



ASX

AUSTRALIAN SECURITIES EXCHANGE

ASX Markets Supervision Pty Ltd
 ABN 26 087 780 489
 91 King William Street
 Adelaide SA 5000

GPO Box 547
 Adelaide SA 5001

Telephone 61 8 8216 5000
 Facsimile 61 8 8216 5099
 www.asx.com.au

4 March 2010

Graham Seppelt
 Company Secretary
 Mesbon China Nylon Limited
 25 Peel Street
 Adelaide SA 5000

By Email: seppelt@bold.net.au

Dear Mr Seppelt,

Mesbon China Nylon Limited (the "Company")

ASX Limited ("ASX") refers to the following:

1. The Company's Half Year Report lodged with ASX on 31 August 2009 ("Half Year Report").
2. Page 7 of the Half Year Report advised the following.
"The directors are also pleased to reaffirm guidance of a profit result for the full year 2009 of between \$3.8 - \$4.5 million." ("Full Year Forecast")
3. The Company's Preliminary Final Report lodged with ASX on 1 March 2010 ("Prelim Report") which disclosed a net profit after tax ("NPAT") of \$2,707,138 for the year ended 31 December 2009.

As you are aware, listing rule 3.1 requires an entity, once it becomes *aware* of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities," to immediately tell ASX that information. The exceptions to this requirement are set out in listing rule 3.1A.

I wish to draw your attention to the definition of "aware" in chapter 19 of the listing rules, which says as follows:

"an entity becomes aware of information if a director or executive director (in the case of a trust, director or executive officer of the responsible entity or management company) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as a director or executive officer of that entity."

In addition paragraph 18 of Guidance Note 8 states:

Australian Securities Exchange

Australian Stock Exchange
 Sydney Futures Exchange

Australian Clearing House
 SFE Clearing Corporation

ASX Settlement and Transfer Corporation
 Austraclear

For personal use only

"Once a director or executive officer becomes aware of information, he or she must immediately consider whether that information should be given to ASX. An entity cannot delay giving information to ASX pending formal sign-off or adoption by the board, for example."

Furthermore, ASX Companies Update 01/10 dated 11 January 2010 drew attention to paragraph 93 of Guidance Note 8, which states:

"Listing rule 3.1 provides examples of information that, if material, would require disclosure. One of those examples is a change in the entity's previously released financial forecast or expectation. As a general policy, a variation in excess of 10% to 15% may be considered material, and should be announced by the entity as soon as the entity becomes aware of the variation. If the entity has not made a forecast, a similar variation from the previous corresponding period will need to be disclosed. In certain circumstances a smaller variation will be disclosable."

Having regard to the above, ASX requests that the Company respond to the following questions.

1. When did the Company first become aware that the NPAT for the period ended 31 December 2009 would be likely to vary by 15% or more from the Full Year Forecast?
2. If the Company became aware that the Full Year Forecast would not be met prior to the release of the Prelim Report, please advise why the Company did not notify the market at that time, or request a trading halt at that time, pending the release of revised profit guidance. Please comment specifically on the application of listing rule 3.1 and the exceptions to the rule in listing rule 3.1A?
3. Your comment is sought on whether the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter. If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

If you are unable to respond by the time requested, you should consider a request for a trading halt in the Company's securities. As set out in listing rule 17.1 and Guidance Note 16 - Trading Halts, we may grant a trading halt at your request. We may require the request to be in writing. We are not required to act on your request. You must tell each of the following.

- The reasons for the trading halt.
- How long you want the trading halt to last.
- The event you expect to happen that will end the trading halt.
- That you are not aware of any reason why the trading halt should not be granted.
- Any other information necessary to inform the market about the trading halt, or that we may ask for.

The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. If a trading halt is requested and granted and you are still unable to reply to this letter before the expiry of the trading halt, suspension will be imposed. The same applies if you have requested a trading halt because you are unable to release information to the market, and are still unable to do so before the commencement of trading.

Your response should be sent to me by e-mail at dion.silvy@asx.com.au or by facsimile on **facsimile number (08) 8216 5099**. It should not be sent to the Company Announcements Office. Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible, and in any event, not later than **4.30 p.m. CDST, Friday 5 March 2010**.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company's response to the market if it considers it necessary for an informed market. Accordingly, it would be appreciated

if you would prepare your response in a format suitable for release to the market and separately address each of the questions asked.

If you have any concerns about release of your response, or any queries in relation to this matter, please contact me immediately.

Yours sincerely,



Dion Silvy
Senior Adviser, Issuers (Adelaide)

For personal use only



ABN 77 123 178 852

China Office

288 Kan Shan Road
Kan Shan Town
Xiaoshan District
Hangzhou City
Zhejiang Province
People's Republic of China

Tel: 0086 571 8258 9615
Fax: 0086 571 8258 7222

Australian Office

25 Peel Street
Adelaide
South Australia 5000
P.O. Box 15
Aldgate
South Australia 5154

Tel: +61 419 035 297
Fax: +61 8 8339 7909

Friday 5 March 2010

Mr Dion Silvy
Senior Adviser, Issuers (Adelaide)
ASX Markets Supervision Pty Ltd
Level 25, 91 King William Street
Adelaide SA 5000

Dear Sir/Madam

Response to Letter from ASX Dated 4 March 2010

Mesbon China Nylon Limited acknowledges the request from ASX Markets Supervision Pty Ltd and responds to each of the questions asked as follows:

1. The first draft of the preliminary financial report in Australian dollars (AUD) as distinct from the management accounts in Chinese renmimbi (RMB) was compiled and brought to the board on Tuesday 16 February 2010.

Prior to that time, all reports to the board were presented in RMB, being the functional currency of the operating company in China.

Mesbon's directors had significant uncertainty as to the number and quantum of adjustments which had been recommended by the auditors as appropriate for the adoption of Australian Accounting Standards and in the reporting currency of the company (AUD).

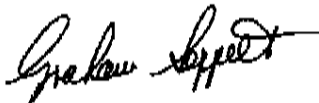
As the differences were significant, particularly in relation to the depreciation rate and the quantum of depreciation of the newly commissioned Phase 3 production facility, and the methodology for conversion of RMB to AUD, the board considered it to be not appropriate to release the results to the market until these outstanding issues were resolved with the Company's directors.

Accordingly, and after discussion in the board meeting, the directors applied the exception to the Listing Rules requirement for continuous disclosure by applying LR 3.1A.3 because the financial results were insufficiently definite to warrant disclosure.

In discussion with the auditors, the company's board agreed the final adjustments, including all unresolved issues concerning the accounts, in particular the significant adjustments for depreciation and currency conversion, on Friday 26th February 2010. It was only at this time that the board became aware that the Company's NPAT would be 15% or more lower than the Full Year Forecast given by the Company.

2. See answer to question 1, and in particular, the comments in relation to L.R. 3.1A.3.
- 3 The Company is aware of its obligations under the listing rules, in particular those arising under listing rule 3.1 and confirms that it is in compliance with listing rule 3.1.

On behalf of the board



Graham Seppelt
Company Secretary

For personal use only