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**Appendix 4D**  
**Half Year Report for the period ended 31 December 2008**

**Results for announcement to the Market**

**Financial Performance**

<b>China Steel Australia Limited - Consolidated</b>			
<b>(AUD'000)</b>	<b>Half year ended 31 Dec 2008</b>	<b>Half year ended 31 Dec 2007</b>	<b>Movement %</b>
Revenue	7,008	13,406	(48)
Profit before fair value adjustment and tax attributable to members	1,716	4,664	(63)
Profit after tax attributable to members	791	9,750	(92)
Net Profit for the period attributable to members	791	9,750	(92)

**Review of Operations**

Refer to Directors' Report included in the attached half year period under review.

**Dividends**

No Dividends were paid or declared for payment during the half year period under review

**Earnings Per Share**

	<b>Half year ended 31 Dec 2008</b>	<b>Half year ended 31 Dec 2007</b>
Basic earnings per share (Basic & Diluted)	0.3 cents	24.5 cents

**Note:**

For 31 Dec 2008, number of shares is based on shares publicly issued of 308,000,000 ordinary shares.

As for 31 Dec 2007, number of shares is based on weighted average number of shares that were privately held of 39,781,402.

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**Appendix 4D (Cont)**

**Net Tangible Asset Backing**

	<b>Half year ended 31 Dec 2008</b>	<b>Half year ended 31 Dec 2007</b>
Net tangible asset backing	10.3 cents	22.2 cents

**Entities Acquired and Disposed During the Period**

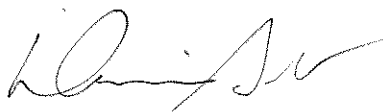
No entities were acquired or disposed of during the period

**Compliance Statement**

The report is based on financial statements reviewed by the auditor, copies of which are attached.

Signed in accordance with a resolution of Directors

On behalf of the Directors



Damien Yang Hwee, Seah  
Alternate Director to Non-Executive Chairman  
27 February 2009

**CHINA STEEL AUSTRALIA LIMITED**

ABN 97 128 988 732

**HALF YEAR REPORT**

**31 DECEMBER 2008**

LODGED WITH THE ASX UNDER LISTING RULE 4.2A

THIS INFORMATION SHOULD BE READ IN CONJUNCTION WITH THE 30 JUNE  
2008 ANNUAL REPORT

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## Corporate Directory

### DIRECTORS

Xue, Yongwen  
Damien Seah  
Chen Lidong  
Lanson Lim  
Peter Carroll  
Paul Frederiks  
Sherman Tan

### COMPANY SECRETARY

Paul Frederiks

### REGISTERED AND PRINCIPAL OFFICE

Level 29 Waterfront Place  
1 Eagle Street  
BRISBANE QLD 4000  
Australia  
Tel: +61 (0) 7 3123 4472  
Tel: +65 6266 5967  
Fax: +65 6268 2447

### Australia Postal Mail

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Brisbane QLD 4001  
Australia

### Internet

[www.cnsteel.com.au](http://www.cnsteel.com.au)

### Email

[info@cnsteel.com.au](mailto:info@cnsteel.com.au)

### 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’)

### SOLICITOR

DLA Phillips Fox  
Level 29 Waterfront Place  
1 Eagle Street  
BRISBANE QLD 4000

### AUDITOR

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

### BANKERS

Westpac Banking Corporation  
260 Queen Street  
BRISBANE QLD 4000

### HL Bank

20 Collyer Quay, #01-02  
(S) 049319, Singapore

### Agriculture Bank of China (Linyi Branch)

Linyi County, Lanshan District  
168 Yimeng Road  
Shandong, PRC

### SHARE REGISTER

Computershare Investor Services Pty  
Limited  
GPO Box 523 BRISBANE QLD 4001  
Tel Australia: 1300 552 270  
Tel International: +61 7 3237 2100  
Facsimile: +61 7 3229 9860

### ABN

97 128 988 732

### STOCK EXCHANGE LISTING

China Steel Australia Limited shares  
are listed on the Australian Securities  
Exchange. Ticker: CNH

## **Directors' Report**

The directors of China Steel Australia Limited submit herewith the consolidated financial report for the half year ended 31 December 2008 and the review report thereon.

### **Directors**

The names of the directors of the company during or since the end of the previous financial period and up to the date of this report are:

Xue Yongwen (Non-Executive Chairman)  
Chen Lidong (Executive Director)  
Damien Seah ( Alternate Director to Mr. Xue)  
Lanson Lim (Alternate Director to Mr. Chen)  
Sherman Tan (Non Executive Director)  
Peter Carroll (Non-Executive Director)  
Paul Frederiks (Non-Executive Director)

Xue Yongwen (Non-Executive Chairman) – appointed on 03 September 08  
Chen Lidong (Executive Director) – appointed on 07 November 08  
Sherman Tan (Non Executive Director) – appointed on 03 September 08

With the exception of the Mr. Xue, Mr. Chen and Mr. Tan, all the above named Directors acted as Directors of the Company for the whole of the half year review and up to the date of this report.

### **Company Secretary**

Paul Frederiks

### **Corporate Structure**

China Steel Australia Limited, a company limited by shares, incorporated in Australia was listed on the Australian Securities Exchange on 29 February 2008 under the code CNH. Its registered office is Level 29 Waterfront Place, 1 Eagle Street, Brisbane QLD 4000.

### **Principal Activity**

China Steel Australia Limited produces 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 People's Republic of China ('PRC').

Nickel Pig Iron is used by domestic Chinese stainless steel producers as a substitute for pure refined nickel in the production of stainless steel.

## Directors' Report (Cont)

### Review of Operations

#### *a) Financial Performance*

Despite the challenging global market conditions, the Company achieved a profit of \$0.79m for half year ended 31 December 2008.

#### *Revenue*

Over the six months period, the plant produced a total of 16,407 tons of Nickel Pig Iron which was lower than the 2007 production of 17,103 tons. Total revenue decreased from \$13.4m in 2007 to \$7m in 2008.

There were 2 main factors that resulted in the decrease in revenue.

- 1) A change in sales arrangement with its customers in October 2007 whereby an additional key raw material, coke, was also supplied by customers. Prior to October 2007, the Company provided this raw material and was included in the processing cost. The exclusion of this raw material has resulted in the reduction of both revenue and cost of sales for 2008.
- 2) Lower processing fee over the last 6 months as compared to prior period. In the second half of 2008, 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 reduction of the Company's processing fees charged to customers in order to remain competitive in the market.

The impact of the decrease in revenue was cushioned by the currency appreciation of RMB against the Australian dollar in 2008.

#### *Gross Profit*

Lower processing fee and production volume has caused the drop in gross profit in 2008 as compared to 2007.

Gross Profit decreased by \$2.36m from \$5.24m in 2007 to \$2.88m in 2008. Expressed in percentage, there was a slight increase in gross profit margin from 39% in 2007 to 41% in 2008.

The margin increase was generally due to the removal of coke from the cost of sales in 2008. Coke being a major component of cost of sales (approximately 50% of cost of sales per month), has the effect of increasing the margin. However this is offset by lower processing fee for second half of 2008 that leverage out the margin in 2008 compared to 2007.

#### *Administrative Expense*

There was an increase in administrative expense of \$0.60m from \$0.56m to \$1.16m. For the period ended 31 Dec 2007, the Group was privately held by two entities. In December 2007, China Steel Australia Limited was incorporated in Australia with the two entities as initial foundation shareholders. The subsequent listing of the Group resulted in the increase in administrative expense.

#### *Financial Income*

Financial income in 2007 of \$6.48m was a result of fair value adjustment income of interest free loan of RMB170m (approx \$26.62m).

## Directors' Report (Cont)

### Review of Operations (Cont)

#### Financial Expense

The expense generally relates to fair value amortisation of the interest free loan amounting to \$0.93m for both 2007 and 2008.

#### Income Tax

The \$0.46m relates to deferred tax expense for the fair value adjusted financial income of the interest free loan.

No income tax accrued for the 6 months period as the subsidiary in PRC still enjoys tax free status.

#### Net Profit

There was a non-cash fair value adjustment of the interest free loan that impacted the net profit for 2007 and 2008.

The non cash financial impact amounted to \$0.93k of financial expenses in 2008 and \$5.1m net financial income in 2007. The net profit would be \$1.72m and \$4.7m in 2008 and 2007 respectively when the non cash fair value adjustment is excluded.

#### *b) Construction in Progress Update*

Completion of the construction of the new plant has been delayed (as announced on 9 December 2008) and the future plans will be announced in due course.

### Subsequent events

On 19 February 2009, China Steel Australia Limited announced that it would be converting its China-based nickel pig iron plant to produce merchant pig iron to ride with the emerging opportunities in the recovery of the iron and steel industry in China. The management has already started discussions with several potential customers on the new product and has received good interest levels from them.

The plant near the city of Linyi in China's Shandong Province will be shut down until the end of March 2009, to enable the modification process. The consolidated group's profits for the 2008-09 financial year would be affected due to the time needed to convert the plant and the current global economic conditions. (refer to public announcement made on 19 February 2009 for further details)

## Directors' Report (Cont)

### Auditor's independence declaration

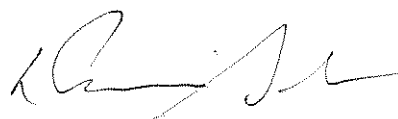
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

### 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 directors.

On behalf of the Directors



Damien Yang Hwee, Seah  
Alternate Director to Non-Executive Chairman  
27 February 2009

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# RSM Bird Cameron Partners

Chartered Accountants

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GPO Box R1253 Perth WA 6844  
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www.rsmi.com.au

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of China Steel Australia Limited for the half-year ended 31 December 2008, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

*RSM Bird Cameron Partners*

RSM BIRD CAMERON PARTNERS  
Chartered Accountants

*D J Wall*

D J WALL  
Partner

Perth, WA

Dated: 27 FEBRUARY 2009

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**CONSOLIDATED INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	<b>Consolidated Group</b>	
	<b>31 December 2008</b>	<b>31 December 2007 (Not Reviewed)</b>
	<b>AUD'000</b>	<b>AUD'000</b>
Revenue	7,008	13,406
Cost of sales	(4,125)	(8,166)
Gross Profit	2,883	5,240
Administrative expenses	(1,168)	(564)
Other expenses	(3)	-
Profit before financing income / (expense)	1,712	4,676
Financial income	4	6,473
Financial expenses	(925)	(937)
Net financial (expenses) / income	(921)	5,536
Profit before income tax	791	10,212
Income tax expense	-	(462)
Profit attributable to members of the parent entity	791	9,750
<b>Earnings per share:</b>		
Basic earning per share (cents per share)	0.3	24.5
Diluted earnings per share (cents per share)	0.3	24.5

The accompanying notes form part of these financial statements.

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008**

	Note	Consolidated Group	
		31 December 2008	30 June 2008
		AUD'000	AUD'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		137	414
Trade and other receivables		5,205	9,756
Inventories		519	381
Other assets		1,011	727
<b>TOTAL CURRENT ASSETS</b>		<b>6,872</b>	<b>11,278</b>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment		94,770	58,725
<b>TOTAL NON CURRENT ASSETS</b>		<b>94,770</b>	<b>58,725</b>
<b>TOTAL ASSETS</b>		<b>101,642</b>	<b>70,003</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		4,505	4,297
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,505</b>	<b>4,297</b>
<b>NON CURRENT LIABILITIES</b>			
Financial liabilities		64,830	42,085
Deferred tax liabilities		462	462
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>65,292</b>	<b>42,547</b>
<b>TOTAL LIABILITIES</b>		<b>69,797</b>	<b>46,844</b>
<b>NET ASSETS</b>		<b>31,845</b>	<b>23,159</b>
<b>EQUITY</b>			
Issued capital		5,483	5,483
Retained earnings		17,196	16,623
Reserves		9,166	1,053
<b>TOTAL EQUITY</b>		<b>31,845</b>	<b>23,159</b>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED  
31 DECEMBER 2008**

	Share capital	Statutory Reserve #	Share Option Reserve	Foreign currency translation Reserve	Retained earnings	Total equity
<b>Consolidated Group</b>	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000
<b>Balance at 1 July 2007</b>	-*	484	-	(183)	4,512	4,813
<b>(Not Reviewed)</b>						
Conversion of loan to shares	3,056	-	-	-	-	3,056
Profit attributable to members of the parent entity	-	-	-	-	9,750	9,750
Adjustment from translation of foreign controlled entities	-	-	-	159	-	159
Transfer to statutory reserve	-	711	-	-	(711)	-
<b>Balance at 31 December 2007</b>	<b>3,056</b>	<b>1,195</b>	<b>-</b>	<b>(24)</b>	<b>13,551</b>	<b>17,778</b>
<b>(Not Reviewed)</b>						
<b>Balance at 1 July 2008</b>	5,483	1,449	96	(492)	16,623	23,159
Profit attributable to members of the parent entity	-	-	-	-	791	791
Adjustment from translation of foreign controlled entities	-	-	-	7,895	-	7,895
Transfer to statutory reserve	-	218	-	-	(218)	-
<b>Balance at 31 December 2008</b>	<b>5,483</b>	<b>1,667</b>	<b>96</b>	<b>7,403</b>	<b>17,196</b>	<b>31,845</b>

Less than AUD\$1,000

# Under the Chinese regulations, the subsidiary is required to set a statutory reserve which represents a non distributable reserve made at a rate of 10% of net profit after tax deducting the 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.

The accompanying notes form part of these financial statements.

**CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Note	Consolidated Group	
		6 months ended 31 December 2008	6 months ended 31 December 2007 (Not Reviewed)
		AUD'000	AUD'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		11,558	14,022
Payments to suppliers and employees		(4,701)	(8,747)
Interest received		5	-
Finance costs		-	(12)
Net cash provided by (used in) operating activities		6,862	5,263
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(10,324)	(161)
Net cash provided by (used in) investing activities		(10,324)	(161)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	3,056
Proceeds from borrowings		3,185	560
Net cash provided by (used in) financing activities		3,185	3,616
Net (decrease) / increase in cash held		(277)	8,718
Cash at beginning of financial year		414	35
Cash at end of financial year		137	8,753

The accompanying notes form part of these financial statements.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE HAIF YEAR ENDED 31 DECEMBER 2008

### 1. Basis of preparation

The half year consolidated financial report is a general purpose financial report that has been prepared in accordance with requirement of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting, Australian Accounting Interpretations and other authoritative pronouncements of the Australia Accounting Standards Board.

It is recommended that this financial report to be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by China Steel Australia Limited and its controlled entities during the half year in accordance with continuous disclosure requirements arising under *Corporations Act 2001*.

The accounting polices have been consistently applied by the entities in the consolidated group and are consistent with those in the annual financial report for the year ended 30 June 2008.

The half year report does not include full disclosures of the type normally included in an annual report.

### Going Concern Basis

Following a strategic review of the company's operation, the Board has decided to convert the existing plant to produce pig iron. This plan to convert the plant to a new product and the expiration of the key financier's facility agreement on 30 April 2010 indicate significant uncertainty whether the 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 period ended 31 December 2008 based upon the following factors:

- The ability to issue additional shares under the *Corporation Act 2001*;
- The group is profitable for the period under review and is forecasting profitable trading of the new product, pig iron in future periods.
- Directors believe the existing loan facilities will be renewed at maturity date.
- The company has un-drawn loan facilities of approximately RMB 450m (AUD 101m).

### Reporting Basis and Conventions

The half year report has been prepared on an accrual basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied

### a) Comparative Figure

The comparatives for the income statement, statement of changes in equity and the cash flow statement have not been reviewed by the company's auditors. As at that time, China Steel Australia Limited was not incorporated and there is no review requirement for the then two privately held entities, namely China Steel Pte Ltd and Linyi Yilida Steel Mill Co. Ltd.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE HAIF YEAR ENDED 31  
DECEMBER 2008**

**2. Segment Reporting**

*a) Business Segment*

The Group predominantly operates in one business segment. Its produces nickel pig iron for domestic Chinese market from steel and alloy plant located near the city of Linyi in the Shandong province of PRC.

*b) Geographical Segment*

The Group sales are solely based in the PRC

**3. Related Party Transactions**

On 29 September 2008, an agreement was concluded between Zhang Guangxia (Lender) and Jadefield Group Limited (shareholder) to transfer RMB155,302,000 (\$33m) of RMB170,000,000 (\$36.13m) the loan outstanding, from Zhang Guangxia to Jadefield Group Limited. Notwithstanding the transfer, terms and conditions of the loan with Linyi Yilida Steel Mill Co. Ltd remain unchanged.

Lanson Lim is a Director of China Steel Australia Limited and both a Director and shareholder of Jadefield Group Limited. As at 31 December 2008, Jadefield Group Limited holds 46.25% of issued shares in China Steel Australia Limited.

**4. Dividends**

No dividends have been declared or paid during the half year ended 31 December 2008 or in the prior period, and the Directors do not recommend the payment of a dividend in respect of the half year ended 31 December 2008.

**5. Contingent Liabilities**

There have been no contingent liabilities since the last annual reporting date.

**6. Events subsequent to Balance Sheet Date**

On 19 February 2009, China Steel Australia Limited announced that it would be converting its China-based nickel pig iron plant to produce merchant pig iron to ride with the emerging opportunities in the recovery of the iron and steel industry in China. The management has already started discussions with several potential customers on the new product and has received good interest levels from them.

The plant near the city of Linyi in China's Shandong Province will be shut down until the end of March 2009, to enable the modification process. The consolidated group's profits for the 2008-09 financial year would be affected due to the time needed to convert the plant and the current global economic conditions. (refer to public announcement made on 19 February 2009 for further details)

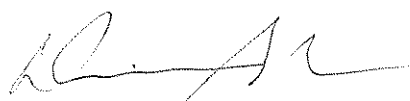
## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the attached financial statements and notes, as set out on pages 11 to 16:
  - (a) comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the Consolidated entity's financial position as at 31 December 2008 and of its performance for the half year ended on that date.
2. 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 Directors



Damien Yang Hwee, Seah  
Alternate Director to Non-Executive Chairman  
27 February 2009



### *Independence*

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

### *Basis for Qualified Conclusion*

As this is the first year that China Steel Australia Limited is required to prepare a half-year financial report and have it reviewed, the income statement, statement of changes in equity and cash flow statement for the preceding corresponding half-year have not been reviewed or audited. Accordingly, we are not in a position to and do not express any assurance in respect of the comparative information for the period ended 31 December 2007 as shown in the income statement, statement of changes in equity and cash flow statement. We have, however, audited the financial report for the preceding financial year ended 30 June 2008 and therefore our conclusion is not qualified in respect of the comparative information as at 31 December 2008 shown in the balance sheet.

### *Qualified Conclusion*

Except for the effect, if any, on the comparatives for the preceding corresponding half-year that may result from the qualification in the preceding paragraph, based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of China Steel Australia Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

### **Material Uncertainty Regarding Continuation as a Going Concern**

Without further qualification to the conclusion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1 to the financial statements, there is significant uncertainty whether the consolidated group will be able to continue as going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary should the company and consolidated group not continue as going concern.

*RSM Bird Cameron Partners .*

RSM BIRD CAMERON PARTNERS  
Chartered Accountants

*D.J. Wall*

D J WALL  
Partner

Perth, WA

Dated: 27 FEBRUARY 2009