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Appendix 4E **Preliminary Financial Report for the year ended 30 June 2008**

Results for announcement to the Market

HIGHLIGHTS

- Net Profit After Tax of \$13.076m increased by 75% compared with 2007 and exceeded the prospectus forecast of \$12.304m;
- Revenue of \$22.480m exceeded prospectus forecast of \$21.054m;
- Successful IPO and listing on the ASX in February 2008;
- Construction progress of Plant expansion in line with targeted completion date in 2009.

FINANCIAL PERFORMANCE

China Steel Australia Limited - Consolidated			
(AUD'000)	2008	2007	Movement %
Revenue	22,480	30,180	-26%
Profit from ordinary activities after tax attributable to members	13,076	7,451	+75%
Net Profit for the period attributable to members	13,076	7,451	+75%
Earnings per share- basic	4.5 cents	2.6 cents	+72%
Earnings per share - diluted	4.5 cents	2.6 cents	+72%

Corporate review

ASX Listing

China Steel Australia Limited ("the Company") successfully completed its Initial Public Offering and listed on the ASX on 29 February 2008. 15 million of shares offered to the public were fully subscribed at an issue price of \$0.20 cents per share.

Operation review

Expansion project

During the year, the Company has embarked on a \$92m expansion of its plant in Linyi, China. The expansion is set to at least triple its current production capacity. The current construction progress is on track with its planned schedule and the Company is working towards the targeted production commencement date in 2009.

Financial review

Revenue

Customers supply their own laterite ore needed for the production of nickel pig iron. Revenue derives from charging processing fee based on the quality laterite ore supplied and specification of the end product.

In 2008, there is an increase of 1,309 ton of nickel pig iron sales from 36,262 tons in 2007 to 37,571 tons.

The decrease in revenue from \$30.180m in 2007 to \$22.480m in 2008 is due to change in sales arrangement with its customers during the year. From October 2007, another key raw material, coke was also supplied by the customers. Previously, the Company provided this raw material and it was included in the processing cost. The exclusion of this raw material has resulted in the reduction of both revenue and cost of sales in 2008.

Cost of sales

Cost of sales includes raw materials, direct labour and manufacturing overhead. The removal of coke in the production cost during the year has lead to a decrease in cost of sales from \$21.795m to \$12.035m. The cost of sales is in line with the decrease in revenue for 2008.

Profit margin

Gross profit margin for nickel pig iron sales in 2007 was 28% whereas in 2008, the gross profit margin increased to 46%. The margin increase is generally due to the removal of coke from the cost of sales. Coke being a major component of cost of sales (approximately 50% of cost of sales per month), has the effect of increasing the margin even though processing fee remains the same.

In 2008, the Company tapped on its production experience with nickel pig iron and has managed the overall costs better. Disregarding the net fair value adjustment impact of \$4.161m, there was an increase of \$1.464m in net profit to \$8.915m from the previous year of \$7.451m. This translates to 20% increase in net profit over the previous year.

Administrative expenses

There is an increase of administrative expenses of \$0.363m from \$1.064m in 2007 to \$1.427m in 2008. The increase is generally due to the corporate overhead and expenses incurred for the public listing of the Company.

Financial income

Financial income increased \$6.318m from \$0.163m in 2007 to \$6.481m in 2008. The increase is generally due to fair value adjustment of the interest free loan of RMB170m (approx. \$26.061m) which resulted in a fair value income of \$6.473m.

Financial expenses

Financial expenses increased \$1.839m from \$23k in 2007 to \$1.862m in 2008. The increase is generally due to the amortisation of the fair value adjustment of \$1.850m in 2008.

The fair value income of \$6.473m is amortised over 3.5 years which corresponds with interest free tenure of the loan.

Income tax expense

The \$0.462m relates to the deferred tax expenses for the fair value adjusted financial income of the interest free loan.

Dividends

No dividends have been declared during the year and it is not proposed to pay dividends in respect of the 2008 financial year.

Audit

This report is based on accounts which are in the process of being audited. As at the date of this report, the Company does not foresee any disputes or qualifications in the review.

China Steel Australia Limited and its controlled entities
Income Statement
For financial year ended 30 June 2008

	Note	Consolidated Group		Parent Entity
		2008 AUD'000	2007 AUD'000	2008 AUD'000
Revenue		22,480	30,180	-
Cost of sales		(12,035)	(21,795)	-
Gross Profit		10,445	8,385	-
Other income				-
Distribution and marketing expenses		-	(10)	-
Administrative expenses		(1,427)	(1,064)	248
Other expenses		(99)		96
Profit/ (loss) before financing income		8,919	7,311	(344)
Financial income		6,481	163	9
Financial expenses		(1,862)	(23)	-
Net financial income		4,619	140	9
Profit/(loss) before income tax		13,538	7,451	(335)
Income tax expense		(462)	-	-
Profit/(loss) attributable to members of the parent entity		13,076	7,451	(335)
Earnings per share:				
Basic earning per share (cents per share)	3	4.5	2.6	
Diluted earnings per share (cents per share)	3	4.5	2.6	

The accompanying notes form part of these financial statements.

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China Steel Australia Limited and its controlled entities
Balance Sheet
As at 30 June 2008

	Note	Consolidated Group		Parent Entity
		2008 AUD'000	2007 AUD'000	2008 AUD'000
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents		414	35	371
Trade and Other Receivables		9,756	10,691	-
Inventories		381	2,734	-
Other assets		727	1,250	17
TOTAL CURRENT ASSETS		11,278	14,710	388
NON CURRENT ASSETS				
Investment in Subsidiary		-	-	2,600
Property, Plant and Equipment		58,725	24,766	-
TOTAL NON CURRENT ASSETS		58,725	24,766	2,600
TOTAL ASSETS		70,003	39,476	2,988
CURRENT LIABILITIES				
Trade and Other Payables		4,297	34,663	800
TOTAL CURRENT LIABILITIES		4,297	34,663	800
NON CURRENT LIABILITIES				
Financial liabilities		42,085	-	-
Deferred tax liabilities		462	-	-
TOTAL NON CURRENT LIABILITIES		42,547	-	-
TOTAL LIABILITIES		46,844	34,663	800
NET ASSETS		23,159	4,813	2,188
EQUITY				
Issued Capital		5,483	-*	2,427
Retained Earnings/(Accumulated Losses)		16,623	4,512	(335)
Reserves		1,053	301	96
TOTAL EQUITY		23,159	4,813	2,188

The accompanying notes form part of these financial statements.

China Steel Australia Limited and its controlled entities
Statement of changes in Equity
For financial year ended 30 June 2008

	Share capital	#Statutory Reserve	Share Option Reserve	Foreign currency translation Reserve	Retained earnings/ (Accumulated loss)	Total equity
Consolidated Group	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000
Balance at 1 July 2006	-	-	-	(61)	(2,455)	(2,516)
Profit attributable to members of the parent entity	-	-	-	-	7,451	7,451
Adjustment from translation of foreign controlled entities	-	-	-	(122)	-	(122)
Transfer to statutory reserve	-	484	-	-	(484)	-
Balance at 30 June 2007	-*	484	-	(183)	4,512	4,813
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

* 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.

	Share Capital	Statutory Reserve	Share Option Reserve	Translation Reserve	Retained earnings/ (Accumulated loss)	Total Equity
Parent entity	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000	AUD'000
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

The accompanying notes form part of these financial statements.

China Steel Australia Limited and its controlled entities
Statement of cash flows
As at 30 June 2008

	Note	Consolidated Group		Parent Entity
		2008	2007	2008
		AUD'000	AUD'000	AUD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		23,416	30,426	-
Payments to suppliers and employees		(10,559)	(26,567)	(205)
Interest received		8	-	9
Finance costs		(12)	(23)	-
Net cash provided by (used in) operating activities		12,853	3,836	(196)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property, plant and equipment		-	-	-
Proceeds from sale of investments		-	-	-
Purchase of property, plant and equipment		(35,649)	(1,473)	-
Purchase of investments		-	-	(2,600)
Purchase of other non-current assets		-	-	-
Payment for subsidiary, net of cash acquired		-	-	-
Net cash provided by (used in) investing activities		(35,649)	(1,473)	(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 from subsidiary company		-	-	740
Proceeds from borrowings		20,748	(2,468)	-
Repayment of borrowings		-	-	-
Dividends paid by parent entity		-	-	-
Dividends paid by controlled entities to outside equity interests		-	-	-
Net cash provided by (used in) financing activities		23,175	(2,468)	3,167
Net increase / (decrease) in cash held		379	(105)	371
Cash at beginning of financial year		35	140	-
Effect of exchange rates on cash holdings in foreign currencies		-	-	-
Cash at end of financial year		414	35	371

The accompanying notes form part of these financial statements.

**China Steel Australia Limited and its controlled entities
Notes to the Appendix 4E financial report**

1. Reporting entity

The financial report includes the consolidated financial statement and notes of China Steel Australia Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of China Steel Australia Limited as an individual parent entity ('Parent Entity'). China Steel Australia Limited was incorporated on 19 December 2007 and acquired China Steel (Singapore) Pte Ltd and its controlled entity on 22 February 2008. In accordance with AASB 3 *Business Combinations*, this acquisition was determined to be a "reverse acquisition". In a reverse acquisition, the legal acquirer becomes the accounting subsidiary and the legal acquiree becomes the accounting parent. As a result of the reverse acquisition, the income statement for the consolidated entity for the period ended 30 June 2008 comprises the following material operating results:

- China Steel Australia Limited for the period 19 December 2007 to 30 June 2008;
- China Steel (Singapore) Pte Ltd for the period from 1 July 2007 to 30 June 2008; and
- Linyi Yilida Steel Co. Ltd for the period from 1 July 2007 to 30 June 2008.

China Steel Australia Limited ('Company') was incorporated on 19 December 2007, the results and cash flows for the Company are for the period from incorporation to 30 June 2008. Accordingly, there is no comparative information for the Company.

2. 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 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. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply 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.

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.

**China Steel Australia Limited and its controlled entities
Notes to the Appendix 4E financial report**

2a) Principles of Consolidation (Cont'd)

A list of controlled entities is contained in Note 4 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 group 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 group, 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.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

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China Steel Australia Limited and its controlled entities
Notes to the Appendix 4E financial report

3. Earnings per share

The calculation of basic earnings per share at 30 June 2008 was based on profit attributable to ordinary shareholders of \$13,076,000 (2007: \$7,451,000) and a weighted average number of ordinary shares outstanding during the year of 293,791,714 (2007: 284,999,900) calculated as follows:

Profit attributable to ordinary shareholders (Basic and diluted)

(AUD'000)	Consolidated	
	2008	2007
Net profit attributable to ordinary shareholders	13,076	7,451

Weighted average number of ordinary shares (Basic)

	Consolidated	
	2008	2007
Effect of reverse acquisition on ordinary shares at date of acquisition	-	284,999,900
Effect of reverse acquisition upon issuance of shares to Jadefield Group (284,999,900 shares) from July 07 to Feb 08	189,999,933	-
Effect of total share (308m) outstanding from acquisition date to 30 June 2008	103,791,781	-
Weighted average number of shares at 30 June	293,791,714	284,999,900
Basic earnings per share attributable to ordinary shareholders	4.5 cents	2.6 cents

Weighted average number of ordinary shares (Diluted)

(AUD'000)	Consolidated	
	2008	2007
Weighted average number of shares at 30 June (Basic)	293,791,714	284,999,900
Effect of shares options on issue	-	N.A
Weighted average number of shares at 30 June	293,791,714	284,999,900
Basic earnings per share attributable to ordinary shareholders	4.5 cents	2.6 cents

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**China Steel Australia Limited and its controlled entities
Notes to the Appendix 4E financial report**

4. Controlled Entities

a) Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%) [*]	
		2008	2007
Subsidiaries of China Steel Australia Limited:			
China Steel Pte. Ltd	Singapore	100%	-
Linyi Yilida Steel Mill Co. Ltd*	People Republic of China	100%	-

*The statutory financial statements for compliance of the laws of Peoples Republic of China (PRC) are audited by Shandong Dayu Certified Public Accountant Office. For the purpose of preparing the group financial statements, the financial statements are audited by Shandong Huide Certified Public Accountants Ltd, a member of the Chinese Institute of Certified Public Accountants and an approved firm by the China Securities Regulatory Commission.

b) Acquisition of Controlled Entities

On 22 February 2008 the parent entity acquired 100% of China Steel Pte. Ltd and its controlled entities, with China Steel Australia Limited entitled to all profit earned from 22 February 2008 for a purchase consideration of 284,999,900 shares. Please refer to note 5 for further details.

5. Acquisition of subsidiaries

Acquisition of China Steel Singapore Private Limited

China Steel Australia Limited was incorporated on 19 December 2007 and acquired China Steel Private Limited and its controlled entity on 22 February 2008. In accordance with AASB 3 *Business Combinations*, this acquisition was determined to be a “reverse acquisition”. In a reverse acquisition, the legal acquirer becomes the accounting subsidiary and the legal acquiree becomes the accounting parent.

As a result of reverse acquisition, the Income Statement of the consolidated entity for the year ended 30 June 2008 comprises the following trading results.

- China Steel Australia Limited for the period 19 December 2007 to 30 June 2008
- China Steel Pte Ltd for the year ended 30 June 2008
- Linyi Yilida Steel Mill Co. Ltd for the year ended 30 June 2008

China Steel Australia Limited and its controlled entities
Notes to the Appendix 4E financial report

5. Acquisition of subsidiaries (Cont'd)

The reverse acquisition had the following effect on the consolidated entity's assets and liabilities on acquisition date:

	Pre – acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
(AUD'000)			
Property Plant and Equipment	24,766	-	24,766
Inventories	2,734	-	2,734
Trade and other receivables	11,941	-	11,941
Cash and Cash equivalents	35	-	35
Trade and other payables	<u>(34,663)</u>	-	<u>(34,663)</u>
Net identifiable assets and liabilities	4,813		4,813
Goodwill on acquisition			-
Consideration paid, satisfied in issuance of share*			<u>4,813</u>

*China Steel Australia Limited issued 284,999,900 million shares to acquire China Steel Private Limited and its wholly owned subsidiary Linyi Yilida Steel Mill Co Limited.

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

Since their acquisition on 22 February 2008, China Steel Australia Limited contributed a loss of \$335,000, net of tax benefit of Nil, to the consolidated entity's net profit for the year ended 30 June 2008.

6. Net tangible asset backing

	Consolidated	
	2008	2007
Net tangible assets of Group	<u>23,159,000</u>	<u>4,813,000</u>
Net tangible assets per share*	<u>7.52 cents</u>	<u>1.68 cents</u>

*Based on total shares outstanding of 308m at year end (2007: 284,999,900 shares)

7. Segment reporting

The Group predominantly operates in one business segment. It 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 China.

**China Steel Australia Limited and its controlled entities
Notes to the Appendix 4E financial report**

8. Subsequent events

On 18 August 2008, China Powerplus Limited completed the purchase of 46.25% of the Company. The acquisition was under an agreement, detailed in the Company's prospectus where its majority shareholder, Jadedfield Goup Limited (Jadedfield) agreed to sell 50% of its shares to China Powerplus Limited for approximately RMB155 million (AUD\$25.92million).

Other than the above, in the interval between the end of the financial year and the date of this report there has not arisen 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.

9. Compliance Statement

This report is based on the financial statements of the Company and its controlled entities. The financial statements are in the process of being audited. The Group is not aware of any matter associated with the financial report for the year ended 30 June 2008 that is likely to be subject to dispute or qualification by the auditors.



Damien Yang Hwee, Seah
Chairman
29 August 2008