

China Precision Steel, Inc.
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-23039

CHINA PRECISION STEEL, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

14-1623047
(I.R.S. Employer Identification No.)

18th Floor, Teda Building
87 Wing Lok Street, Sheungwan, Hong Kong
People's Republic of China
(Address of principal executive offices, Zip Code)

852-2543-2290
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of each of the issuer’s classes of common stock, as of May 10, 2011 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	46,562,955

CHINA PRECISION STEEL, INC.

Quarterly Report on Form 10-Q
Three and Nine Months Ended March 31, 2011

TABLE OF CONTENTS

PART I		1
FINANCIAL INFORMATION		1
ITEM 1.	FINANCIAL STATEMENTS.	1
ITEM 4.	CONTROLS AND PROCEDURES.	33
PART II		34
OTHER INFORMATION		34
ITEM 1.	LEGAL PROCEEDINGS.	34
ITEM 1A.	RISK FACTORS.	34
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.	34
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES.	34
ITEM 4.	(REMOVED AND RESERVED).	34
ITEM 5.	OTHER INFORMATION.	34
ITEM 6.	EXHIBITS.	34

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA PRECISION STEEL, INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2011 AND 2010

INDEX TO FINANCIAL STATEMENTS

	Page(s)
Financial Statements	
Consolidated Balance Sheets (unaudited)	2
Consolidated Statements of Operations and Comprehensive Income (unaudited)	3
Consolidated Statements of Changes in Stockholders' Equity (unaudited)	4
Consolidated Statements of Cash Flows (unaudited)	5
Notes to Consolidated Financial Statements (unaudited)	6

China Precision Steel, Inc. and Subsidiaries
Consolidated Balance Sheets

	Notes	March 31, 2011 (Unaudited)	June 30, 2010
Assets			
Current assets			
Cash and cash equivalents		\$16,407,991	\$29,036,706
Accounts receivable			
Trade, net of allowances of \$1,049,782 and \$1,013,744 at March 31, 2011 and June 30, 2010, respectively	5	27,272,741	39,598,845
Bills receivable		553,324	4,760,816
Other		769,968	1,369,219
Inventories	6	32,707,700	28,522,198
Prepaid expenses		777,248	534,882
Advances to suppliers, net of allowance of \$1,701,841 and \$1,643,419 at March 31, 2011 and June 30, 2010, respectively	7	35,521,882	13,959,206
Total current assets		114,010,854	117,781,872
Property, plant and equipment			
Property, plant and equipment, net	8	73,477,212	69,907,194
Construction-in-progress	9	6,844,726	3,983,450
		80,321,938	73,890,644
Intangible assets, net	10	1,878,394	1,844,995
Goodwill		99,999	99,999
Total assets		\$196,311,185	\$193,617,510
Liabilities and Stockholders' Equity			
Current liabilities			
Short-term loans	11	\$27,333,697	\$25,965,421
Accounts payable and accrued liabilities		5,302,263	9,952,109
Advances from customers		3,860,501	3,266,377
Other taxes payables		4,217,926	3,868,220
Current income taxes payable		5,723,681	5,393,000
Total current liabilities		46,438,068	48,445,127
Long-term loan	12	18,000,000	18,075,914
Stockholders' equity:			
Preferred stock: \$0.001 par value, 8,000,000 shares			

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

authorized, no shares outstanding at March 31, 2011 and June 30, 2010, respectively	13	-	-
Common stock: \$0.001 par value, 62,000,000 shares authorized, 46,562,955 issued and outstanding at March 31, 2011 and June 30, 2010, respectively	13	46,563	46,563
Additional paid-in capital	13	75,642,383	75,642,383
Accumulated other comprehensive income		15,433,828	10,630,975
Retained earnings		40,750,343	40,776,548
Total stockholders' equity		131,873,117	127,096,469
Total liabilities and stockholders' equity		\$ 196,311,185	\$ 193,617,510

The accompanying notes are an integral part of these consolidated financial statements.

China Precision Steel, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three and Nine Months Ended March 31, 2011 and 2010
(Unaudited)

	Notes	Three Months Ended		Nine Months Ended	
		March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Sales revenues		\$31,489,118	\$29,990,596	\$105,154,101	\$74,046,423
Cost of goods sold		31,530,734	26,560,721	100,902,769	66,277,234
Gross (loss)/profit		(41,616)	3,429,875	4,251,332	7,769,189
Operating expenses					
Selling expenses		93,172	124,589	201,554	227,003
Administrative expenses		111,068	773,102	1,708,188	2,005,841
Allowance for bad and doubtful debts		126	16	19,823	218,200
Depreciation and amortization expense		50,173	37,857	143,884	118,350
Total operating expenses		254,539	935,564	2,073,449	2,569,394
(Loss)/income from operations		(296,155)	2,494,311	2,177,883	5,199,795
Other income/(expense)					
Other revenues		627	9,790	3,239	120,753
Interest and finance costs		(591,118)	(171,928)	(1,908,969)	(675,362)
Total other expense		(590,491)	(162,138)	(1,905,730)	(554,609)
(Loss)/income from operations before income tax		(886,646)	2,332,173	272,153	4,645,186
Provision for income tax	14				
Current		(14,149)	320,819	298,358	319,586
Total income tax expense		(14,149)	320,819	298,358	319,586
Net (loss)/income		\$(872,497)	\$2,011,354	\$(26,205)	\$4,325,600
Basic (loss)/earnings per share	15	\$(0.02)	\$0.04	\$(0.00)	\$0.09
Basic weighted average shares outstanding		46,562,955	46,562,955	46,562,955	46,562,955
Diluted (loss)/earnings per share	15	\$(0.02)	\$0.04	\$(0.00)	\$0.09
Diluted weighted average shares outstanding		46,562,955	46,562,955	46,562,955	46,562,955

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

Components of comprehensive
income/(loss):

Net (loss)/income	\$(872,497)	\$2,011,354	\$(26,205)	\$4,325,600
Foreign currency translation adjustment	1,334,946	20,003	4,802,853	84,109
Comprehensive income	\$462,449	\$2,031,357	\$4,776,648	\$4,409,709

The accompanying notes are an integral part of these consolidated financial statements.

- 3 -

China Precision Steel, Inc. and Subsidiaries
 Consolidated Statements of Changes in Stockholders' Equity
 For the Nine Months Ended March 31, 2011

	Ordinary Shares		Additional	Accumulated	Retained	Total
	Share	Amount	Paid-in	Other	Earnings	Stockholders'
			Capital	Comprehensive		Equity
				Income		
Balance at June 30, 2010	45,562,955	46,563	75,642,383	10,630,975	40,776,548	127,096,469
Foreign currency translation adjustment	-	-	-	4,802,853	-	4,802,853
Net loss	-	-	-	-	(26,205)	(26,205)
Balance at March 31, 2011 (unaudited)	45,562,955	\$46,563	\$75,642,383	\$15,433,828	\$40,750,343	\$131,873,117

The accompanying notes are an integral part of these consolidated financial statements.

China Precision Steel, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
For the Nine Months Ended March 31, 2011 and 2010
(Unaudited)

	2011	2010
Cash flows from operating activities		
Net (loss)/income	\$(26,205)	\$4,325,600
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,931,643	3,850,697
Allowance for bad and doubtful debts	-	218,200
Inventory provision	-	42,537
Net changes in assets and liabilities:		
Accounts receivable, net	18,758,490	4,173,882
Inventories	(3,171,550)	(16,187,073)
Prepaid expenses	(236,418)	(198,228)
Advances to suppliers	(21,066,432)	3,047,186
Accounts payable and accrued expenses	(4,980,726)	(1,261,253)
Advances from customers	478,006	5,244,952
Other taxes payable	212,193	(3,062,421)
Income taxes payable	138,962	518,499
Net cash (used in)/provided by operating activities	(3,962,037)	712,578
Cash flows from investing activities		
Purchase of property, plant and equipment, including construction in progress	(9,635,527)	(4,927,077)
Net cash used in investing activities	(9,635,527)	(4,927,077)
Cash flows from financing activities		
Loan proceeds	497,816	3,735,771
Repayments of short-term loans	(771,106)	(444,471)
Net cash (used in)/provided by financing activities	(273,290)	3,291,300
Effect of exchange rate	1,242,139	8,583
Net decrease in cash	(12,628,715)	(914,616)
Cash and cash equivalents, beginning of period	29,036,706	13,649,587
Cash and cash equivalents, end of period	\$16,407,991	\$12,734,971

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
(Unaudited)

1. Description of Business

China Precision Steel, Inc. (the “Company”, “CPSL” or “we”) is a niche and high value-added steel processing company principally engaged in the manufacture and sale of cold-rolled precision steel products for downstream applications including automobile components and spare parts, kitchen tools, electrical appliances, roofing and food packaging materials. Raw materials, hot-rolled steel coils, will go through certain reduction, heating and cutting processing procedures to give steel coils or plates different thickness and specifications for deliveries in accordance with customers’ requirements. Specialty precision steel offers specific control of thickness, shape, width, surface finish and other special quality features that compliment the emerging need for highly engineered end use applications. Precision steel pertains to the precision of measurements and tolerances of the above factors, especially thickness tolerance.

We have five wholly-owned subsidiaries, Partner Success Holdings Limited (“PSHL”), Blessford International Limited (“Blessford International”), Shanghai Chengtong Precision Strip Company Limited (“Chengtong”), Shanghai Blessford Alloy Company Limited (“Shanghai Blessford”) and Shanghai Tuorong Precision Strip Company Limited (“Tuorong”). The Company’s principal activities are conducted through our two operating subsidiaries, Shanghai Chengtong and Shanghai Blessford with manufacturing facilities located in Shanghai, the People’s Republic of China (the “PRC”). The sole activity of Tuorong is the ownership of land use rights with respect to facilities utilized by Chengtong and Shanghai Blessford. PSHL and Blessford International are both British Virgin Islands companies with the sole purpose of investment holding.

2. Basis of Preparation of Financial Statements

The financial statements have been prepared in order to present the consolidated financial position and consolidated results of operations in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) and are expressed in terms of US dollars (see Note 3 “Foreign Currencies” below).

The accompanying unaudited consolidated financial statements as of March 31, 2011 and for the periods ended March 31, 2011 and 2010 have been prepared in accordance with US GAAP and with the instructions to Form 10-Q and Regulation S-X applicable to smaller reporting companies. In the opinion of management, these unaudited consolidated financial statements include all adjustments considered necessary to make the financial statements not misleading. The results of operations for the nine months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year ending June 30, 2011.

3. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies:

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments purchased with a maturity period of three months or less when purchased to be cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheets for cash and cash equivalents approximate their fair value.

Accounts Receivable – Credit periods vary substantially across industries, segments, types and size of companies in the PRC where we operate our business. Because of the niche products that we process, our customers are usually also niche players in their own respective segment, who then sell their products to end product manufacturers. The business cycle is relatively long, as well as the credit periods. The Company offers credit to its customers for periods

of 60 days, 90 days, 120 days and 180 days. We generally offer longer credit terms to long-standing recurring customers with good payment histories and sizable operations. Accounts receivable are recorded at the time revenue is recognized and are stated net of allowance for doubtful accounts.

- 6 -

Allowance for Doubtful Accounts - The Company maintains an allowance for doubtful accounts based on its assessment of the collectability of the accounts receivable. Management determines the collectability of outstanding accounts by maintaining regular communication with such customers and obtaining confirmation of their intent to fulfill their obligations to the Company. Management also considers past collection experience, our relationship with customers and the impact of current economic conditions on our industry and market. However, we note that the continuation or intensification of the current global economic crisis may have negative consequences on the business operations of our customers and adversely impact their ability to meet their financial obligations. To reserve for potentially uncollectible accounts receivable, management has made a 50% provision for all accounts receivable that are over 180 days past due and full provision for all accounts receivable over 1 year past due. From time to time, we will review these credit periods, along with our collection experience and the other factors discussed above, to evaluate the adequacy of our allowance for doubtful accounts, and to make changes to the allowance, if necessary. If our actual collection experience or other conditions change, revisions to our allowances may be required, including a further provision which could adversely affect our operating income, or write back of provision when estimated uncollectible accounts are actually collected. At March 31, 2011 and June 30, 2010, the Company had \$1,049,782 and \$1,013,744 of allowances for doubtful accounts, respectively.

Bad debts are written off for past due balances over two years or when it becomes known to management that such amount is uncollectible. Provision for bad debts recognized for the nine months ended March 31, 2011 and 2010 were \$19,823 and \$218,200, respectively. The current period charge reflects a provision for doubtful accounts based on our policy described above. Our management is continually working to ensure that any known uncollectible amounts are immediately written off as bad debt against outstanding balances.

Inventories - Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method. Market value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

Cost of inventories comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Costs of conversion of inventories include fixed and variable production overheads, taking into account the stage of completion.

Intangible Assets and Amortization – Intangible assets represent land use rights in China acquired by the Company and are stated at cost less amortization. Amortization of land-use rights is calculated on the straight-line method, based on the period over which the right is granted by the relevant authorities in China.

Advances to Suppliers - In order to insure a steady supply of raw materials, the Company is required from time to time to make cash advances to its suppliers when placing purchase orders, for a guaranteed minimum delivery quantity at future times when raw materials are required. The advance is seen as a deposit to suppliers and guarantees our access to raw materials during periods of shortages and market volatility, and is therefore considered an important component of our operations. Contracted raw materials are priced at prevailing market rates agreed by us with the suppliers prior to each delivery date. Advances to suppliers are shown net of an allowance which represents potentially unrecoverable cash advances at each balance sheet date. Such allowances are based on an analysis of past raw materials receipt experience and the credibility of each supplier according to its size and background. In general, we do not provide allowances against advances paid to those PRC state-owned companies as there is minimal risk of default. Our allowances for advances to suppliers are subjective critical estimates that have a direct impact on reported net earnings, and are reviewed quarterly at a minimum to reflect changes from our historic raw materials receipt experience and to ensure the appropriateness of the allowance in light of the circumstances present at the time of the review. It is reasonably possible that the Company's estimate of the allowance will change, such as in the case when the Company becomes aware of a supplier's inability to deliver the contracted raw materials or meet its financial obligations. As of March 31, 2011 and June 30, 2010, the Company had allowances of advances to suppliers of

\$1,701,841 and \$1,643,419, respectively.

Allowances for advances to suppliers are written off when all efforts to collect the materials or recover the cash advances have been unsuccessful, or when it has become known to the management that there is no intention by the suppliers to deliver the contracted raw materials or refund the cash advances. To date, we have not written off any advances to suppliers.

Property, Plant and Equipment - Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets for financial reporting purposes. The estimated useful lives for significant property and equipment are as follows:

Plant and machinery	10 years
Buildings	10 years
Motor vehicles	5 years
Office equipment	5 to 10 years

Repairs and maintenance costs are normally charged to the statement of operations in the year in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

Impairment of Long-Lived Assets - The Company accounts for impairment of property, plant and equipment and amortizable intangible assets in accordance with ASC 360, which requires the Company to evaluate a long-lived asset for recoverability when there is an event or circumstance that indicates the carrying value of the asset may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset or asset group is not recoverable (when carrying amount exceeds the gross, undiscounted cash flows from use and disposition) and is measured as the excess of the carrying amount over the asset's (or asset group's) fair value.

Capitalized Interest - The Company capitalizes interest cost on borrowings incurred during the new construction or upgrade of qualified assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. During the nine months ended March 31, 2011 and 2010, the Company capitalized nil and \$395,004, respectively, of interest to construction-in-progress.

Construction-in-Progress - Plant and production lines currently under development are accounted for as construction-in-progress. Construction-in-progress is recorded at acquisition cost, including land rights cost, development expenditure, professional fees and the interest expenses capitalized during the course of construction for the purpose of financing the project. Upon completion and readiness for use of the project, the cost of construction-in-progress is to be transferred to property, plant and equipment.

Contingent Liabilities and Contingent Assets - A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, the contingency is then recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

Advances from Customers - Advances from customers represent advance cash receipts from customers and for which goods have not been delivered or services have not been rendered at each balance sheet date. Advances from customers for goods to be delivered or services to be rendered in the subsequent period are carried forward as deferred revenue.

Revenue Recognition - Revenue from the sale of goods and services is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed and services have been rendered. Revenue is reported net of all VAT taxes. Other income is recognized when it is earned.

Functional Currency and Translating Financial Statements – The Company’s principal country of operations is the PRC. Our functional currency is Chinese Renminbi; however, the accompanying consolidated financial statements have been expressed in United States Dollars (“USD”). The consolidated balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. The consolidated statements of operations and cash flows have been translated using the weighted-average exchange rates prevailing during the periods of each statement. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency are dealt with as other comprehensive income in stockholders’ equity.

Accumulated Other Comprehensive Income – Accumulated other comprehensive income represents the change in equity of the Company during the periods presented from foreign currency translation adjustments.

Taxation - Taxation on profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the country in which the Company operates.

United States

China Precision Steel, Inc. is subject to United States federal income tax at a tax rate of 34%. No provision for income taxes in the United States has been made as China Precision Steel, Inc. had no taxable income in the 2011 and 2010 periods.

BVI

PSHL and Blessford International were incorporated in the British Virgin Islands and, under the current laws of the British Virgin Islands, are not subject to income taxes.

PRC

Provision for the PRC enterprise income tax is calculated at the prevailing rate based on the estimated assessable profits less available tax relief for losses brought forward. The Company does not accrue taxes on unremitted earnings from foreign operations as it is the Company's intention to invest these earnings in the foreign operations indefinitely.

Enterprise income tax

On March 16, 2007, the National People's Congress of China passed The Enterprise Income Tax Law (the "New EIT Law"), and on December 6, 2007, the State Council of China passed the Implementing Rules for the EIT Law ("Implementing Rules") which took effect on January 1, 2008. The New EIT Law and Implementing Rules impose a unified enterprise income tax ("EIT") of 25% on all domestic-invested enterprises and foreign invested entities ("FIEs"), unless they qualify under certain limited exceptions. Therefore, nearly all FIEs are subject to the new tax rate alongside other domestic businesses rather than benefiting from the old FIE tax laws, and its associated preferential tax treatments, beginning January 1, 2008.

Despite these changes, the EIT Law gives the FIEs established before March 16, 2007 ("Old FIEs") a five-year grandfather period during which they can continue to enjoy their existing preferential tax treatments, commonly referred to as "tax holidays", until these holidays expire. As an Old FIE, Chengtong's tax holiday of a 50% reduction in the 25% statutory rates expired on December 31, 2008 and it is currently subject to the 25% statutory rates since January 1, 2009; Shanghai Blessford's full tax exemption from the enterprise income tax expired on December 31, 2009, and it is subject to a 50% reduction for the three subsequent years expiring on December 31, 2012. Subsequent to the expiry of their tax holidays, Chengtong and Shanghai Blessford will be subject to enterprise income taxes at 25% or the prevailing statutory rates. The discontinuation of any such special or preferential tax treatment or other incentives would have an adverse effect on any organization's business, fiscal condition and current operations in China.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Effective January 1, 2007, the Company adopted the provisions of the ASC Topic No. 740 “Accounting for Income Taxes” and “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“ASC 740”). ASC 740 requires the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the financial statements and tax bases of its assets and liabilities. Deferred tax assets and liabilities primarily relate to tax basis differences on unrealized gains on corporate equities, stock-based compensation, amortization periods of certain intangible assets and differences between the financial statements and tax bases of assets acquired.

The Company recognizes that virtually all tax positions in the PRC are not free of some degree of uncertainty due to tax law and policy changes in the PRC. However, the Company cannot reasonably quantify political risk factors and thus must depend on guidance issued by current officials in the PRC.

Based on all known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax benefits as of March 31, 2011 is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount of unrecognized tax benefits as of March 31, 2011, if recognized, would not have a material effect on its effective tax rate. The Company further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the Company's results of operations, financial condition or cash flows.

Value added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on January 1, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided, but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

The revised People's Republic of China Tentative Regulations on Value Added Tax became effective on January 1, 2009 with the issuance of Order of the State Council No. 538. With the implementation of this VAT reform, input VAT associated with the purchase of fixed assets is now deductible against output VAT.

Retirement Benefit Costs - According to the PRC regulations on pension, Chengtong and Shanghai Blessford contribute to a defined contribution retirement scheme organized by municipal government in the province in which Chengtong and Shanghai Blessford were registered and all qualified employees are eligible to participate in the scheme. Contributions to the scheme are calculated at 23.5% of the employees' salaries above a fixed threshold amount and the employees contribute 2% to 8%, while Chengtong and Shanghai Blessford contribute the balance contribution of 15.5% to 21.5%. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under this scheme.

For the nine months ended March 31, 2011 and 2010, the Company's pension cost charged to the statements of operations under the plan amounted to \$156,227 and \$128,273, respectively, all of which have been paid to the National Social Security Fund.

Fair Value of Financial Instruments - The carrying amounts of certain financial instruments, including cash, accounts receivable, other receivables, short-term loans, accounts payable, accrued expenses, and other payables approximate their fair values as at March 31, 2011 and June 30, 2010 because of the relatively short-term maturity of these instruments. The Company considers the carrying amount of long-term loans to approximate their fair values based on the interest rates of the instruments and the current market rate of interest.

Use of Estimates - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Concentrations of Business and Credit Risk

The Company's list of customers whose purchases from us were 10% or more of total sales during nine months ended March 31, 2011 and 2010 is as follows:

a. Customers	2011	% to sales	2010	% to sales
Shanghai Shengdejia Metal Co. Ltd	23,169,045	22	12,322,906	17
Shanghai Changshuo Steel Company, Ltd	16,927,848	16	15,806,668	21

The Company's list of suppliers whose sales to us exceeded 10% of our total purchases during nine months ended March 31, 2011 and 2010 is as follows:

- 10 -

b. Suppliers	2011	% to consumption	2010	% to consumption
Dachang Huizu Baosheng Steel Products Co., Ltd.	23,306,122	27	23,876,549	31
Zhejinag Wuchan Metal Group Co., Ltd.	14,875,802	17	-*	-*
Wuxi Hangda Trading Co., Ltd.	14,493,971	16	13,515,717	18
Guangzhou Zhujiang Steel Co., Ltd.	-*	-*	10,265,428	14

* Not 10% suppliers for the relevant period

Our management continues to take appropriate actions to perform ongoing business and credit reviews of our customers to reduce our exposure to new and recurring customers who have been deemed to pose a high credit risk to our business based on their commercial credit reports, our collection history, and our perception of the risk posed by their geographic location.

5. Accounts Receivable

The Company provides credit in the normal course of business. The Company performs ongoing credit evaluations of its domestic and international customers and clients and maintains allowances for bad and doubtful accounts based on factors surrounding the credit risk of specific customers and clients, historical trends, and other information. Trade accounts receivable, net totaled \$27,272,741 and \$39,598,845 as of March 31, 2011 and June 30, 2010, respectively.

From time to time, accounts receivable are reviewed for changes from the historic collection experience to ensure the appropriateness of the allowances. These estimates have been relatively accurate in the past and currently there is no need to revise such estimates. However, we will review such estimates more frequently when needed, and make revisions if necessary. The continuation or intensification of the current global economic crisis and turmoil in the global financial markets may have negative consequences for the business operations of our customers and adversely impact their ability to meet their obligations to us. A significant change in our collection experience, deterioration in the aging of receivables and collection difficulties could require that we increase our estimate of the allowance for doubtful accounts. Any such additional bad debt charges could materially and adversely affect our future operating results.

6. Inventories

The Company was required under GAAP to write down the value of our inventories to their net realizable values (average selling prices less reasonable costs to convert the inventories into completed form) in the amount of \$42,816 for the year ended June 30, 2010.

As of March 31, 2011 and June 30, 2010, inventories consisted of the following:

	March 31, 2011	June 30, 2010
At cost:		
Raw materials	\$ 6,802,876	\$ 5,551,003
Work in progress	9,465,863	15,443,410
Finished goods	12,488,827	4,291,384
Consumable items	3,950,134	3,279,217
	32,707,700	28,565,014
Less: provision	-	(42,816)
	\$ 32,707,700	\$ 28,522,198

Costs of finished goods include direct labor, direct materials, and production overhead before the goods are ready for sale.

Consumable items represent parts used in our cold rolling mills and other equipment that need to be serviced and replaced from time to time when necessary to ensure optimal operating results, such as bearings and rollers.

Inventories amounting to \$6,566,399 (June 30, 2010: \$6,588,535) were pledged for short-term loans totaling \$18,782,641 at March 31, 2011 (June 30, 2010: \$18,137,848).

- 11 -

7. Advances to Suppliers

Advances to suppliers are shown net of allowances of \$1,701,841 and \$1,643,419 at March 31, 2011 and June 30, 2010, respectively.

The majority of our advances to suppliers greater than 180 days as of March 31, 2011 is attributable to our advances to a single supplier, a subsidiary of a state-owned company in the PRC. We believe that advances paid to state-owned companies are ultimately collectible because they are backed by the full faith and credit of the PRC government. As such, we generally do not provide allowances against such advances.

8. Property, Plant and Equipment

Property, plant and equipment, stated at cost less accumulated depreciation, consisted of the following:

	March 31, 2011	June 30, 2010
Plant and machinery	\$ 71,663,163	\$ 62,486,750
Buildings	22,745,586	21,964,748
Motor vehicles	690,132	554,368
Office equipment	512,200	472,537
	95,611,081	85,478,403
Less: Accumulated depreciation	(22,133,869)	(15,571,209)
	\$ 73,477,212	\$ 69,907,194

Depreciation expense related to manufacturing is included as a component of cost of goods sold. During the three and nine months ended March 31, 2011, depreciation totaling \$1,107,654 and \$3,859,270, respectively, was included as a component of cost of goods sold (March 31, 2010: \$983,734 and \$2,334,882, respectively).

Plant and machinery amounting to \$38,715,225 (June 30, 2010: \$40,543,231) and \$22,092,361 (June 30, 2010: \$23,161,753) were pledged for short-term loans totaling \$26,835,880 and long-term loans totaling \$18,000,000, respectively, at March 31, 2011 (June 30, 2010: \$25,965,421 and \$18,075,914, respectively).

9. Construction-In-Progress

As of March 31, 2011 and June 30, 2010, construction-in-progress consisted of the following:

	March 31, 2011	June 30, 2010
Construction costs	\$ 6,844,726	\$ 3,983,450

Construction-in-progress represents construction and installations of annealing furnaces and testing equipment.

10. Intangible Assets

Intangible assets include computer software and land use rights.

Land use rights amounting to \$1,872,240 (June 30, 2010: \$1,837,140) were pledged for short-term loans totaling \$26,835,880 (June 30, 2010: \$25,965,421).

The Company acquired land use rights in August 2004 and December 2006 for 50 years that expire in August 2054 and December 2056, respectively. The land use rights are amortized over a fifty-year term. An amortization amount of approximately \$37,000 is to be recorded each year starting from the financial year ended June 30, 2009 for the remaining lease period.

Amortizable intangible assets of the Company are reviewed when there are triggering events to determine whether their carrying value has become impaired, in conformity with ASC 360. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives.

- 12 -

11. Short-Term Loans

Short-term loans consisted of the following:

	March 31, 2011	June 30, 2010
Bank loan dated June 18, 2010, due July 31, 2011 with an interest rate at 115% of the standard market rate set by the People's Bank of China ("PBOC") (6.97% at March 31, 2011) per annum (Notes 8 and 10)	8,053,239	5,300,000
Bank loan dated July 23, 2009, due July 31, 2010 with an interest rate at 115% of the standard market rate set by PBOC (6.97% at March 31, 2011) per annum (Notes 8 and 10)	-	2,527,573
Bank loan dated January 19, 2011, due July 18, 2011 with an interest rate of 6.42% per annum	497,817	-
Bank loan dated June 18, 2010, due July 31, 2011 with an interest rate at 115% of the standard market rate set by PBOC (6.97% at March 31, 2011) per annum (Notes 6, 8 and 10)	18,782,641	18,137,848
	\$ 27,333,697	\$ 25,965,421

The above bank loans outstanding as at March 31, 2011 are Renminbi ("RMB") loans. Other than the bank loan dated January 19, 2011 that is secured by bills receivable, all other short-term loans carry an interest rate of 1.15 times of the standard market rate set by PBOC, due on July 31, 2011, and are secured by inventories, land use rights, buildings and plant and machinery, and guaranteed by PSHL and our Chairman, Mr. Wo Hing Li. In addition, pursuant to a bank loan agreement entered into between the Company and Raiffeisen Zentralbank Osterreich AG ("RZB"), Mr. Li undertakes to maintain a shareholding percentage in the Company of not less than 33.4% unless otherwise agreed to with RZB.

The weighted-average interest rate on short-term loans at March 31, 2011 and June 30, 2010 was 6.96% and 5.59%, respectively.

12. Long-Term Loan

On January 29, 2010, Shanghai Blessford entered into a Senior Loan Agreement with DEG-Deutsche Investitions-Und Entwicklungsgesellschaft Mbh ("DEG") for a loan amount up to \$18,000,000 at an annual interest rate of 4.5% above the six-month USD London Interbank Offered Rate ("LIBOR"). On June 23, 2010, the Company drew \$18,000,000 against this facility and exchanged such amount to RMB122,580,000 at the then prevailing exchange rate. This RMB loan balance is translated into USD at the exchange rates prevailing at each balance sheet date. Starting from the period ended March 31, 2011, any difference in amount at each balance sheet date compared with the loan principal of \$18,000,000 is accounted for as exchange gain or loss for the relevant period as the loan will be repaid in USD at maturity.

	March 31 2011,	June 30, 2010
Bank loan dated January 29, 2010, due June 22, 2017 with an interest rate of LIBOR plus 4.5% (4.9608% at March 31, 2011) per annum (Note 8)	18,000,000	\$ 18,075,914

The above loan is to be repaid semi-annually over five years starting on December 15, 2011 and is secured by a mortgage on the new cold rolling line and annealing furnaces at Shanghai Blessford's facilities.

Maturities of long-term loan for the years ending June 30:

2011	\$	-
2012	\$	3,600,000
2013	\$	3,600,000
2014	\$	3,600,000
2015	\$	3,600,000
2016	\$	3,600,000
Total	\$	18,000,000

- 13 -

13. Stock Warrants

In connection with a Stock Purchase Agreement dated February 16, 2007 for the Company's private placement offerings (the "Private Placement"), on February 22, 2007, the Company issued warrants to the placement agents to purchase an aggregate of 1,300,059 shares of Common Stock as partial compensation for services rendered in connection with the Private Placement valued at \$2,770,349. The value of the warrants was considered syndication fees and was recorded to additional paid-in capital. 851,667 of these warrants were exercised during the year ended June 30, 2008. The remaining warrants were not exercised and expired on November 5, 2010.

On February 22, 2007, the Company issued warrants to purchase up to 100,000 shares of Common Stock to the Company's then investor relations consultants valued at \$447,993. The value of these was considered syndication fees in association with the Private Placement and was recorded to additional paid-in capital. These warrants were not exercised and expired on February 22, 2010.

On November 6, 2007, in connection with the Subscription Agreement, the Company issued to certain institutional accredited investors warrants to purchase 1,420,000 shares of Common Stock valued at \$5,374,748, and Roth Capital Partners, LLC, as placement agent, received warrants to purchase 225,600 shares of Common Stock valued at \$887,504. These amounts were recorded as syndication fees offsetting additional paid-in capital. Warrants issued to Roth Capital were not exercised and expired on November 5, 2010.

Information with respect to stock warrants outstanding is as follows:

Exercise Price	Outstanding June 30, 2010	Granted	Expired or Exercised	Outstanding March 31, 2011	Expiration Date
\$ 8.45	1,420,000	-0-	-0-	1,420,000	May 5, 2013

14. Income Taxes

For PRC enterprise income tax reporting purposes, the Company is required to compute a 10% salvage value when computing depreciation expense and add back the allowance for doubtful debts. For financial reporting purposes, the Company does not take into account a 10% salvage value when computing depreciation expenses.

The tax holiday resulted in tax savings as follows:

	Nine months ended March 31,	
	2011	2010
Tax savings	\$ 121,692	\$ 855,583
Benefit per share		
Basic	\$ 0.00	\$ 0.02
Diluted	\$ 0.00	\$ 0.02

Significant components of the Group's deferred tax assets and liabilities as of March 31, 2011 and June 30, 2010 are as follows:

	March 31, 2011	June 30, 2010
Deferred tax assets and liabilities:		
Net operating loss carried forward	\$ 2,208,935	\$ 1,938,915
Temporary differences resulting from allowances	1,987,538	1,906,348

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

Net deferred income tax asset	4,196,473	3,845,263
Valuation allowance	(4,196,473)	(3,845,263)
	\$ -	\$ -

The Company has not recognized a deferred tax liability in respect of the undistributed earnings of its foreign subsidiaries of approximately US\$18,912,781 as of March 31, 2011 because the Company currently plans to reinvest those unremitted earnings such that the remittance of the undistributed earnings of those foreign subsidiaries to the Company will be postponed indefinitely. A deferred tax liability will be recognized when the Company no longer plans to permanently reinvest undistributed earnings.

- 14 -

A reconciliation of the provision for income taxes with amounts determined by the PRC income tax rate to income tax expense per books is as follows:

	Nine months ended March 31,	
	2011	2010
Computed tax at the PRC statutory rate of 25%	\$ (2,138)	\$ 1,091,466
Valuation allowance	351,210	88,481
Income not subject to tax	(81,188)	(3,545)
Under/(over) provision in current year	152,166	(1,233)
Benefit of tax holiday	(121,692)	(855,583)
Income tax expense per books	\$ 298,358	319,586

Income tax expense consists of:

	Nine months ended March 31,	
	2011	2010
Income tax expense for the period - PRC	\$ 298,358	\$ 319,586
Deferred income tax benefit - PRC	-	-
Income tax expense per books	\$ 298,358	\$ 319,586

15. Earnings/(loss) Per Share

ASC 260-10 requires a reconciliation of the numerator and denominator of the basic and diluted earnings/(loss) per share (EPS) computations.

For the three and nine months ended March 31, 2011, warrants to purchase 1,420,000 shares at an exercise price of \$8.45 were not included as their effect would have been anti-dilutive, however, these securities could potentially dilute basic earnings per share in the future.

For the three and nine months ended March 31, 2010, warrants to purchase 358,392 shares of common stock at an exercise price of \$3.00; 100,000 shares at an exercise price of \$3.60; 1,420,000 shares at an exercise price of \$8.45 and 225,600 shares at an exercise price of \$7.38 were not included as their effect would have been anti-dilutive, however, these securities could potentially dilute basic earnings per share in the future.

The following reconciles the components of the EPS computation:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
For the three months ended March 31, 2011:			
Net loss	\$ (872,497)		
Basic EPS loss available to common shareholders	\$ (872,497)	46,562,955	\$ (0.02)
Effect of dilutive securities:			
Warrants		-	
Diluted EPS loss available to common shareholders	\$ (872,497)	46,562,955	\$ (0.02)
For the three months ended March 31, 2010:			
Net income	\$ 2,011,354		
Basic EPS income available to common shareholders	\$ 2,011,354	46,562,955	\$ 0.04
Effect of dilutive securities:			

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

Warrants			-	
Diluted EPS income available to common shareholders	\$	2,011,354	46,562,955	\$ 0.04

- 15 -

	Income (Numerator)	Shares (Denominator)	Per Share Amount
For the nine months ended March 31, 2011:			
Net loss	\$ (26,205)		
Basic EPS loss available to common shareholders	\$ (26,205)	46,562,955	\$ (0.00)
Effect of dilutive securities:			
Warrants		-	
Diluted EPS loss available to common shareholders	\$ (26,205)	46,562,955	\$ (0.00)
For the nine months ended March 31, 2010:			
Net income	\$ 4,325,600		
Basic EPS income available to common shareholders	\$ 4,325,600	46,562,955	\$ 0.09
Effect of dilutive securities:			
Warrants		-	
Diluted EPS income available to common shareholders	\$ 4,325,600	46,562,955	\$ 0.09

16. Capital Commitments

As of March 31, 2011, the Company had contractual commitments of \$2,151,050 (June 30, 2010: \$4,556,039) for share capital injection commitment related to Shanghai Blessford.

17. Impairment

We determine impairment of long-lived assets, including property, plant and equipment and amortizable intangible assets, by measuring the estimated undiscounted future cash flows generated by these assets, comparing the result to the assets' carrying values and adjust the assets to the lower of its carrying value or fair value and charging current operations for the measured impairment. The determination of the undiscounted future cash flows and fair value of these assets are subject to significant judgment.

The recent decline in our market capitalization and stock price has triggered an impairment test under ASC 360 for the nine months ended March 31, 2011 and no impairment charges were recognized for the relevant period. As of March 31, 2011, the Company expects these assets to be fully recoverable based on the result of the impairment test.

Goodwill amounting to \$99,999 as at March 31, 2011 was considered immaterial and not tested for impairment in accordance with ASC 350.

18. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance now codified as ASC 810, "Amendments to FASB Interpretation No. 46(R)" ("ASC 810"), which amends FASB Interpretation No. 46 (revised December 2003), now codified as ASC 810-10, to address the elimination of the concept of a qualifying special purpose entity. ASC 810 also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, ASC 810 provides more timely and useful information about an enterprise's involvement with a variable interest entity. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, "Measuring Liabilities at Fair Value" ("ASU 2009-05"). ASU 2009-05 amends ASC 820, "Fair Value Measurements" ("ASC 820"). Specifically, ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of ASC 820 (e.g. an income approach or market approach). ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

- 16 -

In October 2009, the FASB issued ASU No. 2009-13 on ASC 605, "Revenue Recognition" ("ASC 605"), regarding multiple-deliverable revenue arrangements. This ASU provides amendments to the existing criteria for separating consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable, eliminate the residual method of allocation of arrangement consideration to all deliverables and require the use of the relative selling price method in allocation of arrangement consideration to all deliverables, require the determination of the best estimate of a selling price in a consistent manner, and significantly expand the disclosures related to the multiple-deliverable revenue arrangements. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

In October 2009, the FASB issued ASU No. 2009-15, "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing" ("ASU 2009-15"). ASU 2009-15 amends ASC 470, "Debt with Conversion and Other Options" ("ASC 470"), and ASC 260, "Earnings Per Share" ("ASC 260"). Specifically, ASU 2009-15 requires companies to mark stock loan agreements at fair value and recognize the cost of the agreements by reducing the amount of additional paid-in capital on their financial statements. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

In December 2009, the FASB issued ASU 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" ("ASU 2009-17"). ASU 2009-17 details the amendments to ASC 810, "Consolidation", which are the result of FASB Statement No. 167, "Amendments to FASB Interpretation No. 46(R)". That statement was issued by the FASB in June 2009. ASU 2009-17 amends the variable-interest entity guidance in ASC 810 to clarify the accounting treatment for legal entities in which equity investors do not have sufficient equity at risk for the entity to finance its activities without financial support. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"). ASU 2010-06 requires reporting entities to provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by ASC 820. The guidance is effective for any fiscal year that begins after December 15, 2010 and should be used for quarterly and annual filings. We are currently evaluating the impact on our financial statements of adopting the amendments in ASU 2010-06 and cannot estimate the impact of adoption at this time.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Special Note Regarding Forward Looking Statements

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We use words such as “believe,” “expect,” “anticipate,” “project,” “target,” “plan,” “optimistic,” “intend,” “aim,” “will,” and other expressions which are intended to identify forward-looking statements. Such statements include, among others, those concerning market and industry segment growth and demand and acceptance of new and existing products; any projections of sales, earnings, revenue, margins or other financial items; any statements of the plans, strategies and objectives of management for future operations; and any statements regarding future economic conditions or performance, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, as well as assumptions, which, if they were to ever materialize or prove incorrect, could cause the results of the Company to differ materially from those expressed or implied by such forward-looking statements. Potential risks and uncertainties include, among other things, factors such as: plans to expand our exports outside of China; plans to increase our production capacity and the anticipated dates that such facilities may commence operations; our ability to obtain additional funding for our continuing operations and to fund our expansion; our ability to meet our financial projections for any financial year; our ability to retain our key executives and to hire additional senior management; continued growth of the Chinese economy and industries demanding our products; our ability to secure at acceptable prices the raw materials we need to produce our products; political changes in China that may impact our ability to produce and sell our products in our target markets; general business conditions and competitive factors, including pricing pressures and product development; and changes in our relationships with customers and suppliers. You should carefully review the risk factors described in other documents we file from time to time with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K for our fiscal year ended June 30, 2010.

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the related notes that appear in Part I, Item 1, “Financial Statements,” of this quarterly report. Our unaudited consolidated financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles. The following discussion and analysis covers the Company’s consolidated financial condition at March 31, 2011 (unaudited) and June 30, 2010, the end of its prior fiscal year, and its unaudited consolidated results of operation for the three and nine months ended March 31, 2011 and 2010.

Use of Terms

Except as otherwise indicated by the context, all references in this report to:

- “CPSL,” “Company,” “Group,” “we,” “us” or “our” are to China Precision Steel, Inc., a Delaware corporation, and its direct and indirect subsidiaries;
- “PSHL” are to our subsidiary Partner Success Holdings Limited, a BVI company;
- “Blessford International” are to our subsidiary Blessford International Limited, a BVI company;
- “Shanghai Blessford” are to our subsidiary Shanghai Blessford Alloy Company Limited, a PRC company;

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

- “Chengtong” are to our subsidiary Shanghai Chengtong Precision Strip Company Limited, a PRC company;
- “Tuorong” are to our subsidiary Shanghai Tuorong Precision Strip Company Limited, a PRC company;
 - “China” and “PRC” are to the People’s Republic of China;
 - “BVI” are to the British Virgin Islands;
 - “SEC” are to the United States Securities and Exchange Commission;
 - “Securities Act” are to the Securities Act of 1933, as amended;
 - “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
 - “RMB” are to Renminbi, the legal currency of China; and

- “U.S. dollar,” “USD,” “US\$” and “\$” are to the legal currency of the United States.

Overview of our Business

We are a niche and high value-added steel processing company principally engaged in the manufacture and sale of high precision cold-rolled steel products, in the provision of heat treatment and in the cutting and slitting of medium and high-carbon hot-rolled steel strips. We use commodity steel to create a high value-added specialty premium steel. Specialty precision steel pertains to the precision of measurements and tolerances of thickness, shape, width, surface finish and other special quality features of highly-engineered end-use applications.

We produce and sell precision ultra-thin and high strength cold-rolled steel products ranging from 7.5 mm to 0.03 mm. We also provide heat treatment and cutting and slitting of medium and high-carbon hot-rolled steel strips not exceeding 7.5 mm thickness. Our process puts hot-rolled de-scaled (pickled) steel coils through a cold-rolling mill, utilizing our patented systems and high technology reduction processing procedures, to make steel coils and sheets in customized thicknesses according to customer specifications. Currently, our specialty precision products are mainly used in the manufacture of automobile parts and components, steel roofing, plane friction discs, appliances, food packaging materials, saw blades, textile needles, and microelectronics.

We conduct our operations principally in China through our wholly-owned operating subsidiaries, Chengtong and Shanghai Blessford, which are wholly owned subsidiaries of our direct subsidiary, PSHL. Most of our sales are made domestically in China; however, we began exporting during fiscal 2007 and our overseas market currently covers Indonesia, Thailand, the Caribbean, Nigeria and Ethiopia. We intend to further expand into additional overseas markets in the future, subject to suitable market conditions and favorable regulatory controls.

Third Quarter Financial Performance Highlights

Our third fiscal quarters are usually slower than other quarters of our fiscal year due to the Chinese New Year holidays and a shorter February month. This year 10 days of production were lost due to the holidays and we also experienced slower customer orders during the quarter due to uncertainties in the continuity of certain PRC stimulus policies which impact our end markets and in global demand. We have seen increased selling prices but also faster increases in the cost of raw materials. Although demand improved towards the end of the third quarter and there are expectations of an overall increase in domestic consumption going forward, we may not be able to fully pass on the increase in cost to our customers. We remain cautiously optimistic with increasing demand but also the possibilities that there may be further increases in raw material costs.

During the three months ended March 31, 2011, we sold a total of 36,475 tons of products, a decrease of 478 tons from 36,953 tons during the same period a year ago, due to slower demand and outlook uncertainties during the period. Demand uncertainties and increased cost of sales, mainly increased raw material costs, have led to a gross loss of \$41,616 and a net loss of \$872,497 for the three months ended March 31, 2011. We are currently operating a total of three cold rolling mills at a combined utilization rate of approximately 70% as of March 31, 2011. Total Company backlog as of March 31, 2011 was \$21,760,105.

To combat high inflation and rising costs in China and to increase overall profitability, we are actively working on expanding our customer base to increase total demand and reduce per unit cost, and on optimizing our product mix by carrying out research and development (“R&D”) to improve profitability for existing product types and by prioritizing sales of higher margin products among existing customers and markets. We will also continue to take appropriate actions to perform business and credit reviews of customers and suppliers and strengthen collection of accounts receivable with the goal to maintain overall healthy sales volume, margins and cash positions.

We believe that high barriers to entry in the Chinese domestic precision cold-rolled steel industry still exist because of the level of technological expertise and the amount of capital required for operation. Although we expect a

continuation of volatility in demand in both domestic and international markets, and rising steel prices could have adverse impacts on our gross margins in the near future, the medium to long term prospects of our niche remain highly optimistic. We believe that our unique capabilities and know-how give us a competitive advantage to grow sales and build a globally recognized brand as we continue to carry out R&D and expand to new segments, customers and markets.

The following are some financial highlights for the third fiscal quarter:

- Revenues: Our revenues were approximately \$31.5 million for the third quarter, an increase of 5.0% from last year.

- 19 -

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

- Gross Margin: Gross margin was (0.1)% for the third quarter, as compared to 11.4% last year.
- (Loss)/income from operations before tax: Loss from operations before tax was approximately \$0.9 million for the third quarter, as compared to income of approximately \$2.3 million last year.
- Net (loss)/income: Net loss was approximately \$0.9 million for the third quarter, as compared to income of approximately \$2.0 million last year.
- Fully diluted (loss)/income per share: Fully diluted loss per share was \$(0.02) for the third quarter, compared to income of \$0.04 last year.

Results of Operations

The following table sets forth key components of our results of operations for the periods indicated, in USD and as a percentage of revenues.

Comparison of Three and Nine Months Ended March 31, 2011 and 2010

	Three Months Ended March 31, 2011		2010		Nine Months Ended March 31, 2011		2010	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Revenues	\$ 31,489,118	100.0	\$ 29,990,596	100.0	\$ 105,154,101	100.0	\$ 74,046,423	100.0
Cost of sales (including depreciation and amortization)	31,530,734	100.1	26,560,721	88.6	100,902,769	96.0	66,277,234	89.5
Gross (loss)/profit	(41,616)	(0.1)	3,429,875	11.4	4,251,332	4.0	7,769,189	10.5
Selling and marketing expenses	93,172	0.3	124,589	0.4	201,554	0.2	227,003	0.3
Administrative expenses	111,068	0.4	773,102	2.6	1,708,188	1.6	2,005,841	2.7
Allowance for bad and doubtful debts	126	<0.1	16	<0.1	19,823	<0.1	218,200	0.3
Depreciation and amortization expense	50,173	0.2	37,857	0.1	143,884	0.1	118,350	0.2
Total operating expenses	254,539	0.8	935,564	3.1	2,073,449	2.0	2,569,394	3.5
(Loss)/income from operations	(296,155)	(1.0)	2,494,311	8.3	2,177,883	2.1	5,199,795	7.0
Other revenues	627	<0.1	9,790	<0.1	3,239	<0.1	120,753	0.2
Interest and finance costs	(591,118)	(1.9)	(171,928)	(0.6)	(1,908,969)	(1.8)	(675,362)	(0.9)
Total other (expense)	(590,491)	(1.9)	(162,138)	(0.5)	(1,905,730)	(1.8)	(554,609)	(0.7)
(Loss)/income before income taxes	(886,646)	(2.8)	2,332,173	7.8	272,153	0.3	4,645,186	6.3

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

Income tax								
(benefit)/expense	(14,149)	<(0.1)	320,819	1.1	298,358	0.3	319,586	0.4
Net (loss)/income	\$ (872,497)	(2.8)	\$ 2,011,354	6.7	\$ (26,205)	<(0.1)	\$ 4,325,600	5.8
Basic								
(loss)/earnings per share	\$ (0.02)		\$ 0.04		\$ (0.00)		\$ 0.09	
Diluted								
(loss)/earnings per share	\$ (0.02)		\$ 0.04		\$ (0.00)		\$ 0.09	

Sales Revenues. Sales volume decreased by 478 tons, or 1.3%, period-on-period, to 36,475 tons, for the period ended March 31, 2011, from 36,953 tons for the period ended March 31, 2010 and sales revenues increased by \$1,498,522, or 5.0%, period-on-period, to \$31,489,118 for the period ended March 31, 2011, from \$29,990,596 for the period ended March 31, 2010. The increase in sales revenues is mainly attributable to higher average selling prices and was offset by a lower volume sold.

Sales by Product Line

A breakdown of our sales by product line for the three months ended March 31, 2011 and 2010 is as follows:

Product Category	Three Months Ended March 31,							Period-on-Period Qty. Variance
	Quantity (tons)	2011 \$ Amount	% of Sales	Quantity (tons)	2010 \$ Amount	% of Sales		
Low carbon hard rolled	225	278,168	1	5,802	4,071,505	14	(5,577)	
Low carbon cold-rolled	27,827	23,031,005	73	19,148	14,836,000	49	8,679	
High-carbon hot-rolled	715	733,907	2	1,521	1,361,571	4	(806)	
High-carbon cold-rolled	7,065	6,775,354	22	5,441	5,561,538	19	1,624	
Subcontracting income	643	96,601	<1	5,041	3,902,652	13	(4,398)	
Sales of scrap metal	-	574,083	2	-	257,330	1	-	
Total	36,475	31,489,118	100	36,953	29,990,596	100	(478)	

There were different trends of demand across various product categories during the three months ended March 31, 2011. High-carbon cold-rolled steel products accounted for 22% of the current sales mix, at an average selling price of \$959 per ton for the period ended March 31, 2011, compared to 19% of the sales mix at an average selling price per ton of \$1,022 for the period ended March 31, 2010. The products in this category are mainly used in the automobile industry. Sales increased period-on-period as a result of a growing demand despite the termination of automobile stimulus policies by the Chinese government at the beginning of 2011 calendar year. Low-carbon cold-rolled steel products accounted for 73% of the current sales mix at an average selling price of \$828 per ton for the three months ended March 31, 2011, compared to 49% of the sales mix at an average selling price per ton of \$775 for the three months ended March 31, 2010. The increase in demand in this category during the period was a result of increased orders of steel used in the production of home appliances due to subsidies granted by the Chinese government to encourage consumer spending in the prior year. Low-carbon hard-rolled steel products accounted for 1% of the current sales mix at an average selling price of \$1,236 per ton for the three months ended March 31, 2011, compared to 14% of the sales mix at an average selling price per ton of \$702 for the three months ended March 31, 2010, as customers held off orders due to demand uncertainties in the global market. Subcontracting income revenues accounted for \$96,601, or less than 1% of the sales mix for the three months ended March 31, 2011, as compared to \$3,902,652, or 13%, of the sales mix for the three months ended March 31, 2010.

	Three Months Ended March 31,		Variance	
	2011 (\$)	2010 (\$)	(\$)	(%)
Average Selling Prices				
Low-carbon hard rolled	1,236	702	534	76
Low-carbon cold-rolled	828	775	53	7
High-carbon hot-rolled	1,026	895	131	15
High-carbon cold-rolled	959	1,022	(63)	(6)
Subcontracting income	150	774	(624)	(81)

The average selling price per ton increased to \$863 for the three months ended March 31, 2011, compared to \$812 last year, representing an increase of \$51, or 6.3%, period-on-period. This increase was mainly due to increases in general steel prices and therefore our selling prices during the period.

Sales Breakdown by Major Customer

Customers	Three Months Ended March 31,			
	2011 \$	% of Sales	2010 \$	% of Sales
Shanghai Changshuo Steel Co., Ltd.	5,063,932	16	7,333,423	24
Shanghai Shengdejia Metal Products Co., Ltd.	4,548,200	14	5,857,561	20
Wuxi Xingyu Thin Plate Co., Ltd.	3,559,802	11	-*	-*
Sinolight Materials Corporation	3,293,373	11	-*	-*
Zhejiang Aoguan Thin Plate Co., Ltd.	2,994,056	10	-*	-*
Hangzhou Cogeneration Co., Ltd.	-*	-*	5,394,598	18
Fortune Best Corporation Limited	-*	-*	1,357,560	5
Zhangjiagang Gangxing Innovative Construction Material Co., Ltd.	-*	-*	944,460	3
	19,459,363	62	20,887,602	70
Others	12,029,755	38	9,102,994	30
Total	31,489,118	100	29,990,596	100

* Not major customers for the relevant periods

Sales revenues generated from our top five major customers as a percentage of total sales decreased to 62% for the period ended March 31, 2011, compared to 70% for the period ended March 31, 2010. The change in customer mix reflects management's continuous efforts in expanding our customer base and geographical coverage during the course of the quarter.

- 21 -

Cost of Goods Sold. Cost of sales increased by \$4,970,013, or 18.7%, period-on-period, to \$31,530,734 for the period ended March 31, 2011, from \$26,560,721 for the period ended March 31, 2010. Cost of sales represented 100.1% of sales revenues for the period ended March 31, 2011, compared to 96.0% for the period ended March 31, 2010. Average cost of production per ton increased to \$864 for the period ended March 31, 2011, compared to an average cost of production per ton of \$719 for the period ended March 31, 2010, representing an increase of \$145 per ton, or 20%, period-on-period.

	Three Months Ended March 31,			
	2011 (\$)	2010 (\$)	Variance (\$)	(%)
Cost of goods sold				
- Raw materials	28,587,486	24,048,082	4,539,404	18.9
- Direct labor	136,986	151,579	(14,593)	(9.6)
- Manufacturing overhead	2,806,262	2,361,060	445,202	18.9
	31,530,734	26,560,721	4,970,013	18.7
Cost per unit sold				
Total units sold (tons)	36,475	36,953	(478)	(1.3)
Average cost per unit sold (\$/ton)	864	719	145	20.0

The increase in cost of sales is represented by the combined effect of:

• an increase in cost of raw materials per unit sold of \$133, or 20.4%, from \$651 for the period ended March 31, 2010, to \$784 for the period ended March 31, 2011;

• direct labor per unit sold of \$4 for the period ended March 31, 2011 and 2010; and

• an increase in factory overhead per unit sold of \$13, or 20.3%, from \$64 for the period ended March 31, 2010, to \$77 for the period ended March 31, 2011.

The cost of raw materials consumed increased by \$4,539,404, or 18.9%, period-on-period, to \$28,587,486 for the period ended March 31, 2011, from \$24,048,082 for the period ended March 31, 2010. This increase was mainly due to the increases in steel prices during the 2011 period.

Direct labor costs decreased by \$14,593, or 9.6%, period-on-period, to \$136,986 for the period ended March 31, 2011, from \$151,579 for the period ended March 31, 2010. The decrease was due to decrease in total units sold during the period as compared to prior year.

Manufacturing overhead costs increased by \$445,202, or 18.9%, period-on-period, to \$2,806,262 for the period ended March 31, 2011, from \$2,361,060 for the period ended March 31, 2010. The increase was mainly attributable to the combined effect of an increase in depreciation of \$123,920, or 12.6%, period-on-period, to \$1,107,654 for the period ended March 31, 2011, from \$983,734 for the period ended March 31, 2010, and an increase in utilities of \$200,852, or 35.5%, period-on-period, to \$766,810 for the period ended March 31, 2011, from \$565,958 for the period ended March 31, 2010, due to increased utilities and outsourcing costs period-on-period.

Gross Profit. Gross profit in absolute terms decreased by \$3,471,491, or 101.2%, period-on-period, to a loss of \$41,616 for the period ended March 31, 2011, from \$3,429,875 for the period ended March 31, 2010, while gross profit margin decreased to (0.1)% for the period ended March 31, 2011, from 11.4% for the period ended March 31, 2010. The decrease in gross profit is mainly attributable to a 18.7% period-on-period increase in cost of goods sold, offset by a 5.0% period-on-period increase in sales revenues. The decrease in gross profit margin principally resulted

from an increase in average cost per unit sold, largely due to the increase in raw material prices during the three months ended March 31, 2011.

Selling Expenses. Selling expenses decreased by \$31,417, or 25.2%, period-on-period, to \$93,172 for the period ended March 31, 2011, compared to the corresponding period in 2010 of \$124,589. The decrease was mainly attributable to a lower amount of exports and therefore lower sales commissions during the period.

- 22 -

Administrative Expenses. Administrative expenses decreased by \$662,034, or 85.6%, period-on-period, to \$111,068 for the period ended March 31, 2011, compared to \$773,102 for the period ended March 31, 2010. This decrease was mainly associated with the exchange gain resulted from the favorable movement of RMB against USD for our USD denominated long-term loan during the period ended March 31, 2011.

Provision for bad debt. Provision for bad debt was \$126 based on our policy for allowance for doubtful accounts for the period ended March 31, 2011, representing a \$110, or 687.5%, increase period-on-period.

Income from Operations. Income from operations before income tax decreased by \$3,218,819, or 138.0%, period-on-period, to a loss of \$886,646 for the period ended March 31, 2011, from income of \$2,332,173 for the period ended March 31, 2010, as a result of the factors discussed above.

Other income. Our other income decreased \$9,163, or 93.6%, to \$627 for the period ended March 31, 2011 from \$9,790 for the period ended March 31, 2010. The decrease in other income was primarily due to lower interest income from lower cash balances period-on-period.

Interest Expense. Total interest expense increased \$419,190, or 243.8%, to \$591,118 for the period ended March 31, 2011, from \$171,928 for the period ended March 31, 2010, due to the additional long-term loan and increased interest rate period-on-period.

Income Tax. For the period ended March 31, 2011, we recognized an income tax benefit of \$14,149, compared to income tax expense of \$320,819 for the period ended March 31, 2010. The decrease in income taxes reflects the loss in the current year as compared to income in the prior year.

Net Income. Net income decreased by \$2,883,851, or 143.4%, period-on-period, to a net loss of \$872,497 for the period ended March 31, 2011 from net income of \$2,011,354 for the period ended March 31, 2010. The decrease in net income is attributable to a combination of the factors discussed above, including a gross loss and higher interest expenses period-on-period.

Comparison of Nine Months Ended March 31, 2011 and 2010

Sales Revenues. Sales volume increased by 31,390 tons, or 33.1%, period-on-period, to 126,224 tons for the period ended March 31, 2011 from 94,834 tons for the period ended March 31, 2010 and, as a result, sales revenues increased by \$31,107,678 or 42.0%, period-on-period, to \$105,154,101 for the period ended March 31, 2011, from \$74,046,423 for the period ended March 31, 2010. The increase in sales revenues is mainly attributable to increases in demand for low-carbon cold-rolled products used in home appliances production and high carbon cold-rolled products used in auto components manufacturing due to a generally growing market and favorable government policies and subsidies to encourage consumer spending.

Sales by Product Line

A breakdown of our sales by product line for the nine months ended March 31, 2011 and 2010 is as follows:

Product Category	Nine Months Ended March 31,						Period-on-Period Qty. Variance
	2011			2010			
	Quantity (tons)	\$ Amount	% of Sales	Quantity (tons)	\$ Amount	% of Sales	

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

Low carbon hard rolled	4,684	3,805,289	3.6	14,815	10,656,001	14.4	(10,131)
Low carbon cold-rolled	81,281	71,309,759	67.8	46,408	32,496,382	43.9	34,873
High-carbon hot-rolled	3,929	3,694,751	3.5	4,943	4,154,948	5.6	(1,014)
High-carbon cold-rolled	19,814	18,456,360	17.6	15,104	17,283,214	23.3	4,710
Subcontracting income	16,516	6,339,606	6.0	13,564	8,807,092	11.9	2,952
Sales of scrap metal	-	1,548,336	1.5	-	648,786	0.9	-
Total	126,224	105,154,101	100	94,834	74,046,423	100	31,390

- 23 -

There were different trends of demand across various product categories during the nine months ended March 31, 2011. High-carbon cold-rolled steel products accounted for 17.6% of the current sales mix at an average selling price of \$931 per ton for the period ended March 31, 2011, compared to 23.3% of the sales mix at an average selling price per ton of \$1,144 for the period ended March 31, 2010. The products in this category are mainly used in the automobile industry. Although percentage of sales decreased, absolute sales volume increased by 4,710 tons, period-on-period, as a result of a growing automobile market despite the termination of stimulus policies by the Chinese government at the beginning of 2011 calendar year. Low-carbon cold-rolled steel products accounted for 67.8% of the current sales mix at an average selling price of \$877 per ton for the nine months ended March 31, 2011, compared to 43.9% of the sales mix at an average selling price per ton of \$700 for the nine months ended March 31, 2010. The increase in demand in this category during the period was a result of our expanded customer base and increased orders of steel used in the production of home appliances due to government subsidies to encourage consumer spending. Low-carbon hard-rolled steel products accounted for 3.6% of the current sales mix at an average selling price of \$812 per ton for the nine months ended March 31, 2011, compared to 14.4% of the sales mix at an average selling price per ton of \$719 for the nine months ended March 31, 2010, as customers held off orders due to demand uncertainties and price volatilities in the global market during the nine months ended March 31, 2011. Subcontracting income revenues accounted for \$6,339,606, or 6.0% of the sales mix for the nine months ended March 31, 2011, as compared to \$8,807,092, or 11.9%, of the sales mix for the nine months ended March 31, 2010.

	Nine Months Ended March 31,			
	2011	2010	Variance	
Average Selling Prices	(\$)	(\$)	(\$)	(%)
Low-carbon hard rolled	812	719	93	12.9
Low-carbon cold-rolled	877	700	177	25.3
High-carbon hot-rolled	940	841	99	11.8
High-carbon cold-rolled	931	1,144	(213)	(18.6)
Subcontracting income	384	649	(265)	(40.8)

The average selling price per ton increased to \$833 for the nine months ended March 31, 2011, compared to the \$781 in 2010, representing an increase of \$52, or 6.7%, period-on-period. This increase was mainly due to increases in general steel prices and therefore our selling prices during the nine months ended March 31, 2011.

Sales Breakdown by Major Customer

Customers	Nine Months Ended March 31,			
	2011		2010	
	\$	% of Sales	\$	% of Sales
Shanghai Shengdejia Metal Products Co., Ltd.	23,169,045	22	12,322,906	17
Shanghai Changshuo Steel Co., Ltd.	16,927,848	16	15,806,668	21
Zhangjiagang Gangxing Innovative Construction Material Co., Ltd.	6,398,355	6	3,801,610	5
Wui Xingyu Thin Plate Co., Ltd.	8,572,640	8	-*	-*
Shaoxing Wangheng Metal Plate Co., Ltd.	7,492,674	7	4,115,784	6
Hangzhou Cogeneration Co., Ltd.	-*	-*	5,394,018	7
	62,560,562	59	41,440,986	56
Others	42,593,539	41	32,605,437	44
Total	105,154,101	100	74,046,423	100

* Not major customers for the relevant periods

Sales revenues generated from our top five major customers as a percentage of total sales increased to 59% for the period ended March 31, 2011, compared to 56% for the period ended March 31, 2010. The change in customer mix reflects management's continuous efforts in expanding our customer base and geographical coverage during the course of the quarter.

Cost of Goods Sold. Cost of sales increased by \$34,625,535, or 52.2%, period-on-period, to \$100,902,769 for the period ended March 31, 2011, from \$66,277,234 for the period ended March 31, 2010. Cost of sales represented 96.0% of sales revenues for the period ended March 31, 2011 compared to 89.5% for the period ended March 31, 2010. Average cost of production per ton increased to \$799 for the period ended March 31, 2011, compared to an average cost of production per ton of \$699 for the period ended March 31, 2010, representing an increase of \$100 per ton, or 14.3%, period-on-period.

- 24 -

	Nine Months Ended March 31,			
	2011 (\$)	2010 (\$)	Variance (\$)	(%)
Cost of goods sold				
- Raw materials	91,421,679	58,897,782	32,523,897	55.2
- Direct labor	420,870	411,199	9,671	2.4
- Manufacturing overhead	9,060,220	6,968,253	2,091,967	30.0
	100,902,769	66,277,234	34,625,535	52.2
Cost per unit sold				
Total units sold (tons)	126,224	94,834	31,390	33.0
Average cost per unit sold (\$/ton)	799	699	100	14.3

The increase in cost of sales is represented by the combined effect of:

- an increase in cost of raw materials per unit sold of \$103, or 16.6%, from \$621 for the period ended March 31, 2010, compared to \$724 for the period ended March 31, 2011;
- a decrease in direct labor per unit sold of \$1, or 25.0%, from \$4 for the period ended March 31, 2010, compared to \$3 for the period ended March 31, 2011;
- a decrease in factory overhead per unit sold of \$1, or 1.4%, from \$73 for the period ended March 31, 2010, compared to \$72 for the period ended March 31, 2011.

The cost of raw materials consumed increased by \$32,523,897, or 55.2%, period-on-period, to \$91,421,679 for the period ended March 31, 2011, from \$58,897,782 for the period ended March 31, 2010. This increase was due to increase in total units sold as well as increase in raw material prices.

Direct labor costs increased by \$9,671, or 2.4%, period-on-period, to \$420,870 for the period ended March 31, 2011, from \$411,199 for the period ended March 31, 2010. The increase was due to increases in total units sold offset by decrease in average labor cost per unit sold due to economies of scale period-on-period.

Manufacturing overhead costs increased by \$2,091,967, or 30.0%, period-on-period, to \$9,060,220 for the period ended March 31, 2011, from \$6,968,253 for the period ended March 31, 2010. The increase was mainly attributable to the combined effect of an increase in depreciation of \$1,524,388, or 65.3%, period-on-period, to \$3,859,270 for the period ended March 31, 2011, from \$2,334,882 for the period ended March 31, 2010 and an increase in utilities of \$608,276, or 32.4%, period-on-period, to \$2,484,358 for the period ended March 31, 2011, from \$1,876,082 for the period ended March 31, 2010 due to increase in total units sold.

Gross Profit. Gross profit in absolute terms decreased by \$3,517,857, or 45.3%, period-on-period, to \$4,251,332 for the period ended March 31, 2011, from \$7,769,189 for the period ended March 31, 2010, while gross profit margin decreased to 4.0% for the period ended March 31, 2011, from 10.5% for the period ended March 31, 2010. The decrease in gross profit is mainly attributable to a 42.0% period-on-period increase in sales revenues, offset by a 52.2% period-on-period increase in cost of goods sold. The decrease in gross profit margin principally resulted from an increase in average cost per unit sold due to the increase in raw material prices during the nine months ended March 31, 2011.

Selling Expenses. Selling expenses decreased by \$25,449, or 11.2%, period-on-period, to \$201,554 for the period ended March 31, 2011 compared to the corresponding period in 2009 of \$227,003. The decrease was mainly attributable to lower exports and therefore sales commission costs period-on-period.

Administrative Expenses. Administrative expenses decreased by \$297,653, or 14.8%, period-on-period, to \$1,708,188 for the period ended March 31, 2011 compared to \$2,005,841 for the period ended March 31, 2010. This decrease was mainly associated with the exchange gain resulting from the favorable movement of RMB against USD for our USD denominated long-term loan during the period ended March 31, 2011 offset by higher wages.

Provision for bad debt. Provision for bad debt was \$19,823 based on our policy for allowance for doubtful accounts for the period ended March 31, 2011, representing a decrease in the amount of \$198,377, or 90.9%, period-on-period.

Income from Operations. Income from operations before income tax decreased by \$4,373,033, or 94.1%, period-on-period, to \$272,153 for the period ended March 31, 2011 from \$4,645,186 for the period ended March 31, 2010, as a result of the factors discussed above.

Other income. Other income decreased \$117,514, or 97.3%, to \$3,239 for the period ended March 31, 2011 from \$120,753 for the period ended March 31, 2010. The decrease in other income was primarily due to lower interest income from lower cash balances period-on-period.

Interest Expense. Total interest expense increased \$1,233,607, or 182.7%, to \$1,908,969 for the period ended March 31, 2011, from \$675,362 for the period ended March 31, 2010 due to the additional long-term loan and increased interest rate period-on-period.

Income Tax. For the period ended March 31, 2011, we recognized an income tax expense of \$298,358, compared to \$319,586 for the period ended March 31, 2010. The decrease in income taxes reflects the lower income as discussed above.

Net Income. Net income decreased by \$4,351,805, or 100.6%, period-on-period, to a loss of \$26,205 for the period ended March 31, 2011, from net income of \$4,325,600 for the period ended March 31, 2010. The decrease in net income is attributable to a combination of factors discussed above, including lower gross profit margin and higher interest expenses period-on-period.

Liquidity and Capital Resources

General

Our business is capital intensive and requires substantial expenditures for, among other things, the purchase and maintenance of plant and equipment used in our operations. Our short-term and long-term liquidity needs arise primarily from capital expenditures, working capital requirements and principal and interest payments related to our outstanding indebtedness. We have met these liquidity requirements with cash provided by operations, equity financing, and bank debt. As of March 31, 2011, we had cash and cash equivalents of approximately \$16.4 million.

The following table provides detailed information about our net cash flow for all financial statement periods presented in this report:

CASH FLOW

	Nine Months Ended March 31,	
	2011	2010
Net cash (used in)/provided by operating activities	\$ (3,962,037)	\$ 712,578
Net cash used in investing activities	(9,635,527)	(4,927,077)
Net cash (used in)/provided by financing activities	(273,290)	3,291,300
Net cash flow	(12,628,715)	(914,616)

Operating Activities

Net cash flows used in operating activities for the period ended March 31, 2011 was \$3,962,037, as compared with \$712,578 provided by operating activities for the period ended March 31, 2010, for a net increase of \$4,674,615 used. This increase was mainly due to reduction in cash flows from the increase in advances to suppliers of \$24,113,618, as

compared with a cash inflow in the amount of \$3,047,186 for advances to suppliers during the period ended March 31, 2010. The increase in cash outflow for advances to suppliers is in line with the increasing raw material prices and increase in demand for our cold-rolled products during the period ended March 31, 2011, as well as to secure raw materials for the summer energy restriction period in China. The decrease in operating cash flows used in operating activities was also attributed to a decrease in accounts payable and accrued expenses of \$3,719,473, compared to a cash outflow of \$1,261,253 during the period ended March 31, 2010.

- 26 -

For the period ended March 31, 2011, sales revenues generated from the top five major customers as a percentage of total sales increased to 59%, as compared to 56% for the period ended March 31, 2010. The loss of all or portion of the sales volume from a significant customer would have an adverse effect on our operating cash flows. We note that the continuation or intensification of the worldwide economic crisis may have negative consequences on the business operations of our customers and adversely impact their ability to meet their financial obligations to us, resulting in unrecoverable losses on our accounts receivable. We have been strengthening our collection activities and will continue to closely monitor any changes in collection experience and the credit ratings of our customers. From time to time we will review credit periods offered, along with our collection experience and the other relevant factors, to evaluate the adequacy of our allowance for doubtful accounts, and to make changes to the allowance, if necessary. Delays or non-payment of accounts receivable would have an adverse effect on our operating cash flows.

Investing Activities

Our main uses of cash for investing activities during the period ended March 31, 2011 were for the purchase of property, plant and equipment related to the addition of annealing furnaces and slitting equipment at our Shanghai Blessford facilities. We believe these capital investments increase our capacity, expand product line and improve product qualities, thereby creating opportunities to grow sales, enter new markets and further strengthen our leading position in the niche cold rolling segment that we operate in.

Net cash flows used in investing activities for the period ended March 31, 2011 was \$9,635,527 as compared with \$4,927,077 for the period ended March 31, 2010. The increase in investing activity was due to payment of the construction project related to the annealing furnaces and slitting equipment during the period ended March 31, 2011.

As of March 31, 2011, the Company had \$2,151,050 in commitments for share capital injection commitment related to Shanghai Blessford. Management believes that we currently have sufficient capital resources to meet these contractual commitments. We also forecast lower capital expenditures in the coming years as the Company does not have material expansion plans as at March 31, 2011.

Financing Activities

Net cash flows used in financing activities for the period ended March 31, 2011 was \$273,290 as compared with \$3,291,300 provided by financing activities for the period ended March 31, 2010. During the period ended March 31, 2010, the Company repaid short-term loans in the amount of \$771,106, which was partially offset by receipt of short-term loans in the amount of \$497,816.

On December 30, 2008, we filed a universal shelf registration statement with the SEC which has been declared effective. The shelf registration permits us to issue securities valued at up to an aggregate of \$40 million and give us the flexibility to issue registered securities, from time to time, in one or more separate offerings or other transactions with the size, price and terms to be determined at the time of issuance. Although we do not have any commitments or current intentions to sell securities under the registration statement, we believe that it is prudent to have a shelf registration statement in place to ensure financing flexibility should the need arise.

While we currently generate sufficient operating cash flows to support our working capital requirements, our working capital requirements and the cash flow provided by future operating activities will vary from quarter to quarter, and are dependent on factors such as volume of business and payment terms with our customers. As such, we may need to rely on access to the financial markets to provide us with significant discretionary funding capacity. However, the current uncertainty arising out of domestic and global economic conditions, including the recent disruption in credit markets, poses a risk to the economies in which we operate and may adversely impact our potential sources of capital financing. The general unavailability of credit could make capital financing more expensive for us or impossible

altogether. Even if we are able to obtain credit, the incurrence of indebtedness could result in increased debt service obligations. Our inability to renew our current bank debt that is due in July 2011, and the unavailability of additional debt financing as a result of economic pressures on the credit and equity markets could have a material adverse effect on our business operations.

Current Assets

Current assets decreased by \$3,771,018, or 3.2%, period-on-period, to \$114,010,854 as of March 31, 2011, from \$117,781,872 as of June 30, 2010, principally as a result of a decrease in accounts receivable of \$12,326,104, or 31.1%, period-on-period, due to our strengthened efforts in credit collection during the period, a decrease in cash and cash equivalents by \$12,628,715, or 43.5%, period-on-period, and offset by an increase in inventories of \$4,185,502, or 14.7%, period-on-period.

- 27 -

Accounts receivable, representing 23.9% of total current assets as of March 31, 2011, is a significant asset of the Company. We offer credit to our customers in the normal course of our business and accounts receivable is stated net of allowance for doubtful accounts. Credit periods vary substantially across industries, segments, types and size of companies in China where we operate our business. Because of the niche products that we process, our customers are usually also niche players in their own respective segment, who then sell their products to the end product manufacturers. The business cycle is relatively long, as well as the credit periods. The Company offers credit to its customers for periods of 60 days, 90 days, 120 days and 180 days. We generally offer the longer credit terms to longstanding recurring customers with good payment histories and sizable operations. From time to time we review these credit periods, along with our collection experience and the other factors discussed above, to evaluate the adequacy of our allowance for doubtful accounts, and to make changes to the allowance, if necessary. If our actual collection experience or other conditions change, revisions to our allowances may be required, including a further provision which could adversely affect our operating income, or write back of provision when estimated uncollectible accounts are actually collected.

Our management determines the collectability of outstanding accounts by maintaining quarterly communication with such customers and obtaining confirmation of their intent to fulfill their obligations to the Company. In making this determination, our management also considers past collection experience, our relationship with customers and the impact of current economic conditions on our industry and market. We note that the continuation or intensification of the current global economic crisis may have negative consequences on the business operations of our customers and adversely impact their ability to meet their financial obligations. To reserve for potentially uncollectible accounts receivable, for the period ended March 31, 2011, our management has made a 50% provision for all accounts receivable that are over 180 days past due and full provision for all accounts receivable over one year past due. From time to time, we will review these credit periods, along with our collection experience and the other factors discussed above, to evaluate the adequacy of our allowance for doubtful accounts, and to make changes to the allowance, if necessary. If our actual collection experience or other conditions change, revisions to our allowances may be required, including a further provision which could adversely affect our operating income, or write back of provision when estimated uncollectible accounts are actually collected.

The following table reflects the aging of our accounts receivable March 31, 2011 and June 30, 2010:

March 31, 2011							
US\$	Total	Current	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 Days	over 1 year
TOTAL	28,322,523	9,618,234	977,950	2,866,668	13,779,983	113,362	966,326
%	100	34	3	10	49	<1	3
June 30, 2010							
US\$	Total	Current	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 Days	over 1 year
TOTAL	40,612,589	16,750,361	1,521,900	5,485,380	15,398,743	1,177,748	278,457
%	100	41	4	14	38	3	<1

Management continues to take appropriate actions to perform business and credit reviews of any prospective customers (whether new or returning) to protect the Company from any who might pose a high credit risk to our business based on their commercial credit reports, our past collection history with them, and our perception of the risk posed by their geographic location. Management is of the opinion that we do not currently have any high risk receivables on our accounts.

Current Liabilities

Current liabilities decreased by \$2,007,059, or 4.1%, period-on-period, to \$46,438,068 as of March 31, 2011, from \$48,445,127 as of June 30, 2010. The decrease was mainly attributable to a decrease in accounts payable and accrued expenses of \$4,649,846, or 46.7%, period-on-period, offset by an increase in short-term loans of \$1,368,276, or 5.3%, period-on-period.

As of March 31, 2011, we had \$27,333,697 in short-term loans. These short-term loans were renewed in July 2010 for one year and will be due on July 31, 2011. We expect to refinance such debt at its maturity, but we cannot assure you that we will be able to do so on terms favorable to the Company or at all.

- 28 -

Capital Expenditures

During the period ended March 31, 2011, we invested \$9,635,527 in purchases of property, plant and equipment, and construction projects in relation to the new annealing furnaces and slitting equipment.

Loan Facilities

The following table illustrates our credit facilities as of March 31, 2011, providing the name of the lender, the amount of the facility, the date of issuance and the maturity date:

All amounts in U.S. dollars						
Lender	Date of Loan	Maturity Date	Duration	Interest Rate	Principal Amount	
Raiffeisen		July 31, 2011	1 year	1.15 times of the PBOC rate	\$ 8,053,240	
Zentralbank Österreich AG ("RZB")	July 23, 2010			1.15 times of the PBOC rate	RMB (52,737,444)	
Raiffeisen		July 31, 2011	1 year	PBOC rate	\$ 18,782,641	
Zentralbank Österreich AG	July 23, 2010			6 month USD LIBOR +	RMB (123,000,000)	
DEG – Deutsche Investitions – und		June 15, 2016	6 years	4.5%	\$ 18,000,000	
Entwicklungsgesellschaft mbH	June 29, 2010				RMB (122,580,000)	
					\$ 497,816	
China Merchant Bank	January 19, 2011	July 18, 2011	6 months	6.42 %	RMB (3,260,000)	
Total					\$ 45,333,697	

As of March 31, 2011, we had \$26,835,881 in short-term loans secured by inventories, land use rights, buildings, plant and machinery, \$497,816 in short-term loans secured by bills receivable, and \$18,000,000 in long-term loan secured by plant and machinery, as illustrated in the above table.

The short-term loans with RZB have been renewed for one year and will be due and renewable on July 31, 2011. We are not aware of any existing issues that may lead to a withdrawal of such loan at its maturity. Our inability to renew, and the unavailability of additional debt financing as a result of economic pressures on the credit and equity markets could have a material adverse effect on our business operations.

We believe that our currently available working capital and the credit facilities referred to above should be adequate to sustain our operations at our current levels and support our contractual commitments through the next twelve months. However, our working capital requirements and the cash flow provided by future operating activities vary from quarter to quarter, depending on the volume of business during the period and payment terms with our customers. As we expect a continuation of volatility in demand and steel prices in both domestic and international markets in the foreseeable future, our operating cash flows might be significantly negatively impacted by reduced sales and margins. Management has strengthened its sales and marketing activities, and continues to be in talks with potential customers, which if successful, could result in additional sales and mitigate the impact of the weakened demand and margins on our operating cash flow. As of March 31, 2011, the Company also had \$2,151,050 in contractual commitments for share capital injection commitment related to Shanghai Blessford. As such, we may need to rely on access to the financial markets to provide us with significant discretionary funding capacity. However, continued uncertainty

arising out of domestic and global economic conditions, including the recent disruption in credit markets, poses a risk to the economies in which we operate and may adversely impact our potential sources of capital financing. The general unavailability of credit could make capital financing more expensive for us or impossible altogether. Even if we are able to obtain credit, the incurrence of indebtedness could result in increased debt service obligations and could result in operating and financing covenants that could restrict our present and future operations.

Obligations under Material Contracts

Below is a table setting forth our material contractual obligations as of March 31, 2011, debt obligations include principal repayments and interest payments:

- 29 -

	Total	Payments Due By Year			
		Fiscal Year 2011	Fiscal Year 2012-2013	Fiscal Year 2014-2015	Fiscal Years 2016 and Beyond
Contractual obligations:					
Short-Term Debt Obligations	\$ 29,236,118	\$ 475,605	\$ 28,760,513	\$ -	\$ -
Long-Term Debt Obligations	\$ 20,902,068	\$ 446,472	\$ 8,718,005	\$ 8,003,649	\$ 3,733,942
Share Capital Injection Commitments	\$ 2,151,050	2,151,050	-	-	-
Total	\$ 52,289,236	\$ 3,073,127	\$ 37,478,518	\$ 8,003,649	\$ 3,733,942

Recent Accounting Pronouncements

The Financial Accounting Standards Board, or FASB, recently issued the following standards which the Company reviewed to determine the potential impact on our financial statements upon adoption.

In June 2009, the FASB issued guidance now codified as ASC 810, “Amendments to FASB Interpretation No. 46(R)” (“ASC 810”), which amends FASB Interpretation No. 46 (revised December 2003), now codified as ASC 810-10, to address the elimination of the concept of a qualifying special purpose entity. ASC 810 also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, ASC 810 provides more timely and useful information about an enterprise’s involvement with a variable interest entity. The adoption of this standard did not have an impact on the Company’s financial position or results of operations.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05, “Measuring Liabilities at Fair Value” (“ASU 2009-05”). ASU 2009-05 amends ASC 820, “Fair Value Measurements” (“ASC 820”). Specifically, ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities or similar liabilities when traded as assets and/or 2) a valuation technique that is consistent with the principles of ASC 820 (e.g. an income approach or market approach). ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. The adoption of this standard did not have an impact on the Company’s financial position or results of operations.

In October 2009, the FASB issued ASU No. 2009-13 on ASC 605, “Revenue Recognition” (“ASC 605”), regarding multiple-deliverable revenue arrangements. This ASU provides amendments to the existing criteria for separating consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable, eliminate the residual method of allocation of arrangement consideration to all deliverables and require the use of the relative selling price method in allocation of arrangement consideration to all deliverables, require the determination of the best estimate of a selling price in a consistent manner, and significantly expand the disclosures related to the multiple-deliverable revenue arrangements. The adoption of this standard did not have an impact on the Company’s financial position or results of operations.

In October 2009, the FASB issued ASU No. 2009-15, “Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing” (“ASU 2009-15”). ASU 2009-15 amends ASC 470, “Debt with Conversion and Other Options” (“ASC 470”), and ASC 260, “Earnings Per Share” (“ASC 260”). Specifically,

ASU 2009-15 requires companies to mark stock loan agreements at fair value and recognize the cost of the agreements by reducing the amount of additional paid-in capital on their financial statements. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

In December 2009, the FASB issued ASU 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" ("ASU 2009-17"). ASU 2009-17 details the amendments to ASC 810, "Consolidation", which are the result of FASB Statement No. 167, "Amendments to FASB Interpretation No. 46(R)". That statement was issued by the FASB in June 2009. ASU 2009-17 amends the variable-interest entity guidance in ASC 810 to clarify the accounting treatment for legal entities in which equity investors do not have sufficient equity at risk for the entity to finance its activities without financial support. The adoption of this standard did not have an impact on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"). ASU 2010-06 requires reporting entities to provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by ASC 820. The guidance is effective for any fiscal year that begins after December 15, 2010 and should be used for quarterly and annual filings. We are currently evaluating the impact on our financial statements of adopting the amendments in ASU 2010-06 and cannot estimate the impact of adoption at this time.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

Functional Currency and Translating Financial Statements

The Company's principal country of operations is the PRC. Our functional currency is Chinese Renminbi; however, the accompanying consolidated financial statements have been expressed in USD. The consolidated balance sheets have been translated into USD at the exchange rates prevailing at each balance sheet date. The consolidated statements of operations and cash flows have been translated using the weighted-average exchange rates prevailing during the periods of each statement. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency are dealt with as other comprehensive income in stockholders' equity.

Revenue Recognition

Revenue from the sale of goods and services is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed and services have been rendered. Revenue is reported net of all VAT taxes. Other income is recognized when it is earned.

Accounts Receivable

Credit periods vary substantially across industries, segments, types and size of companies in China where we operate our business. Because of the niche products that we process, our customers are usually also niche players in their own respective segment, who then sell their products to end product manufacturers. The business cycle is relatively long, as well as credit periods. The Company offers credit to its customers for periods of 60 days, 90 days, 120 days and 180 days. We generally offer longer credit terms to long-standing recurring customers with good payment histories and sizable operations.

Accounts receivable is recorded at the time revenue is recognized and is stated net of allowance for doubtful accounts. The Company maintains an allowance for doubtful accounts based on its assessment of the collectability of the accounts receivable. Management determines the collectability of outstanding accounts by maintaining regular communication with such customers and obtaining confirmation of their intent to fulfill their obligations to the Company. Management also considers past collection experience, our relationship with customers and the impact of current economic conditions on our industry and market. However, we note that the continuation or intensification of the current global economic crisis may have negative consequences on the business operations of our customers and adversely impact their ability to meet their financial obligations. At March 31, 2011, approximately 4% of our accounts receivable were past due over 180 days. To reserve for potentially uncollectible accounts receivable, for the period ended March 31, 2011, our management has made a 50% provision for all accounts receivable that are over 180 days past due and full provision for all accounts receivable over one year past due. From time to time, we will review these credit periods, along with our collection experience and the other factors discussed above, to evaluate the adequacy of our allowance for doubtful accounts, and to make changes to the allowance, if necessary. If our actual collection experience or other conditions change, revisions to our allowances may be required, including a further provision which could adversely affect our operating income, or write back of provision when estimated uncollectible accounts are actually collected. At March 31, 2011 and June 30, 2010, the Company had \$1,049,782 and \$1,013,744

of allowances for doubtful accounts, respectively.

Bad debts are written off for past due balances over two years or when it becomes known to management that such amount is uncollectible. Provision for bad debts recognized for the nine months ended March 31, 2011 and 2010 were \$19,823 and \$218,200, respectively. The current period charge reflects a provision for doubtful accounts based on our policy described above. Our management is continually working to ensure that any known uncollectible amounts are immediately written off as bad debt against outstanding balances.

- 31 -

Advances to Suppliers

In order to insure a steady supply of raw materials, the Company is required from time to time to make cash advances to its suppliers when placing purchase orders, for a guaranteed minimum delivery quantity at future times when raw materials are required. The advance is seen as a deposit to suppliers and guarantees our access to raw materials during periods of shortages and market volatility, and is therefore considered an important component of our operations. Contracted raw materials are priced at prevailing market rates agreed by us with the suppliers prior to each delivery date. Advances to suppliers are shown net of an allowance which represents potentially unrecoverable cash advances at each balance sheet date. Such allowances are based on an analysis of past raw materials receipt experience and the credibility of each supplier according to its size and background. In general, we don't provide allowances against advances paid to state owned companies as there is minimal risk of default. Our allowances for advances to suppliers are subjective critical estimates that have a direct impact on reported net earnings, and are reviewed quarterly at a minimum to reflect changes from our historic raw material receipt experience and to ensure the appropriateness of the allowance in light of the circumstances present at the time of the review. It is reasonably possible that the Company's estimate of the allowance will change, such as in the case when the Company becomes aware of a supplier's inability to deliver the contracted raw materials or meet its financial obligations. At December 31 and June 30, 2010, the Company had allowances for advances to suppliers of \$1,701,841 and \$1,643,419, respectively.

The majority of our advances to suppliers of over 180 days is attributable to our advances to a subsidiary of a state-owned company in China, whose risk of default is minimal. At March 31, 2011, this supplier has confirmed to our management that it is committed to delivering the contracted raw materials as and when those are needed by the Company.

Allowances for advances to suppliers are written off when all efforts to collect the materials or recover the cash advances have been unsuccessful, or when it has become known to the management that there is no intention for the suppliers to deliver the contracted raw materials or refund the cash advances. To date we have not written off any advances to suppliers.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the weighted-average method. Market value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to complete the sale.

Intangible Assets

Intangible assets represent land use rights in China acquired by the Company and are stated at cost less amortization. Amortization of land-use rights is calculated on the straight-line method, based on the period over which the right is granted by the relevant authorities in China. The Company acquired land use rights in August 2004 and December 2006 that both expire in December 2056. The land use rights are amortized over a fifty-year term. Intangible assets of the Company are reviewed for impairment if there are triggering events, to determine whether their carrying value has become impaired, in conformity with ASC 360. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives. An impairment test was performed as of June 30, 2010 and no impairment charges were recognized for the relevant periods. As of March 31, 2011, the Company expects these assets to be fully recoverable.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets for financial reporting purposes. The estimated useful lives for significant property and equipment are as follows:

Buildings	10 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment	5 to 10 years

Repairs and maintenance costs are normally charged to the statement of operations in the year in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

- 32 -

The Company accounts for impairment of property, plant and equipment and amortizable intangible assets in accordance with ASC 360, which requires the Company to evaluate a long-lived asset for recoverability when there is an event or circumstance that indicates the carrying value of the asset may not be recoverable. We determine such impairment by measuring the estimated undiscounted future cash flow generated by the assets, comparing the result to the asset carrying value and adjusting the asset to the lower of its carrying value or fair value and charging current operations for the measured impairment. As of March 31, 2011, the Company's market capitalization was significantly lower than its total stockholders' equity. Management considered this to be an indicator of impairment, and accordingly, performed an impairment test, using a normal and a worse-case scenario, and assessed fair value based on average tons sold, selling price per ton, gross margin, and other cash inflows and outflows for the next ten years where our mills are expected to remain in operation. No impairment charges were recognized for the current period. Assumptions and estimates used in our impairment test provide the general direction of major factors expected to affect our business and cash flows, and are subject to risks and uncertainties such as changes in interest rates, industry cyclicity, and factors surrounding the general Chinese and global economies. Those estimates will be reassessed for their reasonableness at each impairment test.

Other Policies

Other accounting policies used by the Company are set forth in the notes accompanying our financial statements.

Seasonality

Our operating results and operating cash flows historically have been subject to seasonal variations. Our revenues are usually higher in the second half of the year than in the first half of the year and the third quarter is usually the slowest quarter because fewer projects are undertaken during and around the Chinese New Year holidays.

Off-Balance Sheet Arrangements

For the period ended March 31, 2011, we did not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management, including our Chief Executive Officer, Mr. Hai Sheng Chen, and Chief Financial Officer, Ms. Leada Tak Tai Li, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2011. Based upon, and as of the date of this evaluation, Mr. Chen and Ms. Li, determined that because of the material weakness described below, as of March 31, 2011 our disclosure controls and procedures were not effective.

During its review of our consolidated financial statements for the fiscal quarter ended March 31, 2011, our management concluded that our accounting staff lacked sufficient accounting skills and experience necessary to fulfill our public reporting obligations according to U.S. GAAP and the SEC's rules and regulations.

Management is currently seeking for and plans to appoint qualified personnel as soon as possible to remediate this material weakness. Our management does not believe that this material weakness had a material effect on our financial condition or results of operations or caused our financial statements as of and for the fiscal quarter ended March 31, 2011, such as to contain a material misstatement.

Changes in Internal Controls over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS.

Not Applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

We have no information to disclose that was required to be in a report on Form 8-K during the period covered by this report, but was not reported. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

ITEM 6. EXHIBITS.

The following exhibits are filed as part of this report or incorporated by reference:

Exhibit No.	Description
31.1	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	

Edgar Filing: China Precision Steel, Inc. - Form 10-Q

Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 32.1 Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- 34 -

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 16, 2011

CHINA PRECISION STEEL, INC.

By: /s/ Hai Sheng Chen
Hai Sheng Chen, Chief Executive
Officer
(Principal Executive Officer)

By: /s/ Leada Tak Tai Li
Leada Tak Tai Li, Chief Financial
Officer
(Principal Financial Officer and
Principal
Accounting Officer)