited	73,967,170	58.23
National Nominees Limited	9,169,000	7.22
Sigma International Trading Co. Limited	8,702,020	6.85

Voting Rights

Fully paid ordinary shares

Subject to any rights or restrictions attached to any class of shares, at a meeting of members, each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Options

Option holders will be entitled on the payment of the exercise price to be allotted one ordinary fully paid share in the company for each Option exercised. 'A' Class Options are exercisable in whole or in part at any time until 31 December 2010. 'B' Class Options are exercisable in whole or in part at any time until 31 December 2012. Any Options not exercised before expiry will lapse.

Distribution of Shareholders

Category	Holdings of Ordinary Shares	% of Issued Capital
1 - 1000	11	0.01
1,001 - 5,000	62	0.17
5,001 - 10,000	155	1.04
10,001 - 100,000	331	7.90
100,001 - and over	42	90.88
Total number of security holders	601	100.00

Unmarketable Parcels

	Minimum Parcel Size	Number of Holders	Units
Ordinary Shares	\$500.00 at \$0.41/unit	13	11,442

On market buy-back

There is no current on-market buy back.

Company Secretaries

The names of the company secretaries are Yingzhang Zhou and Graham Seppelt.

Registered Address

The address of the principal registered office in Australia is 25 Peel Street Adelaide SA 5000. Telephone 0419 035 297

Registers of Securities

Registers of securities are held at the offices of Computershare Investor Services Pty Ltd., Level 5, 115 Grenfell Street, Adelaide. SA 5000

Stock Exchange Listing

Quotation has been granted for all of the ordinary shares of the company on all Member Exchanges of the Australian Securities Exchange Limited.

Twenty largest shareholders

The names of the 20 largest holders of fully paid ordinary shares constituting a class of quoted equity securities on the Australian Securities Exchange Limited including the number and percentage held by those at 21 March 2008 are as follows:

Name	Number of fully paid ordinary shares held	% held
MSB International Trading Ltd	73,967,170	58.23
National Nominees Limited	9,169,000	7.22
Sigma International Trading Co. Limited	8,702,020	6.85
RBC Dexia Investor Services Australia Nominees Pty Limited	3,850,000	3.03
Channel Best Enterprises Ltd	3,371,010	2.65
Bond Street Custodians Limited	2,197,600	1.73
UBS Nominees Pty Ltd	1,916,000	1.51
Bond Street Custodians Limited	1,882,400	1.48
MLEQ Nominees Pty Limited	1,240,124	0.98
ANZ Nominees Limited	1,115,000	0.88
Irrewarra Investments Pty Ltd	650,000	0.51
Haiting Wang	650,000	0.51
AMP Life Limited	567,846	0.45
Invia Custodian Pty Limited	350,000	0.28
Mr Kie Chie Wong	350,000	0.28
Citicorp Nominees Pty Limited	346,476	0.27
McNeil Nominees Pty Limited	300,000	0.24
SPO Equities Pty Ltd	300,000	0.24
Fortis Clearing Nominees P/L	285,000	0.22
Eric Golf Pty Ltd	275,812	0.22
TOTAL	111,485,458	87.78

Unquoted Securities

Options over Unissued Shares

A total of 3,974,700 options are on issue. 1,500,000 'A' Class options and 600,000 'B' Class options are on issue to three directors under the Mesbon China Nylon Limited employee option plan.

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CORPORATE DIRECTORY

Mesbon China Nylon Limited Registered Office

25 Peel Street
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Phone: +61 419 035 297
Fax: +61 8 8339 7909
Email: info@mesbon.com.au
Website: www.mesbon.com.au

Adelaide

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People's Republic of China
Phone: 0086 13 758 150 111
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Auditor

Grant Thornton (South Australian Partnership)
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ANZ Bank Limited
Level 1
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South Australia

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