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

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

FORM 10–Q

(Mark One)

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

For the quarterly period ended: March 31, 2011

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

For the transition period from ____________ to _____________

Commission File Number: 000-23039

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

Delaware	14-1623047
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

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

CHINA PRECISION STEEL, INC.

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

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

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China Precision Steel, Inc. and Subsidiaries
Consolidated Balance Sheets

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

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

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

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

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

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

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

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

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

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

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China Precision Steel, Inc. and Subsidiaries

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

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

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

Notes to the Consolidated Financial Statements
(Unaudited)

1. Description of Business

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

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

2. Basis of Preparation of Financial Statements

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

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

3. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

United States

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

BVI

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

PRC

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

Enterprise income tax

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

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

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

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

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

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

Value added tax

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

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

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

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

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

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

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

4. Concentrations of Business and Credit Risk

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

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

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

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

* Not 10% suppliers for the relevant period

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

5. Accounts Receivable

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

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

6. Inventories

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

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

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

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

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

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

7. Advances to Suppliers

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

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

8. Property, Plant and Equipment

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

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

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

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

9. Construction-In-Progress

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

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

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

10. Intangible Assets

Intangible assets include computer software and land use rights.

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

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

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

11. Short-Term Loans

Short-term loans consisted of the following:

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

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

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

12. Long-Term Loan

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

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

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

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

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

13. Stock Warrants

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

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

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

Information with respect to stock warrants outstanding is as follows:

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

14. Income Taxes

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

The tax holiday resulted in tax savings as follows:

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

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

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

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

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

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

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

Income tax expense consists of:

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

15. Earnings/(loss) Per Share

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

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

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

The following reconciles the components of the EPS computation:

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

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

	Income (Numerator)	Shares (Denominator)	Per Share