CHINA STEEL AUSTRALIA

ACN 128 988 732
Level 29 Waterfront Place
1 Eagle Street
Brisbane QLD 4000 Australia

GPO Box 1142
Brisbane QLD 4001

Tel: +61 7 3123 4472
Fax: +65 6268 2447
Web: www.cnsteel.com.au

Appendix 4E
Preliminary Financial Report for the year ended 30 June 2010

Results for announcement to the Market

HIGHLIGHTS

- Net profit after tax of $25.96M compared with a $3.05M net loss after tax in 2009. At the Extraordinary General Meeting (EGM) held on 23 February 2010, shareholders approved the conversion of loans amounting to A$51.80M from Jadefield Group Limited, Zhang Guangxia and Shandong Hengtai Jiaohua Co. Limited into 172,820,046 fully paid ordinary shares at an issue price of $0.30 per share and 21,602,506 options, with an exercise price of $0.36 per option and an expiry date of 22 February 2012. With the early adoption of AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments, the Group has recorded a $25.70M of gain on the conversion.
- Revenue of $44.93M is higher than 2009 revenue of $7.16M due to improved market conditions, resulting in the demand for nickel pig iron and its selling price increasing accordingly.

FINANCIAL PERFORMANCE

China Steel Australia Limited – Consolidated			
(AUD'000)	2010	2009	Movement %
Revenue	44,929	7,162	+527%
Profit/(Loss) after tax attributable to members	25,955	(3,051)	+951%
Net profit/(loss) for the period attributable to members	25,955	(3,051)	+951%
Earnings/(Loss) per share – basic (cents per share) Earnings/(Loss) per share – diluted (cents per share)	7.05 7.05	(0.99) (0.99)	+812% +812%

OPERATIONS REVIEW

Merchant Pig Iron

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

Plant 1 was successfully converted in April 2009 to produce both NPI and MPI. This strategic decision by the Group allowed it to capitalise on changing market demands by being able to produce both NPI and MPI.

However, Plant 1 only commenced production of MPI in August 2009 due to protracted price negotiations for raw materials with suppliers.

Nickel Pig Iron

During November 2009, the Group switched Plant 1 from the production of MPI to NPI due to the following key factors:-

i) Better gross margin for NPI compared with MPI due to the recovery of the nickel price;
ii) Relative ease to source customers for NPI rather than MPI; and
iii) Capitalisation on previous experience in the production of NPI to achieve a more efficient production levels for NPI.

Plant 2 Construction in Progress Update

The completion of Plant 2 has been delayed due to the global financial crisis (as announced on 9 December 2008) and the Group is currently reviewing its strategy and is in discussions regarding its future plans, the details of which will be announced in due course.

FINANCIAL REVIEW

Revenue

During the financial year ended 30 June 2010, Plant 1 produced a total of 26,457 tons of NPI (2009: 5,142 tons) and 22,881 tons of MPI (2009: nil). Total revenue increased by $37.77M from $7.16M in 2009 to $44.93M in 2010.

The increase in revenue is mainly due to increased demand for NPI and a higher selling prices. In 2009, the global financial crisis caused a slowdown in economic activities, with demand for NPI and its selling prices dropping accordingly. As the global economic conditions has improved in the financial year 2010, the demand for NPI and its selling prices increased accordingly.

Gross Profit

The gross profit has increased by $3.64M from $1.94M in 2009 to $5.58M in 2010. However, expressed in percentage terms, there was a decrease in gross profit from 27% in 2009 to 12% in 2010.

The better gross profit performance in 2009 was due to coke being supplied by the customer and this resulted in a decrease in the cost of sales. Coke is a major component of production and accounted for approximately 50% of cost of sales.

Administrative expenses

There was a decrease of administrative expenses of $0.44M from $2.15M in 2009 to $1.71M in 2010. The decrease is generally due to various cost cutting measures being adopted during the financial year.

Other income

There was an increase in other income of $25.85M from $0.03M in 2009 to $25.88M in 2010. This is mainly due to the Group's early adoption of AASB Interpretation 19-Extinguishing Financial Liabilities with Equity Instruments, which resulted in a $25.70M gain on a debt for equity swap.

Financial expenses

Financial expenses increased by $0.79M from $2.94M in 2009 to $3.73M in 2010. The increase is mainly due to amortisation of the fair value adjustment of the interest free loan (from Jadefield Group Limited and Zhang Guangxia) of $1.20M in 2010 (2009: $1.85M).

The amortisation ceased after the EGM held on 23 February 2010 where shareholders approved the conversion of the loans into fully paid ordinary shares and options. The decrease of such financial expense was offset with a reversal of the balance of the fair value adjustment of an interest free loan of A$1.57M (2009: nil) as a result of the decision of the EGM on 23 February 2010.

Dividends

No dividends have been declared during the year and it is not proposed to pay dividends in respect of the 2010 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 is aware that an emphasis of matter will be included in the audit report in regards to completing Plant 2 construction in progress and Land Use Right Certification.

Statement of comprehensive income
For the year ended 30 June 2010

	Note	Consolidated Entity	
		2010	**2009**
		AUD'000	**AUD'000**
Revenue		44,929	7,162
Cost of sales		(39,352)	(5,218)
Gross profit		5,577	1,944
Other income		25,881	27
Administrative expenses		(1,709)	(2,153)
Other expenses		(2)	(43)
Financial expenses		(3,725)	(2,942)
Profit/(loss) before income tax		26,022	(3,167)
Income tax (expense)/savings		(67)	116
Profit/(loss) for the year attributable to members of the parent entity		25,955	(3,051)
Other comprehensive income:			
Exchange differences on translating foreign controlled entities		2,655	3,796
Total comprehensive income for the year		28,610	745
Earnings per share			
Earning/(Loss) per share (cents per share) – Basic	**2**	7.05	(0.99)
Earning/(Loss) per share (cents per share) – Diluted	**2**	7.05	(0.99)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of financial position
As at 30 June 2010

	Consolidated Entity	
	2010	2009
	AUD'000	AUD'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,208	88
Trade and other receivables	324	31
Inventories	1,171	394
Other assets	3,704	180
TOTAL CURRENT ASSETS	6,407	693
NON CURRENT ASSETS		
Property, plant and equipment	74,571	80,115
Other assets	781	697
TOTAL NON CURRENT ASSETS	75,352	80,812
TOTAL ASSETS	81,759	81,505
CURRENT LIABILITIES		
Trade and other payables	3,067	2,019
Current tax liabilities	38	-
TOTAL CURRENT LIABILITIES	3,105	2,019
NON CURRENT LIABILITIES		
Financial liabilities	-	55,236
Deferred tax liabilities	-	346
TOTAL NON CURRENT LIABILITIES	-	55,582
TOTAL LIABILITIES	3,105	57,601
NET ASSETS	78,654	23,904
EQUITY		
Issued capital	29,679	5,483
Retained earnings	38,961	13,350
Reserves	10,014	5,071
TOTAL EQUITY	78,654	23,904

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 30 June 2010

Consolidated Group	Share capital AUD'000	**Statutory Reserve AUD'000	Share Option Reserve AUD'000	Foreign currency translation Reserve AUD'000	Retained earnings AUD'000	Total AUD'000
Balance at 1 July 2008	**5,483**	**1,449**	**96**	**(492)**	**16,623**	**23,159**
Net loss for the year	-	-	-	-	(3,051)	(3,051)
Transfer to statutory reserve	-	222	-	-	(222)	-
Total other comprehensive income for the year	-	-	-	3,796	-	3,796
Balance at 30 June 2009	**5,483**	**1,671**	**96**	**3,304**	**13,350**	**23,904**
Balance at 1 July 2009	**5,483**	**1,671**	**96**	**3,304**	**13,350**	**23,904**
Net profit for the year	-	-	-	-	25,955	25,955
Transfer to statutory reserve	-	344	-	-	(344)	-
Total other comprehensive income for the year	-	-	-	2,655	-	2,655
Share based payment	-	-	1,944	-	-	1,944
Conversion of loan to shares	24,196	-	-	-	-	24,196
Balance at 30 June 2010	**29,679**	**2,015**	**2,040**	**5,959**	**38,961**	**78,654**

**** Under 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 and accumulated losses. Contribution to this reserve is no longer mandatory when the reserve reaches 50% of the registered share capital. The reserve is to be used in accordance with the circumstances stipulated in the relevant regulations.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the year ended 30 June 2010

	Consolidated Entity	
	2010	2009
	AUD'000	AUD'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	44,636	16,887
Payments to suppliers and employees	(42,306)	(7,922)
Receipts from government on property tax rebate	175	-
Income tax paid	(375)	-
Interest received	-	32
Finance costs	(952)	(1,097)
Net cash provided by operating activities	1,178	7,900
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	-	84
Purchase of property, plant and equipment	(58)	(10,509)
Net cash (used in) investing activities	(58)	(10,425)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings, net	-	2,199
Net cash provided by financing activities	-	2,199
Net increase / (decrease) in cash held	1,120	(326)
Cash at beginning of financial year	88	414
Cash at end of financial year	1,208	88

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Appendix 4E financial report

This financial report of China Steel Australia Limited ('the Company') for the year ended 30 June 2010 comprises the Company and its subsidiaries (collectively referred to as 'the consolidated Entity or Group').

China Steel Australia Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

1. 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.

Notes to the Appendix 4E financial report

2. Earnings per share

	Consolidated Entity	
	2010	2009
Net profit/(loss) attributable to members (AUD'000)	25,955	(3,051)
Weighted average number of shares at 30 June	368,131,906	308,000,000
Earnings/(loss) per share attributable to members - Basic	7.05	(0.99)
Earnings/(loss) per share attributable to members - Diluted	7.05	(0.99)

3. Net tangible asset backing

	Consolidated Entity	
	2010	2009
Net tangible assets of Group	78,654,000	23,904,000
Net tangible assets per share*	16.4 cents	7.8 cents

*****Based on total shares outstanding of 480,820,046 at year end (2009: 308,000,000 shares)

4. Segment reporting

Description of segments

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Board of Directors has considered the business from both a geographic and business segment perspective and has identified one reportable segment. The identifiable reportable segment is the manufacturing of Pig Iron (Nickel or Merchant), for the domestic China market, from a steel and alloy plant located near the city of Linyi in Shandong province of China.

The Consolidated Entity is domiciled in Australia but all operating activities are located in China. All revenue from external customers is from customers located in China Segment revenues are allocated based to the country in which the customer is located.

Revenues of approximately $44.93M (2009 - $7.16M) are derived from a single external customer.

All the non-current assets (other than financial instruments) are located in China. There are no rights arising from insurance contracts nor liabilities for employment benefits. Segment assets are allocated to countries based on where the assets are located.

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

5. 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 2010 that is likely to be subject to dispute or qualification by the auditors other than emphasis on matter in the audit report in regards to completing Plant 2 construction in progress and land use right certification.

Signed in accordance with a resolution of Directors

On behalf of the Directors

Xue Yongwen
Non-executive Chairman