

China Precision Steel, Inc.
Form 10-Q
May 11, 2009

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

FORM 10-Q

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

For the quarterly period ended: March 31, 2009

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

For the transition period from _____ to _____

Commission File No. 000-23039

CHINA PRECISION STEEL, INC.
(Exact name of registrant as specified in charter)

Delaware
(State or other jurisdiction
of incorporation)

14-1623047
(IRS Employer
Identification No.)

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

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

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

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

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company)Smaller reporting company

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

Yes No

The number of shares outstanding of each of the issuer's classes of common equity, as of May 6, 2009 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	46,562,953

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA PRECISION STEEL, INC.
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FOR THE NINE MONTHS ENDED MARCH 31, 2009 AND 2008

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

	Notes	(Unaudited) March 31, 2009	June 30, 2008
Assets			
Current assets			
Cash and equivalents		\$ 5,569,806	\$ 18,568,842
Accounts receivable net of allowances of \$1,036,609 and \$1,033,479 at March 31, 2009 and June 30, 2008, respectively	5	21,029,146	33,783,074
Bills receivable		2,288,691	4,309,703
Other receivables		259,827	571,746
Inventories	6	22,606,039	17,815,087
Prepaid expenses		131,841	58,105
Advances to suppliers, net of allowances of \$2,530,479 and \$2,522,837 at March 31, 2009 and June 30, 2008, respectively	7	25,477,855	33,027,365
Total current assets		77,363,205	108,133,922
Property and equipment			
Property and equipment, net	8	39,800,096	39,199,305
Deposit for plant and machinery		8,048,466	-
Construction-in-progress	9	29,949,380	16,476,454
		77,797,942	55,675,759
Intangible assets, net	10	2,394,406	1,625,690
Goodwill		99,999	99,999
Total assets		\$ 157,655,552	\$ 165,535,370
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 10,023,519	\$ 12,047,981
Advances from customers	11	3,581,863	6,996,996
Other taxes payables		3,529,867	3,976,239
Current income taxes payable		4,746,903	4,742,387
Short-term loans	12	17,430,904	17,465,799
Total current liabilities		39,313,056	45,229,402
Stockholders' equity:			

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Preferred stock: \$0.001 per value, 8,000,000 shares authorized, no shares outstanding at March 31, 2009 and June 30, 2008

Common stock: \$0.001 par value, 62,000,000 shares authorized, 46,562,953 and 46,472,953 issued and outstanding March 31, 2009 and June 30, 2008

	13	46,563	46,473
Additional paid-in capital	13	75,642,383	75,372,488
Accumulated other comprehensive income		9,679,901	9,295,658
Retained earnings		32,973,649	35,591,349
Total stockholders' equity		118,342,496	120,305,968
Total liabilities and stockholders' equity		\$ 157,655,552	\$ 165,535,370

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

China Precision Steel, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended March 31, 2009 and 2008
(Unaudited)

	Notes	Three Months Ended		Nine Months Ended	
		March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
Revenues					
Sales revenues		\$ 7,623,209	\$ 18,773,504	\$ 50,547,587	\$ 59,189,060
Cost of goods sold		9,605,252	13,399,010	45,125,635	42,172,997
Gross profit/(loss)		(1,982,043)	5,374,494	5,421,952	17,016,063
Operating expenses					
Selling expenses		298,492	203,477	1,632,322	484,926
Administrative expenses		541,251	699,220	1,581,456	2,031,816
Bad and doubtful debts		672	10,150	3,830,134	661,930
Depreciation and amortization		33,624	17,155	93,145	46,585
Total operating expenses		874,039	930,002	7,137,057	3,225,257
Income/(loss) from operations		(2,856,082)	4,444,492	(1,715,105)	13,790,806
Other income/(expense)					
Other revenues		76,556	152,894	336,257	945,304
Interest and finance costs		(257,123)	(415,863)	(905,305)	(1,174,864)
Total other income/(expense)		(180,567)	(262,969)	(569,048)	(229,560)
Net income/(loss) from operations before income tax		(3,036,649)	4,181,523	(2,284,153)	13,561,246
Income tax	15				
Current		481,804	543,623	333,547	1,660,217
Deferred		-	-	-	(1,064,028)
Total income tax		481,804	543,623	333,547	596,189
Net income/(loss)		\$ (3,518,453)	\$ 3,637,900	\$ (2,617,700)	\$ 12,965,057
Basic earnings/(loss) per share	16	\$ (0.08)	\$ 0.08	\$ (0.06)	\$ 0.31
Basic weighted average shares outstanding		46,562,953	45,896,288	46,560,656	42,088,128
Diluted earnings/(loss) per share	16	\$ (0.08)	\$ 0.08	\$ (0.06)	\$ 0.30

Diluted weighted average shares outstanding	46,562,953	46,365,778	46,560,656	42,555,912
The Components of comprehensive income/(loss):				
Net income/(loss)	\$ (3,518,453)	\$ 3,637,900	\$ (2,617,700)	\$ 12,965,057
Foreign currency translation adjustment	(366,181)	3,481,498	384,243	5,567,813
Comprehensive income/(loss)	\$ (3,884,634)	\$ 7,119,398	\$ (2,233,457)	\$ 18,532,870

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

China Precision Steel, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended March 31, 2009
and the Year ended June 30, 2008

	Ordinary Shares		Additional	Accumulated	Retained	Total
	Share	Amount	Paid-in	Other	Earnings	Stockholders'
			Capital	Comprehensive		Equity
				Income		
Balance at June 30, 2007	37,378,141	\$ 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	765,872	766	1,729,235	-	-	1,730,001
Cancellation of stock	(771,060)	(771)	(2,589,992)	-	-	(2,590,763)
Foreign currency translation adjustment	-	-	-	7,103,498	-	7,103,498
Net income	-	-	-	-	18,583,111	18,583,111
Balance at June 30, 2008	46,472,953	46,473	75,372,488	9,295,658	35,591,349	120,305,968
Exercise of warrants	90,000	90	269,895	-	-	269,985
Foreign currency translation adjustment	-	-	-	384,243	-	384,243
Net loss	-	-	-	-	(2,617,700)	(2,617,700)
Balance at March 31, 2009 (unaudited)	46,562,953	\$ 46,563	\$ 75,642,383	\$ 9,679,901	\$ 32,973,649	\$ 118,342,496

China Precision Steel, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended March 31, 2009 and 2008
(Unaudited)

	2009	2008
Cash flows from operating activities		
Net Income/(loss)	\$ (2,617,700)	\$ 12,965,057
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,746,541	1,841,947
Allowance for bad and doubtful debts	3,830,134	661,930
Net changes in assets and liabilities:		
Accounts receivable, bills receivable and other receivables	11,360,509	(26,067,887)
Inventories	(4,732,832)	(2,616,526)
Deposits	-	89,361
Prepaid expenses	(73,753)	(429,556)
Advances to suppliers	7,642,844	(25,893,725)
Accounts payable and accrued expenses	(2,058,293)	5,702,234
Advances from customers	(3,433,313)	5,037,976
Other taxes payable	(458,015)	2,220,328
Current income taxes	(9,841)	2,365,673
Deferred income taxes	-	(1,064,028)
Net cash (used in)/provided by operating activities	12,196,281	(25,187,216)
Cash flows from investing activities		