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Remoulding our Dynamics

CHINA STEEL AUSTRALIA LIMITED
ANNUAL REPORT 2009

RATIONALE

Our theme 'Remoulding our Dynamics' represents our flexible approach to tuning our strengths for the year under review to overcome the challenges arising from the global economic slowdown. We are confident that our robust approach to the business will drive the Company forward at a resilient pace to emerge stronger.

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Company Profile



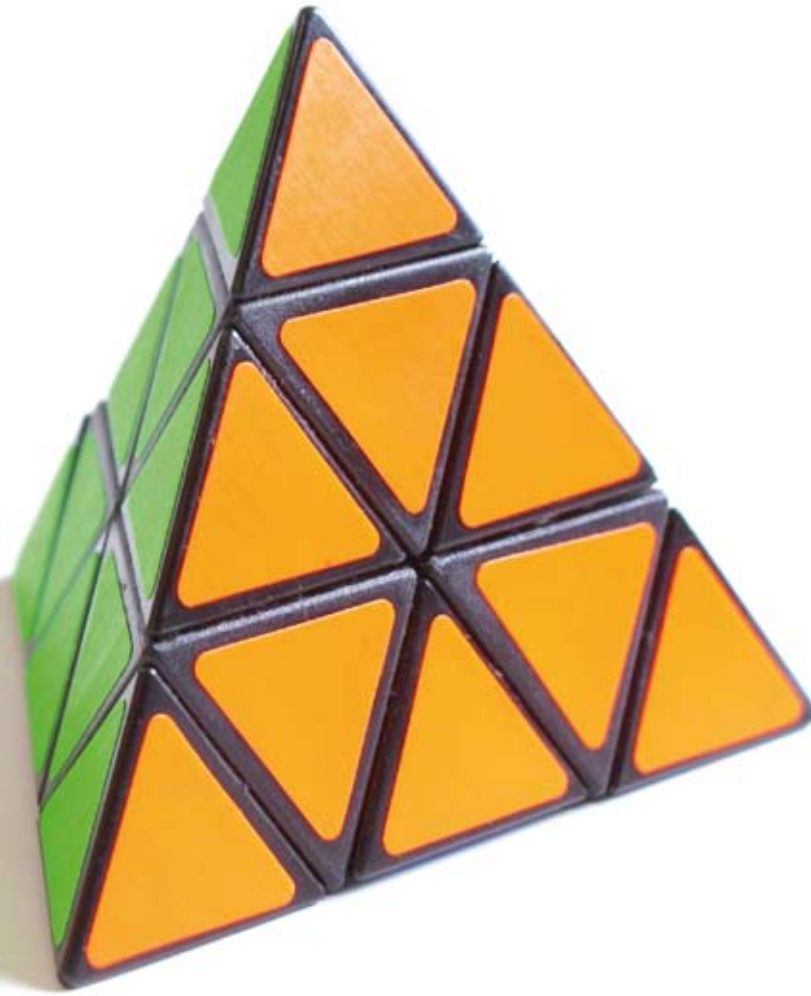
China Steel Australia Ltd “China Steel Australia” is one of the leading suppliers of feed materials for the steel and stainless steel industry in China. The Company’s two main products are merchant pig iron (MPI) which is used by electric arc furnace (EAF) steelmakers as a clean scrap alternative, and nickel pig iron (NPI) which is used as an important alternative to nickel in the production of stainless steel.

The Company operates a plant near the city of Linyi in the Shandong province of China, and has developed its own production techniques and know-how to emerge as a leading low-cost producer of high quality MPI and NPI for domestic Chinese steel and stainless steel manufacturers.

The Company is in the midst of an expansion which will quadruple production capacity and further establish its Chinese metals manufacturing footprint, enabling it to further participate in China’s rapid urbanisation.

China Steel Australia was listed on the Australian Securities Exchange (“ASX”) on 29 February 2008.

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Different steel, Equal value

The Company is steadfast in finding value from the Chinese steel industry. Our shift of focus from Nickel Pig Iron to Merchant Pig Iron represents our resilience to forge ahead and deliver value despite changes in global demand.

What is MPI?

Merchant Pig Iron (MPI)

Electric Arc Furnace ("EAF") steel-making plants represent about 35% of world steel production, which equates to more than 400 million tonnes annually. The feed material for these EAF plants consist of around 75% scrap iron which contains impurities such as copper, plastics and other materials that limit steel makers' ability to produce high quality steel.

To reduce the percentage of the contaminants in each batch of steel, EAF steel makers will use around 30% of scrap alternates, such as MPI which is very low in impurities.

The Chinese government has been promoting the use of EAF for environmental reasons. EAF accounted for about 15% of steel production in China in 2007 and has registered double digit growth yearly. (59% of USA's steel production is EAF).

Another use of MPI is for casting articles in foundries such as automotive parts, stoves, pipes, radiators, lamp-posts and rails. China is the world's largest metal casting producer and accounts for more than 30% of world production.

Nickel Pig Iron (NPI)

Approximately 70 per cent of the world's nickel is used to produce stainless steel. Common stainless steel contains between 2 to 14 per cent nickel. China is the world's largest producer of stainless steel, accounting for 26 per cent of global production in 2007 with further growth projected in the next few years.

NPI is an alloy that contains 3-15 per cent nickel with the remainder primarily being iron. It is produced from low quality laterite nickel ores that contains between 1 to 2 per cent nickel. NPI accounts for two-thirds of the world nickel resources.

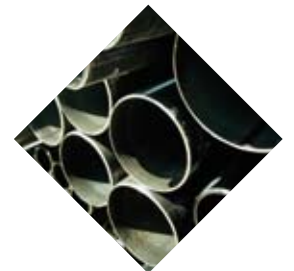
Since 2006, China's domestic stainless steel makers have used NPI as an important alternative to nickel in the production of stainless steel. By adding chromium and other materials to NPI, 200 and 300 series stainless steel is produced; these types of steel constitute more than 70 per cent of China's total stainless steel production.



Lamp-posts



Stoves



Steel Pipes



Cutlery

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Letter to Shareholders



The story for China Steel Australia during the reporting period has been very much about ensuring that the Company weathers the global financial crisis and positions itself for the eventual upturn.

Dear Shareholders,

The 2009 financial year was by far the most difficult the Company has faced since listing on the Australian Securities Exchange. We approached 2009 with plans to improve on our commendable 2008 performance. At the beginning of the financial year, we were running at full capacity preparing for the Beijing Olympics and at the same time, in the process of building our second blast furnace facility that will triple our production capacity to ride on the seemingly insatiable demand for NPI in China. Then in September last year, the global financial crisis hit China.

Global stainless steel demand fell rapidly from September to December 2008 causing demand and prices for nickel and nickel pig iron to also weaken. Equity markets in Australia turned bearish at a time when the Company needed additional funds for expansion. Confirmed off-take contracts with customers were being deferred until worldwide economic conditions improved.

Letter to Shareholders



Revenue fell from \$22.48 million in 2008 to \$7.16 million in 2009 as we had to reduce our processing fees in order to remain competitive amidst rapidly deteriorating business conditions.

The Company responded to these challenges by cutting back heavily on corporate expenditure and delaying our plant expansion activities. The global financial crisis also led to a significant reduction in the Company's market capitalisation and the Board decided against issuing any new equity in order not to dilute shareholder value. The Board believed that the global financial crisis would pass and the Company's assets would remain intact and ready to be deployed in the eventual recovery. The story for China Steel Australia during the reporting period has been very much about ensuring that the Company weathers the global financial crisis and positions itself for the eventual upturn.

A silver lining for the period emerged in November 2008, when the Chinese government unveiled a four trillion Yuan (AUD 728 billion) stimulus package aimed at averting the effects of the global recession in China. A major portion of the stimulus package will be spent on housing and infrastructure projects for low-income urban residents and improvement of infrastructure in rural areas. The Chinese government also considered the boosting of demand for domestic construction steel and iron as one of the top priorities in the stimulus package. By recognising the impact of the

Letter to Shareholders

By recognising the impact of the Chinese government's policy, our nimble management team swiftly moved into further developing existing merchant pig iron know-how adding the new merchant pig iron product into our product range.

Chinese government's policy, our nimble management team swiftly moved into further developing existing merchant pig iron know-how adding the new merchant pig iron product into our product range. The upgrading of our blast furnace facility to produce both nickel pig iron and merchant pig iron commenced in February 2009 and was successfully completed at the end of April 2009.

In the year ahead, with our strong management team, I believe that we will overcome these challenging times and emerge a stronger enterprise.

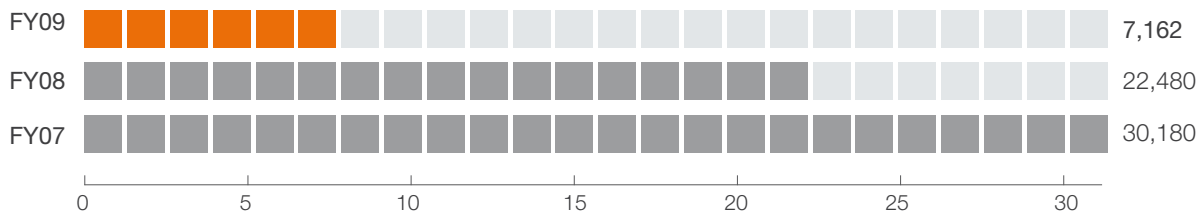
I would like to thank our shareholders, fellow directors, the management team and our staff for their support in these tough times and look forward to working with you in the year ahead.

Xue Yongwen
Non Executive Chairman

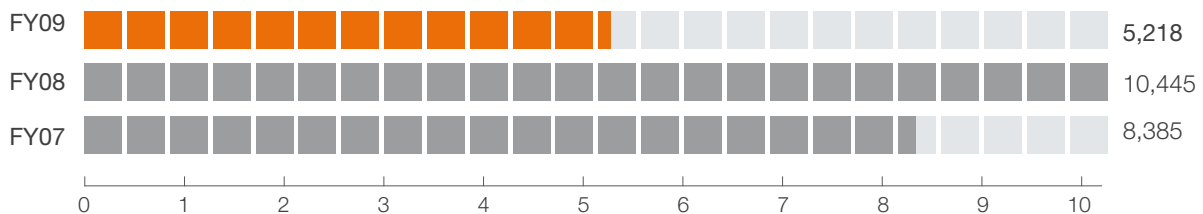
Financial Highlights

	FY2007	FY2008	FY2009
	AUD'000	AUD'000	AUD'000
Revenue	30,180	22,480	7,162
Gross Profit	8,385	10,445	5,218
Net Profit / (Loss) (without fair value adjustment, interest expenses)	7,451	8,453	(104)
Net Profit / (Loss) (with fair value adjustment)	N.A.	13,076	(3,051)
Weighted Average Number of Ordinary Shares	284,999,900	293,791,714	308,000,000
(Loss) / Earnings per share (cents)	2.61	4.45	(0.99)

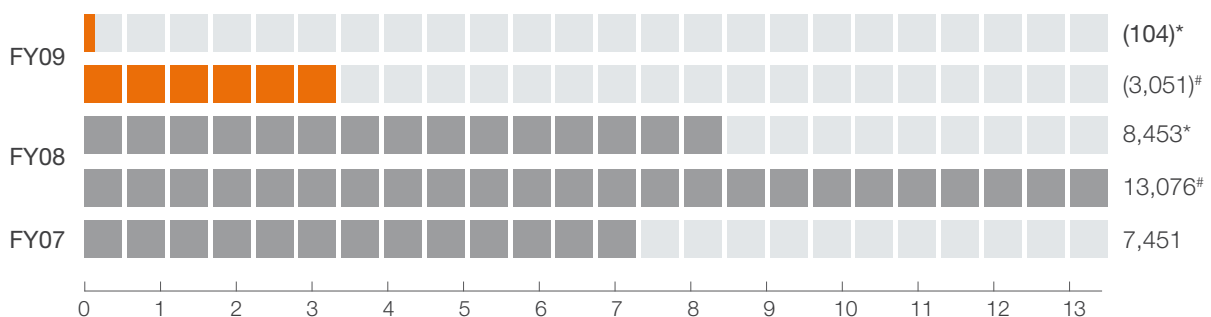
Revenue AUD'000



Gross Profit AUD'000



Net Profit / (Loss) AUD'000



* without fair value adjustment

with fair value adjustment

Fair value adjustment is related to financial income and financial expenses resulted from interest free loan (please refer to page 18 & 19 of this annual report for further details).

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Galvanising Growth

We have great confidence in China's steel industry. The Chinese government's efforts have stimulated recovery with ores being imported to China again and the price of domestic iron rising.

Our Location

China Steel Australia Facilities in Linyi



Blast Furnace Facility 1 (BF1)

A 320 cubic metre blast furnace and sintering facility completed in 2005 at a cost of \$30 million (with a land area of 350,000 square metres).

Since the completion of our plant upgrade and conversion exercise in 2009, BF1 is capable of producing 200,000 metric tonnes of MPI or 45,000 metric tonnes of NPI per year.



Blast Furnace Facility 2 (BF2)

Construction of the \$92 million BF2 is currently still in progress and estimated to be completed in 2010. The production capacity of BF2 is 600,000 metric tonnes of MPI or 135,000 metric tonnes of NPI.



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Board of Directors



Xue, Yongwen *MBA*
Non-executive Chairman

Mr. Xue is the Executive Chairman and Managing Director of China Powerplus Ltd, a company which is listed on the Singapore Stock Exchange. He oversees the overall management and operations of the China Powerplus Ltd Group ("China PowerPlus") and is also responsible for formulating business strategies and policies of China PowerPlus. With over 25 years of experience, Mr. Xue possesses valuable expertise and knowledge of the agriculture power tools industry in China. He obtained a Bachelor degree in Economics Management from Shandong Nu Zi Xue Yuan and subsequently graduated from the Industrial and Commercial Management School – Graduate School of the People's University of China with a Master's degree in Business Administration (MBA). Currently, he is also a National People's Congress delegate for Shandong Province, China. Mr Xue is aged 46.



Damien Seah *CPA, FCCA*
Alternate Chairman

Mr. Damien Seah is a non-executive director of China Steel Pte. Ltd. and a non-executive director of China Powerplus. He is currently head of the internal audit division of Fabchem China Limited, a company which is listed on the Singapore Stock Exchange. He was substantially involved in public and private company audits whilst at Deloitte & Touche in Singapore. Mr. Seah is a Certified Public Accountant in Singapore and a Fellow of the Association of Chartered Certified Accountants (United Kingdom). He is aged 36.



Chen, Lidong
Executive director, CEO

Mr. Chen joined Linyi Yilida Steel Mill Co. Ltd in 2004, a wholly owned subsidiary of China Steel Australia, as general manager in 2004. He was promoted to CEO when China Steel Australia Limited was listed on Australian Securities Exchange in February 2008. Mr. Chen's extensive management includes being Deputy CEO of another conglomerate in China April 1997 to September 2004. Mr. Chen is aged 46.

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Lanson Lim B.Sc
Alternate Director

Mr. Lim is an executive director of China Steel Pte. Ltd. and a non-executive director of Jadefield Group Limited. He is also a director of a number of private companies. Mr. Lim is aged 32.



Peter Carroll B.Com, LL. B, FCA
Non-executive Director

Mr. Carroll is a non-executive director of Bemax Resources Limited, one of Australia's premier minerals sand mining and production companies. He was a partner of Deloitte Touche Tohmatsu for many years during which time he advised national and international companies in relation to tax and accounting issues. He is also a director of a number of private companies. Mr. Carroll is 61 years of age.



Paul Frederiks B.Bus (Acc), FCPA
FCIS, FAICD
*Non-executive Director and
Company Secretary*

Mr. Paul Frederiks has extensive experience in public company financial and secretarial management with more than 26 years experience in the Australian resources sector. He was previously company secretary and CFO of ASX listed Ross Mining NL for over 8 years until 2000 and Company Secretary for Billabong International Limited from 2000 until 2004 and assisted Billabong with its successful float on the ASX in August 2000. He is currently a non-executive director of ASX listed minerals exploration company Auzex Resources Limited and also CFO and company secretary of ASX listed Geodynamics Limited. Mr. Frederiks is aged 48.



Sherman Tan B. Acc (Hons), CPA
Non-executive Director

Mr. Tan is currently the Group Finance Manager of China Powerplus Ltd, a company which is listed on the Singapore Stock Exchange. He is responsible for the financial, accounting and taxation matters of the China Powerplus Ltd Group and reports directly to the Executive Chairman and Managing Director. Mr. Tan is experienced in the accounting and finance industries and had been involved substantially in public and private company audits whilst at PricewaterhouseCoopers in Singapore. He obtained a Bachelor in Accountancy (with Honours) from Nanyang Technological University of Singapore and is currently a Certified Public Accountant in Singapore. Mr. Tan is aged 33.

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Senior Management

Tian, Dong Gui

*Chief Technical Officer - Linyi Yilida Steel
(Resigned on 21 March 2009)*

Mr. Tian who joined Linyi Yilida Steel in October 2004, is part of the founding team. Prior to joining Linyi Yilida Steel, he was the Plant Manager of another steel company. He began his career in 1970 with a steel production company after graduation. After further training in Tai Yuan Technical College in 1978, Mr. Tian was promoted to the post of Production Manager. In 1984, he was promoted as the Assistant Plant Manager before becoming its Plant Manager in 1991.

Ong, Chek Kai

*Finance Manager - China Steel Australia Ltd (Australia & Singapore)
(Resigned on 28 February 2009)*

Mr. Ong joined China Steel Pte. Ltd. and has previously been employed in audit roles at Ernst & Young, Hewlett Packard and DHL. He is a graduate of the University of New South Wales and holds a Bachelor of Commerce majoring in accounting and finance.

Xue, Li Na

Finance Manager - China Operations - Linyi Yilida Steel

Ms. Xue graduated in China with a Diploma in Accounting in 1997. She has over 10 years experience in financial management of companies in China.

Chen, Ge Huan

Chief Engineer - Linyi Yilida Steel

Mr. Chen began his career with a steel company after graduating in 1978. He was the Chief Engineer in his previous company. He also has experience in the construction of steel plant with previous employers.

Tan, Chue Chin

*Finance Manager - China Steel Australia Ltd (Australia & Singapore)
(Appointed at 9 March 2009)*

Mr. Tan recently joined China Steel Pte. Ltd. and has previously been employed by PricewaterhouseCoopers and Ernst & Young. He has more than 8 years of auditing experience in auditing in the manufacturing and trading sectors. He is a certified Practising Accountant of Australia.

Directors' Report

For the year ended 30 June 2009

The directors present their report on the Company and its controlled entities for the financial year ended 30 June 2009.

Directors

The names of directors of the Company at any time during or since the end of the financial year are:

<i>Director</i>	<i>Title and Date of appointment</i>	<i>Qualifications and experience</i>
Xue, Yongwen MBA	Non-executive Chairman (appointed on 3 September 2008)	Mr. Xue is the Executive Chairman and Managing Director of China Powerplus Ltd ("China Powerplus"), a company which is listed on the Singapore Stock Exchange. He oversees the overall management and operations of the China Powerplus and is also responsible for formulating business strategies and policies of the China Powerplus. With over 26 years of experience, Mr. Xue possesses valuable expertise and knowledge of the agriculture power tools industry in PRC. He obtained a Bachelor degree in Economics Management from Shandong Nu Zi Xue Yuan (山东女子学院) and subsequently graduated from the Industrial and Commercial Management School – Graduate School of the People's University of China with a Master's degree in Business Administration (MBA). Currently, he is also a National People's Congress delegate for Shandong Province, PRC. Mr. Xue is aged 46.
Chen, Lidong	Executive director, CEO (appointed on 7 November 2008)	Mr. Chen join Linyi Yilida Steel Mill Co. Ltd in 2004, a wholly owned subsidiary of China Steel Australia Limited, as general manager in 2004. He was promoted to CEO when China Steel Australia Limited was listed on Australian Securities Exchange in February 2008. Mr. Chen's extensive management includes being Deputy CEO of another conglomerate in China April 1997 to September 2004. Mr. Chen is aged 46.
Peter Carroll B.Com, LL.B, FCA	Non-executive Director	Mr. Carroll is a non-executive director of ASX listed BeMaX Resources Limited, one of Australia's premier minerals sand mining and production companies. He was a partner of Deloitte Touche Tohmatsu for many years during which time he advised national and international companies in relation to tax and accounting issues. He is also a director of a number of private companies. Mr. Carroll is 61 years of age.
Paul Frederiks B.Bus (Acctg), FCPA, FCIS, FAICD	Non-executive Director and Company Secretary	Mr. Paul Frederiks has extensive experience in public company financial and secretarial management with more than 26 years experience in the Australian resources sector. He was previously company secretary and CFO of ASX listed Ross Mining NL for over 8 years until 2000 and Company Secretary for Billabong International Limited from 2000 until 2004 and assisted Billabong with its successful float on the ASX in August 2000. He is currently a non-executive director of ASX listed minerals exploration company Auzex Resources Limited and also CFO and company secretary of ASX listed Geodynamics Limited. Mr. Frederiks is aged 48.
Sherman Tan B.Acc (Hons), CPA	Non-executive Director (appointed on 3 September 2008)	Mr. Tan is currently the Group Finance Manager of China Powerplus, a company which is listed on the Singapore Stock Exchange. He is responsible for the financial, accounting and taxation matters of China Powerplus and reports directly to the Executive Chairman and Managing Director. Mr. Tan is experienced in the accounting and finance industries and had substantially been involved in public and private company audits whilst at PricewaterhouseCoopers in Singapore. He obtained a Bachelor in Accountancy (with Honours) from Nanyang Technological University of Singapore and is currently a Certified Public Accountant in Singapore. Mr. Tan is aged 33.

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Directors' Report

For the year ended 30 June 2009

<i>Director</i>	<i>Title and Date of appointment</i>	<i>Qualifications and experience</i>
Damien Seah CPA, FCCA	Alternate to Mr. Xue Yongwen	Mr. Damien Seah is a non-executive director of China Steel Pte Ltd and a non-executive director of China Powerplus. He is currently head of the internal audit division of Fabchem China Limited, a company which is listed on the Singapore Stock Exchange. He was substantially involved in public and private company audits whilst at Deloitte & Touche in Singapore. Mr. Seah is a Certified Public Accountant in Singapore and a Fellow of the Association of Chartered Certified Accountants (United Kingdom). He is aged 36.
Lanson Lim B.Sc	Alternate to Mr. Chen Lidong (appointed on 11 November 2008) Executive Director and Deputy Chairman (Resigned on 10 November 2009)	Mr. Lim is an executive director of China Steel Pte Ltd and a non-executive director of JadeField Group Limited ("JadeField"). He is also a director of a number of private companies. Mr. Lim is 32 years of age.

Directorships of other listed companies

Directorships of other listed companies held by directors in the three years immediately before the end of the financial years are as follows:

<i>Name</i>	<i>Company</i>	<i>Period of Directorship</i>
Xue, Yongwen	China Powerplus Limited *	Oct 2003 – Present
Peter Carroll	Bemax Resources Limited	Sept 2003 – Present
Paul Frederiks	Auzex Resources Limited	Oct 2005 – Present
Damien Seah	China Powerplus Limited *	Sept 2005 – Present

*Listed on Stock Exchange of Singapore

Company Secretary

Mr. Paul Frederiks who is a Non-Executive Director, concurrently hold the position of the Company Secretary.

Principal Activities

The principal activity of the consolidated entity is producing Nickel Pig Iron for domestic Chinese Market. During the financial year, subsidiary in China has converted its China-based nickel pig iron plant to produce merchant pig iron (MPI). There were no other significant changes in the nature of the consolidated entity's principal activities during the financial year.

Operating results

The consolidated loss after income tax amounted to \$3.051m (2008:- consolidated profit after income tax amounted to \$13.076m).

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Directors' Report

For the year ended 30 June 2009

Directors' meeting

The number of directors' meeting and number of meeting attended by each of the directors of the Company during the financial period are:

	Board Meeting		Audit and Risk Committee Meeting		Remuneration Committee Meeting	
	Number held while in office	Number attended	Number held while in office	Number attended	Number held while in office	Number attended
Xue, Yongwen	4	3	1	–	N/A [#]	N/A [#]
Chen, Lidong	4	4	1	1	N/A [#]	N/A [#]
Peter Carroll	7	7	2	2	1	1
Paul Frederiks	7	7	2	2	1	1
Sherman Tan	4	2	1	–	N/A [#]	N/A [#]
Damien Seah	7	6	2	1	1	1
Lanson Lim	7	7	2	2	1	1

NA:- Not applicable, Remuneration committee meeting was conducted prior to the appointment of these directors.

REMUNERATION REPORT (Audited)

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

Remuneration policy

The remuneration policy of China Steel Australia Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component. The board of China Steel Australia Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive director and other senior executives, was developed by the remuneration committee and approved by the board.
- Executives generally receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

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Directors' Report

For the year ended 30 June 2009

The executive directors and executives receive a superannuation guarantee contribution/retirement fund contribution required by the respective local labour jurisdictions where they are based in and do not receive any other retirement benefits.

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

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors resolved at the last shareholders meeting dated 22 January 2008 is at \$250,000 per annum. Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Company performance, shareholder wealth and director and executive remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

Employment Contract

The employment conditions of the executive director and other key management personnel are formalised in contracts of employment. Other than the executive director, all other key management personnel are permanent employees of the wholly owned subsidiaries. There is no fixed term contract for all key management personnel.

The employment contract stipulates a range of 1 to 3 months of resignation periods. The Company may terminate an employment contract without cause by providing 1 to 3 months of written notice or making payment in lieu of notice, based on the individual's monthly salary. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

Remuneration Committee

The remuneration committee comprises the entire Board and is responsible for determining remuneration packages applicable to the Board members and Chief Executive Officer. The Chief Executive Officer determines the remuneration packages for the senior executives of the Company in accordance with compensation guidelines set by the Board. The Board remuneration policy has been developed to ensure that remuneration packages properly reflect each person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating appropriate people.

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Directors' Report

For the year ended 30 June 2009

Directors' and Key Management Personnel Remuneration

Directors	Year	Short-term Benefits				Post-employment Benefits
		Salary and fee \$	Bonus \$	Non-monetary benefit \$	Other \$	Super- annuation \$
Xue, Yongwen [@] - Non-executive Chairman	2009	49,545	-	-	-	-
	2008	-	-	-	-	-
Chen, Lidong [@] - Executive director, CEO	2009	140,544	-	3,737	-	2,632
	2008	111,950	-	3,315	-	450
Peter Carroll [*] - Non Executive Director	2009	44,036	-	-	-	3,964
	2008	23,591	-	-	-	2,123
Paul Frederiks [*] - Non Executive Director	2009	44,036	-	-	-	3,964
	2008	25,950	-	-	-	2,123
Sherman Tan [#] -Non-Executive Director	2009	39,100	-	-	-	818
	2008	-	-	-	-	-
Damien Seah [#] -Alternate Director	2009	29,621	-	-	-	495
	2008	31,612	-	-	-	531
Lanson Lim [#] -Alternative Director	2009	41,377	-	-	-	3,508
	2008	50,898	-	2,359	-	2,567
Total for Directors	2009	388,259	-	3,737	-	15,381
	2008	244,001	-	5,674	-	7,794
Key Management Personnel						
Tian, Dong Gui [@] -Chief Technology Officer	2009	12,624	-	59	-	-
Resigned on 21 March 2009	2008	14,886	-	77	-	-
Chen, Ge Huan [@] -Chief Engineer	2009	10,150	-	59	-	-
	2008	9,330	-	77	-	-
Xue, Li Na [@] -Finance Manager (PRC Operation)	2009	18,739	-	1,182	-	1,528
	2008	14,763	-	2,465	-	425
Ong, Chek Kai [#] -Finance Manager - (Singapore Operation)	2009	52,532	13,728	-	-	6,828
Resigned on 28 February 2009	2008	38,164	2,413	3,810	-	4,422
Tan, Chue Chin [#] -Finance Manager - (Singapore Operation)	2009	17,131	-	-	-	2,369
Appointed on 9 March 2009	2008	-	-	-	-	-
Total for Key Management Personnel	2009	111,176	13,728	1,300	-	10,725
	2008	77,143	2,413	6,429	-	4,847
Overall Total	2009	499,435	13,728	5,037	-	26,106
	2008	321,144	2,413	12,103	-	12,641

* Based in Australia, Brisbane

Based in Singapore

@ Based in Linyi, People's Republic of China ('PRC')

Remuneration of Directors' and Key Management Personnel, is generally paid in the respective currencies of where such persons are based and is translated into AUD\$ for presentation purposes.

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Directors' Report

For the year ended 30 June 2009

Operating review

Merchant Pig Iron

On 19 February 2009, the subsidiary in Linyi, China announced plans to convert its China-based nickel pig iron plant to produce merchant pig iron (MPI). The emerging opportunity in the recovery of the iron and steel industry in China influenced the decision to produce MPI rather than nickel pig iron. MPI is made into steel using electric arc furnace or to cast articles in foundries such as stoves, radiators, lamp-posts and rails.

The conversion of the plant was completed on 30 April 2009 with production commencing in August 2009.

Expansion plant project

During 2008 financial year, the Company embarked on a \$92m expansion of its plant in Linyi, China. The expansion is set to at least triple its current production capacity, however the expansion project was delayed from its planned schedule due to the global economic crisis.

Operating results for the year

Revenue

The decrease in revenue from \$22.480m in 2008 to \$7.162m in 2009 is due to:

- 1) Lower processing fees in the first half of the financial year.
In the first half of the financial year, as the global financial crisis swept across the world and caused a slowdown in economic activities, the demand for nickel pig iron and its selling prices dropped correspondingly. This resulted in the reduction of the Company's processing fees charged to customers in order to remain competitive in the market place.
- 2) Conversion of the plant to produce MPI.
In the second half of the financial year, the Company converted its plant to produce merchant pig iron. The plant successfully recommenced production in August 2009.

Gross Profit

The gross profit has decreased by \$8.501m from \$10.445m in 2008 to \$1.944m in 2009. Expressed in percentage, there is a decrease in gross profit from 46% in 2008 to 27% in 2009.

The gross profit decrease is mainly due to cessation of the production during the second half of the financial year. Major expenses such as depreciation, repairs and maintenance and staffing costs continued to be charged to the Income Statement, which has resulted in a lower gross profit.

Administrative expenses

There is an increase of administrative expenses of \$0.726m from \$1.427m in 2008 to \$2.153m in 2009. The increase is generally due to the corporate overhead expenses for the parent entity during a full year in 2009 compared with a half year in 2008.

Financial income

Financial income decreased \$6.476m from \$6.481m in 2008 to \$0.005m in 2009. The substantial decrease is primarily due to a one-off financial income fair value adjustment of the interest free loan of RMB170m (approx. \$30.855m) which resulted in fair value interest income of \$6.473m in 2008.

The fair value interest income of \$6.473m in 2008 is being amortised over 3.5 years, which corresponds with interest free tenure of the loan provided by Zhang Guangxia.

On 29 September 2008, an agreement was concluded between Zhang Guangxia and Jadedfield Group Limited to transfer RMB155m (approx. \$28.135m) of the loan outstanding from Zhang Guangxia to Jadedfield Group Limited. Notwithstanding the transfer, terms and conditions of the loan with Linyi Yilida Steel Mill Co. Ltd remain unchanged.

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Directors' Report

For the year ended 30 June 2009

Financial expenses

Financial expenses increased \$1.085m from \$1.862m in 2008 to \$2.947m in 2009. The financial expenses are firstly attributed to amortisation of the fair value adjustment of the interest free loan of \$1.850m in 2009 (2008: \$1.850m). Secondly, with the construction of the plant conversion being delayed, there was an interest expense charge on the construction's loan from Shandong HengTai Jiaohua Co. Limited of \$1.096m (2008: nil). This interest expense is based on the principal amount of the loan from 1 January 2009 to 30 June 2009.

Income tax saving

The \$0.116m relates to the deferred tax saving for the fair value adjusted financial income of the interest free loan.

Balance Sheet review

Current Assets

Current assets comprise of cash and cash equivalents, trade and other receivables, inventories and other assets.

Total current assets decreased \$10.002m from \$10.695m in 2008 to \$0.693m in 2009. The decrease is generally due to the drop in trade receivables which decreased \$9.725m from \$9.756m in 2008 to \$0.031m.

Non Current Assets

Property, plants and equipments of the Group consist of leasehold land, leasehold buildings and plant and equipment and construction work in progress.

Net book value of property, plants and equipments increased \$21.390m from \$58.725m in 2008 to \$80.115m in 2009. The increase was largely due to construction costs associated with the plant expansion of \$12.683m. The increase was partly offset by depreciation of \$1.674m for the year.

Current liabilities

Trade and other payables comprise of payable to suppliers, sundry payable and accrued expenses.

Trade and other payables decreased \$2.278m from \$4.297m in 2008 to \$2.019m in 2009. Trade payables decreased by \$1.575m from \$2.232m in 2008 to \$0.657m in 2009. Other payables decreased by \$1.162m from \$1.746m to \$0.584m in 2009. Both reductions are commensurate with there being no production due to the plant expansion and consequently payables did not comprise the purchase of operating supplies like the previous year.

Non current liabilities

Non current liabilities comprise of borrowings and deferred tax liabilities

The bulk of increase in non current liabilities of \$13.151m is contributed by borrowings. The borrowings were incurred to fund the plant and plant expansion. Please refer to Note 18 of the financial statements for details of the loans.

Equity

Equity is comprised of issued capital, retained earnings and reserves.

Total equity increased \$0.745m from \$23,159m in 2008 to \$23,904m in 2009. The increase was mainly due to movement of foreign exchange reserves as a result of appreciation of the Chinese Reminbi against the Australian Dollar, offset with loss attributed to members of parent entity.

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Directors' Report

For the year ended 30 June 2009

Directors' interest

As at the date of this report, the interest of the Directors in the shares of China Steel Australia Limited were:

Name	Ordinary shares	Options exercisable at \$0.30 an expiring 28/2/2011
Xue, Yongwen ⁽¹⁾	142,450,000	–
Chen, Lidong	–	–
Peter Carroll	100,000	200,000
Paul Frederiks	100,000	200,000
Sherman Tan	184,800	–
Damien Seah ⁽²⁾	–	200,000
Lanson Lim ⁽³⁾	142,450,000	500,000

Notes:

- (1) Mr. Xue is deemed by Corporation Act 2001 to hold the same interest in Shares held by China Powerplus as Mr. Xue holds 27.51% in the securities of China Powerplus (Please also refer to Note 7).
- (2) China Powerplus has acquired 142,450,000 shares in the Company from Jadedfield during the financial year (Please also refer to Note 7). Although Mr. Seah is a director of China Powerplus, the Company considers that he does not hold any relevant interest in shares in which China Powerplus has (or may have) a relevant interest.
- (3) Mr. Lim is deemed by Corporation Act 2001 to hold the same interest in shares that is held by Jadedfield, as Mr. Lim holds 50% of the issue shares in Jadedfield (Please also refer to Note 7).

Options

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

Name	Grant Date	Date of Expiry	Exercise Price	Number
Peter Carroll	29 February 2008	28 February 2011	30 cents	200,000
Paul Frederiks	29 February 2008	28 February 2011	30 cents	200,000
Damien Seah	29 February 2008	28 February 2011	30 cents	200,000
Lanson Lim	29 February 2008	28 February 2011	30 cents	500,000
Ong, Chek Kai	29 February 2008	1 March 2011	30 cents	– #

Ong, Chek Kai resigned on 28 February 2009, hence his options lapsed during the financial year.

The options are unlisted, issued for nil consideration and have a term of 3 years. The fair value of the options at grant date was \$0.0796 cents per option share. The fair value of these options attributable to the period ended 30 June 2009 of nil (2008:- \$95,529) has been recognised in the income statement of the Company.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Environmental regulation

The wholly owned subsidiary Linyi Yilida Steel Mill Co. Ltd, is subjected to environment regulations in PRC. The Directors are not aware of any significant breaches of environment regulations.

Directors' Report

For the year ended 30 June 2009

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company.

Where the Board believes that a significant conflict exists for a director on a board matter, the director concerned is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in Note 26 of the financial statements.

Likely developments

The Group will continue with the expansion project to increase its profitability and enhance shareholders value.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of this information would likely to result in unreasonable prejudice to the Group.

Significant changes in the state of affairs

In the opinion of the directors, there was no significant change in the state of affairs of the consolidated entity other than those that have been noted in this report and in the financials statements or notes thereto.

Dividends

No dividends have been paid or declared by the Company to members since the end of the previous financial year.

Events subsequent to reporting date

None of any other items, transaction or event of a material and unusual nature likely, in opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years.

Indemnification of officers

The Company has entered into deeds of indemnity, insurance and access with each Director. To the extent permitted by law and subject to the restrictions in section 199A of the Corporations Act, the Company must continuously indemnify each Director against liability (including liability for costs and expenses) for an act or omission in the capacity of Director.

However this does not apply in respect of any liability:

- to the Company or a Related Body Corporate;
- to some other person that arises from conduct involving a lack of good faith;
- for costs and expenses incurred by the Director in defending civil or criminal proceedings in which judgment is given against the officer or in which the officer is not acquitted; or
- for costs and expenses incurred by the Director in connection with an unsuccessful application for relief under the Corporations Act in connection with the proceedings referred to above.

The Company has also agreed to insure the Directors and provide to the Directors with access to board documents circulated during the Director's term in office.

The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

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Directors' Report

For the year ended 30 June 2009

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors:

	2009 AUD\$	2008 AUD\$
Due diligence investigation	–	50,000

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2009 has been received and can be found on page 29 of the financial report.

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.

On behalf of the board



Xue, Yongwen
Non-executive Chairman

Dated this 16th day of September 2009

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Corporate Governance Statement

For the year ended 30 June 2009

The Board of Directors of China Steel Australia Limited is responsible for the corporate governance of the Company and is committed to achieving and demonstrating high standards of corporate governance.

China Steel Australia Limited's Corporate Governance Statement is structured with reference to the Australian Securities Exchange Corporate Governance Council's "Corporate Governance Principles and Recommendations" (Revised Principles) of which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Remunerate fairly and responsibly

This Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact is disclosed, together with the reasons for the departure.

China Steel Australia Limited's corporate governance practices were in place since the Company's incorporation and were fully compliant with the Council's recommendations with the exception that until 3 September 2008, recommendation 4.2 (The chairman of the Audit Committee should be an independent chair who is not chair of the Board) was not complied with. The appointment of a new independent Chairman on 3 September 2008 means that the Chairman and Chairman of the Audit Committee are now separate persons. Previously the Chairman was considered appropriate to also be Chairman of the Audit Committee on the basis he had accounting qualifications, could speak Mandarin and therefore more appropriately interface with the Chinese Auditors. For further information on corporate policies adopted by China Steel Australia Limited, please refer to the Corporate Governance Tab under "About China Steel Australia" on our website located at www.cnsteel.com.au. The Company's reporting against the Principles is as follows:

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of Board and management.

The Board operates in accordance with the following principles and guidelines.

- The Board does comprise Directors with an appropriate range of qualifications and expertise.
- The terms and conditions of the appointment of Non-Executive Directors are set out in a letter of appointment. The appointment letter covers the following matters:
 - the level of remuneration;
 - the tenure of appointment;
 - the expectation of the Board in relation to attendance and preparation for all Board meetings;
 - the Directors code of conduct;
 - the procedures dealing with conflicts of interest; and
 - the availability of independent advice - The board has agreed a procedure for Directors to take independent professional advice at the expense of the Company. Prior approval of the Chairman is required, but this will not be unreasonably withheld.
- The Board meets as often as required to attend to the affairs of the Company and follow meeting guidelines set down to ensure all Directors are made aware of, and have available to them all necessary information enabling them to participate in an informed discussion of all agenda items.

The Board is responsible for the direction and supervision of the Company's business on behalf of the shareholders, by whom they are elected and to whom they are accountable. This includes ensuring that internal controls and reporting procedures are adequate and effective. The Directors recognise the need to maintain the highest standards of behaviour, ethics and accountability. The Board draws on relevant corporate governance best practice principles to assist it to contribute to the performance of the Company.

Corporate Governance Statement

For the year ended 30 June 2009

The primary functions of the Board include responsibility for:

- Approving objectives, goals and strategic direction for management;
- Monitoring financial performance including adopting annual budgets and approving the Company's financial statements;
- Ensuring that adequate systems of internal control exist and are appropriately monitored for compliance;
- Selecting, appointing and reviewing the performance of the Managing Director and Chief Executive Officer;
- Ensuring significant business risks are identified and appropriately managed; and
- Reporting to shareholders on performance.

The Company's Managing Director's performance and remuneration is reviewed annually by the Non-executive Directors. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of China Steel Australia Limited. Further details of the process for evaluating performance are set out in the Remuneration Report.

The Board may determine from time to time to establish specific purpose sub-committees to deal with specific issues. All matters determined by committees are submitted to the full Board as recommendations for Board decision. Minutes of committee meetings are tabled at the immediately subsequent Board meeting.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are delegated by the board to the CEO and senior executives. These delegations are reviewed from time to time during the board meeting.

Unless otherwise indicated in this statement, the practices specified in the Board Charter have been followed throughout the 2009 reporting period and will remain in force until amended by resolution of the Board. A copy of the Board Charter is available in the corporate governance section of the Company's website: www.cnsteel.com.au.

2. STRUCTURE THE BOARD TO ADD VALUE

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

SKILLS, EXPERIENCE AND EXPERTISE OF DIRECTORS

The Directors in office at the date of this statement are:

Name	Position	Independent	Term in Office	Expertise
Xue, Yongwen	Non-Executive Chairman	No	1.08 year	Governance and Management
Chen, Lidong	Executive director, CEO	Yes	0.88 year	Governance and Management
Peter Carroll	Non-Executive Director	Yes	1.70 year	Finance, Governance and Management
Paul Frederiks	Non-Executive Director	Yes	1.70 year	Finance, Governance and Management
Sherman Tan	Non-Executive Director	No	1.08 year	Finance, Governance and Management
Damien Seah	Alternate Director to Xue, Yongwen	Yes	1.70 year	Finance and Governance
Lanson Lim	Alternate Director to Chen, Lidong	No	1.70 year	Finance Project Development and Management

Corporate Governance Statement

For the year ended 30 June 2009

INDEPENDENT DIRECTORS

Directors of China Steel Australia Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

In the context of Director independence, "materiality" is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty. Board policy on "independence" is available on the Company's website.

In accordance with the definition of independence above, and the materiality thresholds set, certain Directors as marked in the previous table are considered to be independent.

Due to the Company's size, requirements and resources, the Board considers that the existing skill mix of the Directors is highly appropriate and that the all directors should be members of the remuneration and nominations committee. When a Board vacancy occurs or where it is considered that the Board would benefit from the services of a new director with particular skills, directors are asked to nominate suitable candidates. The Board reviews potential candidates, with advice from external consultants if necessary, and then appoints the most suitable candidate. A summary of the role, rights and responsibilities of remuneration and nominations committee, as well as the committee's policy for appointment of directors is available on the Company's website.

Further details of the members of the Board including their experience and expertise are set out in the Directors' Report.

TERM OF OFFICE

The Company's constitution specifies that all Directors (with the exception of a Managing Director) must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a Director may stand for re-election.

PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, it is the intention that all Directors will complete a structured self evaluation questionnaire that aimed to evaluate the performance of the Board as a whole on an annual basis. These responses are collated and subsequently discussed by the Board to improve the functional operations of the Board. The Chairman's performance is reviewed by the Board.

INDEPENDENT ADVICE

In performing their duties, directors have the right to seek independent, professional advice at the Company's expense, in furtherance of their duties as directors, with the approval of the Chairman, which approval shall not be unreasonably withheld.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Companies should actively promote ethical and responsible decision-making

The Company supports and has adopted the Code of Conduct published by The Australian Institute of Company Directors in 2005. This code recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics and its commitment to ensuring compliance with the insider trading laws.

The insider trading provisions of the Corporations Act have been drawn to the attention of all Directors and executives and it has been agreed that this will be a continuing policy on a regular basis. Directors have all entered into agreements to notify the Company within three days of any dealing in the Company's securities and it is an employment condition that all executives notify the Company within three days of any dealing in the Company's securities.

The Code of Conduct and Securities Trading policy are available on the Company's website.

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Corporate Governance Statement

For the year ended 30 June 2009

The code requires a Director, amongst other things to:

- act honestly, in good faith and in the best interests of the Company as a whole;
- perform the functions of office and exercise the powers attached to that office with a degree of care and diligence; and
- consider matters before the board having regard to any possible personal interests, the amount of information appropriate to properly consider the subject matter and what is in the best interests of the Company.

The key aspects of the Securities Trading policy are:

- trading whilst in the possession of material price sensitive information is prohibited
- trading is permitted without approval in the 6 week period after the release to ASX of the half-yearly and annual results, the end of the AGM or at any time the Company has a prospectus open, but only if they have no inside information and the trading is not for short term or speculative gain.
- Trading in other circumstances is only permitted if the person is personally satisfied that they are not in possession of inside information and they have obtained approval. Permission will be given for such trading only if the approving person is satisfied that the transaction would not be contrary to law, for speculative gain or to take advantage of inside information.

4. SAFEGUARD INTEGRITY OF FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

The Board has adopted an Audit Committee Charter to ensure the truthful and factual presentation of the Company's financial position. A copy of the committee's charter can be obtained from the Company's website. Audit Committee meetings will be held periodically throughout the year. The Audit Committee will be chaired by a Non-executive Director and it will comprise only non-executive Directors, with majority of members being independent directors.

The main functions of the committee will be to:

- Assess the appropriateness of accounting policies, practices and disclosures and whether the quality of financial reporting is adequate;
- Review the scope and results of internal, external and compliance audits;
- Maintain open lines of communication between the Board and external auditors and the Company's compliance officers;
- Review and report to the Board on the annual report, the half-year financial report and all other financial information published by the Company or released to the market;
- Review significant transactions that are not a normal part of the Company's business;
- Assess the adequacy of the Company's internal controls and make informed decisions regarding compliance policies, practices and disclosures;
- Ensure effective deployment of risk management processes including a review of all areas of significant financial risk and arrangements in place to contain those to acceptable levels;
- Nominate the external auditors and review the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- Review the level of non-audit services provided by the external auditors and ensure that it does not adversely impact on auditor independence.

The Chairman of the Audit Committee reviews the performance of the committee with members and reports annually to the Board.

The members of the Audit Committee during the year were:

- Damien Seah (Chairman);
- Peter Carroll; and
- Paul Frederiks.

Each of the Committee members is literate in terms of ASX's Corporate Governance Guidelines (ie able to read and understand financial statements), have an understanding of the industry in which the Company operates and have expertise in terms of ASX's Corporate Governance Guidelines.

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Corporate Governance Statement

For the year ended 30 June 2009

5. MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the company.

The Board has adopted a Listing Rule 3.1 Compliance Policy, which has been designed to ensure compliance with the ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The aims of this policy are to:

- assess new information and co-ordinate any disclosure or releases to ASX, or any advice required in relation to that information, in a timely manner;
- provide an audit trail of the decisions regarding disclosure to substantiate compliance with the Company's continuous disclosure obligations;
- report to the Board on continuous disclosure matters; and
- ensure that employees, consultants, associated entities and advisers of the Company understand the obligations to bring material information to the attention of the Company secretary.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. The Company Secretary is responsible for ensuring compliance with the continuous disclosure requirements in the ASX listing rules. A summary of policies and procedures the Company has in place to ensure compliance with ASX listing rules disclosure requirement is published on the Company's website.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are provided with all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- The Annual Report, which will be distributed to all shareholders (unless shareholders specifically indicate otherwise);
- The Annual General Meeting, and other meetings called to obtain approval for Board action as appropriate; and
- The Company's Corporate Internet site at www.cnsteel.com.au. This web site is actively maintained and includes all market announcements, research reports from analysts, briefings to shareholders, full texts of notices of meeting and explanatory material and compliance reports such as the quarterly cash flow report and annual report.

Shareholders are actively encouraged to become "online shareholders" by registering electronically with the Company's share registry to receive an email notification of announcements as they are made. The shareholders are also encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals. Important issues are presented to shareholders as separate resolutions.

All information disclosed to the ASX is immediately posted on the Company's website as soon as it is disclosed to the ASX.

7. RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

The Company is committed to having a culture of risk management and has established a risk management system that supports a pro-active approach to managing risk and to exploiting opportunity at all levels.

Management, through the Managing Director, is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. Management reports to the Audit Committee on the Company's key risks and the extent to which it believes these risks are being managed. This is performed on a six monthly basis or more frequently as required by the Board or Committee.

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control. It reviews strategic and operational risks with a specific focus on the identification of business risks which could prevent the Company from achieving its objectives. Management are required to ensure that appropriate controls and mitigation strategies are in place to effectively manage those risks. Compliance and reporting risks are reviewed on an ongoing basis with an independent company engaged to manage the Company's requirements. The Audit Committee oversees the adequacy and comprehensiveness of risk reporting from management.

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Corporate Governance Statement

For the year ended 30 June 2009

The Board receives a written assurance from the Chief Executive Officer (CEO) and the Finance Manager (Australia and Singapore) that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the CEO and Finance Manager (Australia and Singapore) can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

A description of the Company's risk management policy is available on the Company's website.

8. REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

REMUNERATION

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and small executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Managing Director's and key executives' emoluments are structured to retain and motivate executives by offering a competitive base salary together with performance incentives through share options which allow executives to share in the success of China Steel Australia Limited.

The Company currently has five Non-Executive Directors (including two alternates) and a Managing Director. The Company's Managing Director does not receive Directors' fees and his remuneration package is formalised in a service agreement. The Non-executive Directors' maximum aggregate remuneration as approved by shareholders is currently \$250,000 and is set at a level that compensates the directors for their significant time commitment in overseeing the progression of the Company's business plan.

There are no retirement benefits offered to Non-executive Directors other than statutory superannuation. For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and Executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations committee operates under a charter approved by the Board. It Remuneration and Nomination Committee meetings will be held at least annually and otherwise as required throughout the year. It is the policy of the Board that the members of the committee shall be the entire Board. The Remuneration and Nominations Committee will be chaired by a Non-executive Director other than the Chairman of the Board.

The committee is responsible for determining and reviewing compensation arrangements for the Directors themselves and the Chief Executive Officer. The Chief Executive Officer determines the remuneration packages for the senior executives of the Company in accordance with compensation guidelines set by the Board. The Board remuneration policy has been developed to ensure that remuneration packages properly reflect each person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating appropriate people. For details on the number of meetings of the Remuneration and Nominations committee held during the year and the attendees at those meetings, refer to the Directors' Report. A summary of the committee's role and responsibilities is available on the Company's website.

RSM Bird Cameron Partners

Chartered Accountants

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AUDITOR INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of China Steel Australia Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron Partners.

RSM BIRD CAMERON PARTNERS
Chartered Accountants

D J Wall

D J WALL
Partner

Perth, WA

Dated: 16 SEPTEMBER 2009

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Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.



Income Statement

For the year ended 30 June 2009

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		AUD'000	AUD'000	AUD'000	AUD'000
Revenue	2	7,162	22,480	211	-
Cost of sales		(5,218)	(12,035)	-	-
Gross profit		1,944	10,445	211	-
Other income		27	-	-	-
Administrative expenses		(2,153)	(1,427)	(463)	(248)
Other expenses	3	(43)	(99)	-	(96)
(Loss)/profit before financing income		(225)	8,919	(252)	(344)
Financial income		5	6,481	5	9
Financial expenses		(2,947)	(1,862)	-	-
Net financial (expenses)/income	5	(2,942)	4,619	5	9
(Loss)/profit before income tax		(3,167)	13,538	(247)	(335)
Income tax savings/(expense)	6	116	(462)	-	-
(Loss)/profit for the year attributable to members of the parent entity		(3,051)	13,076	(247)	(335)
Earnings per share					
(Loss)/earning per share (cents per share)					
- Basic	9	(0.99)	4.45		
(Loss)/earnings per share (cents per share)					
- Diluted	9	(0.99)	4.45		

The accompanying notes form part of these financial statements.

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Balance Sheet

As at 30 June 2009

	Note	Consolidated Entity		Parent Entity	
		2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	10	88	414	5	371
Trade and other receivables	11	31	9,756	-	-
Inventories	12	394	381	-	-
Other assets	16	180	144	21	17
TOTAL CURRENT ASSETS		693	10,695	26	388
NON CURRENT ASSETS					
Investment in subsidiary	13	-	-	2,600	2,600
Property, plant and equipment	15	80,115	58,725	-	-
Other assets	16	697	583	-	-
TOTAL NON CURRENT ASSETS		80,812	59,308	2,600	2,600
TOTAL ASSETS		81,505	70,003	2,626	2,988
CURRENT LIABILITIES					
Trade and other payables	17	2,019	4,297	685	800
TOTAL CURRENT LIABILITIES		2,019	4,297	685	800
NON CURRENT LIABILITIES					
Financial liabilities	18	55,236	42,085	-	-
Deferred tax liabilities	19	346	462	-	-
TOTAL NON CURRENT LIABILITIES		55,582	42,547	-	-
TOTAL LIABILITIES		57,601	46,844	685	800
NET ASSETS		23,904	23,159	1,941	2,188
EQUITY					
Issued capital	20	5,483	5,483	2,427	2,427
Retained earnings/(accumulated losses)		13,350	16,623	(582)	(335)
Reserves	21	5,071	1,053	96	96
TOTAL EQUITY		23,904	23,159	1,941	2,188

The accompanying notes form part of these financial statements.

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Statements of Changes in Equity

For the year ended 30 June 2009

	Share capital AUD'000	Statutory Reserve# AUD'000	Share Option Reserve AUD'000	Foreign currency translation Reserve AUD'000	Retained earnings/ (Accumulated loss) AUD'000	Total equity AUD'000
Consolidated Entity						
Balance at 1 July 2007	-*	484	-	(183)	4,512	4,813
Shares issued during the year	3,404	-	-	-	-	3,404
Shares issued costs	(977)	-	-	-	-	(977)
Profit attributable to members of the parent entity	-	-	-	-	13,076	13,076
Conversion of loan to shares	3,056	-	-	-	-	3,056
Share based payment	-	-	96	-	-	96
Adjustment from translation of foreign controlled entities	-	-	-	(309)	-	(309)
Transfer to statutory reserve	-	965	-	-	(965)	-
Balance at 30 June 2008	5,483	1,449	96	(492)	16,623	23,159
Balance at 1 July 2008	5,483	1,449	96	(492)	16,623	23,159
(Loss) attributable to members of the parent entity	-	-	-	-	(3,051)	(3,051)
Adjustment from translation of foreign controlled entities	-	-	-	3,796	-	3,796
Transfer to statutory reserve	-	222	-	-	(222)	-
Balance at 30 June 2009	5,483	1,671	96	3,304	13,350	23,904
* Less than AUD\$1,000						
# Under Chinese regulations, the subsidiary is required to establish a statutory reserve, which represents a non distributable reserve made at a rate of 10% of net profit after tax and accumulated losses. Contribution to this reserve is no longer mandatory when the reserve reaches 50% of the registered share capital. The reserve is to be used in accordance with the requirement of the relevant regulations.						
Parent Entity						
Balance at 1 July 2007	-	-	-	-	-	-
Loss attributable to members of the parent entity	-	-	-	-	(335)	(335)
Share based payments	-	-	96	-	-	96
Share issued	3,404	-	-	-	-	3,404
Share issued costs	(977)	-	-	-	-	(977)
Balance at 30 June 2008	2,427	-	96	-	(335)	2,188
Balance at 1 July 2008	2,427	-	96	-	(335)	2,188
Loss attributable to members of the parent entity	-	-	-	-	(247)	(247)
Balance at 30 June 2009	2,427	-	96	-	(582)	1,941

The accompanying notes form part of these financial statements.

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Cash Flow Statement

For the year ended 30 June 2009

	Note	Consolidated Entity		Parent Entity	
		2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		16,887	23,416	211	-
Payments to suppliers and employees		(7,922)	(10,559)	(403)	(205)
Interest received		32	8	5	9
Finance costs		(1,097)	(12)	-	-
Net cash provided by/ (used in) operating activities	23	7,900	12,853	(187)	(196)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceed from sale of property, plant and equipment		84	-	-	-
Purchase of property, plant and equipment		(10,509)	(35,649)	-	-
Purchase of investments		-	-	-	(2,600)
Net cash used in investing activities		(10,425)	(35,649)	-	(2,600)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	3,404	-	3,404
Transaction costs paid on issue of share capital		-	(977)	-	(977)
Advance (to) / from subsidiary company		-	-	(179)	740
Proceeds from borrowings		2,199	20,748	-	-
Net cash provided by financing activities		2,199	23,175	(179)	3,167
Net (decrease)/ increase in cash held		(326)	379	(366)	371
Cash at beginning of financial year		414	35	371	-
Cash at end of financial year	10	88	414	5	371

The accompanying notes form part of these financial statements.

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Notes to the Financial Statements

For the year ended 30 June 2009

1 Statement of Significant Accounting Policies

Reporting entity

The financial report includes the consolidated financial statement and notes of China Steel Australia Limited and controlled entities ('Consolidated Entity' or 'Group'), and the separate financial statements and notes of China Steel Australia Limited as an individual parent entity ('Parent Entity' or 'Company').

The financial report was authorised for issue on 16 September 2009 by the board of directors.

Basis of preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. In accordance with Accounting Standard AASB 101 Presentation of Financial Statements, compliance with Australian equivalent to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The consolidated entity incurred a net loss of \$3,051,000 during the year ended 30 June 2009 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by \$1,326,000.

Going Concern

Following a strategic review of the consolidated entity's operation, the consolidated entity has converted the plant from nickel pig iron to merchant pig iron. The conversion of the plant has resulted in a decrease in revenue from \$22,400,000 last year to \$7,162,000 this year and has given rise to the operating loss disclosed in the income statement and the deficiency of working capital disclosed in the balance sheet and has created a need to secure markets for this new product. The plan to convert the plant to a new product creates significant uncertainty whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

However, the directors believe that it is appropriate that the going concern basis of accounting is adopted in the preparation of the financial report for the year ended 30 June 2009, based upon the following factors:

- The ability to issue additional shares under the Corporation Act 2001;
- The consolidated entity is forecasting profitable trading of the new product, merchant pig iron, in future periods; and
- The consolidated entity has un-drawn loan facilities of approximately RMB450m (AUD 82m) at the date of this financial report.

The financial report does not include adjustments, if any, relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary if the consolidated entity does not continue as a going concern.

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Notes to the Financial Statements

For the year ended 30 June 2009

1 Statement of Significant Accounting Policies (cont'd)

a) Principles of Consolidation

A controlled entity is any entity over which China Steel Australia Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 14 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated entity during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

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

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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Notes to the Financial Statements

For the year ended 30 June 2009

1 Statement of Significant Accounting Policies (cont'd)

b) Income Tax (cont'd)

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

d) Property, Plant and Equipment

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

Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

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

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

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

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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Notes to the Financial Statements

For the year ended 30 June 2009

1 Statement of Significant Accounting Policies (cont'd)

d) Property, Plant and Equipment (cont'd)

Depreciation (cont'd)

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

Class of Fixed Asset	Depreciation Rate
Leasehold buildings	3.6%
Plant and equipment	5.25% to 33.33%
Leasehold land	over terms of lease of 3.33%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Depreciation is not provided in construction work-in-progress.

e) Financial Instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by market place convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

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Notes to the Financial Statements

For the year ended 30 June 2009

1 Statement of Significant Accounting Policies (cont'd)

e) Financial Instruments (cont'd)

Classification and Subsequent Measurement (cont'd)

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

f) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

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Notes to the Financial Statements

For the year ended 30 June 2009

1 Statement of Significant Accounting Policies (cont'd)

h) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

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

i) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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Notes to the Financial Statements

For the year ended 30 June 2009

1 Statement of Significant Accounting Policies (cont'd)

j) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

k) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

l) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

m) Borrowing Costs

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

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

n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

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Notes to the Financial Statements

For the year ended 30 June 2009

1 Statement of Significant Accounting Policies (cont'd)

o) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

p) Comparative Figure

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

q) Critical Accounting Estimates and Judgments

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

Key Estimates – Impairment

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

With respect to cash flow projections for property, plant and equipment based in PRC, growth rates of 3% have been factored into valuation models for the next five years on the basis of management's expectations around the Group's continued ability to capture market share from competitors. Cash flow growth rates of 3% subsequent to this period have been used as this reflects historical industry averages. The rates used incorporate allowance for inflation. Pre-tax discount rates of 12% have been used in all models. The average production output is estimated to be at 80% and the commissioning of new plant is estimated to start in June 2010.

No impairment has been recognised in respect of property, plant and equipment at reporting date. Should the projected turnover figures be outside 50% of budgeted figures incorporated in value-in-use calculations, an impairment loss would be recognised up to the maximum carrying value of \$80,115,000.

2 Revenue

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	AUD'000	AUD'000	AUD'000	AUD'000
Rendering of services	7,162	22,480	–	–
Management fees	–	–	211	–
	7,162	22,480	211	–

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Notes to the Financial Statements

For the year ended 30 June 2009

3 Other expenses

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
Share-based compensation payments	-	96	-	96
Loss on disposal of fixed assets	39	-	-	-
Sundry expense	4	3	-	-
	43	99	-	96

4 Personnel expenses

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
Wages and salaries	1,380	1,413	157	64
Superannuation	22	12	10	-
Other associated personnel expenses	72	238	-	-
Share-based compensation payments	-	96	-	96
	1,474	1,759	167	160

5 Financial income and expenses

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
<i>Financial income:</i>				
Interest income	5	8	5	9
Fair value adjusted interest income	-	6,473	-	-
<i>Financial expense:</i>				
Interest expense	(1,097)	(12)	-	-
Fair value adjusted interest expense	(1,850)	(1,850)	-	-
Net financial (expense) /income	(2,942)	4,619	5	9

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Notes to the Financial Statements

For the year ended 30 June 2009

6 Income tax (savings)/expense

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
a. The components of tax expense comprise:				
Deferred tax (savings)/expense	(116)	462	-	-
b. The prima facie tax on profit before income tax is reconciled to the income tax as follows:				
Prima facie tax payable on profit before income tax at 30% (2008: 30%)				
- consolidated entity	(950)	4,061	-	-
- parent entity	-	-	(74)	(100)
Tax effect of:				
- Other non-allowable items	387	72	-	-
- Temporary differences	624	462	(46)	(15)
- Different tax rate applicable to foreign subsidiaries	96	-	-	-
- Tax losses not brought to account	562	115	120	115
- Effect of tax exemption	(603)	(4,248)	-	-
Income tax attributable to entity	116	(462)	-	-
The applicable weighted average effective tax rates are as follows:	-%	3%	-%	-%

The decrease in the weighted average effective consolidated tax rate for 2008 is a result of tax exemption available to a subsidiary company in PRC.

Under the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, foreign investment enterprises are subject to the statutory income tax rate of 25% (2008: 25% from 1 January 2008), unless the enterprises are located in specially designated regions or cities in which more favourable tax rate will apply. The subsidiary is located in a region where the tax rate of 25% applies and is entitled to income tax exemption for the two years commencing from the first tax profitable year (after deducting tax losses carried forward) and a 50% reduction for the succeeding three years. The 50% reduction ends 31 December 2011.

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Notes to the Financial Statements

For the year ended 30 June 2009

7 Key Management Personnel Compensation

- a. Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
Xue, Yongwen	Director-Non-executive Chairman
Chen, Lidong	Chief Executive Officer / Executive director
Peter Carroll	Director-Non-executive
Paul Frederiks	Director-Non-executive
Sherman Tan	Director-Non-executive
Damien Seah	Alternate to Xue, Yongwen
Lanson Lim	Alternate to Chen, Lidong
Tian, Dong Gui	Chief Technology Officer-Linyi Yilida Steel Mill Co. Ltd (resigned on 21 March 2009)
Chen, Ge Huan	Chief Engineer-Linyi Yilida Steel Mill Co. Ltd
Xue, Li Na	Finance Manager-Linyi Yilida Steel Mill Co. Ltd
Ong, Chek Kai	Finance Manager-China Steel Pte Ltd and China Steel Australia Ltd (resigned on 28 February 2009)
Tan, Chue Chin	Finance Manager-China Steel Pte Ltd and China Steel Australia Ltd (employed on 9 March 2009)

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report, pursuant to the relief provided by AASB 2008-4 Amendments to Australian Accounting Standards – Key Management Personnel Disclosures by Disclosing Entities.

- b. Options and Rights Holdings
Number of Options Held by Key Management Personnel

	Balance 1.7.2008	Granted as Compensation	Options Exercised	Net Change Other	Balance 30.6.2009
Peter Carroll	200,000	–	–	–	200,000
Paul Frederiks	200,000	–	–	–	200,000
Damien Seah	200,000	–	–	–	200,000
Lanson Lim	500,000	–	–	–	500,000
Ong, Chek Kai (resigned on 28 February 2009)	100,000	–	–	(100,000)	–
	<u>1,200,000</u>	<u>–</u>	<u>–</u>	<u>(100,000)</u>	<u>1,100,000</u>

No options exercised during the 2009 financial year.

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Notes to the Financial Statements

For the year ended 30 June 2009

7 Key Management Personnel Compensation (cont'd)

- b. Options and Rights Holdings
Number of Options Held by Key Management Personnel (cont'd)

	Balance 30.6.2009	Total Vested 30.6.2009	Other changes during the year	Total Exercisable 30.6.2009	Total Unexercisable 30.6.2009
Peter Carroll	200,000	–	–	200,000	–
Paul Frederiks	200,000	–	–	200,000	–
Damien Seah	200,000	–	–	200,000	–
Lanson Lim	500,000	–	–	500,000	–
Ong, Chek Kai (resigned on 28 February 2009)*	100,000	–	(100,000)	–	–
	<u>1,200,000</u>	<u>–</u>	<u>(100,000)</u>	<u>1,100,000</u>	<u>–</u>

* Ong, Chek Kai resigned on 28 February 2009, hence options held by him have lapsed.

The options are unlisted, issued for nil consideration and have a term of 3 years.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

- c. Shareholdings
Number of Shares held by Key Management Personnel

	Balance 1.7.2008	Fully paid Ordinary Shares	Received as Compensation	Options Exercised	Other changes during the year	Balance 30.6.2009
Xue, Yongwen*	–	–	–	–	142,450,000	142,450,000
Peter Carroll	100,000	100,000	–	–	–	100,000
Paul Frederiks	100,000	100,000	–	–	–	100,000
Sherman Tan	184,800	184,800	–	–	–	184,800
Damien Seah @	–	–	–	–	–	–
Lanson Lim #	284,900,000	284,900,000	–	–	(142,450,000)	142,450,000
Total	<u>285,284,800</u>	<u>285,284,800</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>285,284,800</u>

* During the financial year, Jadefield Group Limited sold 142,450,000 shares to China Powerplus Ltd. Mr. Xue has a 27.51% interest (representing 116,900,000 shares) in the securities of China Powerplus Ltd, a corporation of which he is an employee with the designation of Executive Chairman and Managing Director.

@ During the financial year, China Powerplus Ltd, a Singapore listed company acquired 142,450,000 shares in the Company from Jadefield Group Limited. Although Mr. Seah is a director of China Powerplus Ltd, the Company considers that he does not hold any relevant interest in shares in which China Powerplus has (or may have) a relevant interest.

Mr. Lim is deemed by law to hold the same interest in shares that is held by Jadefield Group Limited as Mr. Lim holds 50% of the issue shares in Jadefield Group Limited.

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Notes to the Financial Statements

For the year ended 30 June 2009

8 Auditors' Remuneration

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
Remuneration of the auditor of the parent entity for:				
- auditing or reviewing the financial report	63	50	63	50
- Investigating accountant for IPO	-	50	-	-
Remuneration of other auditors of subsidiaries for:				
- auditing or reviewing the financial report of subsidiaries	39	58	-	-

9 Earnings per Share

	2009 AUD'000	2008 AUD'000
a. Reconciliation of earnings to profit or loss		
(Loss)/Profit	(3,051)	13,076
(Loss)/earnings used to calculate basic EPS	(3,051)	13,076
(Loss)/earnings used in the calculation of dilutive EPS	(3,051)	13,076
b. Reconciliation of earnings to profit or loss from continuing operations		
(Loss)/profit from continuing operations	(3,051)	13,076
(Loss)/profit used to calculate basic EPS from continuing operations	(3,051)	13,076
(Loss)/profit used in the calculation of dilutive EPS from continuing operations	(3,051)	13,076
	No.	No.
c. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	308,000,000	293,791,714
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	308,000,000	293,791,714

10 Cash and Cash Equivalents

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
Cash and cash equivalents	88	414	5	371

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Notes to the Financial Statements

For the year ended 30 June 2009

11 Trade and Other Receivables

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
CURRENT				
Trade receivables	31	9,756	-	-
Other receivable	6	25	-	-
Provision for impairment of other receivables	(6)	(25)	-	-
	31	9,756	-	-

Provision For Impairment of Receivables

Current trade receivables are non-interest bearing loans and generally paid between 60 - 90 days from the date of invoice. Trade receivables are assessed for recoverability when balance due date past 180 days from date of invoice. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

Movement in the provision for impairment of receivables is as follows:

	Opening Balance AUD'000	Charge for the Year AUD'000	Amounts Written Off AUD'000	Closing Balance AUD'000
Consolidated Entity				
2009				
Trade and other receivables	25	-	(19)	6
2008				
Trade and other receivables	3	22	-	25

There are no balances within trade and other receivables that contain assets that are not impaired and are past due. It is expected these balances will be received when due. Impaired assets are provided for in full.

12 Inventories

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
CURRENT				
At cost				
Raw materials and stores	379	371	-	-
Work in progress	-	2	-	-
Finished goods	15	8	-	-
	394	381	-	-

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Notes to the Financial Statements

For the year ended 30 June 2009

13 Financial Assets

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
Available-for-sale financial assets	-	-	2,600	2,600
Less non-current portion	-	-	2,600	2,600
Current portion	-	-	-	-
Available-for-sale Financial Assets Comprise				
Unlisted investments, at cost				
- shares in controlled entities	-	-	2,600	2,600
Less: Impairment Provision	-	-	-	-
	-	-	2,600	2,600
Total available-for-sale financial assets	-	-	2,600	2,600

Available-for-sale financial assets comprise investments in the ordinary issued capital of controlled entities. There are no fixed returns or fixed maturity date attached to these investments.

14 Controlled Entities

Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%)	
		2009	2008
Subsidiaries of China Steel Australia Limited:			
China Steel Pte. Ltd	Singapore	100%	100%
Linyi Yilida Steel Mill Co. Ltd*	People's Republic of China('PRC')	100%	100%

* The statutory financial statements are audited by Shandong Dayu Certified Public Accountant Office. For the purpose of preparing the group financial statements, the financial statements are audited by a member of the Chinese Institute of Certified Public Accountants, a firm approved by the PRC Securities Regulatory Commission.

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Notes to the Financial Statements

For the year ended 30 June 2009

15 Property, Plant and Equipment

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
LEASEHOLD LAND #				
At cost	4,878	4,082	-	-
Accumulated amortisation	(810)	(544)	-	-
	4,068	3,538	-	-
LEASEHOLD BUILDINGS				
At cost	17,058	14,458	-	-
Accumulated amortisation	(2,751)	(1,793)	-	-
	14,307	12,665	-	-
PLANT AND EQUIPMENT				
At cost	11,533	9,815	-	-
Accumulated depreciation	(3,962)	(2,758)	-	-
	7,571	7,057	-	-
CONSTRUCTION WORK IN PROGRESS				
At cost	54,169	35,465	-	-
Total	80,115	58,725	-	-

Linyi Yilida Steel Mill Co. Ltd, is a subsidiary of the Group and paid RMB26,774,225 for the acquisition of industrial leasehold land, from Yilida Group Co. Ltd, a director related company, (the Transferor) upon which the leasehold and associated assets disclosed above, with a carrying value of \$80,115,000 (2008 : \$58,725,000), are located at balance date. The land is located at Shandong province, Yinan County, in Dazhuang town, with land area of 331,038m², with a land use rights title (the leasehold) expiring on 25 October 2037.

The land has been under the control of Linyi Yilida Steel Mill Co. Ltd since the date of its purchase, but the legal transfer of the leasehold is still in progress, with relevant Chinese authorities, at the reporting date. An agreement was signed between Linyi Yilida Steel Mill Co. Ltd and the Transferor for the assignment of the leasehold (written in Chinese language and governed by the laws of PRC), whereby the Transferor agreed to give its best assistance and take all necessary action (including signing or delivering all related documents), to ensure that the leasehold is transferred to Linyi Yilida Steel Mill Co. Ltd.

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Notes to the Financial Statements

For the year ended 30 June 2009

15 Property, Plant and Equipment (cont'd)

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year is as follows:-

	Leasehold Land AUD'000	Leasehold Buildings AUD'000	Plant and Equipment AUD'000	Construction work in progress AUD'000	Total AUD'000
Consolidated Entity:					
Balance at 1 July 2007	3,736	13,248	7,782	–	24,766
Foreign exchange difference	(76)	(268)	(141)	–	(485)
Additions	15	241	64	35,465	35,785
Depreciation*	(137)	(556)	(648)	–	(1,341)
Balance at 30 June 2008	3,538	12,665	7,057	35,465	58,725
Balance at 1 July 2008	3,538	12,665	7,057	35,465	58,725
Foreign exchange difference	704	2,538	1,431	6,021	10,694
Additions	–	37	65	12,683	12,785
Disposals	–	(237)	(178)	–	(415)
Depreciation*	(174)	(696)	(804)	–	(1,674)
Balance at 30 June 2009	4,068	14,307	7,571	54,169	80,115

* During the financial year, depreciation expenses of \$1.382m (2008: \$1.234m) and \$0.292m (2008: \$0.107m) were charged to cost of sales and administrative expenses respectively.

Total borrowing costs capitalised under construction work in progress is \$1.120m (2008: \$0.138m)

16 Other assets

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
CURRENT				
Payment in advance to supplier and contractor	180	144	21	17
NON CURRENT				
Deposit for land	697	583	–	–

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Notes to the Financial Statements

For the year ended 30 June 2009

17 Trade and other payables

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	AUD'000	AUD'000	AUD'000	AUD'000
CURRENT				
Trade payables	657	2,232	-	-
Sundry payables and accrued expenses	584	1,746	62	60
Amounts payable to:				
- Wholly-owned subsidiaries	-	-	560	740
- Directors	467	-	63	-
- Related parties	311	319	-	-
	2,019	4,297	685	800

18 Financial Liabilities

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	AUD'000	AUD'000	AUD'000	AUD'000
NON-CURRENT				
Unsecured loans from:				
Zhang Guangxia*	2,667	25,823	-	-
Jadefield Group Limited*	28,461	-	-	-
Fair value adjustment	(2,773)	(4,623)	-	-
	28,355	21,200	-	-
Unsecured loans from:				
Shangdong Hengtai Jiaohua Pte Ltd#	26,881	20,885	-	-
Total	55,236	42,085	-	-

* On 1 July 2007 Linyi Yilida Steel Mill Co. Ltd, a wholly owned subsidiary of the Company, entered into an agreement with Zhang Guangxia (Lender), to borrow an amount of RMB170,000,000 (Loan). The Loan is repayable on 30 June 2014. Linyi Yilida Steel Mill Co. Ltd may elect to repay the Loan at an earlier date without penalty. The following terms and conditions and accounting for the loan apply:

- The Loan is interest free from 1 July 2007 to 1 January 2011. From 2 January 2011, until the date of repayment, the interest rate will be the bank loan rate of the People's Bank of China or as agreed between Linyi Yilida Steel Mill Co. Ltd and the Lender;
- Since the Loan Agreement is partly non-interest bearing, AASB 3 requires that the liability relating to the Loan Agreement be discounted to present value. A discount rate of 8.5%, being the Company's estimated cost of borrowings, has been applied. The difference between the fair value of the liability and the actual amount payable will be expensed in the income statement over the interest free period;
- The fair value adjustment of the loan has resulted in a fair value financial income of nil (2008:- \$6.473m), fair value interest expense of \$1.850m (2008:- \$1.850m) and deferred tax saving of \$0.116m (2008:- deferred tax expense \$0.462m) in the current financial year;

The Loan is not secured. The Lender may transfer the Loan to a third party in whole or in part at the Lender's discretion. On 29 September 2008, an agreement was concluded between Zhang Guangxia (Lender) and Jadefield Group Limited (shareholder), to transfer RMB155,302,000 (AUD28m) of the loan. Notwithstanding the transfer, terms and conditions of the loan remain unchanged. Lanson Lim a director of China Steel Australia Limited, is both a director and shareholder of Jadefield Group Limited;

Notes to the Financial Statements

For the year ended 30 June 2009

18 Financial Liabilities (cont'd)

- Subject to the requirements of the Foreign Investment Review Board, ASX Listing Rules, the Corporations Act 2001 and the laws of the PRC, the Lender may elect to convert all or some of the principal and interest into shares in the Company. The share price will be equal to the volume weighted average price for the 30 day period to the date of conversion.

On 30 April 2008, Linyi Yilida Steel Mill Co. Ltd, a wholly owned subsidiary of the Company, entered into an agreement with Shandong Hengtai Jiaohua Co. Limited (Lender), to borrow an amount up to RMB300,000,000 (Loan) from 30 April 2008 to 30 April 2010. Linyi Yilida Steel Mill Co. Ltd may repay any outstanding amount at any date within the loan period. The Loan is unsecured and charges an interest of 8% (2008:- 8%) per annum on outstanding amount. On 12 July 2009, an agreement was concluded between the Lender and the Company whereby the repayment of the loan was extended to 30 April 2011.

As at 30 June 2009, a total of RMB148,100,000 (AUD27m) (2008:- RMB136,590,000 (AUD20m)) had been drawn to fund construction in progress. Interest accrued on the drawdown is RMB12,690,000 (AUD2.3m) (2008:- RMB899,000 (\$0.137m)). With the construction in progress being delayed, it has resulted in interest expense of \$1.096m (2008:- nil) being charged to the Income Statement. The interest expense charged to the Income Statement relates to the period 1 Jan 2009 to 30 June 2009, based on the principal amount of the loan from Shandong HengTai Jiaohua Co. Limited.

On 30 April 2008, Linyi Yilida Steel Mill Co. Ltd, a wholly owned subsidiary of the Company, entered into an agreement with Hao Yanhua (Lender) to borrow an amount up to RMB300,000,000 (Loan) from 30 April 2008 to 30 April 2013. Linyi Yilida Steel Mill Co. Ltd may repay any outstanding amount at any date within the loan period.

The Loan is unsecured and charges interest of 16% (2008:- 16%) per annum on the outstanding amount. As at 30 June 2009, (2008:- nil), no drawdown of loan funds from this lender had occurred.

Please refer to Note 20c for the Capital Management Policy.

19 Deferred Tax Liability

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	AUD'000	AUD'000	AUD'000	AUD'000
Opening balance	462	-	-	-
Charged to income statement	(116)	462	-	-
Closing balance	346	462	-	-

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur.

- tax losses: operating losses \$2,427,000 (2008: \$384,000)

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Notes to the Financial Statements

For the year ended 30 June 2009

20 Issued Capital

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	AUD'000	AUD'000	AUD'000	AUD'000
308,000,000 fully paid ordinary shares	5,483	5,483	2,427	2,427

The Company has authorised share capital amounting to 308,000,000 (2008:- 308,000,000) ordinary shares.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

a. Ordinary shares

	Consolidated Entity		Consolidated Entity		Parent Entity		Parent Entity	
	2009		2008		2009		2008	
	AUD'000	No.	AUD'000	No.	AUD'000	No.	AUD'000	No.
At the beginning of reporting period	5,483	387,999,962	-	2	2,427	308,000,000	-	-
Issued for cash	-	-	-	100	-	-	-	100
Acquisition of China Steel Pte. Ltd	-	-	-	284,999,900	-	-	-	284,999,900
Issued for cash	-	-	3,404	23,000,000	-	-	3,404	23,000,000
Conversion of loan	-	-	3,056	79,999,960	-	-	-	-
Costs of shares issued	-	-	(977)	-	-	-	(977)	-
At reporting date	5,483	387,999,962	5,483	387,999,962	2,427	308,000,000	2,427	308,000,000

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. Options

- i. For information relating to the China Steel Australia Limited's employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 25 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 25 Share-based Payments.

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Notes to the Financial Statements

For the year ended 30 June 2009

20 Issued Capital (Cont'd)

c. Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

The current debt to equity ratio of 71% (2008:- 67%) is due to the arrangement of debt financing for plant expansion. The management is exploring various options to optimise capital efficiency and strategise to work towards a Group's gearing ratio of 30% to 50%.

The gearing ratios for both financial years are as follows:

		Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		AUD'000	AUD'000	AUD'000	AUD'000
Total borrowings	17,18	57,255	46,382	685	800
Less cash and cash equivalents	10	(88)	(414)	(5)	(371)
Net debt		57,167	45,968	680	429
Total equity		23,904	23,159	1,941	2,188
Total capital		81,071	69,127	2,621	2,617
Gearing ratio		71%	67%	26%	16%

21 Reserves

a. Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

b. Statutory Reserve

Under the local regulation, the subsidiary is required to set up a statutory reserve which represents a non-distributable reserve made at a rate of 10% of net profit after tax and accumulated losses. Contribution to this reserve is no longer mandatory when the reserve reaches 50% of the registered share capital. The reserve is to be used in accordance to the circumstances as stipulated in the relevant regulations.

c. Option Reserve

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

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Notes to the Financial Statements

For the year ended 30 June 2009

22 Capital and leasing commitments

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	AUD'000	AUD'000	AUD'000	AUD'000
a. Operating Lease Commitments				
Non-cancellable operating leases contracted for but not capitalised in the financial statements Payable				
- minimum lease payments				
- not later than 12 months	44	47	-	-
- Later than 12 months and not later than 24 months	-	39	-	-
	<u>44</u>	<u>86</u>	<u>-</u>	<u>-</u>

The property lease is a non-cancellable lease with a 24 months term beginning 1 May 2008, with rent payable monthly in advance. An option exists to renew the lease at the end of the 2 year terms for an additional term of 1 year.

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	AUD'000	AUD'000	AUD'000	AUD'000
b. Capital Expenditure Commitments				
Capital expenditure commitments contracted for:				
Capital expenditure projects Payable:				
- not later than 12 months	9,611	16,794	-	-
	<u>9,611</u>	<u>16,794</u>	<u>-</u>	<u>-</u>

The deposit (RMB3.8m) paid to the local PRC land authority to acquire the adjacent land will require an additional payment of approximately RMB20m. The additional funds will be required to be remitted once the contract for the land is issued by the local PRC land authority.

As at 30 June 2009, the Group has estimated that the uncommitted capital expenditure for construction work in progress is RMB300m.

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Notes to the Financial Statements

For the year ended 30 June 2009

23 Cash Flow Information

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
a. Reconciliation of Cash Flow from Operations with (Loss) / Profit after Income Tax				
(Loss)/Profit after income tax	(3,051)	13,076	(247)	(335)
Cash flows excluded from profit attributable to operating activities				
Non-cash flows in profit				
- Depreciation and amortisation	1,674	1,341	-	-
- Fair value adjusted interest income	-	(6,473)	-	-
- Fair value adjusted interest expense	1,850	1,850	-	-
- Foreign exchange difference	90	-	-	-
- Loss on disposal of property, plant and equipment	39	-	-	-
- Share options expensed	-	96	-	96
Changes in assets and liabilities, net of the effects of purchase of subsidiaries				
- Decrease in trade and term receivables	9,724	934	-	-
- (Increase)/decrease in prepayments	(19)	522	(4)	(17)
- (Increase)/decrease in inventories	(13)	2,353	-	-
- (Decrease)/increase in trade payables and accruals	(2,278)	(1,308)	64	60
- (Decrease)/increase in deferred taxes payable	(116)	462	-	-
Cashflow from operations	7,900	12,853	(187)	(196)

24 Segment Reporting

a) Business Segment

The Group predominantly operates in one business segment. Previously, it was producing nickel pig iron for the domestic Chinese market from a steel and alloy plant located near the city of Linyi in the Shandong province of China. The plant was converted from producing nickel pig iron to merchant pig iron during the financial year.

b) Geographical Segment

The Group sales operation is solely based in PRC.

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Notes to the Financial Statements

For the year ended 30 June 2009

25 Share-based payments

The following share-based payment arrangements occurred in the previous financial year:

- On 29 February 2008, 1,100,000 share options were granted to directors to accept ordinary shares at an exercise price of \$0.30. The options are exercisable after 29 February 2008 but before 1 March 2011. The options hold no voting or dividend rights and are not transferable. When a director ceases employment/appointment the options are deemed to have lapsed. Since balance date, no director has ceased their employment. At balance date, no share option has been exercised.
- On 29 February 2008, 100,000 share options were granted to an employee to accept ordinary shares at an exercise price of \$0.30. The options are exercisable after 29 February 2008 but before 1 March 2011. The options hold no voting or dividend rights and are not transferable. When an employee ceases employment the options are deemed to have lapsed. Since balance date, the employee has resigned and the options are deemed to have lapsed.

All options granted to key management personnel are ordinary shares in China Steel Australia Limited, which confer a right of one ordinary share for every option held.

	Consolidated Entity				Parent Entity			
	2009		2008		2009		2008	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	1,200,000	0.30	-	-	1,200,000	0.30	-	-
Granted	-	-	1,200,000	0.30	-	-	1,200,000	0.30
Lapsed	(100,000)	-	-	-	(100,000)	-	-	-
Outstanding at year-end	1,100,000	0.30	1,200,000	0.30	1,100,000	0.30	1,200,000	0.30
Exercisable at year-end	1,100,000	0.30	1,200,000	0.30	1,100,000	0.30	1,200,000	0.30

There were no options exercised during the year ended 30 June 2009 (2008:- nil).

The options outstanding at 30 June 2009 had a weighted average exercise price of \$0.30 (2008:- \$0.30) and a weighted average remaining contractual life of 1.5 years (2008:- 2.5 years). Exercise prices of \$0.30 (2008:- \$0.30) in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options granted during the financial year was nil (2008:- \$0.0796).

This price was calculated by using a Black-Scholes option pricing model, in respect of option issue in the respective year are applying the following inputs:

	2009	2008
Weighted average exercise price	-	\$0.30
Weighted average life of the option	-	3 years
Underlying share price	-	\$0.20
Expected share price volatility	-	70%
Risk free interest rate	-	6.4%

Notes to the Financial Statements

For the year ended 30 June 2009

25 Share-based payments (cont'd)

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement is nil (2008: \$95,529), and relates, in full, to equity-settled share-based payment transactions.

26 Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	AUD'000	AUD'000	AUD'000	AUD'000
Transactions with related parties:				
Subsidiary Company				
Management fee charged to China Steel Pte. Ltd.	-	-	211	-
Key Management Personnel				
Occupancy fees for China Steel Pte. Ltd paid to Alliance Cold Storage Private Limited (Singapore) where Lanson Lim is a Director.	57	8	-	-

27 Contingent liabilities and contingent assets

There were no contingent liabilities and contingent assets not provided for or otherwise disclosed in the financial statements of the parent entity and the consolidated entity as at 30 June 2009.

28 Financial risk management

a. Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable and loans to and from subsidiaries.

The main purpose of non-derivative financial instruments is to raise finance for Group operations.

i. Treasury Risk Management

The Board of Directors and Management meet on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Board of Directors and Management overall risk management strategy seeks to assist the consolidated entity in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Risk management policies are approved and reviewed by the Board on a regular basis. These include credit risk policies and future cash flow requirements.

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Notes to the Financial Statements

For the year ended 30 June 2009

28 Financial risk management (cont'd)

a. Financial Risk Management Policies (cont'd)

ii. Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest rate risk

Interest rate risk is managed with a fixed rate debt. At 30 June 2009, the Group debts are fixed. It is the policy of the Group to keep all debts on fixed interest rates. For further details on interest rate risk refer to Note 28(b)(ii).

Foreign currency risk

The Group is not exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency.

Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. The Group's policy is to ensure no more than 30% of borrowings should mature in any 12 month period.

Credit risk

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

Credit risk is managed on a Group basis and reviewed regularly by the board of directors and management. It arises from exposures to customers and deposits with financial institutions.

The Board of Directors and Management monitor credit risk by actively assessing the rating quality and liquidity of counter parties:

- all potential customers are rated for credit worthiness taking into account their size, market position and financial standing; and
- customers that do not meet the Group's strict credit policies may only purchase in cash or using recognised credit cards.

The carrying amount of the Group's financial assets represents the maximum credit exposure. Refer to Note 11 for the Group's maximum exposure to credit risk at reporting date.

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was in PRC only.

The Group's maximum exposure to credit risk for trade receivables at the reporting date by type of customer was its commercial customers.

The Group's most significant customer, account for \$0.031m of the trade receivables carrying amount at 30 June 2009 (2008: \$9.756m).

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Notes to the Financial Statements

For the year ended 30 June 2009

28 Financial risk management (cont'd)

a. Financial Risk Management Policies (cont'd)

ii. Financial Risk Exposures and Management (cont'd)

Impairment losses

The Group's trade and other receivables are past due amounted to \$6,000 (2008: \$25,000). The aging of the Group's trade and other receivable at the reporting date was:

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
Trade and other receivables				
No past due	31	9,756	-	-
More than 180 days and less than one year	-	-	-	-
More than one year	6	25	-	-
Total	37	9,781	-	-

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in Note 11.

The consolidated entity does have material credit risk exposure to single receivable or group of receivables under financial instruments entered into by the consolidated entity. The single receivable has been a major customer for the PRC's subsidiary.

Price risk

The Group is not exposed to commodity price risk.

b. Financial instruments

i. Trade and sundry payables are expected to be paid as followed:

	Consolidated Entity		Parent Entity	
	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000
Less than 1 year	2,019	4,297	62	60

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For the year ended 30 June 2009

28 Financial risk management (cont'd)

b. Financial instruments (cont'd)

ii. Financial instrument composition and maturity analysis:

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

Consolidated Entity	Weighted Average Effective Interest Rate 2009 %	Weighted Average Interest Rate 2008 %	Fixed Interest Rate Maturing										Non Interest Bearing			Total 2008 AUD'000			
			Floating Interest Rate		Within 1 Year		1 to 5 years		Over 5 years		2009 AUD'000		2008 AUD'000		2009 AUD'000		2008 AUD'000		
			2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000	2009 AUD'000	2008 AUD'000							
Financial Assets:																			
Cash and cash equivalents	0.36	7	88	414	-	-	-	-	-	-	-	-	-	-	-	-	-	88	414
Trade and other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31	9,756	31	9,756	
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	877	727	877	727	
Total Financial Assets	-	-	88	414	-	-	-	-	-	-	-	-	-	908	10,483	996	10,897		
Financial Liabilities:																			
Borrowings	8	8	-	-	-	26,881	20,885	-	-	-	-	-	-	28,355	21,200	55,236	42,085		
Trade and other payables	-	-	-	-	-	-	-	-	-	-	-	-	-	1,508	3,978	1,508	3,978		
Amounts payable to directors	-	-	-	-	-	-	-	-	-	-	-	-	-	467	-	467	-		
Amounts payable to related parties	-	-	-	-	-	-	-	-	-	-	-	-	-	44	319	44	319		
Total Financial Liabilities	-	-	-	-	-	26,881	20,885	-	-	-	-	-	-	30,374	25,497	57,255	46,382		

Notes to the Financial Statements

For the year ended 30 June 2009

28 Financial risk management (cont'd)

b. Financial instruments (cont'd)

ii. Financial instrument composition and maturity analysis: (cont'd)

Parent Entity	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing						Non Interest Bearing		Total	
	2009	2008	2009	2008	Within 1 Year	1 to 5 years	Over 5 years	2009	2008	2009	2008	2009		2008
	%	%	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	
Financial Assets:														
Cash and cash equivalents	0.36	7	5	309	-	-	-	-	-	-	-	62	5	371
Trade and other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Financial Assets			5	309	-	-	-	-	-	-	-	62	5	371
Financial Liabilities:														
Trade and other payables	-	-	-	-	-	-	-	-	-	685	800	685	800	800
Total Financial Liabilities			-	-	-	-	-	-	-	685	800	685	800	800

Notes to the Financial Statements

For the year ended 30 June 2009

28 Financial risk management (cont'd)

b. Financial instruments (cont'd)

iii. Net Fair Values

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

	2009		2008	
	Carrying Amount AUD'000	Net Fair Value AUD'000	Carrying Amount AUD'000	Net Fair Value AUD'000
<i>Financial Assets</i>				
Cash and cash equivalent	88	88	414	414
Trade and other receivables	31	31	9,756	9,756
Other Assets	877	877	727	727
	<u>996</u>	<u>996</u>	<u>10,897</u>	<u>10,897</u>
<i>Financial Liabilities</i>				
Trade and other payables	2,019	2,019	4,297	4,297
Borrowings	55,236	55,236	42,085	42,085
	<u>57,255</u>	<u>57,255</u>	<u>46,382</u>	<u>46,382</u>

No financial assets and financial liabilities are readily traded on organised markets in standardised form.

Fair values are materially in line with carrying values. A discount rate of 8.5% (2008: 8.5%) has been applied to all non-current borrowings to determine fair value.

iv. Interest Rate Risk

The Group has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2009, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Carrying amount AUD'000	-1% change		+1% change	
		Profit AUD'000	Equity AUD'000	Profit AUD'000	Equity AUD'000
2009					
<i>Financial Assets</i>					
Cash and cash equivalents	88	(1)	(1)	1	1
Total Increase/(Decrease)		<u>(1)</u>	<u>(1)</u>	<u>1</u>	<u>1</u>
2008					
<i>Financial Assets</i>					
Cash and cash equivalents	414	(4)	(4)	4	4
Total Increase/(Decrease)		<u>(4)</u>	<u>(4)</u>	<u>4</u>	<u>4</u>

The above interest rate sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

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Notes to the Financial Statements

For the year ended 30 June 2009

29 New accounting standards for application in future period

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:
 - acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
 - contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
 - a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
 - there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
 - dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
 - impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
 - where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.
- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

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Notes to the Financial Statements

For the year ended 30 June 2009

29 New accounting standards for application in future period (cont'd)

- AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.
- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- AASB 2008-2: Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2] (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.
- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.
- AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.
- AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

30 Company Details

The registered office of the Company is:

China Steel Australia Limited
Level 28 Waterfront Place,
1 Eagle Street,
Brisbane QLD 4000

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Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 30 to 65, are in accordance with the Corporations Act 2001 and:
 - a. comply with Accounting Standards; and
 - b. give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Company and consolidated entity;
2. the Chief Executive Officer and Finance Manager, (Australia and Singapore) have each declared that to the best of their knowledge and belief:
 - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board



Xue, Yongwen
Non-executive Chairman

Dated this 16th day of September 2009

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RSM! Bird Cameron Partners

Chartered Accountants

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GPO Box R1253 Perth WA 6844
T +61 8 9261 9100 F +61 8 9261 9101
www.rsmi.com.au

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA STEEL AUSTRALIA LIMITED

Report on the Financial Report

We have audited the accompanying financial report of China Steel Australia Limited ("the company"), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Liability limited by a
scheme approved under
Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.



Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of China Steel Australia Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity:

- (a) incurred a net loss of \$3,051,000 during the year ended 30 June 2009 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by \$1,326,000; and
- (b) following a strategic review of the consolidated entity's operations, the consolidated entity has converted the plant from producing nickel pig iron to merchant pig iron. The conversion of the plant has resulted in a decrease in revenue from \$22,400,000 for the year ended 30 June 2008 to \$7,162,000 for the year ended 30 June 2009 and has created a need to secure new markets for the merchant pig iron.

These conditions, along with other matters set forth in Note 1, cast significant doubt about the company's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Significant Uncertainty regarding Leasehold Land and Buildings and Plant and Equipment Assets

Without qualifying our opinion, we draw attention to Note 15 in the financial report, which indicates that the consolidated entity has brought to account leasehold land and buildings and associated plant and equipment, with a carrying value of \$80,115,000 (2008 : \$58,725,000) in the balance sheet as at 30 June 2009. The assignment of the leasehold assets to the consolidated entity, to enable it to secure legal title to them, has been in progress since July 2004, with the relevant Chinese authorities.

These conditions, along with other matters set forth in Note 15, cast significant doubt about the certainty of the consolidated entity obtaining legal title to the leasehold and other assets disclosed in Note 15 from the relevant Chinese authorities and therefore whether such assets are appropriately recorded in the balance sheet at 30 June 2009.

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Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the financial year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of China Steel Australia Limited for the financial year ended 30 June 2009 complies with section 300A of the *Corporations Act 2001*.

RSM Bird Cameron Partners.

RSM BIRD CAMERON PARTNERS
Chartered Accountants

D.J. Wall

D J WALL
Partner

Perth, WA

Dated: 16 SEPTEMBER 2009

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Statistics of Shareholdings

As at 30 September 2009

Distribution of ordinary shareholder and shareholdings

Size of holdings	Number of holders	Number of Shares	% of Issued Capital
1 - 1,000	4	1,462	0.00
1,001 - 5,000	120	362,571	0.12
5,001 - 10,000	206	1,918,204	0.62
10,001 - 100,000	339	11,242,504	3.65
100,001 - 9,999,999,999	32	294,475,259	95.61
Total	701	308,000,000	100.00

Included in the above total are 82 shareholders holding less than a marketable parcel of shares.

The holdings of the 20 largest holders of fully paid ordinary shares represents 95.11% of that class of shares.

Twenty largest ordinary fully paid shareholders

Rank Name	Shares	% of Issued Capital
1. CHINA POWERPLUS LIMITED	142,450,000	46.25
2. JADEFIELD GROUP LIMITED	142,450,000	46.25
3. LINYI SHANDONG METALS TRADING CORPORATION PTY LTD	3,500,000	1.14
4. SYRACUSE CAPITAL PTY LTD	575,608	0.19
5. SAINTER NOMINEES PTY LTD <THE MAXIMUS S/FUND 1 A/C>	500,000	0.16
6. MS CINDY LILLIAN DEAN	440,000	0.14
7. MISS SANDRA LOUISE EDWARDS	385,000	0.13
8. DR DEBBIE LEONG	350,000	0.11
9. MR SEYYED MOHAMMAD TABAIE	268,904	0.09
10. ADVENTURE HOLDINGS PTY LTD	250,000	0.08
11. WIDE RANGE CORPORATION PTY LTD	250,000	0.08
12. MR KYM REX BEGGS <KYM BEGGS SUPER FUND A/C>	200,000	0.06
13. KAKULAS LEGAL PTY LTD <PETER B KAKULAS A/C>	200,000	0.06
14. MR GREG OBRIEN	200,000	0.06
15. MR KENG KEAT TAN	184,800	0.06
16. MR ERIC WILLIAM TUCKER + MRS KAYE LYNETTE TUCKER <THE TII SUPER FUND A/C>	165,000	0.05
17. ALPHA QLD PTY LTD <IQBAL FAMILY A/C>	160,000	0.05
18. KINGSREEF PTY LTD <NB & DL FAMILY A/C>	160,000	0.05
19. ARGIL PTY LTD <MICHAEL JOHNSON S/F A/C>	150,000	0.05
20. MR LESLIE GERALD HOOD + MRS PATRICIA LYN HOOD <HOOD SUPER FUND A/C>	150,000	0.05

Register of substantial shareholders

The names of substantial shareholders in the Company, and the number of fully paid ordinary shares in which each has an interest, as disclosed in substantial shareholders notices to the Company on the respective dates, are as follows: -

30 September 2009	China Powerplus Limited	142,450,000	46.25%
30 September 2009	Jadefield Group Limited	142,450,000	46.25%

On-market buy-back

There is no current on-market buy-back.

Shareholder Information

Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

Securities Exchange Listing

The shares of the Company are listed under the symbol CNH on the Australian Securities Exchange Limited. The Company's home branch is Brisbane.

Shareholder Enquiries

Shareholders with queries about their shareholdings should contact the Company's Share Registry as follows:

Computershare Investor Services Pty Limited
GPO Box 523
BRISBANE QLD 4000
Telephone Australia: 1300 552 270
Telephone International: (+61 3) 9415 4000
Fax: (+61 7) 3237 2152
Email: web.queries@computershare.com.au

Change of Address

Issuer sponsored shareholders should notify the share registry immediately upon any change in their address quoting their Securityholder Reference Number (SRN). This can be done by phoning the share registry, by writing to them, or through their web portal at www.computershare.com.au. Changes in addresses for broker sponsored holders should be directed to the sponsoring brokers with the appropriate Holder Identification Number (HIN).

Annual Report

The Company's Annual Report is posted on its web site immediately upon release to ASX. Shareholders will not be mailed a copy of the Annual Report unless they have specifically opted in to request one.

Consolidation of Multiple Shareholdings

If you have multiple shareholding accounts that you wish to consolidate into a single account, please advise the Share Registry in writing. If your holdings are broker sponsored, please contact the sponsoring broker directly.

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Corporate Directory

Directors

Xue, Yongwen (Non Executive Chairman)
Chen, Lidong (Executive Director,
Chief Executive Officer “CEO”)
Peter Carroll (Non Executive Director)
Paul Frederiks (Non Executive Director)
Sherman Tan (Non Executive Director)
Damien Seah (Alternate to Xue, Yongwen)
Lanson Lim (Alternate to Chen, Lidong)

Company Secretary

Paul Frederiks

Registered and Principal Office

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BRISBANE QLD 4000
Australia
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Australia

Singapore Office

China Steel Pte Ltd
39 Fishery Port Road
Singapore 619745
Republic of Singapore

China Office

Linyi Yilida Steel Co. Ltd
Yi Meng Experimental Development Zone
Zhudi, Da Zhuang Town, Yi Nan County
Shandong People's Republic of China ('PRC')

Auditors

RSM Bird Cameron Partners
8 St George's Terrace
Perth WA 6000

Solicitor

DLA Phillips Fox
1 Eagle Street
Waterfront Place
BRISBANE QLD 4000

Bankers

Westpac Banking Corporation
260 Queen Street
BRISBANE QLD 4000

HL Bank
20 Collyer Quay, #01-02
Tung Centre
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Share Register

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Securities Exchange Listing

China Steel Australia Limited shares are listed Brisbane on the Australian Securities Exchange. Ticker: CNH
Website: www.cnsteel.com.au

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