China Precision Steel, Inc.
Form 10-Q
May 16, 2008

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, 2008

o 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)

Delaware	**14-1623047**
(State or other jurisdiction of incorporation)	(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)

+852-2543-8223
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 x No o

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of May 15, 2008, there were 45,896,288 shares of the Company's common stock outstanding.

China Precision Steel, Inc.
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Quarter Ended March 31, 2008

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Part I - Financial Information

Item 1. Financial Statements.

China Precision Steel, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	Notes	(Unaudited) March 31, 2008	June 30, 2007
Assets			
Current assets			
Cash and equivalents		$ 14,295,503	$ 5,504,862
Accounts receivable			
Trade, net of allowances of $994,313 and $273,461 at March 31, 2008 and June 30, 2007, respectively		25,406,355	8,242,044
Bank acceptance notes		4,197,091	-
Other		4,794,735	85,708
Inventories	5	19,594,824	15,723,704
Deposits		-	82,758
Prepaid expenses		429,556	-
Advances to suppliers, net of allowance of $2,466,098 and $3,502,184 at March 31, 2008 and June 30, 2007, respectively		38,527,179	11,699,918
Total current assets		107,245,243	41,338,994
Property and equipment			
Land use rights		1,869,205	1,124,583
Property and equipment, net	6	35,657,690	29,238,227
Construction-in-progress	7	12,344,841	10,355,763
		49,871,736	40,718,573
Goodwill		99,999	99,999
Total assets		$ 157,216,978	$ 82,157,566
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 11,179,506	$ 4,855,932
Advances from customers	8	6,896,092	1,720,812
Other taxes payables		3,431,415	816,554
Current income taxes payable		4,373,885	1,892,866
Deferred income taxes payable		-	1,064,028
Amounts due to directors	9	2,807,353	-
Current portion of long-term debt		-	6,163,445

Notes payable	10	17,400,194	9,842,520
Total current liabilities		46,088,445	26,356,157
Long-term debt, net of current portion shown above	11	-	6,878,714
Stockholders' equity:			
Preferred stock: $0.001 per value, 8,000,000 shares authorized, no shares outstanding at March 31, 2008 and June 30, 2007;	14		
Common stock: $0.001 par value, 62,000,000 shares authorized, 45,896,288 and 37,378,143 issued and outstanding March 31, 2008 and June 30, 2007	14	45,896	37,378
Additional paid-in capital	14	73,643,064	31,867,063
Accumulated other comprehensive income		7,745,138	2,192,160
Retained earnings		29,694,435	17,008,238
Total stockholders' equity		111,128,533	51,104,839
Amounts due from directors	9	-	(2,182,144)
Total liabilities and stockholders' equity		$ 157,216,978	$ 82,157,566

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

China Precision Steel, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended March 31, 2008 and 2007
(Unaudited)

	Notes	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 31, 2008	Nine Months Ended March 31, 2007
Revenues					
Sales revenues		$ 18,723,842	$ 11,610,673	$ 59,189,060	$ 37,121,603
Cost of goods sold		13,399,010	8,240,743	42,172,998	26,635,693
Gross profit		5,324,832	3,369,930	17,016,062	10,485,910
Operating expenses					
Selling expenses		203,477	92,315	484,926	196,705
Administrative expenses		699,221	1,411,106	2,031,816	2,096,031
Provision for bad debts		10,150	-	661,930	-
Depreciation and amortization expense		17,155	11,062	46,585	32,324
Total operating expenses		930,003	1,514,483	3,225,257	2,325,060
Income from continuing operations		4,394,829	1,855,447	13,790,805	8,160,850
Other income (expense)					
Other revenues		152,894	53,436	945,304	53,436
Interest and finance costs		(415,863)	(196,787)	(1,174,864)	(514,869)
Total other income (expense)		(262,969)	(143,351)	(229,560)	(461,433)
Net income from continuing operations before income tax		4,131,860	1,712,096	13,561,245	7,699,417
Provision for (benefit from) income tax	12				
Current		1,598,777	1,196,573	2,047,911	2,091,886
Deferred		(2,089,956)	(880,694)	(1,172,863)	(966,099)
Total income tax expense		(491,179)	315,879	875,048	1,125,787
Net income before discontinued operations		4,623,039	1,396,217	12,686,197	6,573,630
Net income from discontinued operations	16	-	-	-	831,448
Net income		$ 4,623,039	$ 1,396,217	$ 12,686,197	$ 7,405,078

Basic earnings per share	15				
From continuing operations	$ 0.10	$ 0.05	$ 0.30	$ 0.26	
From discontinued operations	$ -	$ -	$ -	$ 0.03	
Total	$ 0.10	$ 0.05	$ 0.30	$ 0.29	
Basic weighted average shares outstanding	45,896,288	28,946,086	42,088,128	25,815,157	
Diluted earnings per share	15				
From continuing operations	$ 0.10	$ 0.05	$ 0.30	$ 0.26	
From discontinued operations	$ -	$ -	$ -	$ 0.03	
Total	$ 0.10	$ 0.05	$ 0.30	$ 0.29	
Diluted weighted average shares outstanding	46,365,778	29,387,360	42,555,912	25,960,101	
The Components of comprehensive income:					
Net income	$ 4,623,039	$ 1,396,217	$ 12,686,197	$ 7,405,078	
Foreign currency translation adjustment	3,548,639	335,929	5,552,978	990,914	
Comprehensive income	$ 8,171,678	$ 1,732,146	$ 18,239,175	$ 8,395,992	

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

China Precision Steel, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended March 31, 2008 and 2007
(Unaudited)

		2008		2007
Cash flows from operating activities				
Net Income	$	12,686,197	$	7,405,078
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation		1,841,947		1,095,981
Less income from discontinued operations - Oralabs, Inc		-		(831,448)
Allowance for bad and doubtful debts		661,930		519,614
Warrants issued for consulting		-		447,993
Net changes in assets and liabilities:				
Accounts receivable, net		(26,067,887)		8,200,648
Inventories		(2,616,526)		(11,548,066)
Deposits		89,361		(225,887)
Prepayments		(429,556)		-
Advances to suppliers		(25,893,725)		(6,197,997)
Accounts payable and accrued expenses		5,702,234		1,439,529
Advances from customers		5,037,976		984,523
Other taxes payable		2,657,687		108,450
Current income taxes		2,329,987		2,513,992
Deferred income taxes		(1,148,927)		(960,262)
Net cash (used in) provided by operating activities		(25,149,302)		2,952,148
Cash flows from investing activities				
Purchases of property and equipment including construction in progress		(7,512,290)		(10,329,164)
Net cash (used in) investing activities		(7,512,290)		(10,329,164)
Cash flows from financing activities				
Sale of common stock		44,375,282		19,416,533
Advances from directors, net		2,464,868		(3,708,722)
Notes payable proceeds		16,446,667		12,280,943
Repayments of notes payable		(23,757,121)		(10,204,006)
Net cash provided by financing activities		39,529,696		17,784,748
Effect of exchange rate		1,922,537		990,914
Net increase in cash		8,790,641		11,398,646
Cash and cash equivalents, beginning of period		5,504,862		186,955
Cash and cash equivalents, end of period	$	14,295,503	$	11,585,601

Supplemental disclosure of cash flow information				
Interest paid	$	1,174,864	$	572,089
Taxes paid	$	-	$	-
Issuance of 2,798,191 shares of stock for syndication fees	$	-	$	8,394,573
Issuance of 100,000 warrants for services	$	-	$	562,731
Issuance of 1,300,059 warrants for syndication fees	$	-	$	2,770,349
Fixed asset purchases in accounts payable	$	233,885	$	-

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

China Precision Steel, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Year Ended June 30, 2007 and the Nine Months Ended March 31, 2008
(Unaudited)

	Ordinary Shares		Additional Paid-in	Accumulated Other Comprehensive	Retained	Total Stockholders'
	Share	Amount	Capital	Income	Earnings	Equity
Balance at June 30, 2006	24,283,725	24,284	1,375,716	745,583	9,535,577	11,681,160
Sale of common stock	7,451,665	7,451	22,347,543	-	-	22,354,994
Syndication fees	-	-	(3,028,116)	-	-	(3,028,116)
Stock issued for syndication fees	2,798,191	2,798	(2,798)	-	-	-
Anti-dilution rights stock	827,962	828	(828)	-	-	-
Conversion of debt to stock	2,016,600	2,017	6,773,759			6,775,776
Warrants issued for consulting	-	-	447,993	-	-	447,993
Capital contribution from waiver of dividend	-	-	3,953,794			3,953,794
Foreign currency translation adjustment	-	-	-	1,446,577	-	1,446,577
Net income	-	-	-	-	8,304,109	8,304,109
Less discontinued operations sold to former shareholder	-	-	-	-	(831,448)	(831,448)
Balance at June 30, 2007	37,378,143	37,378	31,867,063	2,192,160	17,008,238	51,104,839
Sale of common stock	7,100,000	7,100	44,498,650	-	-	44,505,750
Syndication fees	-	-	(130,468)	-	-	(130,468)
Make good shares	2,000,000	2,000	(2,000)	-	-	-
Exercise of warrants	189,205	189	(189)	-	-	-
Cancellation of stock	(771,060)	(771)	(2,589,992)	-	-	(2,590,763)
Foreign currency translation adjustment	-	-	-	5,552,978	-	5,552,978
Net income	-	-	-	-	12,686,197	12,686,197
Balance at March 31, 2008	45,896,288	$ 45,896	$ 73,643,064	$ 7,745,138	$ 29,694,435	$ 111,128,533

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

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China Precision Steel, Inc.

Notes to the Condensed Consolidated Financial Statements

1. Description of Business

On December 28, 2006, China Precision Steel, Inc. (the "Company" or "we"), under our former name, OraLabs Holding Corp., issued 25,363,002 shares of common stock in exchange for 100% of the registered capital of Partner Success Holdings Limited ("PSHL"), a British Virgin Islands Business Company 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.

PSHL, registered on April 30, 2002 in the Territory of the British Virgin Islands, had registered capital of $50,000 as of June 30, 2007 and March 31, 2008. It has three wholly-owned subsidiaries, Shanghai Chengtong Precision Strip Company Limited ("Chengtong"), Shanghai Tuorong Precision Strip Co., Limited ("Tuorong"), and Blessford International Limited ("Blessford").

In the year ended June 30, 2007, we added three indirect subsidiaries to our corporate structure. On April 9, 2007, we purchased Shanghai Tuorong Precision Strip, Limited, or Tuorong, through PSHL. The sole activity of Tuorong is the ownership of a land use right with respect to facilities utilized by Chengtong. On April 10, 2007, PSHL purchased for $100,000 Blessford International Limited, a British Virgin Islands company. Blessford International Limited does not conduct any business, but it owns a single subsidiary, Shanghai Blessford Alloy Company Limited, that is a wholly-foreign owned enterprise chartered in China. We intend to hold Blessford International Limited as a shell subsidiary that may be used in the future to facilitate optimization of the tax structure of the Group's activities.

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 and on December 11, 2007, the authorized registered capital was further increased to $42,440,000. 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, Tuorong and Blessford 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 accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and related notes. The accompanying unaudited condensed consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the year ended June 30, 2007.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the balance sheets of China Precision Steel, Inc. and subsidiaries as of March 31, 2008 and the results of their operations for the three and nine months ended March 31, 2008 and 2007, and cash flows for the nine months ended March 31, 2008 and 2007. The results of operations for the three and nine months ended March 31, 2008 and 2007 are not necessarily indicative of the results to be expected for the entire year ending June 30, 2008.

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 period 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 March 31, 2008 and June 30, 2007, the Company had $994,313 and $273,461 of allowances for doubtful accounts, 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 overheads, taking into account the stage of completion.

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 when placing its purchase orders. Cash advances are shown net of allowances for unrecoverable advances of $2,466,098 and $3,502,184 at, March 31, 2008 and June 30, 2007, respectively.

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	10 years
Office equipment	5 years
Motor vehicles	5 years
Machineries	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 years ended June 30, 2007 and 2006.

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, 2008 and 2007, the Company capitalized $0 and $1,036,812, 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 fixed assets.

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 - 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 a 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 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. Transactions not conducted in Renminbi are translated into Renminbi at the exchange rates prevailing at the times of such transactions. The results of operations denominated in foreign currencies 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.

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 ended 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 Enterprise Income Tax Law was passed on March 16, 2007, and becomes effective on January 1, 2008. The new law introduces fundamental changes to the Chinese tax system for both domestic and foreign-owned entities. A new unified general income tax of 25% will be applicable to enterprises in China. Entities subject to a "tax holiday" prior to January 1, 2008, are expected to be able to retain the benefits of the reduced rates for the remaining term.

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.

In 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, which clarifies the application of SFAS 109 by defining a criterion that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, derecognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the transition provisions, the Company adopted FIN 48 effective January 1, 2007.

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 by the State. However, the Company cannot reasonably quantify political risk factors and thus must depend on guidance issued by current state officials.

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, 2008, 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, 2008, 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.

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 nine months ended March 31, 2008, the Company's pension cost charged to the statements of operations under the plan amounted to $83,273 and $215,931, respectively, all of which have been paid to the State Pension Fund (2007: $36,532 and $110,695, respectively).

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 March 31, 2008 and June 30, 2007 because of the relatively short-term maturity of these instruments.

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 -

The Financial Accounting Standards Board recently issued the following standards which the Company reviewed to determine the potential impact on our financial statements upon adoption.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, Accounting for Income Taxes. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on our financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of SFAS No. 157.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158"), an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires (a) recognition of the funded status (measured as the difference between the fair value of the plan assets and the benefit obligation) of a benefit plan as an asset or liability in the employer's statement of financial position, (b) measurement of the funded status as of the employer's fiscal year-end with limited exceptions, and (c) recognition of changes in the funded status in the year in which the changes occur through comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure the plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. SFAS No. 158 has no current applicability to the Company's financial statements.

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. Complying with the requirements of SAB No. 108 had no impact on the Company's financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), an amendment of FASB Statement No. 115. SFAS No. 159 addresses how companies should measure many financial instruments and certain other items at fair value. The objective is to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) will change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141(R) will impact the Company in the event of any future acquisition.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not believe that SFAS 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 (FAS 161). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently assessing the impact of FAS 161.

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4. Concentrations of Business and Credit Risk

The Company provides credit in the normal course of business. The Company 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 $25,406,355 and $8,242,044 as of March 31, 2008 and June 30, 2007, respectively.

The Company's list of customers whose purchases exceeded 10% of total sales during the nine months ended March 31, 2008 and 2007 is as follows:

Customers	March 31, 2008	% to sales	March 31, 2007	% to sales
Shanghai Changshuo Stainless Steel Company, Ltd	$ 14,174,957	24	$ —	—
Shanghai Bayou Trade Co., Ltd.	10,854,529	18	—	—
Shanghai Shengdejia Metal Products Limited	8,232,801	14	—	—
Sinosteel Company Limited	—	—	4,805,195	13

5. Inventories

As of March 31, 2008 and June 30, 2007 inventory consisted of the following:

	March 31, 2008	June 30, 2007
Raw materials	$ 9,668,424	$ 13,026,530
Work in progress	3,631,070	-
Finished goods	6,295,330	2,697,174
	$ 19,594,824	$ 15,723,704

6. Property, Plant and Equipment

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

	March 31, 2008	June 30, 2007
Plant and machinery	$ 19,840,572	$ 21,087,245
Buildings	21,093,420	11,361,207
Motor vehicles	359,482	283,534
Office equipment	78,519	85,560
	41,371,993	32,817,546
Less: Accumulated depreciation	(5,714,303)	(3,579,319)
	$ 35,657,690	$ 29,238,227

Depreciation expense related to manufacturing is included as a component of cost of goods sold. During the three and nine months ended March 31, 2008, depreciation totaling $770,556 and $1,430,250, respectively, was included as a component of cost of goods sold (2007: $467,514 and $1,063,658, respectively).

7. Construction-In-Progress

As of March 31, 2008 and June 30, 2007, construction-in-progress consisted of the following:

	March 31, 2008	June 30, 2007
Construction costs of plant and machinery	$ 12,344,841	$ 10,355,763

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

8. Advances from Customers

Advances from customers represent advance cash receipts from new customers and for which goods have not been delivered or services rendered as of the balance sheets dates. Advances from customers for goods to be delivered or services to be rendered in the subsequent period are carried forward as deferred revenue. As of March 31, 2008 and June 30, 2007, there were advances from customers of $6,896,092 and $1,720,812, respectively.

9. Transactions with Related Parties

Amounts due to (from) directors as of March 31, 2008 and June 30, 2007 are as follows:

Name	March 31, 2008	June 30, 2007
Wo Hing Li	$ 2,852,704	$ (2,590,763)
Hai Sheng Chen	(45,351)	408,619
	$ 2,807,353	$ (2,182,144)

Amounts due are unsecured, non-interest bearing and have no fixed repayment terms.

Wo Hing Li, a director and the President of the Company, executed an agreement with the Company and certain other parties, dated as of February 13, 2007, as amended (the “Debt Conversion Agreement”), such that, upon the occurrence of the transfer to Chengtong of Tuorong, he contributed $3,953,794 as additional paid in capital to the Company and agreed to convert current debt outstanding and payable to him of $6,775,776 into shares of the Company’s common stock at a price of $3.36 per share. This transaction was completed on May 19, 2007. When Chengtong acquired Tuorong, Tuorong had a preexisting receivable from Wo Hing Li, and the Group offset remaining amounts owed to Wo Hing Li against this receivable.

In conjunction with the Company’s final audit of the Tuorong acquisition, certain post-closing adjustments were required. In light of such adjustments and consistent with the purposes and intentions of the Debt Reduction Agreement, dated February 13, 2007, as amended February 20, 2007, it was determined that 771,060 shares of the Company’s Common Stock issued to directors pursuant to such Agreement would be required to be cancelled in order to eliminate the $2,590,763 reflected on the June 30, 2007 audited financial statements as amounts due from directors. Such cancellation was effected on November 8, 2007.

10. Short-Term Loans

Short-term loans consisted of the following:

	March 31, 2008	June 30, 2007
Bank loan dated September 22, 2005, due December 31, 2007 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	$ —	$ 9,842,520
Bank loan dated August 1, 2007, due in one year with a interest rate of the Singapore Interbank Offered Rate (SIBOR) plus 3% (5.72% at March 31, 2008)	5,300,000	—

Bank loan dated August 1, 2007, due in one year with a interest rate of 13% over the standard market rate set by the People's Bank of China for Renminbi loans, secured by land, buildings, plant and machinery (8.44% at March 31, 2008)		3,030,029		—
Bank loan dated July 26, 2007, due in one year 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, plant and machinery (8.59% at March 31, 2008)		9,070,165		—
	$	17,400,194	$	9,842,520

The weighted average interest rate on short-term loans at March 31, 2008 was 7.69%.

11. Long-Term Debts - Secured

	March 31, 2008	June 30, 2007
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	$ —	$ 6,163,445
Bank loan dated September 22, 2005, due 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	—	6,878,714
Total long-term debt	—	13,042,159
Less: Current portion of long-term debts	—	6,163,445
Long-term debts	$ —	$ 6,878,714

12. Income Tax

For enterprise income tax 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.

The tax holiday resulted in tax savings as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
Tax savings	$ 1,715,718	$ 315,879	$ 3,158,499	$ 1,023,932
Benefit per share				
Basic	$ 0.04	$ 0.01	$ 0.10	$ 0.04
Diluted	$ 0.04	$ 0.01	$ 0.10	$ 0.04

Significant components of the Group's deferred tax assets and liabilities as of March 31, 2008 and June 30, 2007 are as follows:

Deferred tax assets and liabilities:	March 31, 2008	June 30, 2007
Book depreciation in excess of tax depreciation	$ 77,143	$ 39,918
Timing differences resulting from reporting for tax purposes	443,561	(1,103,946)
Net deferred income tax asset (liability)	520,704	$ (1,064,028)
Valuation allowance	(520,704)	-
	-	$ (1,064,028)

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

	Three months ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
Computed tax at the federal statutory rate of 34%	$ 1,404,833	$ 582,113	$ 4,610,823	$ 2,617,802
Less adjustment to EIT statutory rate of 27%	(289,231)	(119,847)	(949,287)	(538,959)
Tax effect of US losses not deductible in PRC	108,937	172,733	372,011	172,733
Deferred taxes	-	(3,241)	-	(101,857)
Benefit of tax holiday	(1,715,718)	(315,879)	(3,158,499)	(1,023,932)
Income tax expense per books	$ (491,179)	$ 315,879	$ 875,048	$ 1,125,787

Income tax expense (benefit) consists of:

	Three months ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
Income tax expense (benefit) for the current year PRC	$ 1,598,777	$ 1,196,573	$ 2,047,911	$ 2,091,886
Deferred income tax expense (benefit) - PRC	(2,089,956)	(880,694)	(1,172,863)	(966,099)
Income tax expense per books	$ (491,179)	$ 315,879	$ 875,048	$ 1,125,787

13. Blessford International Limited

On April 10, 2007, the Company purchased for $100,000 Blessford International Limited, a British Virgin Islands company. Blessford International Limited does not conduct any business, but it owns a single subsidiary, Shanghai Blessford Alloy Company Limited, that is a wholly-foreign owned enterprise chartered in China. The purchase price

was allocated $1 to cash and $99,999 to goodwill.

14. Equity

In connection with a Stock Purchase Agreement, dated February 16, 2007 (the "Stock Purchase Agreement"), 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.

On February 22, 2007, the Company issued warrants to purchase up to 100,000 shares of Common Stock to the Company's 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.

On November 6, 2007, in connection with a Subscription Agreement, dated November 1, 2007 (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. In connection with the transaction, Roth Capital Partners, LLC, as placement agent, received warrants to purchase 225,600 shares of Common Stock valued at $887,504.

Information with respect to stock warrants outstanding are as follows:

	Exercise Price	Outstanding June 30, 2007	Granted	Expired or Exercised	Outstanding March 31, 2008	Expiration Date
$	3.00	1,300,059	-0-	(275,000)	1,025,059	02/22/2011
$	3.60	100,000	-0-	-0-	100,000	02/22/2010
$	8.45	-0-	1,420,000	-0-	1,420,000	11/06/2010
$	7.38	-0-	225,600	-0-	225,600	11/06/2010

Pursuant to Section 5.1 of the Stock Purchase Agreement, the Company agreed to reserve for issuance to investors in the private placement an aggregate of 2,000,000 shares of Common Stock if the Company's net income for the fiscal year ended June 30, 2007 was less than US$10.4 million, as set forth in the Company's audited financial statements as filed with the SEC in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007. As the Company's net income as set forth in its audited financial statements for the year ended June 30, 2007 was less than US$10.4 million, the Company was required to issue the 2,000,000 shares of Common Stock to such investors. Such issuance was effected on October 15, 2007. No additional consideration was received by the Company in connection with this issuance of shares of Common Stock.

In conjunction with the Company's final audit of the Tuorong acquisition, certain post-closing adjustments were required. In light of such adjustments and consistent with the purposes and intentions of the Debt Reduction Agreement, dated February 13, 2007, as amended February 20, 2007, it was determined that 771,060 shares of the Company's Common Stock issued to directors pursuant to such Agreement would be required to be cancelled in order to eliminate the $2,590,763 reflected on the June 30, 2007 audited financial statements as amounts due from directors. Such cancellation was effected on November 8, 2007.

Pursuant to the Subscription Agreement, on November 6, 2007, the Company agreed to issue and sell in a registered direct offering (the "Offering") an aggregate of 7,100,000 shares of its common stock ("Common Stock") at a price of $6.75 per share (the "Purchase Price") and an aggregate of 1,420,000 warrants to purchase shares of its Common Stock ("Warrants" and, together with the Common Stock, the "Securities"). The Warrants have an exercise price of $8.45 per share. The Warrants may not be exercised prior to May 6, 2008. The Securities (including the shares issuable upon exercise of the Warrants) are registered under the Securities Act of 1933, as amended (the "Act"), pursuant to the Company's existing effective shelf Registration Statement on Form S-3. In connection with the offer and sale of the Securities, the Company filed on November 1, 2007, a Registration Statement on Form S-3 pursuant to Rule 462(b) promulgated under the Act to register an additional $10 million of its securities relating to its shelf Registration Statement.

The Company closed the Offering on November 6, 2007 (the "Closing Date"). The net proceeds of the offering were approximately $44 million, after deducting underwriting commissions and discounts and other fees and expenses relating to the offering. The warrants were valued at $5.3 million and were recorded to additional paid-in capital. The Company intends to use the net proceeds for repayment of certain existing bank debt in the amount of approximately $22 million, capital expenditures related to the annealing furnace and construction of the third reverse rolling mill and related capital expenditures in the amount of approximately $18 million, and the balance for general corporate purposes. Long-term bank loans of $13,042,159 were paid during the three months ended March 31, 2008.

On the Closing Date, pursuant to a Placement Agency Agreement entered into between the Company and Roth Capital Partners LLC on October 31, 2007, Roth Capital received an amount in cash equal to 7.0% of the gross proceeds of the Offering and warrants to purchase an amount of Common Stock equal to 3.0% of the total number of shares of Common Stock sold in the Offering (the "Placement Warrants"), or 225,600 shares of Common Stock valued at $887,504 and were recorded as syndication fees offsetting additional paid-in capital. Such Placement Warrants have

an exercise price per share of 120% of the closing price per share of the Company's Common Stock on the Closing Date, or $7.38, and are not exercisable prior to May 6, 2008. Thereafter, the Placement Warrants are exercisable at any time until the third anniversary of the date of issue.

15. Earnings Per Share

SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations.

For the nine months ended March 31, 2008, dilutive shares include outstanding warrants to purchase 1,025,059 shares of common stock at an exercise price of $3.00 and 100,000 shares at an exercise price of $3.60. Warrants to purchase 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. For the nine months ended March 31, 2007, dilutive shares include outstanding warrants to purchase 1,300,059 shares of common stock at an exercise price of $3.00 and 100,000 shares at an exercise price of $3.60.

The following reconciles the components of the EPS computation:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
For the three months ended March 31, 2008:			
Net income	$ 4,623,039		
Less Net income from discontinued operations	$ —		
Basic EPS income available to common shareholders	$ 4,623,039	45,896,288	$ 0.10
Effect of dilutive securities:			
Warrants		469,490	
Diluted EPS income available to common shareholders	$ 4,623,039	46,365,778	$ 0.10
For the three months ended March 31, 2007:			
Net income	$ 1,396,217		
Less net income from discontinued operations	$ -		
Basic EPS income available to common shareholders	$ 1,396,217	28,946,086	$ 0.05
Effect of dilutive securities:			
Warrants		441,274	
Diluted EPS income available to common shareholders	$ 1,396,217	29,387,360	$ 0.05

	Income (Numerator)	Shares (Denominator)	Per Share Amount
For the nine months ended March 31, 2008:			
Net income	$ 12,686,197		
Less Net income from discontinued operations	$ -		
Basic EPS income available to common shareholders	$ 12,686,197	42,088,128	$ 0.30
Effect of dilutive securities:			
Warrants		467,784	
Diluted EPS income available to common shareholders	$ 12,686,197	42,555,912	$ 0.30
For the nine months ended March 31, 2007:			
Net income	$ 7,405,078		
Less net income from discontinued operations	$ 990,914		
Basic EPS income available to common shareholders	$ 8,395,992	25,815,157	$ 0.26
Effect of dilutive securities:			
Warrants		144,944	
Diluted EPS income available to common shareholders	$ 8,395,992	25,960,101	$ 0.29

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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. The 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 nine months ended March 31, 2008, and 2007 is as follows:

	Three months ended:		Nine months ended	
	March 31, 2008	March 31, 2007	March 31 2008	March 31 2007
Revenues	$ -0-	$ -0-	$ -0-	$ 9,404,000
Income before tax	-0-	-0-	-0-	1,023,000
Income taxes	-0-	-0-	-0-	192,000
Income from discontinued operations	$ -0-	$ -0-	$ -0-	$ 831,000

As of March 31, 2008, there were no assets or liabilities associated with OraLabs, Inc.

17. Commitments

As of, March 31, 2008, the Company had $4,113,480 in commitments for capital expenditures for contractual commitments of the construction projects related to expansion of Chengtong's production facilities.

18. Other events

On November 12, 20007, at the Annual Meeting of the Company's shareholders, the Company's shareholders approved the reincorporation of the Company in the state of Delaware. The reincorporation was effected on November 16, 2007 through a merger with and into the Company's wholly-owned subsidiary.

19. VAT adjustment

An adjustment to increase sales for the first and second quarter by $3,238,801 to reflect the correction of the offset of VAT taxes from net sales has been reflected in these financials statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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 the Company's Form 10-K filed on October 26, 2007.

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 the Company.

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the related notes that appear in Part I, Item 1, "Financial Statements," of this Quarterly Report. Our unaudited 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 March 31, 2008 (unaudited) and June 30, 2007, the end of its prior fiscal year, and its unaudited consolidated results of operation for the three and nine month periods ended March 31, 2008 and 2007.

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. and our 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 either occurred during the nine months ended March 31, 2008 and are important in understanding the results of operations and financial condition or disclose known trends.

- **Results of Operations** - This section provides an analysis of our results of operations for the three and nine months ended March 31, 2008 and 2007. 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 nine months ended March 31, 2008 and 2007. 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 COMPANY'S BUSINESS

We are a niche and high value-added steel processing company principally engaged in the manufacture and sale of high precision cold-rolled steel products, in the provision of heat treatment and in the cutting of medium and high-carbon hot-rolled steel strips. We use commodity steel to create a specialty premium steel intended to yield above-average industry gross margins. Specialty precision steel pertains to the precision of measurements and tolerances of thickness, shape, width, surface finish and other special quality features of highly-engineered end-use applications.

We produce and sell precision ultra-thin and high strength cold-rolled steel products ranging from 7.5 mm to 0.03 mm. We also provide heat treatment and cutting of medium and high-carbon hot-rolled steel strips not exceeding 7.5 mm fineness. Our process puts hot-rolled de-scaled (pickled) steel coils through a cold-rolling mill, utilizing our patented systems and high technology reduction processing procedures, to make steel coils and sheets in customized thicknesses according to customer specifications. Currently, our specialty precision products are mainly used in the manufacture of automobile parts and components, plane friction discs, appliances, food packaging materials, saw blades, textile needles, microelectronics, and packing containers.

We conduct our operations principally in China through our wholly-owned operating subsidiary, Shanghai Chengtong Precision Strip Co., Limited, or Chengtong, which, in turn, is a wholly owned subsidiary of our direct subsidiary, Partner Success Holdings Limited, or PSHL. Most of our sales are made domestically in China; however, during fiscal 2007, we began exporting our cold-rolled steel products to Indonesia and the Philippines and, to a lesser extent, Nigeria and Thailand. We intend to expand into additional overseas markets in the future, subject to suitable market conditions and favorable regulatory controls.

Over the course of the past two years, we have begun to alter our product mix to meet market demands in our primary market, China, as well as to expand into overseas markets. We continue to focus on the production of higher margin products, although we have increased production of certain of our lower margin products due to market demand. These changes in our strategy have created increased capital requirements as we have sought to construct additional rolling mills to accommodate our planned growth. In addition, our workforce has increased and, in particular, we have faced a growing need for experienced executive and technical staff.

Our market is highly competitive, although we have focused on a niche market that we consider allows us to compete effectively as we continue to grow our business. We face significant competition for raw materials, especially crude steel, and our financial results may be impacted by changes in the market prices for these materials. Given our size, we do not have the ability to influence the prices at which we must purchase raw materials. However, the nature of our products enable us to pass on all or part of the price fluctuations in raw materials to our customers.

In the year ended June 30, 2007, we added three indirect subsidiaries to our corporate structure. On April 9, 2007, we purchased Shanghai Tuorong Precision Strip, Limited, or Tuorong, through PSHL. The sole activity of Tuorong is the ownership of a land use right with respect to facilities leased to Chengtong. On April 10, 2007, PSHL purchased for nominal consideration Blessford International Limited, a British Virgin Islands company. Blessford International Limited does not conduct any business, but it owns a single subsidiary, Shanghai Blessford Alloy Company Limited, that is a wholly-foreign owned enterprise chartered in China. We intend to hold Blessford International Limited as a shell subsidiary that may be used in the future to facilitate optimization of the structure of the Group's activities.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Net income before tax increased by $2,419,764, or 141%, period-on-period to $4,131,860 for the three months ended March 31, 2008 from $1,712,096 for the three months ended March 31, 2007 and gross profit increased by $1,954,902, or 58%, period-on-period.

Gross Profit

Gross profits in absolute terms increased by $1,954,902, or 58%, period-on-period to $5,324,832 for the three months ended March 31, 2008 from $3,369,930 for the three months ended March 31, 2007, while gross profit margin slightly decreased to 28.4% for the three months ended March 31, 2008 from 29.0% for the three months ended March 31, 2007. The decrease in gross profit margin principally resulted from a change in sales mix over the three months ended March 31, 2008, during which no high end cold-rolled steel was produced.

Sales Revenues. Sales volume increased by 8,163 metric tons, or 50.7%, period-on-period to 24,273 metric tons for the three months ended March 31, 2008 from 16,110 tons for the three months ended March 31, 2007. As a result, sales revenues increased by $7,113,169, or 61.3%, period-on-period to $18,723,842 for the three months ended March 31, 2008 from $11,610,673 for the three months ended March 31, 2007. We believe that the increases in sales and sales revenues are a direct result of increase in volume produced and shipped, especially the production and exporting of additional low carbon hard-rolled steel coils, as well as the subcontracting work during the quarter that was not done in the quarter ended March 31, 2007.

Average cost of production per ton increased to $552 for the three months ended March 31, 2008 compared to an average cost of production per ton of $512 for the three months ended March 31, 2007, representing an increase of $40 per ton, or 7.8%, period-on-period. The 1400 mm cold-roll mill which became operational at the beginning of October 2006 is now operating at approximately 50% of design capacity and will likely take another two years to reach its maximum production speed and capacity.

Sales by Product Line. A break-down of our sales by product line for the three months ended March 31, 2008 and 2007 is as follows:

	Three Months Ended March 31,						
	2008			2007			Period-on-period
Product category	Quantity (tons)	$ Amount	% of sales	Quantity (tons)	$ Amount	% of sales	Qty. Variance
Low carbon cold-rolled	7,196	5,362,597	28.7	8,739	5,233,213	45.0	(1,543)
Low carbon hard rolled	5,178	3,562,724	19.0	378	262,340	2.3	4,800
	3,270	4,011,039	21.4	2,309	3,583,283	30.9	961

High-carbon cold-rolled							
High-carbon hot-rolled	1,592	1,447,782	7.7	4,511	2,334,225	20.1	(2,919)
Sales of scrap metal	—	296,863	1.6	—	—	—	—
Subcontracting income	7,037	4,042,838	21.6	—	—	—	7,037
High end cold- rolled	—	—	—	173	197,612	1.7 173	(173)
Total	24,273	18,723,842	100.0	16,110	11,610,673	100	

There were various changes in the break-down of sales among our product lines over the three months ended March 31, 2008 as we have been ramping up the capacity of the additional mill since October 2006 and are in the process of developing new products and new markets. High-carbon hot-rolled steel products only accounted for 7.7% of the current sales mix at an average selling price of $909 per ton for the three months ended March 31, 2008 compared to 20.1% of the sales mix at an average selling price per ton of $517 for the three months ended March 31, 2007. The low-carbon cold-rolled steel products accounted for 28.7% of the current sales mix at an average selling price of $745 per ton for the three months ended March 31, 2008 compared to 45.0% of the sales mix at an average selling price per ton of $599 for the three months ended March 31, 2007 as a result of production of higher precision products in this category. Low carbon hard-rolled steel, which is also our exported precision steel products, was 2.3% of sales during the three months ended March 31, 2007, accounted for $3,562,724, or 19.0%, of the current sales mix at an average selling price of $688 per ton for the three months ended March 31, 2008.

We strive to find an appropriate sales mix that provides us with the stability and cash flows, along with the higher margin provided by high precision and individually customized cold-rolled steel products. Management continues to take appropriate action to develop new products and optimize our product mix without adversely affecting overall sales volume and margins. Management believes that there are high barriers to entry in the Chinese domestic precision cold-rolled steel industry because of the level of technology expertise required for operation and that our unique capabilities and know-how give us a competitive advantage to grow sales of higher margin products as we continuously carry out R&D and strive to launch new products that could potentially lead to new segments, customers and markets.

	Three Months Ended March 31,			
Average selling prices	**2008**	**2007**	**Variance**	
	$	$	$	%
Low-carbon cold-rolled	745	599	146	24.4
Low-carbon hard rolled	688	694	(6)	(0.9)
High-carbon cold-rolled	1,227	1,552	(325)	(20.9)
High-carbon hot-rolled	909	517	392	75.8
Subcontracting income	575	—	575	100
High-end cold-rolled	—	1,142	(1,142)	(100))

The average unit selling price per ton generated increased to $771 per ton for the three months ended March 31, 2008 compared to the corresponding period in 2007 of $721, representing an increase of $50, or 6.9%, period-on-period. This increase was due to changes in our sales mix during the quarter to focus on high quality high margin products and subcontracting work. Sales of high-carbon cold-rolled steel products have increased by 961 metric tons, or 41.6%, period-on-period to 3,270 metric tons for the three months ended March 31, 2008 compared to 2,309 metric tons for the three months ended March 31, 2007. While the volume of high-carbon cold-rolled steel increased, the average sales price declined $325, or 20.9%, to $1,227 in the three months ended March 31, 2008 as compared to an average selling of $1,552 in the three months ended March 31, 2007. This product accounted for $4,011,039, or 21.4%, of the total sales mix for the three months ended March 31, 2008 compared to $3,583,283, or 30.9%, of the sales mix for the three months ended March 31, 2007.

Sales Breakdown by Major Customer.

Three Months Ended March 31

Customers	2008 ($)	% to sales	2007 ($)	% to sales
Shanghai Baosteel Stainless Steel Processing and Distribution Co., Ltd.	3,906,047	21	*	*
Shanghai Bayou Trading Co., Ltd	1,628,451	9	*	*
Shanghai Shengdejia Metal Products Co., Ltd.	1,223,316	6	*	*
Shanghai Changshuo Stainless Steel Processing Co. Ltd.	706,998	4	*	*
Unimax & Far Corporation	526,322	3	*	*
Sinosteel Company Limited	*	*	1,585,399	14
Hangzhou Relian Company Limited	*	*	1,373,785	12
Nuoying International (HK) Co. Limited	*	*	1,411,803	12
Hubei Dafan Vehicle Enterprise Co. Limited	*	*	475,908	4
Shanghai Bayou Industrial Limited	*	*	319,957	3
	7,991,134	43	5,166,852	45
Others	10,732,709	57	6,443,821	55
Total	18,723,842	100	11,610,673	100

** Not major customers for the relevant periods*

Sales revenues generated from the top five major customers as a percentage of total sales decreased to 43% for the three months ended March 31, 2008 as compared to 45% for the three months ended March 31, 2007. The top five major customers were different period-on-period. The change in customer mix reflects our shift in product focus during the course of the period.

Cost of Sales.

	Three Months Ended March 31,			
	2008	**2007**	**Variance**	
	$	$	$	%
Cost of sales				
- Raw materials	10,685,196	6,781,677	3,903,519	57.6
- Direct labor	134,404	128,675	5,729	4.5
- Factory overhead	2,579,410	1,330,391	1,249,019	93.9
	13,399,010	8,240,743	5,158,267	62.6
Cost per units sold				
Total units sold	24,273	16,110	8,163	50.7
Average cost per unit sold	552	512	40	7.8

Cost of sales increased by $5,158,267, or 62.6%, period-on-period to $13,399,010 for the three months ended March 31, 2008 from $8,240,743 for the three months ended March 31, 2007. Cost of sales represented 71.6% of sales revenues for the three months ended March 31, 2008 compared to 71.0% for the three months ended March 31, 2007. Average cost per ton sold increased by $40, or 7.8%, period-on-period to $552 per ton for the three months ended March 31, 2008 from $512 per ton for the three months ended March 31, 2007. Meanwhile, the average selling price per ton increased by $50 per ton, or 6.9%, period-on-period to $771 per ton for the three months ended March 31, 2008 from $721 per ton for the three months ended March 31, 2007.

Management believes that the increase in cost of sales is represented by the combined effect of:

- significant increase in sales of 5,178 metric tons of low-carbon hard-rolled steel (compared to 378 metric tons for the three months ended March 31, 2007) was generated at an average selling price of $688 per ton for the three months ended March 31, 2008.

- sales of 3,270 metric tons of high-carbon cold-rolled steel (compared to 2,309 metric tons for the three months ended March 31, 2007) generated at an average selling price of $1227 per ton (compared to $1,552 per ton for the three months ended March 31, 2007) for the three months ended March 31, 2008;

- sales of low-carbon cold-rolled steel at a lower 7,196 metric tons (compared to 8,739 metric tons for the three months ended March 31, 2007) was generated at an average selling price of $745 per ton (compared to $599 for the three months ended March 31, 2007) for the three months ended March 31, 2008;

The cost of raw materials consumed increased by $3,903,519, or 57.6%, period-on-period to $10,685,196 for the three months ended March 31, 2008 from $6,781,677 for the three months ended March 31, 2007. This increase was mainly attributable to increases in sales volume by 8,163 metric tons, or 50.7%, period-on-period to 24,273 metric tons for the three months ended March 31, 2008 from 16,110 metric tons for the three months ended March 31, 2007 resulting in higher input of raw materials utilized in production. Average unit cost of raw materials per unit produced increased by $40 per ton, or 7.8%, period-on-period to $552 per ton for the three months ended March 31, 2008 from $512 per ton for the three months ended March 31, 2007.

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Manufacturing overhead costs increased by $1,249,019, or 93.9%, period-on-period to $2,579,410 for the three months ended March 31, 2008 from $1,330,391 for the three months ended March 31, 2007. The increase was mainly attributable to the combined effect of an increase in utilities by $304,656, or 216%, period-on-period to $445,437 for the three months ended March 31, 2008 from $140,781 for the three months ended March 31, 2007, an increase in consumables by $406,632, or 162%, period-on-period to $656,994 for the three months ended March 31, 2008 from $250,362 for the three months ended March 31, 2007.

Expenses

Selling Expenses. Selling expenses increased by $111,162, or 120%, period-on-period, to $203,477 for the three months ended March 31, 2008 compared to the corresponding period in 2007 of $92,315. The increase was mainly attributable to increases in transportation, which rose by 109% period-on-period, due to our increased delivery charges of precision steel resulting from a broader customer base, especially exports where our standard contract terms are F.O.B. and we incur transportation costs to the port of shipment, plus loading costs, as well as an increase in the frequency of deliveries.

Administrative Expenses. Administrative expenses decreased by $711,885, or 50.4%, period-on-period, to $699,221 for the three months ended March 31, 2008 compared to the comparable period in 2007. This decrease was chiefly associated with lower SEC compliance costs and professional fees as there was no financing activity during the quarter and we become more familiar with the rules and regulations as a listed company. There were increases in salaries and wages which were principally due to increases in the monthly salaries of the management staff as well as increase in average number of Chengtong staff.

Finance Costs. Net finance cost increased 111% period-on-period as a result of the increase in total interest expense to 415,863 for 2008 compared to $196,787 for 2007.

Nine Months Ended March 31, 2008 Compared To Nine Months Ended March 31, 2007

Net income before tax increased by $5,861,828, or 76.1%, period-on-period to $13,561,245 for the nine months ended March 31, 2008 from $7,699,417 for the nine months ended March 31, 2007 and gross profit increased by $6,530,152, or 62.3%, period-on-period.

Gross Profit

Gross profits in absolute terms increased by $6,530,152, or 62.3%, period-on-period to $17,016,062 for the nine months ended March 31, 2008 from $10,485,910 for the nine months ended March 31, 2007, while gross profit margin increased to 28.7% for the nine months ended March 31, 2008 from 28.2% for the nine months ended March 31, 2007. The increase in gross profits is mainly attributable to increase in sales during the nine months ended March 31, 2008. The increase in gross profit margin principally resulted from a change in sales mix over the nine months ended March 31, 2008, which produced increased sales of higher margin steel products.

Sales Revenues. Sales volume increased by 32,048 metric tons, or 70.3%, period-on-period to 77,651 metric tons for the nine months ended March 31, 2008 from 45,603 tons for the nine months ended March 31, 2007. As a result, sales revenues increased by $22,067,457, or 59.4%, period-on-period to $59,189,060 for the nine months ended March 31, 2008 from $37,121,603 for the nine months ended March 31, 2007. We believe that the increases in sales and sales revenues are a direct result of increases in our capacity and the continuous building of our brand both inside and outside China among users of precision steel products.

Average cost of production per ton decreased to $543 for the nine months ended March 31, 2008 compared to an average cost of production per ton of $584 for the nine months ended March 31, 2007, representing an decrease of $41 per ton, or 7.0%, period-on-period. The 1400 mm cold-roll mill which became operational in October 2006 is now operating at approximately 50% of design capacity. Greater production capacity and more flexibility in our sales mix has resulted in a decrease in the average cost of production during the nine months ended March 31, 2008.

Sales by Product Line. A break-down of our sales by product line for the nine months ended March 31, 2008 and 2007 is as follows:

	2008			2007			Period-on-period
Product category	**Quantity (tons)**	**$ Amount**	**% of sales**	**Quantity (tons)**	**$ Amount**	**% of sales**	**Qty. Variance**
Low carbon cold-rolled	24,958	19,561,692	33.0	26,558	16,046,675	43.2	(1,600)
Low carbon hard rolled	12,462	8,235,950	13.9	2,344	436,242	1.2	10,118
High-carbon cold-rolled	15,726	21,523,894	36.4	4,116	8,164,065	22.0	11,610
High-carbon hot-rolled	6,846	3,620,677	6.1	12,026	7,226,249	19.5	(5,180)
Low carbon acid wash	-	-	-	14	5,686	0.0	(14))
High end cold-rolled	-	-	-	545	5,242,686	14.1	(545)
Sales of Scrap Metal	-	781,238	1.3	-	-	-	-
Subcontracting income	17,659	5,465,609	9.3	-	-	-	17,659
Total	77,651	59,189,060	100.0	45,603	37,121,603	100.0	

There were various changes in the break-down of sales among our product lines over the nine months ended March 31, 2008 as we have been ramping up the capacity of the additional mill since October 2006 and are in the process of developing new products and new markets. High-carbon hot-rolled steel products only accounted for 6.1% of the current sales mix at an average selling price of $529 per ton for the nine months ended March 31, 2008 compared to 19.5% of the sales mix at an average selling price per ton of $601 for the nine months ended March 31, 2007. The lower priced low-carbon cold-rolled steel products accounted for 33.0% of the current sales mix at an average selling price of $784 per ton for the nine months ended March 31, 2008 compared to 43.2% of the sales mix at an average selling price per ton of $604 for the nine months ended March 31, 2007. Low carbon hard-rolled steel, accounted for 13.9%, of the current sales mix at an average selling price of $661 per ton for the nine months ended March 31, 2008 compared to 1.2% of the sales mix at an average selling price per ton of $186 for the nine months ended March 31, 2007.

We strive to find an appropriate sales mix that provides us with the stability and cash flows, along with the higher margin provided by high precision and individually customized cold-rolled steel products. Management continues to take appropriate action to develop new products and optimize our product mix without adversely affecting overall sales volume and margins. Management believes that there are high barriers to entry in the Chinese domestic precision cold-rolled steel industry because of the level of technology expertise required for operation and that our unique capabilities and know-how give us a competitive advantage to grow sales of higher margin products as we continuously carry out R&D and strive to launch new products that could potentially lead to new segments, customers and markets.

	Nine months Ended December 31,			
Average selling prices	**2008**	**2007**	**Variance**	
	$	$	$	%
Low-carbon cold-rolled	784	604	180	8.3%

Low-carbon hard rolled	661	186	475	255.4%
High-carbon cold-rolled	1,369	1,983	(614)	(31.0%)
High-carbon hot-rolled	529	601	(72)	(12.0%)
Low -carbon acid wash	—	406	(406)	(100.0%)
High end cold-rolled	—	9,620	(9,620)	(100.0%)
Subcontracting income	310	—	310	100.0%

The average unit selling price per ton generated decreased to $762 per ton for the nine months ended March 31, 2008 compared to the corresponding period in 2007 of $814, representing a decrease of $52, or 6.4%, period-on-period. This decrease was due to changes in the sales mix for the nine months ended March 31, 2008 as compared to 2007. Sales of high-carbon cold-rolled steel products have increased by 11,610 metric tons, or 282%, period-on-period to 15,726 metric tons for the nine months ended March 31, 2008 compared to 4,116 metric tons for the nine months ended March 31, 2007. While the volume of high-carbon cold-rolled steel increased, the average sales price declined $614, or 31%, to $1,369 in the nine months ended March 31, 2008 as compared to an average selling of $1,983 in the nine months ended March 31, 2007. This product accounted for $21,523,894, or 36.4%, of the total sales mix for the nine months ended March 31, 2008 compared to $8,164,065, or 22%, of the sales mix for the nine months ended March 31, 2007.

Sales Breakdown by Major Customer.

Customers	Nine months Ended December 31 2008 ($)	% to sales	2007 ($)	% to sales
Shanghai Changshuo Steel Company Ltd	14,174,957	24	*	*
Shanghai Bayou Trade Co. Ltd.	10,854,529	18	*	*
Shanghai Shengdejia Metal Products Co., Ltd	8,232,801	14	*	*
Shanghai Baosteel Stainless Steel Processing and Distribution Co., Ltd	4,113,827	7	*	*
Shanghai Wozi Jintian Saw Blade Co., Ltd	1,429,622	2	*	*
Sinosteel Company Limited	-- *	*	4,805,195	13
Hangzhou Relian Company Limited	*	*	3,308,317	9
Nuoying International (HK) Co. Limited	*	*	3,120,068	8
Weitu Technology(Shanghai) Co., Ltd	*	*	953,509	3
Hubei Dafan Vehicle Enterprise Co. Limited	*	*	947,010	2
	38,805,736	65	13,134,099	35
Others	20,383,324	35	23,987,504	65
Total	59,189,060	100	37,121,603	100

** Not major customers for the relevant periods*

Sales revenues generated from the top five major customers as a percentage of total sales increased to 65% for the nine months ended March 31, 2008 as compared to 35% for the nine months ended March 31, 2007. The top five major customers were different period-on-period. The change in customer mix reflects our shift in product focus during the course of the period.

Cost of Sales.

	Nine months Ended December 31, 2008	2007	Variance	
	$	$	$	%
Cost of sales				
- Raw materials	35,954,929	23,116,946	12,837,983	55.5
- Direct labor	484,872	465,067	19,805	4.3
- Factory overhead	5,733,197	3,053,680	2,679,517	87.7
	42,172,998	26,653,693	15,537,305	58.3
Cost per units sold				
Total units sold	77,651	45,603	32,048	70.3
Average cost per unit sold	543	584	(41)	(7.0)

Cost of sales increased by $15,537,305 or 58.3%, period-on-period to $42,172,998 for the nine months ended March 31, 2008 from $26,653,693 for the nine months ended March 31, 2007. Cost of sales represented 71.3% of sales

revenues for the nine months ended March 31, 2008 compared to 71.8% for the nine months ended March 31, 2007. Average cost per ton sold decreased by $41, or 7.0%, period-on-period to $543 per ton for the nine months ended March 31, 2008 from $584 per ton for the nine months ended March 31, 2007. Meanwhile, the average selling price per ton decreased by $52 per ton, or 6.4%, period-on-period to $762 per ton for the nine months ended March 31, 2008 from $814 per ton for the nine months ended March 31, 2007.

The raw materials cost component relative to sales revenues increased to 60.7% for the nine months ended March 31, 2008 compared to 62.3% for the nine months ended March 31, 2007. This was attributable to changes in the production mix of products with different gross margins in the nine months ended March 31, 2008 as compared to the nine months ended March 31, 2007. This mix of lower margin products, primarily produced in the first quarter, was related to a decision by management to reduce levels of raw materials inventory to a more healthy level.

Management believes that the increase in cost of sales is represented by the combined effect of:

- sales of 15,726 metric tons of high-carbon cold-rolled steel (compared to 4,116 metric tons for the nine months ended March 31, 2007) generated at an average selling price of $1,369 per ton (compared to $1,983 per ton for the nine months ended March 31, 2007) for the nine months ended March 31, 2008; and

- sales of 12,462 metric tons of low-carbon hard-rolled steel (compared to 2,344 metric tons at an average selling price of $186 for the nine months ended March 31, 2007) generated at an average selling price of $661 per ton for the nine months ended March 31, 2008.

The cost of raw materials consumed increased by $12,837,983, or 55.5%, period-on-period to $39,954,929 for the nine months ended March 31, 2008 from $23,116,946 for the nine months ended March 31, 2007. This increase was mainly attributable to increases in sales volume by 32,048 metric tons, or 70.3%, period-on-period to 77,651 metric tons for the nine months ended March 31, 2008 from 45,603 metric tons for the nine months ended March 31, 2007 resulting in higher input of raw materials utilized in production. Average unit cost of raw materials per unit produced decreased by $44 per ton, or 8.7%, period-on-period to $463 per ton for the nine months ended March 31, 2008 from $507 per ton for the nine months ended March 31, 2007.

Manufacturing overhead costs increased by $2,679,517, or 87.7%, period-on-period to $5,733,197 for the nine months ended March 31, 2008 from $3,053,680 for the nine months ended March 31, 2007. The increase was mainly attributable to the combined effect of an increase in utilities by $863,157, or 337%, period-on-period to $1,119,244 for the nine months ended March 31, 2008 from $256,087 for the nine months ended March 31, 2007, and an increase in consumables by $1,160,277, or 308%, period-on-period to $1,537,044 for the nine months ended March 31, 2008 from $376,767 for the nine months ended March 31, 2007.

Expenses

Selling Expenses. Selling expenses increased by $288,221, or 147%, period-on-period, to $484,926 for the nine months ended March 31, 2008 compared to the corresponding period in 2007 of $196,705. The increase was mainly attributable to increases in transportation, which rose by 251% period-on-period, due to our increased delivery charges of precision steel resulting from a broader customer base, especially exports where our standard contract terms are F.O.B. and we incur transportation costs to the port of shipment, plus loading costs, as well as an increase in the frequency of deliveries.

Administrative Expenses. Administrative expenses decreased by $64,215, or 3.1%, period-on-period, to $2,031,816 for the nine months ended March 31, 2008 compared to $2,096,031 in the comparable period in 2007. This decrease was chiefly due to reduction in the expenses relating to the Company's SEC and NASDAQ compliance obligations.

Finance Costs. Net finance cost increased 128% period-on-period as a result of increases in total interest expense by $659,995 to $1,174,864 in 2008 compared to $514,869 for 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our business is capital intensive and requires substantial expenditures for, among other things, the purchase and maintenance of equipment used in our operations. Our short-term and long-term liquidity needs arise primarily from capital expenditures, working capital requirements and principal and interest payments related to our outstanding indebtedness. We have met these liquidity requirements with cash provided by operations, equity financing, and bank debt.

Net cash flows used in operating activities for the nine months ended March 31, 2008 was $25,149,302 as compared with $2,952,148 provided by operating activities for the nine months ended March 31, 2007, for a net increase of $28,101,450. This increase was due primarily to an increase in bank acceptance notes not previously held at June 30, 2007 and increases in advances to suppliers during the nine months ended March 31, 2008.

Net cash flows used in investing activities for the nine months ended March 31, 2008 was $7,512,290 as compared with $10,329,164 for the nine months ended March 31, 2007. The decrease in investing activity was due to reduced construction during the nine months ended March 31, 2008 as compared to the same period in 2007.

Net cash flows provided by financing activities for the nine months ended March 31, 2008, was $39,529,696 as compared with $17,784,748 provided by financing activities for the nine months ended March 31, 2007. The nine months ended March 31, 2007 reflect borrowings which were incurred for expansion of the operations and to finance the construction-in-progress on new facilities. Repayments on advances from directors in 2007 partially offset the bank borrowings. During the nine months ended March 31, 2008, the Company received $44 million in net proceeds from the sale of its equity securities, which will be used for repayment of certain bank debt, capital expenditures relating to the new facilities and working capital. Also during the nine months ended March 31, 2008, a director cancelled stock in the amount of $2 million which was applied against amounts owed by the director at June 30, 20007.

Current assets. Current assets increased significantly by $65,906,249, or 159.4%, period-on-period to $107,245,243 as of March 31, 2008 from $41,338,994 as of June 30, 2007, principally as a result of increases in cash and equivalents by $8,790,641, or 160%, period-on-period, accounts receivable by $17,164,311, or 208%, period-on-period, bank acceptance notes of $4,197,091, or 100%, period on period, inventories by $3,871,120, period on period.

Current liabilities. Current liabilities increased by $19,832,288, or 75.2%, period-on-period to $46,088,445 as of March 31, 2008 from $26,356,157 as of June 30, 2007. The increase was due to increases in advances from customers, tax payables, provision for taxation and amounts due to directors and was mitigated by decreases in current portion of long-term debt.

As of March 31, 2008, we had $17,400,194 in short term bank debt. We expect to refinance such debt at its maturity, but we cannot assure you that we will be able to do so on terms favorable to the Company or at all.

Capital Expenditures. During the nine months ended March 31, 2008, we invested $7,512,290 in property, production plants and equipment. We believe these capital investments increase our capacity, expand our product line, and reduce risks related to occupancy costs, thereby creating new opportunities to grow sales and control expenses.

During the current year, we expect to make additional investments in a new continuous annealing line and a new 1700mm cold roll mill at our facilities in Shanghai. We estimate that these investments could total up to $20 million. We intend to fund these investments through a combination of funds from operations, working capital, bank debt and the recent $47.9 million financing which was completed in November 2007. The actual combination of sources of funds will be dependant upon market conditions at the time of implementation.

OFF-BALANCE SHEET ARRANGEMENTS

For the three and nine months ended March 31, 2008, we did not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

	At March 31, 2008 Payments Due By Period				
(in thousands)	**Total**	**Fiscal Year 2008**	**Fiscal Years 2009-2010**	**Fiscal Years 2011-2012**	**Fiscal Year 2013 and Beyond**
Contractual obligations:					
Debt Obligations	$ 17,734,713	$ 17,734,713	$ -	$ -	$ -
Construction Commitments	4,235,722	4,235,722	-	-	-
	$ 21,970,435	$ 21,970,435	$ -	$ -	$ -

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Bank Debt

Bank and other loans decreased by $5,484,485, or 24% period-on-period to $17,400,194 as of March 31, 2008 from $22,884,679 as of June 30, 2007. The decrease was attributable to the payoff of one of the outstanding loans.

Short-term bank loans

Short-term bank loans increased by $7,557,674 or 76.8%, period on period to $17,400,194 as of March 31, 2008 compared to $9,842,520 as of June 30, 2007.

Long-term bank loans

Long-term bank loans of $13,042,159 were paid during the nine months ended March 31, 2008.

Land Use Rights

In October 2004, Tuorong agreed to purchase a land use right from the Shanghai Labor and Economic Development Council with respect to a 20-acre parcel for a lease period of 50 years at a cost of $472,441. Additionally in November 2005, Chengtong agreed to purchase a land use right from the Shanghai Xuhang Industrial Development Co., Ltd. with respect to a 27.04-acre parcel for a lease period of 50 years at a cost of $497,795. In November 2006, Chengtong entered into an agreement with the Shanghai Labor and Economic Development Council which supersedes the aforementioned Tuorong agreement to purchase a total of 21.34-acre parcel for a lease period of 50 years at an aggregate amount of $672,126. In December 2006, Tuorong entered into a Compensation Agreement with the Shanghai Jiading Housing, Land and Resource Management Bureau to pay an aggregate amount of $637,294 in connection to the two aforementioned parcels.

Inflation

We believe that inflation has not had a material effect on our results of operations. We generally manufacture our products to match orders from our customers. Due to the specialized nature of our products, we are able to purchase raw materials based upon customer orders. This operating model allows us to effectively pass along fluctuations in the price of raw materials to our customers. For commonly used raw materials, we purchase larger quantities when we believe prices are likely to increase in the short term in order to minimize the impact of any such price increase.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following:

· *Functional Currency and Translating Financial Statements*— The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Our functional currency is Chinese Renminbi; however, the accompanying consolidated financial statements have been expressed in 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.

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Advances to Suppliers and from Customers - As is common practice in China, Chengtong will often make advance payments to its suppliers for materials, or receive advance payments from its customers. In some cases, the same party may be both a supplier to, and customer of, Chengtong. In such cases, Chengtong may make an advance to a third party as supplier and receive an advance from the same party as a customer. Chengtong's practice is to offset such amounts against each other. We have established an allowance for doubtful accounts as a reserve against advances made to suppliers to the extent that the related goods are not received within ninety (90) days of the contract delivery date.

· *Other Policies* - Other accounting policies used by the Company are set forth in the notes accompanying our financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of SFAS No. 157.

In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158"), an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires (a) recognition of the funded status (measured as the difference between the fair value of the plan assets and the benefit obligation) of a benefit plan as an asset or liability in the employer's statement of financial position, (b) measurement of the funded status as of the employer's fiscal year-end with limited exceptions, and (c) recognition of changes in the funded status in the year in which the changes occur through comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure the plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. SFAS No. 158 has no current applicability to the Company's financial statements.

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. Complying with the requirements of SAB No. 108 had no impact on the Company's financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), an amendment of FASB Statement No. 115. SFAS No. 159 addresses how companies should measure many financial instruments and certain other items at fair value. The objective is to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) will change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141(R) will impact the Company in the event of any future acquisition.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS 160"). SFAS 160 establishes new accounting and reporting

standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not believe that SFAS 160 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 (FAS 161). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently assessing the impact of FAS 161.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to several types of market risk: changes in foreign currency exchange rates, interest rates and commodity prices. We neither hold nor issue financial instruments for trading purposes nor do we make use of derivative instruments to hedge the risks discussed below.

The following sections provide quantitative information on our exposure to market risks. Our use of sensitivity analyses are inherently limited in estimating actual losses in fair value that can occur from changes in market conditions.

Foreign Currency Exchange Rates

The Group collects revenues from operations principally in the Chinese Renminbi. Except for limited exports to Thailand and the Philippines, all of our local sales revenues are collected in and substantially all of its expenses are paid in the Chinese Renminbi. We face foreign currency rate translation risk when Chengtong's results are translated to U.S. Dollars, as well as foreign currency rate transaction risk with respect to sales outside of China and with respect to financial instruments denominated in foreign currencies. Our 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.

The Chinese Renminbi had remained stable against the U.S. Dollar at approximately 8.28 Yuan to 1.00 U.S. Dollar for several years and it was not until July 21, 2005 that the Chinese currency regime was altered, with a 2.1% revaluation versus the United States Dollar. This move initially valued the Renminbi at 8.11 per United States Dollar. In addition, the Renminbi is no longer linked to the U.S. currency but rather to a basket of currencies with a 0.3% margin of fluctuation. However, there remains international pressure on the Chinese government to adopt an even more flexible currency policy and as of March 31, 2008 the exchange rate was 7.012 Yuan to 1.00 U.S. Dollar. The exchange rate of Renminbi is subject to changes in China's government policies which are, to a large extent, dependent on the economic and political development both internationally and locally and the demand and supply of Renminbi in the domestic market. There can be no assurance that such exchange rate will continue to remain stable in the future amongst the volatility of currencies, globalization and the unstable economies in recent years. Since (i) our income and profit are mainly denominated in Renminbi, and (ii) the payment of dividends will be in U.S. dollars, if any, any exchange fluctuation of the Renminbi against other foreign currencies would adversely affect the value of the shares and dividends payable to shareholders, in foreign currency terms.

At March 31, 2008, the Group's outstanding financial instruments with foreign currency exchange rate risk exposure had an aggregate fair value of $20 million (including the Group's non-U.S. dollar denominated debt). The potential increase in the fair values of these instruments resulting from a 10% adverse change in quoted foreign currency exchange rates would be approximately $2 million at March 31, 2008.

Interest Rates

The Group is subject to interest rate risk on its non-derivative financial instruments. The Group does not hedge its interest rate risk. At March 31, 2008, the Group's total bank debt outstanding was $17,400,194, all of which was interest-bearing. Substantially all of the bank debt was floating-rate debt with interest rates which vary with changes in the standard rate set by the People's Bank of China. A change in the interest rate or yield of fixed rate debt will only impact the fair value of such debt, while a change in the interest rate of floating rate, or variable rate, debt will impact interest expense as well as the amount of cash required to service such debt. To the extent interest rates increase, we will be liable for higher interest payments to our lenders. For the current financial year, annual interest on loans is

anticipated to be approximately $1.6 million. The impact of a 1% increase in interest rates will increase interest expense by approximately $174,000. As our short-term borrowings mature, we will be required to either repay or refinance these borrowings. An increase in short-term interest rates at the time that we seek to refinance short-term borrowings may increase the cost of borrowings, which may adversely affect our earnings and cash available for distribution to its shareholders.

At March 31, 2008, the aggregate fair value of the Group's financial instruments with exposure to interest rate risk was approximately $17 million. The potential change in fair value for these financial instruments from an adverse 10% change in quoted interest rates across all maturities, often referred to as a parallel shift in the yield curve, would be approximately $0.2 million at March 31, 2008.

Commodity Prices

The steel coils and other raw materials used by Chengtong, require large amounts of raw materials - iron ore or other iron containing material, steel scrap, coke and coal - as well as large amounts of energy to produce. Additionally, Chengtong also uses large amounts of energy in its operations. Over the last several years, prices for raw materials and energy, in particular natural gas and oil, have increased significantly. In many cases these price increases have been at a greater percentage than price increases for the sale of steel products.

The Group has no open derivative commodity instruments as of March 31, 2008 and does not currently hedge its exposure to price fluctuations in the raw materials and energy required for the manufacture of its products.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. We maintain a system of disclosure controls and procedures. The term "disclosure controls and procedures," as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Wo Hing Li, our President and Chief Executive Officer, and Leada Tak Tai Li, our Chief Financial Officer, have evaluated the design and operating effectiveness of our disclosure controls and procedures as of March 31, 2008. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of March 31, 2008.

Changes in Internal Control over Financial Reporting. There has been no change to our internal control over financial reporting during the quarter ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors previously disclosed in the Company's Form 10-K filed on October 26, 2007.

ITEM 1. LEGAL PROCEEDINGS.

As of the date of this Quarterly Report, there is no pending litigation against the Company nor was there any litigation initiated by the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

(a) None.

(b) None.

ITEM 6. EXHIBITS

(a) Exhibits required to be filed are listed below. Certain of the following exhibits are hereby incorporated by reference pursuant to Rule 12(b)-32, as promulgated under the Securities and Exchange Act of 1934, as amended, from the reports noted below:

Exhibit No.	**Exhibit:**
31(i).1	Certification of President pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act*
31(i).2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act*
32	Certification of President and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHINA PRECISION STEEL, INC.

Date: May 15, 2008

By: /s/ Wo Hing Li
Wo Hing Li
President

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