China Precision Steel, Inc.
Form 10-Q
November 19, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2007

or

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 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 November 6, 2007, there were 45,896,288 shares of the Company s common stock outstanding.

China Precision Steel, Inc.

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Quarter Ended September 30, 2007

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Item 1. Financial Statements.

China Precision Steel, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

		(Unaudited) September 30, 2007		June 30, 2007
Assets				
Current assets				
Cash and equivalents	$	6,049,792.00	$	5,504,862
Accounts receivable				
Trade, net of allowances of $908,008 and $273,461 at September 30, and June 30, 2007, respectively		14,103,862		8,242,044
Bank acceptance notes		14,862,667		
Other		19,362		85,708
Inventory		7,827,785		15,723,704
Deposits				82,758
Prepaid expenses		14,702		
Advances to suppliers, net of allowance of $2,305,637 and $3,502,184 at September 30, and June 30, 2007, respectively		11,521,415		11,699,918
Total current assets		54,399,585		41,338,994
Property and equipment				
Land use rights		1,475,342		1,124,583
Property and equipment, net		29,290,837		29,238,227
Construction-in-progress		10,846,113		10,355,763
		41,612,292		40,718,573
Goodwill		99,999		99,999
Total assets	$	96,111,876	$	82,157,566
Liabilities and Stockholders Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	3,537,985.00	$	4,855,932
Advances from customers		8,286,100		1,720,812
Other taxes payables		2,054,814		816,553
Current income taxes payable		2,197,655		1,892,866
Deferred income taxes payable		1,791,265		1,064,028
Amounts due to directors		845,523		408,620
Current portion of long-term debt				6,163,445
Notes payable		16,490,833		9,842,520
Total current liabilities		35,204,175		26,764,776
Long-term debt, net of current portion shown above		6,008,889		6,878,714

Stockholders equity:				
Preferred stock: $0.001 per value, 8,000,000 shares authorized, no shares outstanding at September 30, and June 30, 2007 Ordinary stock: $0.001 par value, 62,000,000 shares authorized, 37,378,143 issued and outstanding September 30, and June 30, 2007		37,378		37,378
Additional paid-in capital		31,867,063		31,867,063
Accumulated other comprehensive income		3,085,407		2,192,160
Retained earnings		19,908,964		17,008,238
Total stockholders equity		54,898,812		51,104,839
Amounts due from directors				(2,590,763)
Total liabilities and stockholders equity	$	96,111,876	$	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 Months Ended September 30. 2007 and 2006

(Unaudited)

		2007		2006
Revenues				
Sales revenues	$	25,312,698	$	10,503,348
Cost of goods sold		20,245,135		6,800,098
Gross profit		5,067,563		3,703,250
Operating expenses				
Selling expenses		100,705		39,697
Administrative expenses		486,377		186,188
Provision for bad debts		625,998		
Depreciation and amortization expense		13,632		10,417
Total operating expenses		1,226,712		236,302
Income from continuing operations		3,840,851		3,466,948
Other income (expense)				
Other revenues		9,155		
Interest and finance costs		(442,141)		(203,339)
Total other income (expense)		(432,986)		(203,339)
Net income from continuing operations before income tax		3,407,865		3,263,609
Provision for (benefit from) income tax				
Current		(182,977)		929,370
Deferred		690,116		(475,009)
Total income tax expense		507,139		454,361
Net income before discontinued operations		2,900,726		2,809,248
Net income from discontinued operations				155,072
Net income	$	2,900,726	$	2,964,320
Basic earnings per share				
From continuing operations	$	0.08	$	0.11
From discontinued operations	$		$	0.01
Total	$	0.08	$	0.12
Basic weighted average shares outstanding		37,378,143		24,283,725
Diluted earnings per share				
From continuing operations	$	0.08	$	0.11

From discontinued operations	$		$	0.01
Total	$	0.08	$	0.12
Diluted weighted average shares outstanding		38,397,325		24,283,725
The Components of comprehensive income:				
Net income	$	2,900,726	$	2,964,320
Foreign currency translation adjustment		893,247		745,583
Comprehensive income	$	3,793,973	$	3,709,903

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 Three Months Ended September 30, 2007 and 2006

(Unaudited)

	2007	2006
Cash flows from operating activities		
Net Income	$ 2,900,726	$ 2,964,320
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	493,613	260,892
Less income from discontinued operations - OraLabs, Inc		(155,072)
Provision for doubtful accounts	625,998	
Net changes in assets and liabilities:		
Accounts receivable, net	(21,208,354)	981,606
Inventories	8,039,005	(8,236,768)
Advances to suppliers	284,972	(4,506,824)
Deposits	82,758	(196,233)
Prepayments	(14,702)	
Accounts payable and accrued expenses	(1,362,136)	10,805,570
Advances from customers	6,549,629	2,976,867
Deferred income taxes	690,166	(475,009)
Current income taxes	(182,977)	929,370
Taxes payable	1,826,668	139,996
Net cash (used in) provided by operating activities	(1,274,634)	5,488,715
Cash flows from investing activities		
Purchases of fixed assets including construction in progress	(1,016,793)	(5,230,112)
Net cash (used in) investing activities	(1,016,793)	(5,230,112)
Cash flows from financing activities		
Advances from directors, net	2,946,615	(3,894,566)
Notes payable proceeds	16,490,833	4,233,252
Repayments of notes payable	(17,084,041)	
Net cash provided by financing activities	2,353,407	338,686
Effect of exchange rate	482,950	97,772
Net increase in cash	544,530	695,061
Cash and cash equivalents, beginning of year	5,504,862	186,955
Cash and cash equivalents, end of year	$ 6,049,392	$ 882,016

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

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China Precision Steel, Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Stockholders Equity

For the Year Ended June 30, 2007 and the Three Months Ended September 30, 2007

(Unaudited)

	Ordinary Shares Share	Ordinary Shares Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders 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
Foreign currency translation adjustment				893,247		893,247
Net income					2,900,726	2,900,726
Balance at September 30, 2007	37,378,143	$ 37,378	$ 31,867,063	$ 3,085,407	$ 19,908,964	$ 54,898,812

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

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 its former name, Oralabs Holding Corp., issued 25,363,002 shares of its common stock in exchange for 100% of the registered capital of Partner Success Holdings Limited, a British Virgin Islands Business Company (PSHL) pursuant to a Stock Exchange Agreement, dated March 31, 2006. Subsequent to the closing of that transaction, on December 28, 2006, the Company redeemed 3,629,350 shares of its common stock in exchange for all of the common stock of Oralabs, Inc., a wholly-owned operating subsidiary. The Company issued 100,000 shares of its common stock to Oralabs, Inc. in exchange for $450,690, and received additional cash payments in the aggregate amount of $108,107 in payment of an estimated $558,797 tax liability to be incurred by the Company in connection with the spin off of OraLabs, Inc. and the supplement 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, 2006 and 2005. 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. 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 September 30, 2007 and June 30, 2007 and the results of their operations for the three months ended September 30, 2007 and 2006, and cash flows for the three months ended September 30, 2007 and 2006. The results of operations for the three months ended September 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the entire year.

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 September 30, 2007 and June 30, 2006, the Company had $908,008 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 $2,305,637 and $3,502,184 at September 30, 2007 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	25 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 three months ended September 30, 2007 and 2006, the Company capitalized $0 and $192,767, respectively, of interest to construction-in-progress.

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

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

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

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

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

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

Advances from customers - Revenue from the sale of goods or services is recognized at the time that goods are delivered or services are rendered. Receipts in advance for goods to be delivered or services to be rendered in the subsequent year are carried forward as deferred revenue.

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

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

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 June 30, 2007, 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 June 30, 2007, 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 months ended September 30, 2007 and 2006 the Company s pension cost charged to the statements of operations under the plan amounted to $60,599 and $34,698, respectively, all of which have been paid to the State Pension Fund.

Fair Value of Financial Instruments - The carrying amounts of certain financial instruments, including cash, accounts receivable, other receivables, accounts payable, accrued expenses, and other payables approximate their fair values as at September 30, 2007 and June 30, 2007 because of the relatively short-term maturity of these instruments.

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

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

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

Recent Accounting Pronouncements -

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 iseffective 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.

4. Concentrations of Business and Credit Risk

Chengtong provides credit in the normal course of business. Chengtong performs ongoing credit evaluations of its customers and clients and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers and clients, historical trends, and other information. Trade accounts receivable totaled $8,242,044 and $13,399,003 as of June 30, 2007 and 2006, respectively.

Chengtong s list of customers whose purchases exceeded 10% of total sales during the three months ended September 30, 2007 and 2006 were as follows:

Customers	***September 30, 2007***	***% to sales***	***September 30, 2006***	***% to sales***
Shanghai Ruixuefeng Metals Co., Limited			3,888,986	37
Shanghai Changshuo Steel Company, Ltd	8,648,752	34		
Shanghi Shengdejia Metal Products Limited	3,288,926	13		
Hangzhou Relian Company Limited			1,285,775	12
Sinosteel Company Limited			1,082,329	10

5. Inventories

As of September 30, 2007 and June 30, 2007 inventory consisted of the following:

		September 30, 2007		**June 30, 2007**
Raw materials	$	5,735,871	$	13,026,530
Work in progress		724,962		
Finished goods		1,366,952		2,697,174
	$	7,827,785	$	15,723,704

6. Property, Plant and Equipment

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

		September 30, 2007		June 30, 2007
Plant and machinery	$	21,473,439	$	21,087,245
Buildings		11,542,987		11,361,207
Motor vehicles		316,445		283,534
Office equipment		89,444		85,560
		33,422,315		32,817,546
Less: Accumulated depreciation		(4,131,478)		(3,579,319)
	$	29,290,837	$	29,238,227

Depreciation expense related to manufacturing is included as a component of cost of goods sold. During the three months ended September 30, 2007 and 2006, depreciation totaling $477,980 and $250,475, respectively, was included as a component of cost of goods sold.

7. Construction-In-Progress

As of September 30, 2007 and June 30, 2007, construction-in-progress consisted of the following:

		September 30, 2007		June 30, 2007
Construction costs of plant and machinery	$	10,846,113	$	10,355,763
	$	10,846,113	$	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 as of the balance sheets dates. Advances from customers for goods to be delivered or services to be rendered in the subsequent year are carried forward as deferred revenue. As of September 30, 2007 and June 30, 2007, there were advances from customers of $8,286,100 and $1,720,812, respectively.

9. Transactions with Related Parties

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

Name		September 30, 2007		June 30, 2007
Wo Hing Li	$	434,365	$	(2,590,763)
Hai Sheng Chen		411,158		408,620
	$	845,523	$	(2,182,143)

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.

10. Short-Term Loans

Short-term loans consisted of the following:

	September 30, 2007	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 SIBOR plus 3%	5,344,166	
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	2,666,667	
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	8,480,000	
	$ 16,490,833	$ 9,842,520

11. Long-Term Debts - Secured

	September 30, 2007	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	6,008,889	6,878,714
Total long-term debt	6,008,889	13,042,159
Less: Current portion of long-term debts		6,163,445
Long-term debts	$ 6,008,889	$ 6,878,714

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

2008	$	
2009		6,008,889
2010		
2011		
2012		
2013 and after		
	$	6,008,889

12. Income Tax

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

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

As of June 30, 2006, Chengtong had utilized all of its 100% tax holiday, therefore any timing differences reversing within the next three years would be taxed at 50% of the statutory rate of 27%. Therefore, it was necessary for the Group to record a deferred income tax liability and offsetting deferred income tax expense of $1,535,203 as of June 30, 2006.

The tax holiday resulted in tax savings as follows:

	Three months ended September 30,			
		2007		**2006**
Tax savings	$	545,720	$	454,361
Benefit per share				
Basic	$	.01	$	.02
Diluted	$	.01	$	.02

Significant components of the Group s deferred tax assets and liabilities as of September 30, 2007 and June 30, 2007 are as follows:

Deferred tax assets:	**September 30, 2007**	**June 30, 2007**

Book depreciation in excess of tax depreciation	$	43,460	$	39,918
Deferred tax liability				
Timing differences resulting form cash basis reporting for tax purposes		(1,834,725)		(1,103,946)
Net deferred income tax (liability)	$	(1,791,265)	$	(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 September 30,	
	2007	**2006**
Computed tax at the federal statutory rate of 34%	$ 1,158,674	$ 1,109,627
Less adjustment to EIT statutory rate of 27%	(238,550)	(228,453)
Tax effect of US losses not deductible in PRC	132,735	27,548
Benefit of tax holiday	(545,720)	(454,361)
Income tax expense per books	$ 507,139	$ 454,361

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 the Private Placement, on February 22, 2007, the Company issued warrants to the placement agents to purchase an aggregate of 1,300,059 shares of Common Stock as partial compensation for services rendered in connection with the Private Placement.

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.

Information with respect to stock warrants outstanding are as follows:

Exercise Price		Outstanding June 30, 2007	Granted	Expired or Exercised	Outstanding September 30, 2007	Expiration Date
$	3.00	1,300,059	-0-	-0-	1,300,059	02/22/2011
$	3.60	100,000	-0-	-0-	100,000	02/22/2010

The Company entered into an agreement with a financial advisor to act as the exclusive financial advisor with respect to certain of the Company s private placement offerings. The agreement called for cash fees equal to (10% of) of the gross proceeds of the first $25 million and eight percent (8%) of the gross proceeds of the other $25 million thereafter received from the sale of securities. In respect of any capital raised in excess of $50 million or following the consummation of the offering of $50 million contemplated, the Company would pay in cash a fee equal to nine percent (9%) of the gross proceeds after the first $50 million has been raised.

After the closing of any applicable offering, the Company will issue to the advisor warrants to purchase shares equivalent to eight and one half percent (8.5%) of the securities issued at the closing share price in the Offering. The Warrants will be exercisable into the same class of common stock as issued as part of the Offering, have a strike price equal to 100% of the Company s common stock on the closing date of the Offering and have a term of 3 years. In the event that warrants are issued as part of the offering, the terms and conditions of the Warrants shall be the same as investor warrants.

Pursuant to the terms of this agreement and in connection with the private placement offering of February 22, 2007 the advisor was paid 10% of the proceeds of and 1,300,059 shares of common stock were issued. These fees were treated as syndication costs and charged against additional paid-in capital.

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 three months ended September 30, 2007, dilutive shares include outstanding warrants to purchase 1,300,059 shares of common stock at an exercise price of $3.00 and warrants to purchase 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 September 30, 2007:					
Net income	$	2,900,726			
Less Net income from discontinued operations	$	-0-			
Basic EPS income available to common shareholders	$	2,900,726	37,378,143	$	0.08
Effect of dilutive securities:					
Warrants			1,019,182		
Diluted EPS income available to common shareholders	$	2,900,726	38,397,325	$	0.08
For the three months ended September 30, 2006:					
Net income	$	2,964,320			
Less net income from discontinued operations	$	(155,072)			
Basic EPS income available to common shareholders	$	2,809,248	24,283,725	$	0.11
Effect of dilutive securities:					
Warrants					
Diluted EPS income available to common shareholders	$	2,809,248	24,283,725	$	0.11

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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 months ended September 30, 2007, and 2006 is as follows:

	Three months ended: September 30, 2007	September 30, 2006
Revenues	$ -0-	$ 4,386,000
Income before tax	-0-	244,000
Income taxes	-0-	89,000
Income from discontinued operations	$ -0-	$ 155,000

As of September 30, 2007, there were no assets or liabilities associated with OraLabs, Inc.

17. Commitments

As of September 30, 2007, the Company had $4,270,236, in commitments for capital expenditures for contractual commitments of the construction projects related to expansion of Chengtong s production facilities.

18. Subsequent events

Pursuant to Section 5.1 of the Stock Purchase Agreement, dated February 16, 2007, 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 ending 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.

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.

The net effect of these transactions on earnings per share had they been retroactively applied to these audited financial statements would have been a reduction in basic and diluted earnings per share of $(0.01).

On November 1, 2007, the Company entered into a Subscription Agreement (the Agreement) with the buyers named therein (the Investors and each individually as an Investor) pursuant to which 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.

On October 31, 2007, in connection with the Agreement, the Company entered into a Placement Agency Agreement (the Placement Agreement) with Roth Capital Partners, LLC, (Roth Capital) pursuant to which Roth Capital agreed to act as placement agent for the Company in connection with the Offering.

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 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 completion of the second reverse rolling mill and 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.

On the Closing Date, pursuant to the Placement Agreement and in connection with the completion of the Offering, 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. 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.

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.

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 this Quarterly Report.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company s current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein. The Company undertakes no responsibility or obligation to update publicly these forward-looking statements, but may do so in the future in written or oral statements. Investors should take note of any future statements made by or on behalf 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 September 30, 2007 (unaudited) and June 30, 2007, the end of its prior fiscal year, and its unaudited consolidated results of operation for the three month periods ended September 30, 2007 and 2006.

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 three months ended September 30, 2007 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 months ended September 30, 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 three months ended September 30, 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 September 30, 2007 versus Three Months Ended September 30, 2006

Net income before tax increased by $144,256, or 4.4%, period-on-period to $3,407,865 for the three months ended September 30, 2007 from $3,263,609 for the three months ended September 30, 2006 and gross profit increased by $1,364,313, or 36.8%, period-on-period.

Gross Profit

Gross profits in absolute terms increased by $1,364,313, or 36.8%, period-on-period to $5,067,563 for the three months ended September 30, 2007 from $3,703,250 for the three months ended September 30, 2006, while gross profit margin decreased to 20.0% for the three months ended September 30, 2007 from 35.3% for the three months ended September 30, 2006. The increase in gross profits is mainly attributable to a 140.9% period-on-period increase in sales revenues in relation to a 197.7% period-on-period increase in cost of sales. The decrease in gross profit margin principally resulted from a change in sales mix over the three months ended September 30, 2007, which produced increased sales of lower margin products in the high-carbon cold-rolled steel product line and an increase in the cost of sales due to higher depreciation costs associated with the addition of a second mill.

Sales Revenues. Sales volume increased by 18,824 metric tons, or 191%, period-on-period to 28,683 metric tons for the three months ended September 30, 2007 from 9,859 tons for the three months ended September 30, 2006. As a result, sales revenues increased by $14,809,350, or 141%, period-on-period to $25,312,698 for the three months ended September 30, 2007 from $10,503,348 for the three months ended September 30, 2006. We believe that the increases in sales and sales revenues are a direct result of increases in our capacity and the building of our brand in China among users of precision steel products.

Average cost of production per ton increased to $706 for the three months ended September 30, 2007 compared to an average cost of production per ton of $690 for the three months ended September 30, 2006, representing an increase of $16 per ton, or 2.0%, period-on-period. The new 1400 mm cold-roll mill became operational at the beginning of October 2006, and it will likely take two to three years for the mill to reach its maximum production capacity.

Sales by Product Line. A break-down of our sales by product line for the three months ended September 30, 2007 and 2006 is as follows:

	2007			*2006*			*Period-on-period*
Product category	***Quantity (tons)***	***$ Amount***	***% of sales***	***Quantity (tons)***	***$ Amount***	***% of sales***	***Qty. Variance***
Low carbon cold-rolled	14,321	8,455,500	34	6,182	3,668,242	35	8,139
Low carbon hard rolled	2,387	1,531,850	6				2,387
High-carbon cold-rolled	8,936	13,637,161	54	1,208	4,840,658	47	7,728
High-carbon hot-rolled	1,897	1,355,408	5	2,378	1,809,410	17	(481)
Sales of Scrap Metal		258,774	1		155,182	1	
Subcontracting income	1,142	73,945		91	29,856		1,051
Total	28,683	25,312,698	100%	9,859	10,503,348	100	18,824

There were various changes in the break-down of sales among our product lines over the three months ended September 30, 2007 as we are now operating an additional mill and are in the process of developing new markets. High-carbon hot-rolled steel products only accounted for 6% of the current sales mix at an average selling price of $715 per ton for the three months ended September 30, 2007 compared to 17% of the sales mix at an average selling price per ton of $761 for the three months ended September 30, 2006. The lower priced low-carbon cold-rolled steel products accounted for 36% of the current sales mix at an average selling price of $590 per ton for the three months ended September 30, 2007 compared to $3,668,242 or 35% of the sales mix at an average selling price per ton of $593 for the three months ended September 30, 2006. Low carbon hard-rolled steel, which was not sold during the three months ended September 30, 2006, accounted for $1,531,850, or 6%, of the current sales mix at an average selling price of $689 per ton for the three months ended September 30, 2007.

We strive to find an appropriate sales mix that provides us with the stability and cash flows of the low-carbon cold-rolled steel products along with the higher margin provided by high-carbon cold-rolled products. Management continues to take appropriate action to optimize our product mix without adversely affecting overall sales volume. Management believes that there are high barriers to entry in the Chinese domestic precision steel industry and that our unique capabilities give us a competitive advantage to grow sales of higher margin products.

Average selling prices	***2007***	***2006***	***Variance***	
	$	***$***	***$***	***%***
Low-carbon cold-rolled	590	593	(3)	(1)%
Low-carbon hard rolled	642		642	100%
High-carbon cold-rolled	1,526	4,007	(2,481)	(42)%
High-carbon hot-rolled	714	761	(47)	(6)%
Subcontracting income	64	327	(263)	(80)%

The average unit selling price per ton generated decreased to $883 per ton for the three months ended September 30, 2007 compared to the corresponding period in 2006 of $1,065, representing a decrease of $183, or 17.2%, period-on-period. This decrease was due to a non-repeated order for a highly specialized type of high-carbon cold-rolled steel in the three months ended September 30, 2006 which favorably impacted average price for this product line and overall margins and an increase in sales volume of lower margin products in the high-carbon cold-rolled steel product line as we are operating an additional mill and developing new markets. Sales of high-carbon cold-rolled steel products have increased by 7,728 metric tons or 640% period-on-period to 8,936 metric tons for the three months ended September 30, 2007 compared to 1,208 metric tons for the three months ended September 30, 2006. While the volume increased of high-carbon cold-rolled steel increased, the average sales price declined $2,481, or 62%, to $1,526 in the three months ended September 30, 2007 as compared to an average selling of $4,007 in the three months ended September 30, 2006. This product accounted for $13,637,161, or 54%, of the total sales mix for the three months ended September 30, 2007 compared to $4,840,658, or 47%, of the sales mix for the three months ended September 30, 2006.

Sales Breakdown by Major Customer.

	September 30			
Customers	***2007 ($)***	***% to sales***	***2006 ($)***	***% to sales***
Shanghai Changshuo Steel Company Ltd	8,648,752	34	*	*
Shanghai Shengdejia Metal Products Limited	3,288,926	13	*	*
Beijing Beimo Aircraft Material Technology Ltd Co	1,746,538	7		
Hangzhou Relian Company Limited	1,393,982	6	1,285,775	12
Shangdong Province Boxing County Longhua Material Limited	1,277,358	5		
Shanghai Ruixuefeng Metals Co. Ltd	*	*	3,888,986	37
China Railway Materials Shanghai Company	*	*	*	*
Sinosteel Company Limited	*	*	1,082,329	10
Shanghai BaoGang XinBao Industrial Co., Ltd	*	*	481,307	5
Shanghai Xin Zhong Da Trading Co. Limited	*	*	286,997	3
	16,355,556	65	7,025,394	67
Others	8,957,142	35	3,477,954	33
Total	25,312,698	100	10,503,348	100

** Not major customers for the relevant years*

Sales revenues generated from the top five major customers as a percentage of total sales decreased to 65% for the three months ended September 30, 2007 as compared to 67% for the three months ended September 30, 2006. With the exception of Hangzhou Relian Company Limited, 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

	2007	*2006*	*Variance*	
	$	**$**	**$**	**%**
Cost of sales				
- Raw materials	18,487,907	5,717,139	12,770,768	223
- Direct labor	176,906	151,925	24,981	16
- Factory overhead	1,580,322	931,034	649,288	70
	20,245,135	6,800,098	13,445,037	198
Cost per units sold				
Total units sold	28,683	9,859	18,824	191
Average cost per unit sold	706	690	16	2

Cost of sales increased by $13,445,037 or 198% period-on-period to $20,245,135 for the three months ended September 30, 2007 from $6,800,098 for the three months ended September 30, 2006. Cost of sales represented 80% of sales revenues for the three months ended September 30, 2007 compared to 64.7% for the three months ended September 30, 2006. Average cost per ton sold increased by $16, or 2%, period-on-period to $706 per ton for the three months ended September 30, 2007 from $690 per ton for the three months ended September 30, 2006. Meanwhile, the average selling price per ton decreased by $183 per ton, or 17.2%, period-on-period to $883 per ton for the three months ended September 30, 2007 from $1,065 per ton for the three months ended September 30, 2006.

The raw materials cost component relative to sales revenues increased to 73% for the three months ended September 30, 2007 compared to 54% for the three months ended September 30, 2006. This was attributable to increases in the average purchase price of raw materials per unit produced by $65, or 11%, period-on-period to $645 for the three months ended September 30, 2007 compared to $580 for the three months ended September 30, 2006. Management believes that increases in the purchase price of raw materials were due to the excess of demand over supply of raw materials due to significant increases in infrastructure projects in China.

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

significant increases in sales of low-carbon cold-rolled steel to 14,321 metric tons (compared to 6,182 metric tons for the three months ended September 30, 2006) was generated at an average selling price of $634 per ton (compared to $593 for the three months ended September 30, 2006) for the three months ended September 30, 2007;

sales of 8,936 metric tons of high-carbon cold-rolled steel (compared to 1,208 metric tons for the three months ended September 30, 2006) generated at an average selling price of $1,639 per ton (compared to $4,007 per ton for the three months ended September 30, 2006) for the three months ended September 30, 2007; and sales of 2,387 metric tons of low-carbon hard-rolled steel at (compared to none for the three months ended September 30, 2006) generated at an average selling price of $689 per ton for the three months ended September 30, 2007.

The cost of raw materials consumed increased by $12,770,768, or 223%, period-on-period to $18,487,907 for the three months ended September 30, 2007 from $5,717,139 for the three months ended September 30, 2006. This increase was mainly attributable to increases in sales volume by 18,824 metric tons, or 191%, period-on-period to 28,683 metric tons for the three months ended September 30, 2007 from 9,859 metric tons for the three months ended September 30, 2006 resulting in higher input of raw materials utilized in production. Average unit cost of raw materials per unit produced increased by $65 per ton, or 11%, period-on-period to $645 per ton for the three months ended September 30, 2007 from $580 per ton for the three months ended September 30, 2006.

Manufacturing overhead costs increased by $649,288, or 70%, period-on-period to $1,580,322 for the three months ended September 30, 2007 from $931,034 for the three months ended September 30, 2006. The increase was mainly attributable to the combined effect of an increase in depreciation by $227,505, or 91%, period-on-period to $477,980 for the three months ended September 30, 2007 from $250,475 for the three months ended September 30, 2006, an increase in utilities by $220,851, or 175%, period-on-period to $346,994 for the three months ended September 30, 2007 from $126,143 for the three months ended September 30, 2006, and an increase in consumables by $259,281, or 113%, period-on-period to $488,238 for the three months ended September 30, 2007 from $228,957 for the three months ended September 30, 2006.

Expenses

Selling Expenses. Selling expenses increased by $61,008, or 154%, period-on-period, to $100,705 for the three months ended September 30, 2007 compared to the corresponding period in 2006 of $39,697. The increase was mainly attributable to increases in transportation, which rose by 697% period-on-period, due to our increased delivery charges of precision steel resulting from a broader customer base, including exports, as well as an increase in the frequency of deliveries. In response to these rising costs, Chengtong has adopted a policy of requiring all new customers to provide for transportation and delivery of goods.

Administrative Expenses**.** Administrative expenses increased by $300,189, or 161%, period-on-period, to $486,377 for the three months ended September 30, 2007 compared to the comparable period in 2006. This increase was chiefly due to increases in the amortization of intangible assets, listing fees relating to the Company s admission to the NASDAQ Capital Market, and salaries and wages. Increases in salaries and wages were principally due to increases in the average number of Chengtong staff.

Finance Costs. Net finance cost increased 117% period-on-period as a result of increases in total interest expense by $238,802 for 2007 compared to $203,339 for 2006.

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.

Current assets. Current assets increased significantly by $13,060,591, or 32%, period-on-period to $54,399,585 as of September 30, 2007 from $41,338,994 as of June 30, 2007 principally as a result of increases in cash and equivalents by $544,930, or 10%, period-on-period, accounts receivable by $20,658,139, or 248%, period-on-period offset by a decline in inventories of $7,895,919, or 50%, period-on-period. We also raised gross proceeds of $22,354,995 in February of 2007 through the private sale of our common stock.

Current liabilities. Current liabilities increased by $8,948,018, or 34%, period-on-period to $35,204,175 as of September 30, 2007 from $26,256,157 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 accounts payable.

As of September 30, 2007, we had $16,490,833 in short term bank debt. We expect to refinance such debt during the current year, 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 three months ended September 30, 2007, we invested $1,016,793 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 hydrogen annealing furnace and a new 1700mm cold roll mill at our facilities in Jia Ding. We estimate that these investments could total up to $18 million. We intend to fund these investments through a combination of funds from operations, working capital, bank debt and the sale of debt and/or equity securities. 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 months ended September 30, 2007, we did not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

		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	$ 24,296,761	$ 17,810,101	$ 6,486,600	$	$
Construction Commitments	4,270,236	4,270,236			
	$ 28,566,997	$ 22,080,337	$ 6,486,600	$	$

Bank Debt

Bank and other loans decreased by $384,957 or 1.7% period-on-period to $22,499,722 as of September 30, 2007 from $22,884,679 as of June 30, 2007. The decrease was attributable to the partial payoff of outstanding loans.

Short-term bank loans

The current portion of long-term debt decreased by $6,163,445, or 100%, from $6,163,445 at June 30, 2007 to none at September 30, 2007.

Hai Sheng Chen, an officer and director of the Company, provided an unsecured loan to Chengtong in 2003 with a maximum drawdown of $656,168 (RMB 5,000,000) for business development purposes. The loan is interest free and has no fixed terms of repayment. No further drawdown on this loan was made during the year, and as of September 30, 2007, $447,600 (RMB 3,357,000) remained outstanding.

Long-term bank loans

Long-term bank loans decreased by $7,033,270, or 54%, period-on-period to $6,008,889 as of September 30, 2007 compared to $13,042,159 as of June 30, 2007.

Land Use Rights

Tuorong has 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 term of 50 years at a cost of $472,441. Additionally, Chengtong has agreed to purchase a land use right from the Shanghai Labor and Economic Development Council with respect to a 27.4-acre parcel for a lease period of 50 years at a cost of $497,795. In connection with the aforementioned land use rights, Tuorong entered into a Compensation Agreement with the Shanghai Municipal Housing, Land and Resource Management Bureau to pay an aggregate amount of $831,680.

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.

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 advance.

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

RECENT ACCOUNTING PRONOUNCEMENTS

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.

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 September 30, 2007 the exchange rate was 7.5 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 September 30, 2007, the Group s outstanding financial instruments with foreign currency exchange rate risk exposure had an aggregate fair value of $5.2 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 $0.52 million at September 30, 2007.

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 September 30, 2007, the Group s total bank debt outstanding was $22,499,722, 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 its lenders. For the current financial year, annual interest on loans is anticipated to be approximately $1.8 million. The impact of a 1% increase in interest rates will increase interest expense by approximately $240,000. As our short-term borrowings mature, it 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 September 30, 2007, the aggregate fair value of the Group s financial instruments with exposure to interest rate risk was approximately $23 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 $0.1 million at September 30, 2007.

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 June 30, 2007 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.**

(a) **Disclosure Controls and Procedures**. An evaluation was performed, under the supervision and with the participation of Company management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Exchange Act). Based on that evaluation, management, including the CEO and CFO, has concluded that, as of September 30, 2007, the Company s disclosure controls and procedures were adequate to ensure that information required to be disclosed in reports that the Company files or submits under the Exchange Act has been recorded, processed, summarized and reported in accordance with the rules and forms of the SEC.

However, management also concluded that, although no significant deficiencies or material weaknesses were found, additional controls and procedures were required to improve the recordkeeping systems at Chengtong to ensure timely and effective reporting of information. In addition, management also concluded that additional financial personnel were required, particularly at the executive level, with experience with U.S. public companies and an appropriate level of knowledge, experience and training in the application of generally accepted accounting principles in the United States.

To address these concerns, we have recently engaged an outside management consultant who will review the Company s overall financial and accounting systems, with a recommendation to document and implement an accounting manual that will strengthen and improve the systems of controls, reconciliations, procedures, books and records. In addition, we have initiated a search for a senior financial executive with experience with U.S. GAAP and U.S. public company reporting and compliance obligations. Further resources will be added to the accounting department that is currently understaffed.

We do not consider that the deficiencies and weaknesses that we have identified jeopardize the quality of our financial statements for the period under review or for prior periods.

(b) **Changes in Internal Control over Financial Reporting**. There were no changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) during the period under review that materially affected, or are reasonably likely to material affect, our internal control over financial reporting.

This Quarterly Report does not include a report of management s assessment regarding internal control over financial reporting or an attestation report by our registered public accounting firm due to a transition period established by the rules of the SEC.

Part II - Other Information

Item 1. <u>Legal Proceedings.</u>

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 1A. <u>Risk Factors</u>.

We operate in a highly competitive environment in which there are numerous factors which can influence our business, financial position or results of operations and which can also cause the market value of our common stock to decline. Many of these factors are beyond our control and therefore, are difficult to predict. The following section sets forth what we believe to be the principal risks that could affect us, our business or our industry, and which could result in a material adverse impact on our financial results or cause the market price of our common stock to fluctuate or decline.

Risks Relating to the Company s Business

Steel consumption is cyclical and worldwide overcapacity in the steel industry and the availability of alternative products has resulted in intense competition, which may have an adverse effect on our profitability and cash flow.

Steel consumption is highly cyclical and generally follows general economic and industrial conditions both worldwide and in various smaller geographic areas. The steel industry has historically been characterized by excess world supply. This has led to substantial price decreases during periods of economic weakness, which have not been offset by commensurate price increases during periods of economic strength. Substitute materials are increasingly available for many steel products, which may further reduce demand for steel. Additional overcapacity or the use of alternative products could have a material adverse effect upon our results of operations.

Rapidly growing demand and supply in China and other developing economies may result in additional excess worldwide capacity and falling steel prices, which could adversely impact our results.

Over the last several years steel consumption in China and other developing economies such as India has increased at a rapid pace. Steel companies have responded by developing plans to rapidly increase steel production capability in these countries and entered into long-term contracts with iron ore suppliers in Australia and Brazil. Steel production, especially in China, has been expanding rapidly and could be in excess of Chinese demand depending on continuing growth rates. Because China is now the largest worldwide steel producer, any significant excess in Chinese capacity could have a major impact on domestic and international steel trade and prices.

Environmental compliance and remediation could result in substantially increased capital requirements and operating costs.

Our operating subsidiary, Chengtong, is subject to numerous Chinese provincial and local laws and regulations relating to the protection of the environment. These laws continue to evolve and are becoming increasingly stringent. The ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. Our consolidated business and operating results could be materially and adversely affected if Chengtong were required to increase expenditures to comply with any new environmental regulations affecting its operations.

We may require additional capital in the future and we cannot assure that capital will be available on reasonable terms, if at all, or on terms that would not cause substantial dilution to stockholdings.

The development of high quality specialty precision steel requires substantial funds. Sourcing external capital funds for product development and requisite capital expenditures are key factors that have and may in the future constrain our growth, production capability and profitability. To achieve the next phase of our corporate growth, increased production capacity, successful product development and additional external capital will be necessary. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to us, if at all. Any sale of a substantial number of additional shares of common stock or securities convertible into common stock will cause dilution to the holders of our common stock and could also cause the market price of our common stock to decline.

We face significant competition from competitors who have greater resources than we do, and we may not have the resources necessary to successfully compete with them.

We are one of a few manufacturers of specialty precision steel products in China. Differences in the type and nature of the specialty precision steel products in China s steel industry are relatively small, and, coupled with intense competition from international and local suppliers, to a limited extent, consumers demand can be price sensitive. Competitors may increase their market share through pricing strategies that adversely impact our business. Our business is in an industry that is becoming increasingly competitive and capital intensive, and competition comes from manufacturers located in China as well as from international competition. Our competitors may have financial resources, staff and facilities substantially greater than ours and we may be at a competitive disadvantage compared with larger companies.

We produce a limited number of products and may not be able to respond quickly to significant changes in the market or new market entrants.

Cold-rolled specialty precision steel is a relatively new industry in China; Chinese manufacturers of durable goods previously relied solely on imports from Japan, Korea, the European Union and the United States. We believe the average quality and standards of products of China s high precision steel industry lags behind the international norm. During the last three years, we have developed a nationally recognizable brand, however, we are not yet an internationally recognizable brand for our specialty steel products. Although we offer more than 40 high precision steel products, there are many other specialty precision steel products of similar nature in the market, even though none currently compete directly with our products. If there are significant changes in market demands and/or competitive forces, we may not be able to change our product mix or adapt our production equipment quickly enough to meet customers needs. Under such circumstances, our narrow band of precision steel products and/or new market entrants may negatively impact our financial performance.

Increased imports of steel products into China could negatively affect domestic steel prices and demand levels and reduce profitability of domestic producers, including Chengtong.

Through June 2007, China s total production of cold-rolled steel sheets increased approximately 54% over the comparable period in 2006. However, domestic production continues to be insufficient to meet demand. As a result, China continues to import a significant portion of its steel products. Foreign competitors may have lower labor costs, and are often owned, controlled or subsidized by their governments, which allows their production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions. Import levels may also be impacted by decisions of government agencies, under trade laws. Increases in future levels of imported steel could negatively impact future market prices and demand levels for our precision steel products.

We are dependent on our Chinese manufacturing operations to generate the majority of our income and profits, and the deterioration of any current favorable local conditions may make it difficult or prohibitive to continue to operate or expand in China.

Our current manufacturing operations are located in China, our administrative offices are in Hong Kong and we have additional establishments in the British Virgin Islands. The geographical distances between these facilities create a number of logistical and communications challenges, including time differences and differences in the cultures in each location, which makes communication and effective cooperation more difficult. In addition, because of the location of the manufacturing facilities in China, our operations in China could be affected by, among other things:

- economic and political instability in China, including problems related to labor unrest,

- lack of developed infrastructure,

variances in payment cycles,

currency fluctuations,

overlapping taxes and multiple taxation issues,

employment and severance taxes,

compliance with local laws and regulatory requirements,

greater difficulty in collecting accounts receivable, and

the burdens of cost and compliance with a variety of foreign laws.

Moreover, inadequate development or maintenance of infrastructure in China, including adequate power and water supplies, transportation, raw materials availability or the deterioration in the general political, economic or social environment could make it difficult, more expensive and possibly prohibitive to continue to operate or expand our facilities in China.

Our operations are international and we are subject to significant worldwide political, economic, legal and other uncertainties that may make it difficult or costly to collect amounts owed to us or to conduct operations should materials needed from certain places be unavailable for an indefinite or extended period of time.

We have subsidiaries in the British Virgin Islands and China. We manufacture all of our products in China and substantially all of the net book value of our total fixed assets is located there. However, we sell our products to customers outside of China as well as domestically. As a result, we have receivables from and goods in transit to locations outside of China. Protectionist trade legislation in the United States or other countries, such as a change in export or import legislation, tariff or duty structures, or other trade policies, could adversely affect our ability to sell products in these markets, or even to purchase raw materials or equipment from foreign suppliers. Moreover, we are subject to a variety of United States laws and regulations, changes to which may affect our ability to transact business with certain customers or in certain product categories.

In China, Chengtong is subject to numerous national, provincial and local governmental regulations, all of which can limit our ability to react to market pressures in a timely or effective way, thus causing us to lose business or miss opportunities to expand our business. These include, among others, regulations governing:

environmental and waste management,

our relationship with our employees, including: wage and hour requirements, working and safety conditions, citizenship requirements, work permits and travel restrictions,

property ownership and use in connection with our leased facilities in China, and

import restrictions, currency restrictions and restrictions on the volume of domestic sales.

The end-use markets for certain of our products are highly competitive and customers are willing to accept substitutes for our products which could reduce our results of operations.

Buyers of certain cold-rolled steel products are in highly competitive markets. Cold-rolled precision steel competes with other materials, such as aluminum, plastics, composite materials and glass, among others, for industrial and commercial applications. Customers have demonstrated a willingness to substitute other materials for cold-rolled steel. The willingness of our customers to accept substitutes for cold-rolled steel products could have a material adverse effect on our financial results.

We may not be able to pass on to customers the increases in the costs of our raw materials, particularly crude steel.

We require substantial amounts of raw materials in our business, consisting principally of steel slabs and strip steel. Any substantial increases in the cost of crude steel could adversely affect our financial condition and results of operations. The availability and price of crude steel depends on a number of factors outside our control, including general economic conditions, domestic and international supply and tariffs. Increased domestic and worldwide demand for crude steel has had and will continue to have the effect of increasing the prices that we pay for these raw materials, thereby increasing our cost of sales. Generally, there is a potential time lag between changes in prices under our purchase contracts and the point when we can implement a corresponding change under our sales contracts with our customers. As a result, we can be exposed to fluctuations in the price of raw materials, since, during the time lag period, we may have to temporarily bear the additional cost of the change under our purchase contracts, which could have a material adverse effect on our profitability. If raw material prices were to increase significantly without a commensurate increase in the market value of our products, our financial condition and results of operations would be adversely affected.

Although we are dependent on a steady flow of raw materials for our operations, we do not have in place long-term supply agreements for all of our material requirements.

We rely on several suppliers to provide us with the raw materials used in our operations, although a substantial portion of our raw material requirements is met by BaoSteel Trading Co., Ltd. We do not currently have long-term supply contracts with any particular supplier, including BaoSteel Trading Co., Ltd., to assure a continued supply of the raw materials we need. While we maintain good relationships with these suppliers, the supply of raw materials may nevertheless be interrupted on account of events outside our control, which will negatively impact our operations.

We have substantial indebtedness with floating interest rates and the cost of our borrowings may increase.

We are subject to interest rate risk on our non-derivative financial instruments. We do not hedge our interest rate risk. At September 30, 2007, our total bank debt outstanding was $22,499,722, 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 its lenders. For the current financial year, annual interest on loans is anticipated to be approximately $1.8 million. The impact of a 1% increase in interest rates will increase interest expense by approximately $240,000. 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 our stockholders.

At September 30, 2007, the aggregate fair value of our financial instruments with exposure to interest rate risk was approximately $23 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 $0.1 million at September 30, 2007.

The loss of any key executive or our failure to attract and retain key personnel could adversely affect our future performance, strategic plans and other objectives.

The loss or failure to attract and retain key personnel could significantly impede our future performance, including product development, strategic plans, marketing and other objectives. Our success depends to a substantial extent not only on the ability and experience of our senior management, but particularly upon our Chairman, Wo Hing Li; the General Manager of Chengtong, Hai Sheng Chen; and Chief Financial Officer, Leada Tak Tai Li. We do not currently have in place key man life insurance on Wo Hing Li, Hai Sheng Chen or Leada Tak Tai Li. To the extent that the services of these officers and directors would be unavailable to us, we would be required to recruit other persons to perform the duties performed by Wo Hing Li, Hai Sheng Chen and Leada Tak Tai Li. We may be unable to employ other qualified persons with the appropriate background and expertise to replace these officers and directors on terms suitable to us.

We may not be able to retain, recruit and train adequate management and production personnel. We rely heavily on those personnel to help develop and execute our business plans and strategies, and if we lose such personnel, it would reduce our ability to operate effectively.

Our continued operations are dependent upon our ability to identify and recruit adequate management and production personnel in China. We require trained graduates of varying levels and experience and a flexible work force of semi-skilled operators. Many of our current employees come from the more remote regions of China as they are attracted by the wage differential and prospects afforded by Shanghai and our operations. With the economic growth currently being experienced in China, competition for qualified personnel is substantial, and there can be no guarantee that a favorable employment climate will continue and that wage rates we must offer to attract qualified personnel will enable us to remain competitive internationally. The inability to attract such personnel or the increased cost of doing so could reduce our competitive advantage relative to other precision steel producers, reducing or eliminating our growth in revenues and profits.

We may not be able to protect adequately our intellectual property from infringement or unauthorized use by third parties.

Except for a patent on the Environment-Conscious Mill Bearing with Inner Circular Lubrication, we have no patents or licenses that protect our intellectual property. Unauthorized parties may attempt to copy aspects of our processes and know-how or to obtain and use information that we regard as proprietary. Policing unauthorized use of our processes and know-how is difficult. Our experienced key engineers and management staff are extensively involved in all facets of research, design, craftwork, styling and development of the specialty precision products. Potential risks on the divulgence of skills and the development of new products increase should these employees resign, as we rely heavily on them. Chengtong has elected to protect internally developed know-how and production processes (such as system pressure, cleanliness of the lubrication, temperature control, appropriate allocation of oil supply and retrieving, which are vital in providing a radical solution to the difficulties associated with lubricating rolling mills backing bearing) by requiring all key personnel (production engineers and management staff) to sign non-disclosure and confidentiality contracts. However, this means of protecting our proprietary rights may not be adequate. In addition, the laws of some foreign countries do not protect our proprietary rights as extensively as do U.S. laws. Our failure to protect adequately our proprietary rights may allow third parties to duplicate our products, production processes or develop functionally equivalent or superior technology. In addition, our competitors may independently develop similar technologies or design around our proprietary intellectual property.

We are subject to risks associated with changing technology and manufacturing techniques, which could place us at a competitive disadvantage.

The successful implementation of our business strategy requires us to continuously evolve our existing products and services and introduce new products and services to meet customers needs. Our designs and products are characterized by stringent performance and specification requirements that mandate a high degree of manufacturing and engineering expertise. We believe that our customers rigorously evaluate our services and products on the basis of a number of factors, including, but not limited to:

- quality,
- price competitiveness,
- technical expertise and development capability,
- innovation,
- reliability and timeliness of delivery,
- product design capability,
- operational flexibility,
- customer service, and
- overall management.

Our success depends on our ability to continue to meet our customers changing requirements and specifications with respect to these and other criteria. There can be no assurance that we will be able to address technological advances or introduce new designs or products that may be necessary to remain competitive within the precision steel industry.

We depend upon our largest customers for a significant portion of our sales revenue, and we cannot be certain that sales to these customers will continue. If sales to these customers do not continue, then our sales may decline and our business may be negatively impacted.

We currently supply high precision steel products to 12 major customers in the Chinese domestic market. For the three months ended September 30, 2007 and 2006, sales revenues generated from the top five major customers amounted to 65% and 67% of total sales revenues, respectively; sales to the largest single customer for the same periods amounted to 34% and 37% of total sales revenues, respectively. We do not enter into long-term contracts with our customers, and therefore cannot be certain that sales to these customers will continue. The loss of any of our largest customers would likely have a material negative impact on our sales revenues and business.

Defects in our products could impair our ability to sell products or could result in litigation and other significant costs.

Detection of any significant defects in our precision steel products may result in, among other things, delay in time-to-market, loss of market acceptance and sales of its products, diversion of development resources, injury to our reputation, litigation or fines, or increased costs to correct such defects. Defects could harm our reputation, which could result in significant costs and could impair our ability to sell our products. The costs we may incur in correcting any product defects may be substantial and could decrease our profit margins.

Failure to optimize our manufacturing potential and cost structure could materially increase our overhead, causing a decline in our margins and profitability.

We strive to utilize the manufacturing capacity of our facilities fully but may not do so on a consistent basis. Our factory utilization is dependent on our success in, among other things:

- accurately forecasting demand,
- predicting volatility,
- timing volume sales to our customers,

- balancing our productive resources with product mix, and
- planning manufacturing services for new or other products that we intend to produce.

Demand for contract manufacturing of these products may not be as high as we expect, and we may fail to realize the expected benefit from our investment in our manufacturing facilities. Our profitability and operating results are also dependent upon a variety of other factors, including, but not limited to:

- utilization rates of manufacturing lines,
- downtime due to product changeover,
- impurities in raw materials causing shutdowns, and
- maintenance of contaminant-free operations.

Failure to optimize our manufacturing potential and cost structure could materially and adversely affect our business and operating results.

Moreover, our cost structure is subject to fluctuations from inflationary pressures in China and other geographic regions where we conduct business. China is currently experiencing dramatic growth in its economy. This growth may lead to continued pressure on wages and salaries that may exceed our budget and adversely affect our operating results.

Our production facilities are subject to risks of power shortages which may adversely affect our ability to meet our customers   needs and reduce our revenues.

Many cities and provinces in China have suffered serious power shortages since the second quarter of 2004. Many of the regional grids do not have sufficient power generating capacity to fully satisfy the increased demand for electricity driven by continual economic growth and persistent hot weather. Local governments have occasionally required local factories to temporarily shut down their operations or reduce their daily operational hours in order to reduce local power consumption levels. To date, our operations have not been affected by those administrative measures. However, there is a risk that our operations may be affected by those administrative measures in the future, thereby causing material production disruption and delay in delivery schedule. In such event, our business, results of operation and financial conditions could be materially adversely affected. We do not have any back-up power generation system. Although we have not experienced any power outages in the past, we may be adversely affected by power outages in the future.

Unexpected equipment failures may lead to production curtailments or shutdowns.

Interruptions in our production capabilities will adversely affect our production costs, products available for sales and earnings for the affected period. In addition to equipment failures, our facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. Our manufacturing processes are dependent upon critical pieces of equipment, such as our various cold-rolling mills, as well as electrical equipment, such as transformers, and this equipment may, on occasion, be out of service as a result of unanticipated failures. We have experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures.

Our insurance may not be adequate if our production facilities were destroyed or significantly damaged as a result of fire or some other natural disaster.

All of our products are currently manufactured at our existing facilities located in the Jiading District in Shanghai, China. Fire fighting and disaster relief or assistance in China may not be as developed as in Western countries. While we maintain property damage insurance aggregating approximately $18.5 million covering our raw materials, finished goods, equipment and buildings and another $10.5 million insurance against equipment breakdown, we do not maintain business interruption insurance. Material damage to, or the loss of, our production facilities due to fire, severe weather, flood or other act of God or cause, even if insured, could have a material adverse effect on our financial condition, results of operations, business and prospects.

Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations.

Our limited operating history may not provide a meaningful basis on which to evaluate our business. Although our revenues have grown rapidly since inception, we might not be able to maintain our profitability or we may incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

Implement our business model and strategy and adapt and modify them as needed;

Manage our expanding operations and product offerings;

Maintain adequate control of our expenses;

Anticipate and adapt to changing conditions in the precision steel markets in which we operate as well as the impact of any changes in government regulation; and

Anticipate mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

Our business, business prospects and results of operations will be affected if we are not successful in addressing any or all of these risks and difficulties.

Failure to comply with the U.S. Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the U.S. Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. Foreign companies, including some that may compete with us, are not subject to these prohibitions, and therefore may have a competitive advantage over us. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC, and our executive officers and employees have not been subject to the U.S. Foreign Corrupt Practices Act prior to the completion of the Stock Exchange Agreement in December 2006. We can make no assurance that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based upon U.S. laws, including the federal securities laws or other foreign laws against us or our management.

Substantially all of our current operations are conducted in China. Moreover, all but one of our directors and all of our officers are nationals and residents of China or Hong Kong. All or substantially all of the assets of these persons are located outside the United States. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China or Hong Kong upon these persons. In addition, uncertainty exists as to whether the courts of China or Hong Kong would recognize or enforce judgments of U.S. courts obtained against us or our officers and/or directors predicated upon the civil liability provisions of the securities law of the United States or any state thereof, or be competent to hear original actions brought in China or Hong Kong against us or such persons predicated upon the securities laws of the United States or any state thereof.

Risks Relating to China

We face significant risks if the Chinese government changes its policies, laws, regulations, tax structure or its current interpretations of its laws, rules and regulations relating to our operations in China.

Chengtong s manufacturing facility is located in Shanghai, China. As of September 30, 2007, substantially all of our assets are located in China and, except for a small volume of exports, all of our sales revenues are generated in China. Our results of operations, financial state of affairs and future growth are, to a significant degree, subject to China s economic, political and legal development and related uncertainties. Our operations and results could be materially affected by a number of factors, including, but not limited to:

changes in policies by the Chinese government resulting in changes in laws or regulations or the interpretation of laws or regulations,

confiscatory taxation,

freezes on commercial bank lending,

changes in employment restrictions,

restrictions on imports and sources of supply, import duties,

corruption,

currency revaluation, and

the expropriation of private enterprise.

Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activities and greater economic decentralization. If the Chinese government does not continue to pursue its present policies that encourage foreign investment and operations in China, or if these policies are either not successful or are significantly altered, then our business could be adversely affected. Chengtong could even be subject to the risk of nationalization, which could result in the total loss of our stockholders investment. Following the Chinese government s policy of privatizing many state-owned enterprises, the Chinese government has attempted to augment its revenues through increased tax collection. Continued efforts to increase tax revenues could result in increased taxation expenses being incurred by us. Economic development may be limited as well by the imposition of austerity measures intended to reduce inflation, the inadequate development of infrastructure and the potential unavailability of adequate power and water supplies, transportation and communications.

Chinese laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such Chinese laws and regulations may have a material and adverse effect on our business.

China s legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of Chinese laws and regulations, including but not limited to the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We are considered a foreign person or foreign funded enterprise under Chinese laws, and as a result, we are required to comply with Chinese laws and regulations. We cannot predict what effect the interpretation of existing or new Chinese laws or regulations may have on our businesses. If the relevant authorities find us in violation of Chinese laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

levying fines;

revoking our business and other licenses;

requiring that we restructure our ownership or operations; and

requiring that we discontinue any portion or all of our business.

Our business, results of operations and overall profitability are linked to the economic, political and social conditions in China.

Substantially all of our business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources. The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although the Chinese government has implemented measures recently emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Therefore, the Chinese government s involvement in the economy may affect our business operations, results of operations and our financial condition.

A slowdown or other adverse developments in the Chinese economy may materially and adversely affect our customers, demand for our services and our business.

All of our operations are conducted in China and substantially all of our revenues are generated from sales to businesses operating in China. Although the Chinese economy has grown significantly in recent years, such growth may not continue. We do not know how sensitive we are to a slowdown in economic growth or other adverse changes in Chinese economy which may affect demand for precision steel products. A slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in China may materially reduce the demand for our products and in turn reduce our results of operations and our productivity.

Inflation in China could negatively affect our profitability and growth.

While the Chinese economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of raw materials, it may have an adverse effect on our profitability. In order to control inflation in the past, the Chinese government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowing of economic growth. In October 2004, the People s Bank of China, China s central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was prompted by inflationary concerns in the Chinese economy. Repeated increases in interest rates by the central bank will likely slow economic activity in China which could, in turn, materially increase our costs and also reduce demand for our products.

Controversies affecting China s trade with the United States could depress our stock price.

While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies and trade disagreements between the United States and China may arise that have a material adverse effect upon our stock price. Political or trade friction between the United States and China, whether or not actually affecting its business, could also materially and adversely affect the prevailing market price of our common stock.

We may have difficulty establishing adequate management, legal and financial controls in China, which could impair our planning processes and make it difficult to provide accurate reports of our operating results.

China historically has not followed Western style management and financial reporting concepts and practices, and its access to modern banking, computer and other control systems has been limited. We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in China in these areas. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards, making it difficult for management to forecast its needs and to present the results of our operations accurately at all times.

Imposition of trade barriers and taxes may reduce our ability to do business internationally, and the resulting loss of revenue could harm our profitability.

We may experience barriers to conducting business and trade in our targeted emerging markets in the form of delayed customs clearances, customs duties and tariffs. In addition, we may be subject to repatriation taxes levied upon the exchange of income from local currency into foreign currency, substantial taxes of profits, revenues, assets and payroll, as well as value-added tax. The markets in which we plan to operate may impose onerous and unpredictable duties, tariffs and taxes on our business and products, and there can be no assurance that this will not reduce the level of sales that we achieve in such markets, which would reduce our revenues and profits.

There can be no guarantee that China will comply with the membership requirements of the World Trade Organization, which could leave us subject to retaliatory actions by other governments and reduce our ability to sell our products internationally.

China has agreed that foreign companies will be allowed to import most products into any part of China. In the sensitive area of intellectual property rights, China has agreed to implement the trade-related intellectual property agreement of the Uruguay Round. There can be no assurances that China will implement any or all of the requirements of its membership in the World Trade Organization in a timely manner, if at all. If China does not fulfill its obligations to the World Trade Organization, we may be subject to retaliatory actions by the governments of the countries into which we sell our products, which could render our products less attractive, thus reducing our revenues and profits.

Our labor costs are likely to increase as a result of changes in Chinese labor laws.

We have recently experienced an increase in the cost of labor. Recent changes in Chinese labor laws that are effective January 1, 2008 are likely to increase costs further and impose restrictions on our relationship with our employees. There can be no assurance that the labor laws will not change further or that their interpretation and implementation will vary, which may have a material adverse effect upon our business and results of operations.

We currently receive preferential tax treatment under Chinese law which will expire in 2008 and may negatively impact our profitability.

Prior to the adoption of the PRC Enterprise Income Tax Law on March 16, 2007 (the EIT Law), Chinese income tax law provided that any foreign-invested enterprise engaged in manufacturing and scheduled to operate for not less than 10 years was entitled to receive an exemption from the entire central government income tax for the two years beginning with its first profitable year and receive a 50% reduced income tax in the third through fifth years. As a wholly foreign owned enterprise, Chengtong has been entitled to such preferential tax treatment. The full tax exemption for the enterprise income tax expired on December 31, 2005 and the one-half reduction on the enterprise profit tax to 13.5% will expire on December 31, 2008. After such tax holidays, our profits will be subject to the full tax rate of 25%, effective as of January 1, 2008 in accordance with the EIT Law passed in 2007. If we are unable to increase gross income by an amount greater than that needed to offset the loss of this preferential tax treatment, such a condition could have a material adverse effect on the results of its operations.

Under the EIT Law, a uniform tax rate of 25.0% has been adopted for all enterprises (including foreign-invested enterprises) and several tax incentives enjoyed by foreign-invested enterprises have been cancelled. However, for foreign-invested enterprises established before the promulgation of the EIT Law, a five-year transition period is provided during which reduced rates will apply but gradually be phased out. Since the PRC government has not announced implementation measures for the transitional policy with regards to such preferential tax rates, we cannot reasonably estimate the financial impact of the new tax law to us at this time. Further, any future increase in the enterprise income tax rate applicable to us or other adverse tax treatments would have a material adverse effect on our results of operations and financial condition.

Fluctuations in exchange rates of the Renminbi, or RMB, could adversely affect the value of and dividends, if any, payable on shares of our common stock or otherwise impact our operations and profitability.

We collect revenue from operations principally in the Chinese Renminbi. Except for recent exports to Nigeria, Thailand, Indonesia 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. The results of operations denominated in foreign currency are translated at the average rate of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution.

The Chinese Renminbi remained stable against the U.S. Dollar at approximately 8.28 RMB to 1.00 U.S. Dollar for several years until July 21, 2005 when the Chinese currency regime was altered, with a 2.1% revaluation versus the U.S. Dollar. This move initially valued the Renminbi at 8.11 per U.S. Dollar. 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. As of September 28, 2007, the exchange rate was 7.49 RMB 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, if any, will be in U.S. Dollars, 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. For example, to the extent that we need to convert U.S. Dollars we receive from an offering of our securities into Renminbi for our operations, if the Renminbi appreciates against the U.S. Dollar, the Renminbi equivalent of the US Dollar we convert would be reduced. Conversely, if we decide to convert our Renminbi into U.S. Dollars for the purpose of making payments for dividends on our common stock or for other business purposes and the U.S. Dollar appreciates against the Renminbi, the U.S. Dollar equivalent of the Renminbi we convert would be reduced. In addition, appreciation of the Renminbi could make our products more expensive relative to those of our competitors or increase our profitability in U.S. Dollar terms.

At September 30, 2007, our outstanding financial instruments with foreign currency exchange rate risk exposure had an aggregate fair value of $5.2 million (including our 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 $0.52 million at September 30, 2007.

The ability of our Chinese operating subsidiary to pay certain foreign currency obligations, including dividends, may be restricted due to foreign exchange control regulations of China.

The ability of Chengtong to pay dividends may be restricted due to the foreign exchange control policies and availability of cash balances. Since substantially all of our operations are conducted in China and a majority of our revenues are generated in China, a significant portion of our revenue earned and currency received are denominated in Renminbi.

The Chinese government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Renminbi is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, if any, on our common stock or otherwise satisfy foreign currency denominated obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The Chinese government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

Risks Relating to Our Common Stock

The market price for shares of our common stock could be volatile and could decline.

Our common stock is listed on The NASDAQ Capital Market under the symbol CPSL. The market price for the shares of our common stock may fluctuate in response to a number of factors, many of which are beyond our control. In some cases, these fluctuations may be unrelated to our operating performance. Many companies with Chinese operations have experienced dramatic volatility in the market prices of their common stock. We believe that a number of factors, both within and outside of our control, could cause the price of our common stock to fluctuate, perhaps substantially. Factors such as the following could have a significant adverse impact on the market price of our common stock:

- our ability to obtain additional financing and, if available, the terms and conditions of the financing;
- our financial position and results of operations;
- period-to-period fluctuations in our operating results;
- changes in estimates of our performance by any securities analysts;
- substantial sales of our common stock pursuant to Rule 144 or otherwise;
- new regulatory requirements and changes in the existing regulatory environment;
- the issuance of new equity securities in a future offering;

- changes in interest rates; and

- general economic, monetary and other national conditions, particularly in the U.S. and China.

The trading market in our common stock is limited and illiquid and may cause volatility in the market price.

As of September 2007, 37.4% or 13,964,883 shares, of our issued and outstanding common stock was not owned by affiliates, of which 10,338,729 were unrestricted and free to trade. The market price for our common stock is subject to volatility and holders of common stock may be unable to resell their shares at or near their original purchase price or at any price. In the absence of an active trading market:

- investors may have difficulty buying and selling;

- market visibility for our common stock may be limited; and

- a lack of visibility for our common stock may have a depressive effect on the market for our common stock.

Shares eligible for future sale may adversely affect the market price of our common stock, as the future sale of a substantial amount of outstanding stock in the public marketplace could reduce the price of our common stock.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market, pursuant to Rule 144 promulgated under the Securities Act, subject to certain limitations or otherwise. In general, pursuant to Rule 144, a stockholder (or stockholders whose shares are aggregated) who has satisfied a one-year holding period may, under certain circumstances, sell within any three-month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume of the class during the four calendar weeks prior to such sale. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitations, by a non-affiliate of our company that has satisfied a two-year holding period. Any substantial sale of common stock pursuant to Rule 144 or pursuant to a resale prospectus may have an adverse effect on the market price of our common stock.

One stockholder, who is our Chief Executive Officer, exercises significant control over matters requiring shareholder approval.

Wo Hing Li, our Chief Executive Officer, had voting power as of September 30, 2007 equal to approximately 59.2% of our voting securities. As a result, Wo Hing Li, through such stock ownership, exercises significant control over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership in Wo Hing Li may also have the effect of delaying or preventing a change in control or other transactions that may otherwise be viewed as beneficial by shareholders other than Wo Hing Li.

We may be required to raise additional financing by issuing new securities with terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock.

We may require additional financing to fund future operations, develop and exploit existing and new products and to expand into new markets. We may not be able to obtain financing on favorable terms, if at all. If we raise additional funds by issuing equity securities, the percentage ownership of our current shareholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and the voting power of shares of our common stock. If we raise additional funds by issuing debt securities, the holders of these debt securities would similarly have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest expense for us.

We may incur significant costs to ensure compliance with U.S. corporate governance and accounting requirements.

We may incur significant costs associated with our public company reporting requirements, costs associated with applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the SEC and requirements in connection with the listing of our common stock on The NASDAQ Capital Market. We expect all of these applicable rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

Our officers and directors have limited experience with the regulatory requirements for U.S. public companies, which could impair our ability to satisfy public company filing requirements and could increase our securities compliance costs.

All of our officers and most of our directors do not have any prior experience as officers and directors of a U.S. publicly traded company, or in complying with the regulatory requirements applicable to a U.S. public company. As a result, we could have difficulty satisfying the regulatory requirements applicable to U.S. public companies, which could adversely affect the market for our common stock. At present, we rely upon outside experts to advise us on matters relating to financial accounting and public company reporting. While we believe that it will be possible to satisfy our public company reporting requirements through the use of third party experts, our general and administrative costs will remain higher until we have developed or acquired internal expertise in these matters

Standards for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 are uncertain, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of our assessment by our independent registered public accountants. The standards that must be met for management to assess the internal control over financial reporting as effective are complex, and require significant documentation, testing and possible remediation to meet the detailed standards and impose significant additional expenses on us. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, the attestation process required of our independent registered public accountants is new, and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

We do not foresee paying cash dividends in the foreseeable future.

We have not paid cash dividends on our stock, and we do not plan to pay cash dividends on our stock in the foreseeable future.

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:
2.1	Certificate of Ownership and Merger
2.2	Agreement and Plan of Merger
3.1	Certificate of Incorporation

3.2	Bylaws
4.1	Specimen Certificate for Common Stock (incorporated herein by reference to the Company s Form 10-Q for the quarterly period ended December 31, 2006)
4.2	Form of Warrant (incorporated herein by reference to the Company s Form 8-K, dated February 16, 2007, Exhibit 4.1)
4.3	Warrant, dated February 22, 2007, to Belmont Capital Group Limited (incorporated herein by reference to the Company s Form 8-K, dated February 16, 2007, Exhibit 4.2)
4.4	Warrant, dated February 22, 2007, to CCG Elite Investor Relations (incorporated herein by reference to the Company s Form 8-K, dated February 16, 2007, Exhibit 4.3)
21	List of Subsidiaries of the Company (incorporated herein by reference to the Company s Form 10-Q for the quarterly period ended December 31, 2006)
23	Consent of Murrell, Hall, McIntosh & Co. PLLP
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

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: November 19, 2007 By: /s/ Wo Hing Li

Wo Hing Li
President

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