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China Steel Australia (ASX:CNH)

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China Steel Issues Profit Guidance

China Steel Australia Limited (ASX: CNH) today announced it expects to record a net loss after tax of between \$2.7 million and \$3.3 million for the 2008-09 financial year.

The Company said a major factor in the result – which compared with a \$13.1 million net profit in 2008 - was the conversion of its nickel pig iron plant near the city of Linyi in China's Shandong Province to produce Merchant Pig Iron (MPI).

China Steel CEO Chen Lidong said production at the converted plant started in August had been successful.

Mr Chen said the conversion of the plant had impacted on the full year result for 2009 which would "be in the range of \$2.7 million to \$3.3 million".

The net loss after tax for the current financial year is mainly due to interest expense of \$1.9 million arising from the fair value adjustment of an interest free loan and non-capitalisation of the expense of construction in progress of \$1.1 million. With regard to the interest free loan, Australian Accounting Standards requires that the liability relating to the loan be discounted to present value. The difference between the present value of the liability and the actual amount payable is expensed in the income statement over the interest free period.

"We can also report that the impairment calculations have been completed and reviewed by our auditors with the determination that there is no impairment of this asset class," he said.

Mr Chen said China Steel expects to continue profitable trading with the new MPI product in the future.

MPI is made into steel using electric arc furnace or to cast articles in foundries such as stoves, radiators, lamp-posts and rails.

Mr Chen said China Steel could potentially become one of the larger and more efficient producers of MPI in China.

China Steel Australia, which listed on the ASX in February, last year, is an enterprise with a licence to manufacture steel in China.

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