China Precision Steel, Inc.
Form 10-Q
February 13, 2007

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 **December 31, 2006**
or

( ) 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 charter)

Colorado (State or other jurisdiction of incorporation)	14-1623047 (IRS Employer Identification No.)

8th Floor, Teda Building, 87 Wing Lok Street, Sheungwan
Hong Kong, The People's Republic of China
(Address of principal executive offices)

86-21-5994-8500
Registrant's telephone number, including area code:

OraLabs Holding Corp.
18685 East Plaza Drive
Parker, Colorado 80134
December 31
(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 þ No £_

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

Large accelerated filer £ Accelerated filer £ Non-accelerated filer þ

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

As of February 12, 2007, there were 26,981,916 shares of the Company's common stock outstanding.

China Precision Steel, Inc.
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Quarter Ended December 31, 2006

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China Precision Steel, Inc.
Condensed Consolidated Balance Sheets

		December 31, 2006 (Unaudited)		June 30, 2006
Assets				
Current assets				
Cash and equivalents	$	1,173,975	$	186,955
Accounts receivable				
Trade		9,383,527		13,399,003
Other		25,575		69,913
Inventory		14,491,575		6,283,910
Deposits		79,236		75,575
Advances to suppliers		7,549,582		3,138,759
Total current assets		32,703,470		23,154,115
Property and equipment				
Property and equipment, net		18,363,959		8,664,417
Construction-in-progress		13,671,544		13,752,954
		32,035,503		22,417,371
Total assets	$	64,738,973	$	45,571,486
Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	$	6,423,862	$	1,801,466
Advances from customers		4,778,897		1,859,773
Other taxes payables		680,282		862,914
Current income taxes payable		1,496,104		-
Deferred income taxes payable		1,455,636		1,535,204
Amounts due to directors		2,240,599		5,896,943
Current portion of long-term debt		9,841,091		8,918,939
Notes payable		14,132,427		9,862,672
Total current liabilities		41,048,898		30,737,911
Long-term debt, net of current portion shown above		6,128,599		3,152,415
Stockholders' equity:				
Preferred stock: $0.001 per value, 8,000,000 shares authorized, no shares outstanding at December 31, 2006 or June 30, 2006		-		-
Ordinary stock: $0.001 par value, 62,000,000 shares authorized, 26,981,916 issued and outstanding st December 31, 2006 and June 30, 2006		26,982		26,982
Additional paid-in capital		1,373,018		1,373,018
Accumulated other comprehensive income		1,400,568		745,583

Retained earnings		14,760,908		9,535,577
Total stockholders' equity		17,561,476		11,681,160
Total liabilities and stockholders' equity	$	64,738,973	$	45,571,486

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

China Precision Steel, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended: December 31, 2006	Three Months Ended: December 31, 2005	Six Months Ended: December 31, 2006	Six Months Ended: December 31, 2005
Revenues				
Sales revenues	$ 15,007,582	$ 9,902,359	$ 25,510,930	$ 17,605,248
Cost of goods sold	11,594,852	7,109,245	18,394,950	12,287,788
Gross profit	3,412,730	2,793,114	7,115,980	5,317,460
Operating expenses				
Selling expenses	64,693	20,296	104,390	42,378
Administrative expenses	498,737	445,927	684,925	510,400
Depreciation and amortization expense	10,845	10,174	21,262	18,645
Total operating expenses	574,275	476,397	810,577	571,423
Income from continuing operations	2,838,455	2,316,717	6,305,403	4,746,037
Other income (expense)				
Other revenues	-	318,774	-	318,774
Interest and finance costs	(114,743)	(206,464)	(318,082)	(352,662)
Total other income (expense)	(114,743)	112,310	(318,082)	(33,888)
Net income from continuing operations before income tax	2,723,712	2,429,027	5,987,321	4,712,149
Provision for (benefit from) income tax				
Current	(34,057)	-	895,313	-
Deferred	389,604	-	(85,405)	-
Total income tax expense	355,547	-	809,908	-
Net income before discontinued operations	2,368,165	2,429,027	5,177,413	4,712,149
Net income from discontinued operations	519,879	258,601	639,072	112,582
Net income	$ 2,888,044	$ 2,687,628	$ 5,816,485	$ 4,824,731
Basic and diluted earnings per share				
From continuing operations	$ 0.09	$ 0.09	$ 0.19	$ 0.17
From discontinued operations	$ 0.02	$ 0.01	$ 0.03	$ 0.01
Total	$ 0.11	$ 0.10	$ 0.22	$ 0.18

Basic and diluted weighted average shares outstanding		26,981,916		26,981,916		26,981,916		26,981,916
The Components of comprehensive income:								
Net income	$	2,888,044	$	2,687,628	$	5,816,485	$	4,824,731
Foreign currency translation adjustment		557,213		76,402		654,985		405,877
Comprehensive income	$	3,445,257	$	2,764,030	$	6,470,970	$	5,230,608

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

China Precision Steel, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Six Months Ended: December 31, 2006	December 31, 2005
Cash flows from operating activities		
Net Income	$ 5,816,485	$ 4,824,149
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	617,405	403,630
Less income from discontinued operations - Oralabs, Inc	(639,072)	(112,582)
Net changes in assets and liabilities:		
Accounts receivable, net	4,059,814	(3,558,798)
Inventories	(8,207,665)	(2,315,178)
Advances to suppliers	(4,410,823)	(774,381)
Deposits	(3,661)	-
Accounts payable and accrued expenses	4,622,396	(266,168)
Advances from customers	2,919,124	646,278
Deferred income taxes	(85,405)	-
Current income taxes	937,307	-
Other taxes payable	(152,086)	285,493
Net cash provided by (used in) operating activities	5,473,819	(866,975)
Cash flows from investing activities		
Purchases of fixed assets including construction in progress	(10,212,328)	(7,012,465)
Net cash (used in) investing activities	(10,212,328)	(7,012,465)
Cash flows from financing activities		
Advances from directors, net	(3,237,243)	931,984
Long-term loan proceeds	3,898,336	-
Notes payable proceeds	3,850,654	4,190,030
Capital and restructuring contributions	558,797	-
Net cash provided by financing activities	5,070,544	5,122,014
Effect of exchange rate	654,985	402,716
Net increase (decrease) in cash	987,020	(2,354,710)
Cash and cash equivalents, beginning of year	186,955	3,133,326
Cash and cash equivalents, end of year	$ 1,173,975	$ 778,616

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

China Precision Steel, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the six months ended: December 31, 2006		December 31, 2005	
Supplemental disclosure of cash flow information				
Interest paid	$	318,082	$	352,662
Taxes paid	$	-	$	-

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

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China Precision Steel, Inc.
Notes to Condensed Consolidated Financial Statements

1. Description of Business

On December 28, 2006, China Precision Steel, Inc. (the "Company") under its former name, OraLabs Holding Corp., issued 25,363,002 shares of its common stock in exchange for 100% of the registered capital of Partner Success Holdings Limited, a British Virgin Islands Business Company ("PSHL"), pursuant to a Stock Exchange Agreement, dated March 31, 2006. Subsequent to the closing of that transaction, on December 28, 2006, the Company redeemed 3,629,350 shares of its common stock in exchange for all of the common stock of OraLabs, Inc., a wholly-owned operating subsidiary. The Company issued 100,000 shares of its common stock to OraLabs, Inc. in exchange for $450,690, and received additional cash payments in the aggregate amount of $108,107 in payment of an estimated $558,797 tax liability to be incurred by the Company in connection with the spin off of OraLabs, Inc. and the supplemental payment received. The Company then changed its name to China Precision Steel, Inc.

These transactions were treated for financial reporting purposes as a recapitalization, with prior OraLabs, Inc. operating activities reflected on the statements of operations as income (loss) from discontinued operations. The $558,797 estimated tax liability incurred in connection with the spin off of OraLabs, Inc. was treated as a transaction cost for financial reporting purposes and was treated as a reduction in additional paid in capital to the extent of the additional cash received, which was also $558,797 See Note 15 of Notes to Condensed Consolidated Financial Statements.

PSHL, registered on April 30, 2002 in the Territory of the British Virgin Islands, had registered capital of $50,000 as of June 30, 2006 and 2005. It has one wholly-owned subsidiary, Shanghai Chengtong Precision Strip Company Limited ("Chengtong"), which it acquired in a series of transactions. This acquisition was recorded using purchase accounting and resulted in an increase of $1,086,262 in the carrying amount of property and equipment for financial reporting purposes.

Chengtong was registered on July 2, 2002 in Shanghai, in the People's Republic of China ("PRC") with a registered capital of $3,220,000 and a defined period of existence of 50 years from July 2, 2002 to July 1, 2052. Chengtong was classified as a Sino-foreign joint venture enterprise with limited liabilities. On August 22, 2005, the authorized registered capital was increased to $15,220,000. Pursuant to the document issued by the District Council to Xuhang Town Council on June 28, 2004, the equity transfers from China Chengtong Metal Group Limited and Eastreal Holdings Company Limited to PSHL was approved and the transformation of Chengtong from a Sino-foreign joint investment enterprise to a wholly foreign owned enterprise (WFOE) was granted.

As used herein, the "Group" refers to the Company, PSHL and Chengtong on a consolidated basis.

The Company's principal activities are conducted through its principal subsidiary, Chengtong. Chengtong is a niche precision steel processing company principally engaged in the manufacture and sales of cold-rolled and hot-rolled precision steel products and plates for down stream applications in the automobile industry (components and spare parts), kitchen tools and functional parts of electrical appliances. Raw materials, hot-rolled de-scaled (pickled) steel coils, will go through certain cold reduction processing procedures to give steel rolls and plates in different cuts and thickness for deliveries in accordance with customers' specifications. 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.

2. Basis of Preparation of Financial Statements

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared under the historical cost convention. This basis of accounting differs from that used in the preparation of the Company's statutory financial statements, prepared on a cash basis, are prepared in accordance with generally accepted accounting principles and the relevant financial regulations applicable to enterprises in the PRC.

China Precision Steel, Inc.
Notes to Condensed Consolidated Financial Statements

3. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies:

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

Accounts Receivable - The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. It is reasonably possible that the Company's estimate of the allowance will change. At December 31, 2006 and 2005, the Company had allowance for doubtful accounts of $138,837 and $0, respectively.

Inventory - Inventory is 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.

The 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. The costs of conversion of inventories include fixed and variable production overhead, taking into account the stage of completion.

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:

Buildings	25 years
Office equipment	5 years
Motor vehicles	5 years
Machinery	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.

Property, plant and equipment are evaluated annually for any impairment in value. Where the recoverable amount of any property and equipment is determined to have declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. There were no property and equipment impairments recognized during the three and six months periods ended December 31, 2006 and 2005.

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 fiscal years ended June 30, 2006 and 2005, the Company capitalized $749,914 and $0, respectively, of interest to construction in progress. During the six months ended December 31, 2006 and

2005, the Company capitalized $497,686 and $0, respectively, of interest to construction-in-progress.

China Precision Steel, Inc.
Notes to Condensed Consolidated Financial Statements

3. Summary of Significant Accounting Policies (Continued)

Construction-in-Progress - Properties 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 properties held for sale.

Construction-in-progress is valued at the lower of cost or market. Management evaluates the market value of its properties on a quarterly basis by comparing selling prices of its properties with those of other equivalent properties in the vicinity offered by other developers reduced by anticipated selling costs and associated taxes. In the case of construction in progress, management takes into consideration the estimated cost to complete the project when making the lower of cost or market calculation.

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, they will then be 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 - Revenue from the sale of goods or services is recognized at the time that goods are delivered or services are rendered. Receipts in advance for goods to be delivered or services to be rendered in the subsequent year 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 and invoiced. Revenue is reported net of all VAT taxes. Other income is recognized when it is earned.

Foreign Currencies - The Company's principal country of operations is in the PRC. The financial position and results of operations of the Company are determined using the local currency ("Renminbi" or "Yuan") as the functional currency. The results of operations denominated in foreign currency are translated at the average rate of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date. 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 ("US Dollars") are dealt with as an exchange fluctuation reserve in shareholders' equity.

China Precision Steel, Inc.
Notes to Condensed Consolidated Financial Statements

3. Summary of Significant Accounting Policies (Continued)

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

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

Under the Provisional Regulations of the People's Republic of China Concerning Income Tax on Enterprises promulgated by the State Council which came into effect on January 1, 1994, income tax is payable by enterprises at a rate of 33% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council. Specialty state companies' enterprise income tax rate was reduced to 27%. The Group is currently enjoying a 50% reduction in the statutory rates due to the classification of Chengtong as a "Wholly Foreign Owned Enterprise". This reduced rate applies to the fiscal years ending June 30, 2007, 2008, and 2009. Subsequent to June 30, 2009, Chengtong will be subject to enterprise income taxes at the prevailing statutory rates. The PRC is currently reviewing its tax rate differential between domestic and Wholly Foreign Owned Enterprises and it is possible that these rates may change in the future.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement 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.

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.

China Precision Steel, Inc.
Notes to Condensed Consolidated Financial Statements

3. Summary of Significant Accounting Policies (Continued)

Retirement Benefit Costs - According to the PRC regulations on pension, Chengtong contributes to a defined contribution retirement scheme organized by municipal government in the province in which Chengtong was 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 contributes the balance contribution of 21.5%% to 15.5%. The Group has no other material obligation for the payment of retirement benefits beyond the annual contributions under this scheme.

For the three and six month periods ended December 31, 2006, the Company's pension cost charged to the statements of operations under the plan amounted to $39,466 and $74,163, respectively, all of which have been paid to the State Pension Fund. For the three and six month periods ended December 31, 2005, the Company's pension cost charged to the statements of operations under the plan amounted to $10,592 and $21,185, respectively, all of which have been paid to the State Pension Fund.

Fair Value of Financial Instruments - The carrying amounts of certain financial instruments, including cash, accounts receivable, other receivables, accounts payable, accrued expenses, and other payables approximate their fair values as at December 31, 2006 and June 30, 2006 because of the relatively short-term maturity of these instruments.

Adjustments - In the opinion of management, all adjustments that are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01. All such adjustments are of a normal, recurring nature.

Use of Estimates - The preparation of financial statements in accordance with generally accepted accounting principles require 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.

Reclassifications - Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Recent Accounting Pronouncements - In November 2004, the FASB issued SFAS No. 151, Inventory Costs - an amendment of ARB No. 43, Chapter 4. SFAS No. 151 requires that certain abnormal costs associated with the manufacturing, freight, and handling costs associated with inventory be charged to current operations in the period in which they are incurred. The adoption of SFAS 151 had no impact on the Group's financial position, results of operations, or cash flows.

In December 2004, the FASB issued a revision of SFAS No. 123, Share-Based Payment. The statement establishes standards for the accounting for transactions in which an entity exchanges its equity investments for goods and services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. The statement does not change the accounting guidance for share-based payments with parties other than employees.

The statement requires a public entity to measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exception). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). A public entity will initially measure the cost of employee services received in exchange for an award of liability instrument based on its current fair value; the fair value of that award will be re-measured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation over that period.

China Precision Steel, Inc.
Notes to Condensed Consolidated Financial Statements

3. Summary of Significant Accounting Policies (Continued)

The grant-date for fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of these instruments. The statement is effective for the quarter beginning January 1, 2006.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets-amendment of APB Opinion No. 29. Statement 153 eliminates the exception to fair value for exchanges of similar productive assets and replaces it with a general exception for exchanged transactions that do not have a commercial substance, defined as transactions that are not expected to result in significant changes in the cash flows of the reporting entity. This statement was effective for exchanges of non-monetary assets occurring after June 15, 2005.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3. Statement 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

SFAS No. 152 "Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67", SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and No. 140", SFAS No. 156 "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140", SFAS No. 157 "Fair Value Measurement", and SFAS 158 "Employer's Accounting for Defined Benefit and Other Postretirement Plans" were recently issued. SFAS No. 152, 155, 156, and 158 have no current applicability to the Group and have no significant effect on the consolidated financial statements.

Management is currently assessing the effect, if any, that the adoption of SFAS 157 "Fair Value Measurement" will have on the reporting of future operations.

In June of 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes". This interpretation clarifies the accounting and reporting of uncertainty in income taxes recognized in an enterprise's financial statements. This Interpretation will be effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the effect this Interpretation will have on the reporting of future operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB No. 108"). SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning of year retained earnings and disclose the nature and amount of each individual error being corrected in the cumulative adjustment. SAB No. 108 is effective beginning January 1, 2007 and it is anticipated that the initial adoption of SAB No. 108 will not have a material impact on the Company's financial position, results of operations, or cash flows.

4. Concentrations of Business and Credit Risk

Substantially all of the Group's bank accounts are in banks located in the PRC and are not covered by any type of protection similar to that provided by the FDIC on funds held in U.S. banks.

Chengtong provides credit in the normal course of business. Chengtong performs ongoing credit evaluations of its customers and clients and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers and clients, historical trends, and other information. Trade accounts receivable totaled $9,383,527 and $13,399,003 as of December 31, 2006 and June 30, 2006, respectively.

China Precision Steel, Inc.
Notes to Condensed Consolidated Financial Statements

4. Concentrations of Business and Credit Risk (Continued)

Chengtong's list of customers whose purchases exceeded 10% of total sales during the six months ended December 31, 2006 and 2005 were as follows:

Customers	*2006*	*% to sales*	*2005*	*% to sales*
Shanghai Ruixuefeng Metals Co. Ltd	9,254,127	36	-	-
Sinosteel Company Limited	3,219,796	13	-	-
Shanghai Yiyi Industrial Limited	-	-	3,052,223	17
Jiangsu Kaiteer Industrial Stove Limited	-	-	5,051,922	29

5. Inventory

As of December 31, 2006 and June 30, 2006, inventory consisted of the following:

	December 31, 2006	June 30, 2006
Raw materials	$ 10,779,186	$ 3,688,773
Work in progress	602,832	573,465
Finished goods	3,109,557	2,021,672
	$ 14,491,575	$ 6,283,910

6. Property, Plant and Equipment

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

	December 31, 2006	June 30, 2006
Plant and machinery	$ 17,513,971	$ 7,526,395
Buildings	3,070,377	2,755,157
Motor vehicles	288,095	239,219
Office equipment	70,524	51,281
	20,942,967	10,572,052
Less: Accumulated depreciation	(2,579,008)	(1,907,635)
	$ 18,363,959	$ 8,664,417

As of December 31, 2006, property, plant and equipment at a net book value of $18,144,798, along with all construction-in-progress, had been pledged as securities on loans with combined outstanding balances of $24,219,764.

Depreciation expense related to manufacturing is included as a component of cost of goods sold. During the three and six month periods ended December 31, 2006, depreciation totaling $345,669 and $596,143, respectively, was included as a component of cost of goods sold. During the three and six month periods ended December 31, 2005, depreciation totaling $183,085 and $384,985, respectively, was included as a component of cost of goods sold.

7. Construction-In-Progress

As of December 31, 2006 and June 30, 2006, construction-in-progress consisted of the following:

		December 31, 2006		June 30, 2006
Construction costs of plant and machinery	$	8,424,401	$	7,059,943
Construction on factory building (Phase 2)		5,247,143		6,693,011
	$	13,671,544	$	13,752,954

Construction-in-progress represents construction and installations of the new plant and machinery and administration and factory buildings.

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8. Advances from Customers

Advances from customers represent advance cash receipts from new customers and for which goods have not been delivered as of the balance sheets dates. Advances from customers for goods to be delivered or services to be rendered in the subsequent year are carried forward as deferred revenue. As of December 31, 2006 and June 30, 2006 there were advances from customers of $4,778,897 and $1,859,773, respectively.

9. Transactions with Related Parties

Amounts due to directors as of December 31, 2006 and June 30, 2006 are as follows:

Name	December 31, 2006	June 30, 2006
Li Wo Hing	$ 1,798,066	$ 5,464,907
Chen Hai Sheng	442,533	432,036
	$ 2,240,599	$ 5,896,943

Amounts due are unsecured, non-interest bearing and have no fixed repayment terms. As of December 31, 2006 and June 30, 2006, Li Wo Hing had advanced an aggregate of $8,840,990 and $5,435,842, respectively, for construction costs incurred for Chengtong's production facilities on land to which the land rights are owned by another company under his control. At such time as local governmental approval is received for the transfer of the land rights and the related properties to Chengtong, the related costs paid by Li Wo Hing will be reflected on the Group's consolidated financial statements as a payable to him. See Note 18 of Notes to Condensed Consolidated Financial Statements.

10. Short-Term Loans

Short-term loans consisted of the following:

	December 31, 2006	June 30, 2006
Bank loan, dated July 27, 2006, rolling over previous notes, due July 25, 2007, with a interest rate of 5.85%, guaranteed by a related company	$ 2,557,545	$ -
Bank loan, dated July 27, 2006, rolling over previous notes, due June 25, 2007, with a interest rate of 5.85%, guaranteed by a related company	1,790,281	-
Bank loan, dated July 27, 2006, rolling over previous notes, due May 25, 2007, with a interest rate of 5.85%, guaranteed by a related company	1,534,527	-
Bank loan, dated September 22, 2005, due December 31, 2006, with a interest rate of 15% over the standard market rate set by the People's Bank of China for Renminbi loans, secured by land, buildings and machinery	8,250,074	4,119,850
Bank loan, dated December 14, 2004, rolled over October 21, 2005, due in one year with a interest rate of 5.58%, guaranteed by a related company	-	1,248,439

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China Precision Steel, Inc.
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10. Short-Term Loans (Continued)

Bank loan, dated December 14, 2004, rolled over November 11, 2005, due in one year with a interest rate of 5.58%, guaranteed by a related company	-	1,248,439
Bank loan, dated December 12, 2005, due in one year with a interest rate of 5.58%, guaranteed by a related company	-	1,747,815
Bank loan, dated May 19, 2006, due in one year with a interest rate of 5.85%, guaranteed by a related company	-	1,498,129
	$ 14,132,427	$ 9,862,672

12. Long-Term Debts - Secured

	December 31, 2006	June 30, 2006
Long-term debts:		
Bank loan dated October 14, 2004, due July 31, 2007, at an interest rate of 3% over the 10% of the standard market rate set by the People's Bank of China for Renminbi loans, secured by land, buildings and machinery	$ 7,798,225	$ 7,973,215
Bank loan dated September 22, 2005, payable over 4 years ending August 31, 2009, at an interest rate of 15% the standard market rate set by the People's Bank of China for Renminbi loans, secured by land, buildings and machinery	8,171,465	4,098,139
Total long-term debt	15,969,690	12,071,354
Less: Current portion of long-term debts	9,841,091	8,918,939
Long-term debts	$ 6,128,599	$ 3,152,415

Maturities on long-term debt for each of the next five years and thereafter are as follows:

2007	$ 9,841,091
2008	2,042,866
2009	2,042,866
2010	2,042,867
2011	—
	$ 15,969,690

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China Precision Steel, Inc.
Notes to Condensed Consolidated Financial Statements

14. Income Tax

For EIT reporting purposes, the Company reports income and expenses on a tax basis and is required to compute a 10% salvage value when computing depreciation expense. For financial reporting purposes, the Company reports income and expenses on the accrual basis and does not take into account a 10% salvage value when computing depreciation expense.

No accrual for deferred taxes was required for the fiscal year ended June 30, 2005 as the Group benefited from Chengtong's 100% tax holiday during the two fiscal years ended June 30, 2006 and all material timing differences would reverse within one year with the exception of depreciation which resulted in a small deferred tax asset which was deemed to be immaterial by the Company and was not recorded at that time.

As of June 30, 2006, Chengtong had utilized all of its 100% tax holiday; therefore any timing differences reversing within the next three years will be taxed at 50% of the statutory rate of 27%. Therefore, it was necessary for the Group to record a deferred income tax liability and offsetting deferred income tax expense of $1,535,204 as of June 30, 2006.

A reconciliation of the provision for income taxes with amounts determined by applying the statutory U.S. federal income tax rate to income before income taxes is as follows:

	Year Ended June 30,			
		2006		2005
Computed tax at the federal statutory rate of 34%	$	3,133,000	$	2,244,000
Less adjustment to EIT statutory rate of 27%		(645,000)		(462,000)
Benefit from tax holiday		(952,796)		(1,782,000)
Income tax expense per books	$	1,535,204	$	-

The tax holiday resulted in tax savings as follows:

	Three Months Ended December 31,				Six Months Ended December 31,			
		2006		2005		2006		2005
Tax savings	$	367,701	$	655,837	$	808,288	$	1,727,280
Benefit per share								
Basic	$	.01	$	.02	$	.03	$	.06
Diluted	$	.01	$	.02	$	.03	$	.06

As explained above, there were not significant deferred tax assets or liabilities as of June 30, 2005. Significant components of the Group's deferred tax assets and liabilities as of December 31, 2006 and June 30, 2006 are as follows:

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Deferred tax assets:	December 31, 2006	June 30, 2006
Book depreciation in excess of tax depreciation	$ 35,828	$ 25,753
Deferred tax liability		
Timing differences resulting from cash basis reporting for tax purposes	(1,491,464)	(1,560,957)
Net deferred income tax (liability)	$ (1,455,636)	$ (1,535,204)

15. Stock Exchange Agreement

On March 31, 2006, the Company entered into a Stock Exchange Agreement (the "Agreement") under which all of the issued and outstanding shares of PSHL would be acquired by it in consideration for the issuance to the owner of PSHL and his designees (the "PSHL Shareholder") of common stock representing a 94% ownership interest in the Company (the "Share Exchange").

On December 27, 2006, the Company held its annual meeting of shareholders (the "Annual Meeting"). At the Annual Meeting, shareholders owning a majority of the issued and outstanding shares of the Company approved:

- the Share Exchange;
- the Redemption (as defined below);
- a 2006 Directors Option Plan and the issuance to non-employee directors of 300,000 shares of the Company's common stock;
- the issuance of an undetermined number of shares of the Company's common stock, shares of preferred stock convertible into the common stock or warrants to purchase the common stock, in an aggregate amount of up to 22,600,000 shares of common stock, in connection with potential equity financing from time to time;
- the sale to OraLabs, Inc., the Company's wholly-owned subsidiary, of up to 100,000 shares of the Company's common stock to satisfy a tax indemnity obligation of OraLabs, Inc. in connection with the Redemption;
- the amendment to the Company's Articles of Incorporation to change its name from OraLabs Holding Corp. to China Precision Steel, Inc. and to increase the number of authorized shares of common stock to 62,000,000;
- the Amendment to the Company's Articles of Incorporation to increase the number of authorized shares of preferred stock to 8,000,000;

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- The election of Mr. Wo Hing Li and Mr. Hai Sheng Chen as executive directors and Mr. Che Kin Lui, Mr. David Peter Wong, and Mr. Tung Kuen Tsui, the individuals designated by PSHL, as independent non-executive directors of the Company;

- The approval of the Company's 2006 Omnibus Long-Term Incentive Plan that will allow the Company to grant an aggregate of 2,165,220 shares of its common stock through stock options and restricted stock awards to qualified key employees; and

- The ratification of the appointment of Murrell, Hall, McIntosh & Co., PLLP as the Company's independent registered public accounting firm for fiscal year 2006.

Pursuant to the Agreement, the Company entered into a Redemption Agreement, dated December 28, 2006 (the "Redemption Agreement"), with its President, Gary H. Schlatter, individually ("Schlatter"), whereby the Company redeemed 3,629,350 shares of its outstanding common stock owned by Schlatter in exchange for all of the issued and outstanding shares of OraLabs, Inc., the Company's wholly owned subsidiary. OraLabs, Inc. purchased 100,000 shares of the Company's common stock and paid certain amounts in cash to the Company to satisfy a tax indemnity obligation of OraLabs, Inc. in connection with the Redemption.

On December 28, 2006, the Company and PSHL closed on the Share Exchange and the Company's name was changed to China Precision Steel, Inc. At the Closing, the Company issued to the sole owner of PSHL and his designees an aggregate of 25,363,002 shares of common stock, which constitutes 94% of its total issued and outstanding common stock of the Company. Upon the consummation of the Share Exchange, each of PSHL and Chengtong became wholly-owned subsidiaries of the Company.

Prior to the closing, the Company issued 300,000 shares to its non-employee directors, Mr. Michael I. Friess and Mr. Robert C. Gust, pursuant to the Company's 2006 Directors Option Plan. The cost of these 300,000 shares valued at $1,566,000 was treated as a transaction cost and taken against additional paid in capital.

At the Closing, Mr. Gary H. Schlatter, Mr. Michael I. Friess and Mr. Robert C. Gust resigned as directors of the Company and were replaced by Mr. Wo Hing Li and Mr. Hai Sheng Chen, as executive directors, and Mr. Che Kin Lui, Mr. David Peter Wong, and Mr. Tung Kuen Tsui, as independent non-executive directors.. Further, Gary H. Schlatter and Michael I. Friess resigned as officers of the Company and Wo Hing Li was appointed the President of the Company and Leada Tak Tai Li the Chief Financial Officer, Secretary and Treasurer of the Company.

See Note 1 of Notes to Condensed Consolidated Financial Statements.

16. Discontinued Operations

The operations of OraLabs, Inc., prior to December 28, 2006, are shown in the financial statements as income from discontinued operations as these operations were transferred to a former shareholder in exchange for the redemption of his common stock as described further in Note 15 of Notes to Condensed Consolidated Financial Statements, above. The condensed consolidated financial statements have been reclassified to conform to discontinued operations presentation for all historical periods presented.

Summarized selected financial information for discontinued operations for the three and six month periods ended December 31, 2006 and 2005 is as follows:

	Three Months Ended:		Six Months Ended:	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
Revenues	$ 5,019,000	$ 4,516,000	$ 9,404,000	$ 7,461,000
Income before tax	676,000	399,000	831,000	184,000
Income taxes	156,000	140,000	192,000	71,000
Income from discontinued operations	$ 520,000	$ 259,000	$ 639,000	$ 113,000

As of December 31, 2006, there were no assets or liabilities associated with OraLabs, Inc.

17. Commitments

As of December 31, 2006, the Company had $3,116,007, in commitments for capital expenditures for contractual commitments of certain construction projects related to expansion of Chengtong's production facilities.

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Notes to Condensed Consolidated Financial Statements

18. Subsequent Events

Li Wo Hing, a director and the President of the Company, has entered into an agreement with the Company and certain other parties, dated as of February 13, 2007, such that, upon the occurrence of the transfer to Chengtong of certain assets under his control, he will contribute $3,839,607 as additional paid in capital to the Company and additional amounts due to him relating to such assets will be converted into common stock of the Company at a price equivalent to the greater of (i) such price per share as may be paid in connection with, and subject to, the consummation of a future private placement by the Company of its securities and (ii) the average closing price of the Company’s common stock as reported on The NASDAQ Capital Market for the five (5) trading days prior to transfer of the assets. There can be no assurance that the transfer will occur at a certain time or ever, as such transfer is dependent upon and subject to certain approvals from the Chinese government. Mr. Li has also agreed to convert current debt outstanding and payable to him of $1,798,066 into shares of the Company's common stock at such equivalent price per share as may be paid in connection with, and subject to, the consummation of a future private placement by the Company of its securities. See Note 9 of Notes to Condensed Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains statements that constitute "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief or expectation of the Company, its directors or its officers with respect to events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, operating results, and financial position. Persons reviewing this Quarterly Report on Form 10-Q are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. More information on these risks and uncertainties, many of which are beyond the Company's control, is set forth under Part II, Item 1A, "Risk Factors," in this Quarterly Report.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company's current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. The Company undertakes no responsibility or obligation to update publicly these forward-looking statements, but may do so in the future in written or oral statements. Investors should take note of any future statements made by or on behalf of the Company.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes that appear in Part I, Item 1, "Financial Statements," of this Quarterly Report. Our unaudited condensed consolidated financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles. The following discussion and analysis covers the Company's consolidated financial condition at December 31, 2006 (unaudited) and June 30, 2006 (audited), the end of its prior fiscal year, and its unaudited consolidated results of operation for the three and six months periods ended December 31, 2006 and 2005.

Introduction

Management's discussion and analysis of financial condition and results of operations is intended to help provide an understanding of China Precision Steel, Inc. (the "Company") and its subsidiaries' (together, the "Group") financial condition, changes in financial condition and results of operations. This discussion is organized as follows.

- **Overview of the Company's Business** - This section provides a general description of the Group's business, as well as recent developments that have occurred either during fiscal 2007 that are important in understanding the results of operations and financial condition or to disclose known trends.

- **Results of Operations** - This section provides an analysis of the Company's results of operations for the three and six months ended December 31, 2006 and 2005. This discussion includes a brief description of significant transactions and events that have an impact on the comparability of the results being analyzed.

- **Liquidity and Capital Resources** - This section provides an analysis of the Group's cash flows for the six months ended December 31, 2006 and 2005. Included in this section is a discussion of the Group's outstanding debt and the financial capacity available to fund the Group's future commitments and obligations.

Overview of the Group's Business

General

The Company, through its wholly-owned operating subsidiary, Shanghai Chengtong Precision Strip Co., Limited, a wholly foreign owned enterprise organized under the laws of the People's Republic of China ("Chengtong"), is a niche precision steel processing company principally engaged in the manufacture and sale of high precision cold-rolled steel products and in the provision of heat treatment and cutting of medium and high carbon hot-rolled steel strips and chrome series stainless steel. 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.

The Group's operations are conducted principally in China. However, the Group intends to expand overseas into Japan, Taiwan, Korea, Thailand, the Philippines, the European Union and the United States in the future. Chengtong currently has approximately 280 employees, including 24 senior management and technical staff members and leases 20,000 square meters of production facilities (including 10,000 square meters of new Phase 2 production facilities) in Jiading District, Shanghai, on four acres of property.

Products

Cold-rolled specialty precision steel is a relatively new industry in China and manufacturers of products that use specialty precision steel products have traditionally imported precision steel products from Japan, Korea, the European Union and the United States. Cold-rolled steel products represent hot-rolled de-scaled (pickled) steel coils which are used as raw materials in the precision steel industry which have been processed by cold reduction through a cold-rolling mill to the desired thinness. The process does not involve heating and the primary feature of cold reduction is to reduce the thickness of the steel coils. However, because the cold reduction operation induces very high strains (work hardening) into the steel sheet, the precision steel sheet not only becomes thinner, but also becomes much harder, less ductile and very difficult to form. Thus cold-reduced steel products are annealed (heated to high temperatures) to become soft and formable. Cold-rolled sheet products are used in a wide variety of end applications such as appliances (refrigerators, washers, dryers, and other small appliances), automobiles (exposed as well as unexposed parts), food packaging materials, electric motors and bathtubs. Cold-rolled sheet products are used in these and many other areas of manufacturing.

Hard-rolled steel represents steel products manufactured from cold reduction to the desired thinness without annealing. The product is very stiff; it is intended for flat work where deformation is very minimal. This type of hard-rolled steel is most often applied to further processing for applications such as continuous galvanizing. Hard-rolled or cold-rolled steel with low carbon represents hard-rolled or cold-rolled steel with carbon content of less than 0.1%. It is a very versatile and useful material, easily machined and worked into complex shapes, and has low cost and good mechanical properties. Hard-rolled or cold-rolled steel with medium carbon represents hard-rolled or cold-rolled steel with carbon content of 0.30%. It is a typical engineered steel product. Hard-rolled or cold-rolled steel with high carbon represents hard-rolled or cold-rolled steel with a carbon content of 0.8% or more. This precision steel product is very hard and also quite brittle and much less ductile than low carbon steel. High carbon steel has good wear resistance, and is used for railways as well as for cutting tools. Acid wash steel is also known as the acid pickling and refers to the process of using liquid acids, for example hydrochloric acid, to remove rust or oxides from the surface of steel. Removing rust prepares the surface for a protective coating.

Products with greater width have more applications and intended uses. Width is an important differentiation factor because certain end products such as washers and automobiles require materials with a certain minimum width. Although materials with smaller width could also be used for these applications through jointing, this increases production cost and thus makes wider products more flexible and cost efficient.

The Company believes that generally, to date, the average quality and standards of China's high precision steel industry lags behind the international norm. Nonetheless, during the last three years, Chengtong believes that it has begun to develop and establish itself as a nationally recognized brand in China. Despite exports to Thailand and the Philippines during the six months ended December 31, 2006, Chengtong is not yet established as an internationally recognized brand for specialty precision steel products. As of December 31, 2006, Chengtong produced approximately 40 high precision steel products covering a range of over one hundred specifications. Currently, Chengtong produces precision steel products which can be categorized into five major categories of products:

Categories of Precision Steel Products:	**Functions**
1. Low carbon cold-rolled steel	Food packaging, dry batteries, electronic devices, kitchen tools
2. Low carbon acid wash steel	Food packaging, dry batteries, electronic devices, kitchen tools
3. Low carbon hard-rolled steel	Food packaging, dry batteries, electronic devices, kitchen tools
4. High carbon cold-rolled steel	Automobile components, saw blades, weaving needles, springs
5. High carbon hard-rolled steel	Automobile components, saw blades, weaving needles, springs

The Company currently produces extremely thin cold-rolled precision steel strips ranging from 3.0 mm to 0.03 mm. The Company also currently provides heat treatment and cutting of medium and high carbon hot-rolled steel strips and chrome stainless steel series not exceeding 3.0 millimeters fineness. Currently, the Company's specialty precision products are mainly used in the manufacture of automobile parts and components, food packaging materials, saw blades, textile needles, microelectronics, packing and containers.

As of December 31, 2006, Chengtong had an annual production capacity of approximately 250,000 tons. Two new Phase 2 production facilities, which added approximately 10,000 square meters of production area, and an office building were completed in August 2006 and product trial runs commenced in September 2006. Actual production commenced in October 2006. In addition, with the completion of the new production facilities, Chengtong installed one 1,400mm width cold mill, adding an additional 150,000 tons to the Company's annual production capacity. The installation of a 1,700mm cold roll mill, with an additional 150,000 tons of capacity, is expected to be completed and actual production is expected to commence prior to the end of the fiscal year ending June 30, 2007. The directors of the Company believe that the increased annual production capacity of approximately 400,000 tons will be fully utilized within two years after commencement of operation.

The new production facilities will focus on the production of high carbon, high strength cold-rolled steel products and the production of more complex precision steel products that can not be manufactured in the Company's current rolling mill. The Company's existing facilities will primarily manufacture low carbon cold-rolled steel products.

Raw Materials

The Company is not dependent on any one single supplier for supply of hot-rolled de-scaled (pickled) coils and steel sheet. Over 40 steelmakers supply hot-rolled de-scaled (pickled) coils and steel sheets to the Company.

Based upon information obtained by the Company from the China Metallurgical Industry Planning and Research Institute (“CMI”), in 2006 the price of steel has generally decreased. However, the cost of imported iron ores has increased substantially. This apparent anomaly was due to excess supplies arising from excess capacities of the steel producers and, as a result of the downward pressure on the price of steel, the cost of steel rolls has generally decreased in 2005 and 2006. The CMI website may be viewed in English and the website URL is www.metal.net.cn.

The prices of steel rolls are very competitive, very volatile and dependent on supplies and demands. To provide some protection from the pressure and volatility of the market (i.e., to minimize the amount of purchases that Chengtong must make at high prices during the high demand seasons), Chengtong makes bulk purchases after taking into account customers’ orders on hand whenever steel prices are considered to be lower in the market. As steel rolls have an extremely long shelf-life, obsolescence is not a major concern and Chengtong may build up its inventory during such periods when prices are low.

When sales orders are executed between the customers and Chengtong, the agreed selling price is based on the cost of raw material at that date, effectively allowing Chengtong to pass incremental cost in raw materials to its customers. The Group’s high precision steel products are sold directly to the end-users in various parts of China and Chengtong’s production is based on confirmed sales orders. Generally, an initial deposit (approximately 30% of the aggregate contracted sales amount) is pre-paid when a contract is signed.

Taxes

As a wholly foreign owned enterprise, Chengtong is entitled to preferential tax advantages, including full tax exemption on the enterprise income tax that was generated in the first two years after the recoveries of previous losses and a one-half reduction in the enterprise income tax to a rate of 13.5% for the next 3 years. The full tax exemption for the enterprise income tax expired on December 31, 2005 and the right to a one-half reduction on the enterprise income tax will expire on December 31, 2008. After such tax holidays, the profits generated by Chengtong shall be subject to the full tax rate of 27%.

Property

The Company leases for $1 per month the existing 20,000 square meters of production and office facilities in Jiading District, Shanghai on four acres of property held by a related company, Shanghai Tuorong Precision Steel Company Limited, which is expected to become a subsidiary of the Company upon approval from the relevant governmental authority for the transformation into a wholly foreign owned enterprise. There is no formal tenancy agreement between the Company and Tuorong Precision for this lease. Receipt of the approval for Shanghai Tuorong Precision Steel Company Limited to transfer the land-use rights to Chengtong is a long and involved process which has been under process for some time. The Company anticipates the transfer of land use rights will be completed in 2007. See “Liquidity and Capital Resources—Contractual Obligations” below and Note 9 and Note 18 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1, “Financial Statements,” for further information.

Recent Business Developments

Stock Exchange Agreement. On December 28, 2006, the Company issued 25,363,002 shares of its common stock in exchange for 100% of the registered capital of Partner Success Holdings Limited, a British Virgin Islands Business Company (“PSHL”), pursuant to a Stock Exchange Agreement, dated March 31, 2006. Subsequent to the closing of that transaction, on December 28, 2006, the Company redeemed 3,629,350 shares of its common stock in exchange for all of the common stock of Oralabs, Inc., a wholly-owned operating subsidiary. The Company issued 100 shares of its common stock to Oralabs, Inc in exchange for $450,690, and received additional cash payments in the aggregate amount of $108,107 in payment of an estimated $588,797 tax liability to be incurred by the Company in connection with the spin off of Oralabs, Inc. The Company then changed its name to China Precision Steel, Inc. This transaction was treated as a recapitalization for financial reporting purposes. See Note 15 of Notes to Condensed Consolidated

Financial Statements in Part I, Item 1, “Financial Statements,” for further information on this transaction.

New Production Facilities. The total cost of the new production facilities discussed above, including the plant and machinery, is estimated to be approximately $25 million. As of December 31, 2006, capital expenditures totalling $23,529,351 had been recorded. The capital expenditures already incurred on the new production facility and plant and equipment for the 1,400mm and 1,700mm mills were funded internally and through external bank borrownings.

The Company intends to raise funds privately to fund part of the costs of the new production facilites and working capital requirements. If for any reason the proposed financing is not consummated, the Company intends to use internally generated resources and external borrowings to fund the remainder of the construction expenditure.

Results of Operations

Summary of Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended:		Six Months Ended:	
	December 31, 2006	**December 31, 2005**	**December 31, 2006**	**December 31, 2005**
Revenues				
Sales revenues	$ 15,007,582	$ 9,902,359	$ 25,510,930	$ 17,605,248
Cost of goods sold	11,594,852	7,109,245	18,394,950	12,287,788
Gross profit	3,412,730	2,793,114	7,115,980	5,317,460
Total operating expenses	574,275	476,397	810,577	571,423
Income from continuing operations	2,838,455	2,316,717	6,305,403	4,746,037
Total other income (expense)	(114,743)	112,310	(318,082	