

China Precision Steel, Inc.
Form 10-Q
February 09, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: December 31, 2008

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 its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

14-1623047
(I.R.S. Employer Identification No.)

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

+1-852-2543-2290
(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 Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The number of shares outstanding of each of the issuer's classes of common equity, as of December 31, 2009 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	46,562,955

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ITEM 1. FINANCIAL STATEMENTS.

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

	Notes	(Unaudited) December 31, 2008	June 30, 2008
Assets			
Current assets			
Cash and cash equivalents		\$ 14,763,665	\$ 18,568,842
Accounts receivable			
Trade, net of allowance for bad and doubtful debts of \$4,877,672 and \$1,033,479 at December 31 and June 30, 2008, respectively		23,248,541	33,783,074
Bills receivable		7,634,472	4,309,703
Other		307,992	571,746
Inventories	5	18,359,109	17,815,087
Prepaid expenses		108,410	58,105
Advances to suppliers, net of allowances of \$2,534,410 and \$2,522,837 at December 31 and June 30, 2008, respectively		30,281,090	33,027,365
Total current assets		94,703,279	108,133,922
Property and equipment			
Property, plant and equipment, net	6	40,646,361	39,199,305
Construction-in-progress	7	25,698,608	16,476,454
		66,344,969	55,675,759
Intangible assets, net		2,343,532	1,625,690
Goodwill		99,999	99,999
Total assets		\$ 163,491,779	\$ 165,535,370
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 11,954,266	\$ 12,047,981
Advances from customers	8	4,014,580	6,996,996

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Other taxes payables		3,566,543	3,976,239
Current income taxes payable		4,271,276	4,742,387
Short-term loans	9	17,457,984	17,465,799
Total current liabilities		41,264,649	45,229,402
Stockholders' equity:			
Preferred stock: \$0.001 per value, 8,000,000 shares authorized, no shares outstanding at December 31, and June 30, 2008	11		
Common stock: \$0.001 par value, 62,000,000 shares authorized, 46,562,955 and 46,472,955 issued and outstanding at December 31, and June 30, 2008	11	46,563	46,473
Additional paid-in capital	11	75,642,383	75,372,488
Accumulated other comprehensive income		10,046,082	9,295,658
Retained earnings		36,492,102	35,591,349
Total stockholders' equity		122,227,130	120,305,968
Total liabilities and stockholders' equity		\$ 163,491,779	\$ 165,535,370

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

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

	Notes	Three Months Ended		Six Months Ended	
		December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Revenues					
Sales revenue		\$ 17,573,959	\$ 13,228,321	\$ 42,924,378	\$ 40,415,556
Cost of goods sold		14,122,622	8,528,852	35,520,383	28,773,987
Gross profit		3,451,337	4,699,469	7,403,995	11,641,569
Operating expenses					
Selling expenses		1,122,532	180,744	1,333,830	281,449
Administrative expenses		578,105	846,220	1,040,205	1,332,596
Allowance for bad and doubtful debts		3,829,462	25,782	3,829,462	651,780
Depreciation and amortization expense		33,318	15,798	59,521	29,430
Total operating expenses		5,563,417	1,068,544	6,263,018	2,295,255
Income/(loss) from operations		(2,112,080)	3,630,925	1,140,977	9,346,314
Other income (expense)					
Other revenues		138,998	783,255	259,701	792,410
Interest and finance costs		(320,777)	(316,860)	(648,182)	(759,001)
Total other income (expense)		(181,779)	466,395	(388,481)	33,409
Net income/(loss) from operations before income tax		(2,293,859)	4,097,320	752,496	9,379,723
Provision for (benefit from) income tax	10				
Current		(318,878)	610,869	(148,257)	1,116,594
Deferred		—	—	—	(1,064,028)
Total income tax expense		(318,878)	610,869	(148,257)	52,566
Net income/(loss)		\$ (1,974,981)	\$ 3,486,451	\$ 900,753	\$ 9,327,157
Basic earnings/(loss) per share	12	\$ (0.04)	\$ 0.08	\$ 0.02	\$ 0.23
Basic weighted average shares outstanding		46,562,955	43,031,346	46,559,531	40,204,745
Diluted earnings/(loss) per share	12	\$ (0.04)	\$ 0.08	\$ 0.02	\$ 0.23

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Diluted weighted average shares outstanding	46,562,955	43,639,342	46,566,423	40,809,437
The Components of comprehensive income:				
Net income/(loss)	\$ (1,974,981)	\$ 3,486,451	\$ 900,753	\$ 9,327,157
Foreign currency translation adjustment	677,905	1,179,322	750,424	2,084,859
Comprehensive income/(loss)	\$ (1,297,076)	\$ 4,665,773	\$ 1,651,177	\$ 11,412,016

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

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

	Ordinary Shares Share	Shares Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at June 30, 2007	37,378,141	\$ 37,378	\$ 31,867,063	\$ 2,192,160	\$ 17,008,238	\$ 51,104,839
Sale of common stock	7,100,000	7,100	44,498,650	—	—	44,505,750
Syndication fees	—	—	(130,468)	—	—	(130,468)
Make good shares	2,000,000	2,000	(2,000)	—	—	—
Exercise of warrants	765,872	766	1,729,235	—	—	1,730,001
Cancellation of stock	(771,060)	(771)	(2,589,992)	—	—	(2,590,763)
Foreign currency translation adjustment	—	—	—	7,103,498	—	7,103,498
Net income	—	—	—	—	18,583,111	18,583,111
Balance at June 30, 2008	46,472,953	46,473	75,372,488	9,295,658	35,591,349	120,305,968
Exercise of warrants	90,000	90	269,895	—	—	269,985
Foreign currency translation adjustment	—	—	—	750,424	—	750,424
Net income	—	—	—	—	900,753	900,753
Balance at December 31, 2008 (unaudited)	46,562,953	\$ 46,563	\$ 75,642,383	\$ 10,046,082	\$ 36,492,102	\$ 121,227,130

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

	2008	2007
Cash flows from operating activities		
Net Income	\$ 900,753	\$ 9,327,157
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,825,544	992,570
Allowance for bad and doubtful debts	3,829,462	651,780
Net changes in assets and liabilities:		
Accounts receivable, net	3,801,518	(31,266,517)
Inventories	(461,094)	5,195,155
Deposits	—	15,018
Prepaid expenses	(50,382)	(326,065)
Advances to suppliers	2,890,245	1,549,672
Accounts payable and accrued liabilities	(147,831)	1,296,194
Advances from customers	(3,006,670)	2,070,883
Other taxes payable	(426,823)	2,747,055
Current income taxes	(491,584)	1,748,480
Deferred income taxes	—	(1,064,028)
Net cash provided by (used in) operating activities	8,663,138	(7,062,646)
Cash flows from investing activities		
Purchases of property, plant and equipment including construction in progress	(12,954,497)	(5,508,327)
Net cash (used in) investing activities	(12,954,497)	(5,508,327)
Cash flows from financing activities		
Exercise of common stock warrants	269,985	—
Sale of common stock	—	44,433,222
Advances from/(to) directors, net	—	2,154,257
Short-term loans proceeds	—	16,446,667
Repayments of short-term loans	(87,690)	(17,424,050)
Net cash provided by financing activities	182,295	45,610,096