



**Mesbon China Nylon Limited (“MES”)**

**Australian Stock Exchange Announcement**

Friday 15<sup>th</sup> August 2008

The Manager  
Companies Announcements Officer  
Australian Stock Exchange  
Electronic Lodgement

Dear Sir/Madam

**Shareholder Update**

- Progress with Phase III Production Capacity Expansion
- General Market Overview – First Half 2008
- First Half Results 2008
- General Market Overview – Second Half 2008
- Revised Full Year 2008 Profit Guidance
- Dividend Expectations

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### **Phase 3 Production Capacity Expansion**

The company is pleased to announce that construction of the building to house Phase III and Phase IV production is now complete. All 12 of the Phase III production lines have been delivered and paid for. Six of the 12 production lines have been installed ready for operation, and it is anticipated that the remaining 6 lines will be installed in August and ready to operate in the early part of September 2008.

Directors acknowledge that the start up is later than expected, due to market conditions as detailed below.

Shareholders would be aware that prior to and during the Olympics, the Chinese government announced that factories would be restricted in their use of electricity. Mesbon was not immune from this restriction, which has prevented the available new production lines from starting operations. The start up is therefore anticipated shortly. The existing lines were not affected by this restriction.

### **General China Market Overview - First Six Months of 2008**

The first six months of the year have seen a series of unprecedented events which have affected the Chinese economy, and for the first time in a number of years the Chinese economy has been negatively impacted by a combination of domestic and international influences:

- The unusually harsh snow storms in late January and early February hit China's densely populated central and eastern regions, and brought parts of China to a standstill. This delayed construction of our new facilities by approximately 8 weeks, and hampered business in the textiles regions of Zhejiang.
- Then there was the large earthquake in May, centred in Sichuan Province which left 4.8 million people homeless. The Chinese Government response was to mobilise massive amounts of resources to assist in the recovery, and mandated measures were put in place to guarantee support.
- China's domestic demand for raw materials has been dampened due to a broader economic slowdown, which has occurred due to uncertainty arising from the US housing market crash, the global credit crunch and uncertainty over the decoupling of the Chinese economy from the OECD.
- Domestic energy constraints have hindered ours and our customers' production and the rising oil price has impacted our nylon pricing, such that customers have chosen to reduce inventories rather than purchase new stock especially in advance of the Olympic Games. Many business restrictions have been put in place in advance of and during the Games, and some factories were ordered to suspend production to improve air quality. The focus on the preparation for the Olympic Games also diverted resources away from personal consumption, and adversely affected many business operations, with electricity rationing and some temporary closures.
- The fall in the level of the Chinese stock market by 55% from its October 2007 high has affected domestic confidence, and the Chinese Government's tightening of the credit markets to contain inflation has also affected the domestic market and consumers.

These events have caused a dramatic slow down in the Chinese economy in the months of April, May and June. The sale of Mesbon products was affected by this change in market sentiment during this period.

The company has also been faced with higher crude oil prices, which increase production costs, and adverse exchange rate movements where the AUD has strengthened more rapidly against the USD than has the RMB, thus causing currency translation impacts.

### **First Half Profit Results**

The directors have met to consider the interim financial results for the six months ended 30 June 2008. While the results are unaudited at this time, it is anticipated that net profit after tax for the first half of the year will be approximately AUS\$1.2 million (using an average exchange rate of \$1AUD/6.51085RMB).

Fully audited interim results will be available before the end of August 2008. The company's financial year end is 31 December.

### **General Market Expectations – Second Six Months of 2008**

The consumption of the company's nylon products is seasonal by nature, with the majority of revenue normally occurring in the second half of the year, and the company has already seen improvements in the July and August sales figures. The company expects that normal business operations will progressively be restored in China after the Olympics have finished. With the resumption of full electricity supply at that time, and the commissioning of the new production facility giving the company a broader range of higher quality yarn, the company expects to be able to take advantage of improving domestic conditions from September 2008.

### **Full Year Profit Guidance 2008**

The board has met and considered the company's expectations for the full year ended 31 December 2008. The board has done so in the light of results for the first six months, the economic factors in the market place explained above, the anticipated introduction of expanded production with higher gross margins and the general anticipated improvement of the Chinese economy in the post Olympics period. After weighing up all factors known to directors at this time, the board has revised its net profit after tax forecast for the full year ended 31 December 2008 down from the prospectus forecast of AUS\$9.766 million (forecast using an average exchange rate of \$1AUD/6.4642RMB) to a range of between AUD\$7.5 – 8.5 million (using an average exchange rate of \$1AUD/6.58328RMB).

While the board is disappointed to lower prospectus forecasts for 2008, it is confident that with the introduction of the Phase III production lines and the brand recognition Mesbon is gaining due to its high quality products, the company will continue to gain market share. Additionally as the credit constraints of the Chinese economy hamper our competitors, our strong financial position will stand us in good stead as business confidence returns.

The board also advises that the company's sales for July and August 2008 are encouraging, and demonstrate an improvement in the Chinese economy in comparison to the early months of 2008. The Board also wishes to stress that Mesbon has strong cash reserves, and is in a very sound financial position.

## **Dividend Expectations**

The board wishes at this time to reaffirm the expectation of a 2.0 cents unfranked dividend per share, as stated in the Prospectus dated 9 November 2007. The interim dividend will only be declared by the board after the interim financial results have been audited, and further trading results for July and August 2008 have been confirmed.

At the same time, the directors anticipate the activation of the Company's Dividend Reinvestment Plan (DRP). As stated in the Prospectus, the company's largest shareholder, which is associated with Managing Director Mr Shen, has agreed to take up a minimum of 50% of the available dividend in the form of DRP shares, and Mr Shen has confirmed that this shareholder is committed to participating in the DRP. The other directors have also expressed confidence in the company's future, and intend to reinvest their dividends in DRP shares.