

# China Precision Steel

## *Investor Presentation*



November 2010

# Safe Harbor Statement

**Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: Any statements set forth in this presentation that are not historical facts are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements, which may include, but are not limited to, such factors as industry cyclicalities and over capacity, increased price of raw materials, increased cost related to environmental compliance, ability to compete with international steel companies, regulatory changes in China and the U.S., and other information detailed from time to time in the China Precision Steel filings and future filings with the United States Securities and Exchange Commission.**

**The forward-looking statements contained in this presentation are made only of this date, and China Precision Steel is under no obligation to revise or update these forward-looking statements.**

# Equity Snapshot

## Listed on the NASDAQ

**Symbol:** CPSL

**Price (11/22/10):** \$1.54

**Market Cap:** \$71.7 M

**Shares Outstanding:** 46.6 M

**Revenues (ttm):** \$127.3 M

**Gross Profit (ttm):** \$12.0 M

**Net Income (ttm)** \$6.5 M

**EPS (ttm)** \$0.14

**Auditors:** Moore Stephens

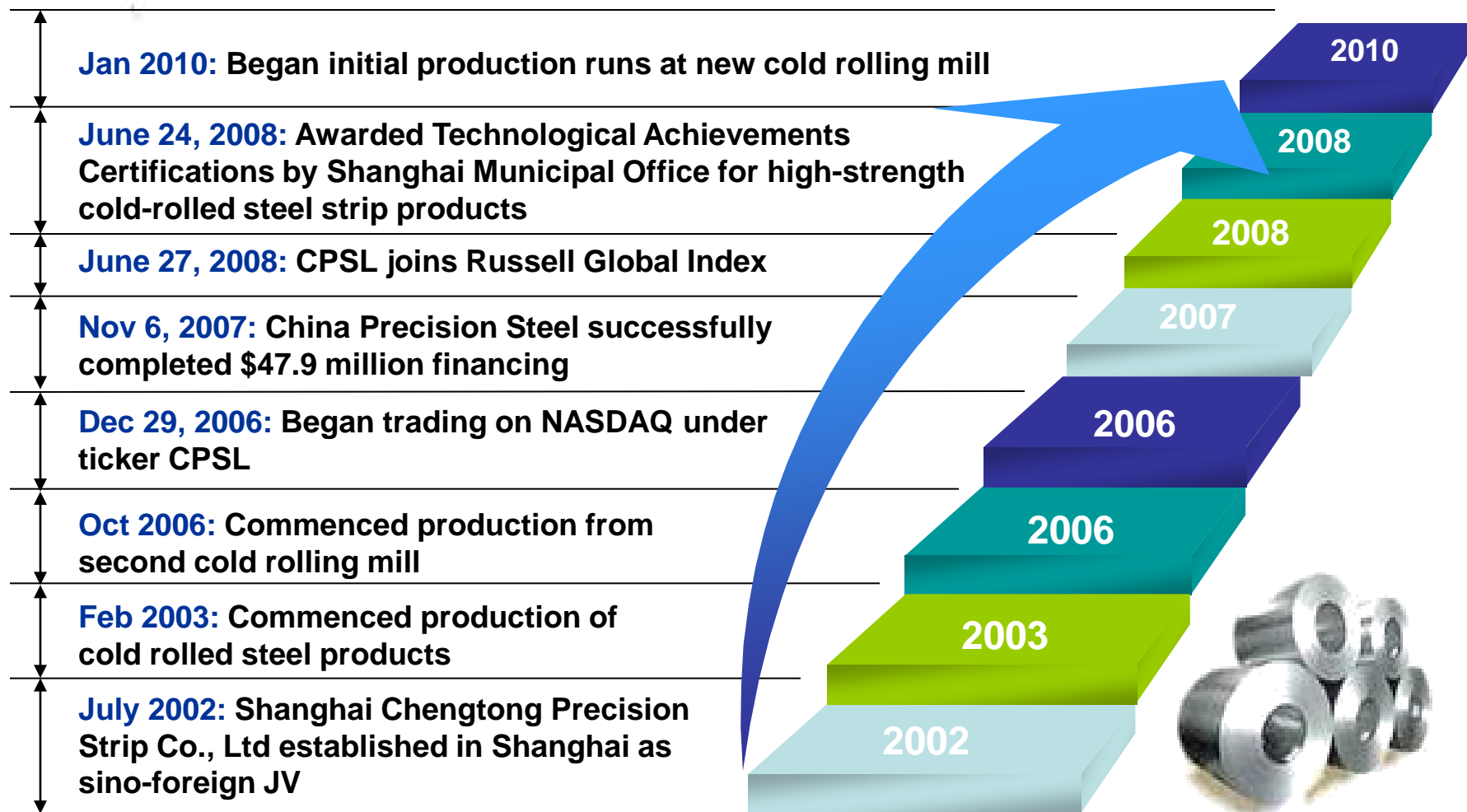
**Legal:** Pillsbury Winthrop Shaw Pittman LLP

# Investment Highlights



- **Targeting specialty precision steel niche market**
- **Growth in domestic market share being driven by**
  - Manufactures switching from higher priced imports
  - Chinese stimulus program
  - Government focus on increasing domestic consumption
- **Increasing manufacturing capacity with addition of third cold-rolling mill**
- **Greater brand awareness enhances market visibility**
- **Patented technology combined with internal know-how supports strong competitive position**

# Key Accomplishments



# Increasing Steel Consumption In China

- **Steel demand rebounding in China due to stimulus programs**
  - Automotive stimulus program extended through 2012
  - Home appliances stimulus programs
    - Home appliance to rural area
    - Home appliances and electronics trade-in program
- **Consolidation of China's fragmented steel industry**
  - Eliminate industry inefficiencies
  - Reduced volatility in steel prices
- **China's 12th five-year plan focuses on increasing consumer demand = increase demand for consumer products made of steel**



# Corporate Overview

China Precision Steel is a **niche** precision steel processing company that processes **highly specialized precision**, ultra-thin and high strength (7.5 mm to 0.03 mm) cold-rolled steel products



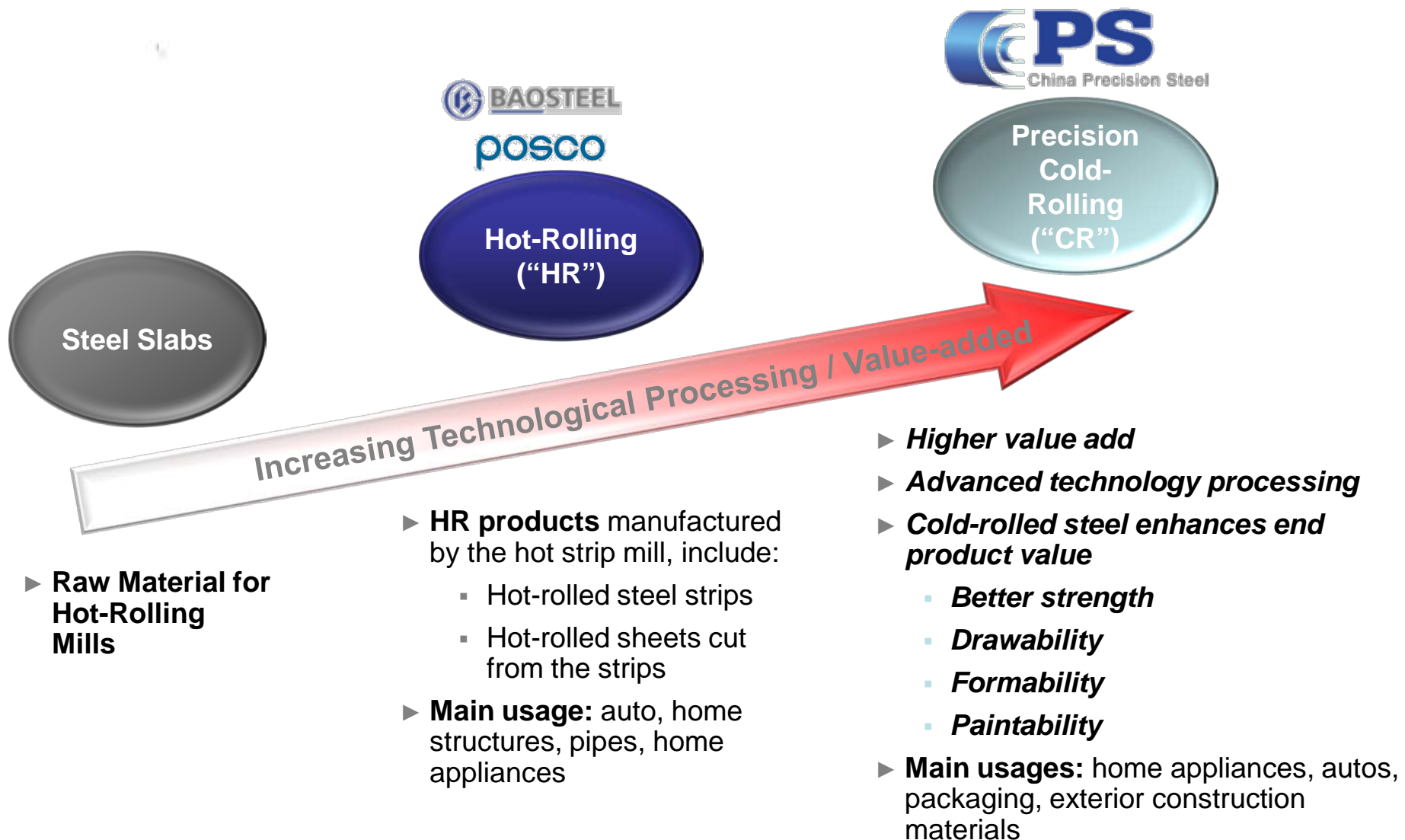
- Utilizes patented systems and high technology reduction processing procedures to produce precision steel coils and sheets in customized thicknesses
- Three mills in production with total potential capacity of 220,000 tons
- Offer over 100 cold rolled steel product specifications
- Developing leading brand name within China
- 20,000 square meters production facilities in Shanghai
- 350 employees
- Headquarters: Sheung Wan, Hong Kong

# Business Strategy

- Transform commodity steel into *premium specialty precision steel*
- Pursue *niche markets* that further geographic penetration
- Expand *manufacturing capacity* to fulfill strong demand
- Build internationally competitive *national leading brand*
- Leveraging *China's lower operating cost base* while meeting international production standards
- *Growth initiatives* include
  - Vertical integration of pickling to expand high carbon production
  - Enhance R&D
  - Expand marketing and sales efforts



# Hot Roll & Cold Roll Technology



# Wide Range of Specialty Steel Products



- Ultra-thin and high-strength cold-rolled precision steel strips ranging from 7.5 mm to 0.03 mm
- 40 different types of precision steel products
- Over one hundred specifications

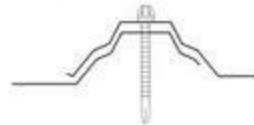
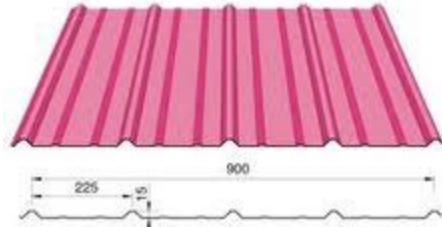
Product Category	Applications
Low carbon cold-rolled steel Thickness: 0.03 to 7.5 mm Finish: Bright	Food packaging, steel roofing, kitchen tools, drawer slide rails
High carbon cold-rolled steel Thickness: 0.5 to 7.5 m Finish: Bright	Automobile components, saw blades, weaving needles, springs



# Custom Manufactured Low Carbon Steel Products

## Low Carbon Niche Markets

- Home Appliance
- Food Packaging
- Steel Roofs



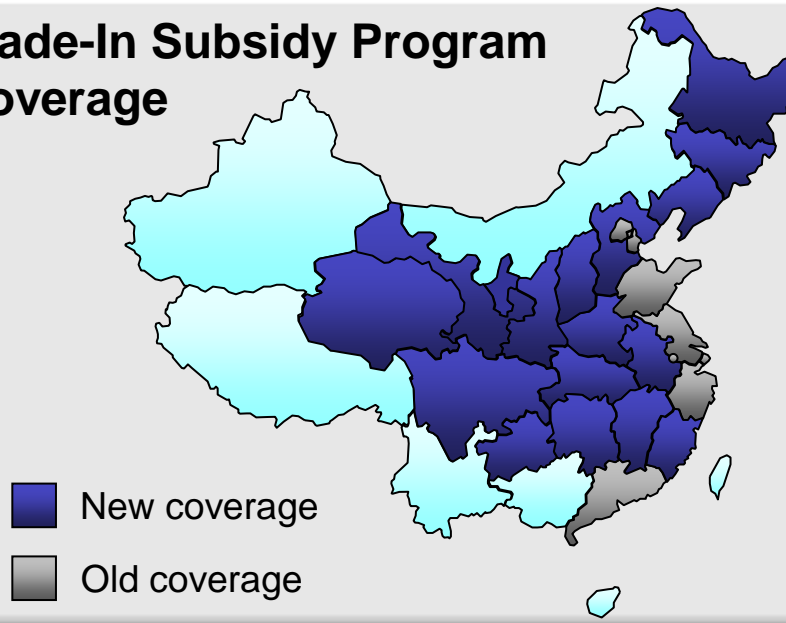
安装搭接图



# China's Consumers Driving Growth

- Home Appliance to Rural Area subsidy program to runs through 2012
- Sister program **Home Appliance Trade-In Program** launched in August 2009
  - Subsidies for consumers who choose to trade in can be as high as 10% of the price of the new products
  - In June 2010, time period extended to the end of 2011 and geographic coverage expanded to add an additional 19 provinces

## Trade-In Subsidy Program Coverage



## Home Appliance to Rural Area

- Market Size: 230 million households
- Growth expected to be sustainable beyond subsidy program
- Top appliances:
  - TV
  - Refrigerators
  - Washing machines
  - DVD players

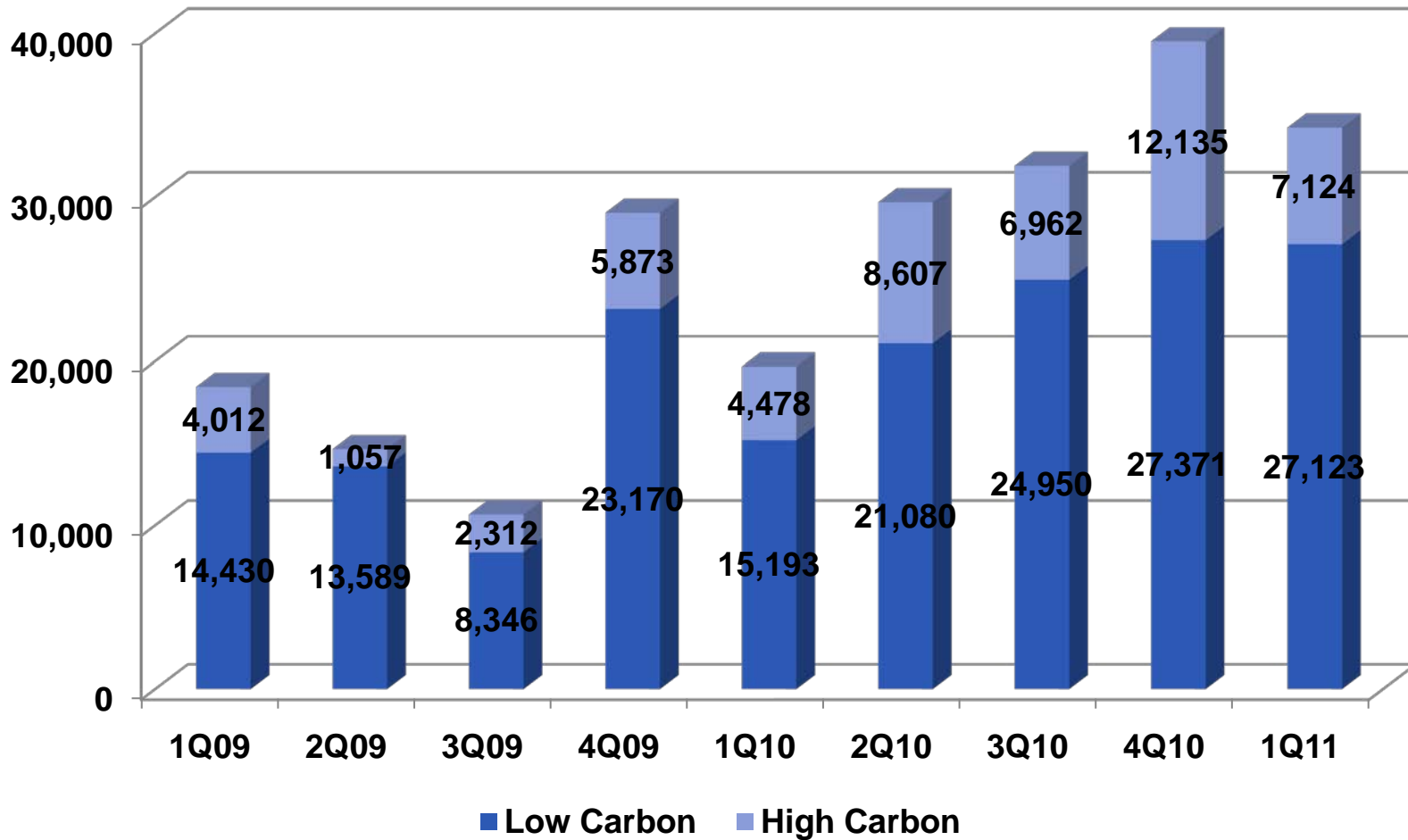
# Custom Manufactured High Carbon Steel Products

## High Carbon Niche Markets

- Automobile Components
- Grinding Pieces
- Saw Blades
- Weaving Needles
- Bearing Springs
- Mechanical Components



# Sales Volume by Product Line



# Unique Competitor in Niche Market



- **CPSL is the ONLY Chinese manufacturer producing**
  - High-carbon cold-rolled steel with width up to 1450mm and thickness up to 7.5 mm
  - Ultra thin low-carbon cold-rolled steel with width of 1100mm and thickness of as thin as 0.03mm
- **Advanced technology creates high barriers to entry**
- **Dedicated R&D efforts to launch new products targeted to new segments, customers and markets**
- **CPSL imported product with at least 30– to 40– day advantage in delivery times**

# Ultra-thin, Cold-rolled Precision Steel

- Niche segment
  - International Competition
    - Mainly our ultra-thin low-carbon cold rolled steel
    - Mainly from JFE Steel Corporation (Japan)
    - Pricing influence from exchange fluctuation
- Key Differentiators
  - Overall lower cost basis
  - Expertise and specialized equipment
  - Ultra-thin steel sheets of up to 0.03mm
    - (JFE's products are 0.13mm or thicker)
  - Customization to customer specs
  - Shorter lead times → Faster Delivery



# Gradual Recovery in International Markets

**SALZGITTER  
MANNESMANN  
INTERNATIONAL**  
A Member of the Salzgitter Group

**Coutinho & Ferrostaal**

**伊藤忠丸紅鉄鋼株式会社**  
Marubeni-Itochu Steel Inc.

**BAOSTEEL**



# Expanding Customer Base

- **Number of customers increased over 60% from 2008 to 360**
- **Global economic crisis spurred growth in new customers**
  - Manufacturers switched to lower cost producers in an effort to reduce overall production costs
- **Majority of current customers located in eastern and southern China**
  - Expanding in northern China
  - Huge market potential for galvanized steel
  - Higher end price due to low competition
- **Expanding sales and marketing department**

# Capacity Expansion for Long-Term Growth



3 cold-rolling mills

1100 mm width  
Max capacity 60,000 tons

1400 mm width  
Max capacity  
80,000 tons

1450 mm width  
Max capacity 80,000 tons

- Initial production began January, 2010
- Expected to reach full capacity in 3 years

# Management Team

## Wo Hing Li, Chairman

- Chairman and Executive Director since July 2002
  - Non-Executive Director of China Petrotech Holdings Limited
  - Master Degree in Business Administration, Murdoch University of Australia
  - PhD in Management, the University of International Business & Economics of China and the European University of Ireland
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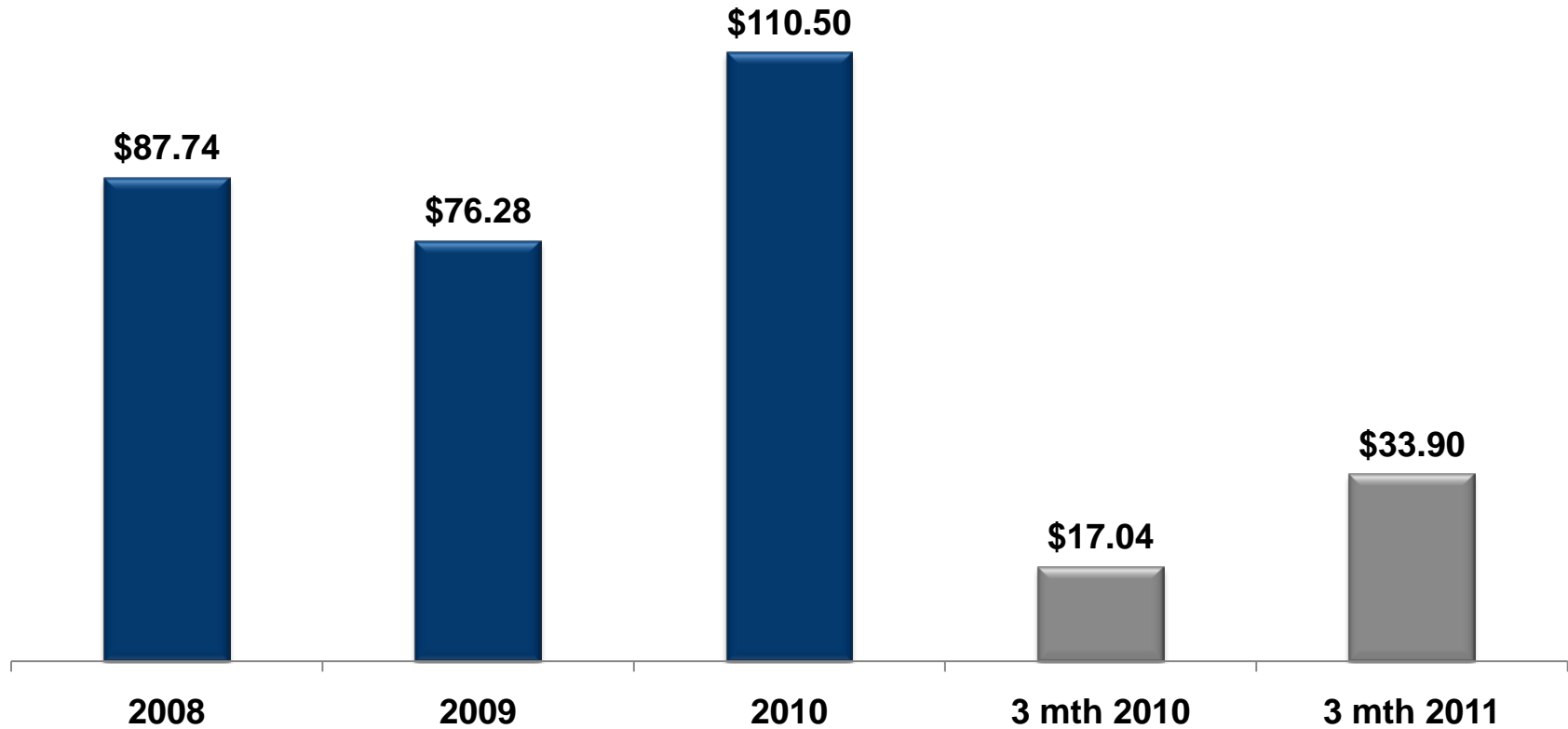
## Hai Sheng Chen, Chief Executive Director

- Co-founder of China Precision Steel
  - Executive MBA Degree, China Europe International Business School
  - Bachelors Degree in Metallic Pressure Processing, Beijing University of Science and Technologies
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## Leada Tak Tai Li, Chief Financial Officer

- Assistant to Chairman at STAR Pharmaceutical Limited
- Audit assistant at KPMG, Hong Kong
- Investment Analyst at Suez Asia Holdings (HK) Limited
- Bachelor with dual major in Accounting and Finance, University of Melbourne in Australia
- Master of Science Degree in Accounting and Finance, Napier University, United Kingdom

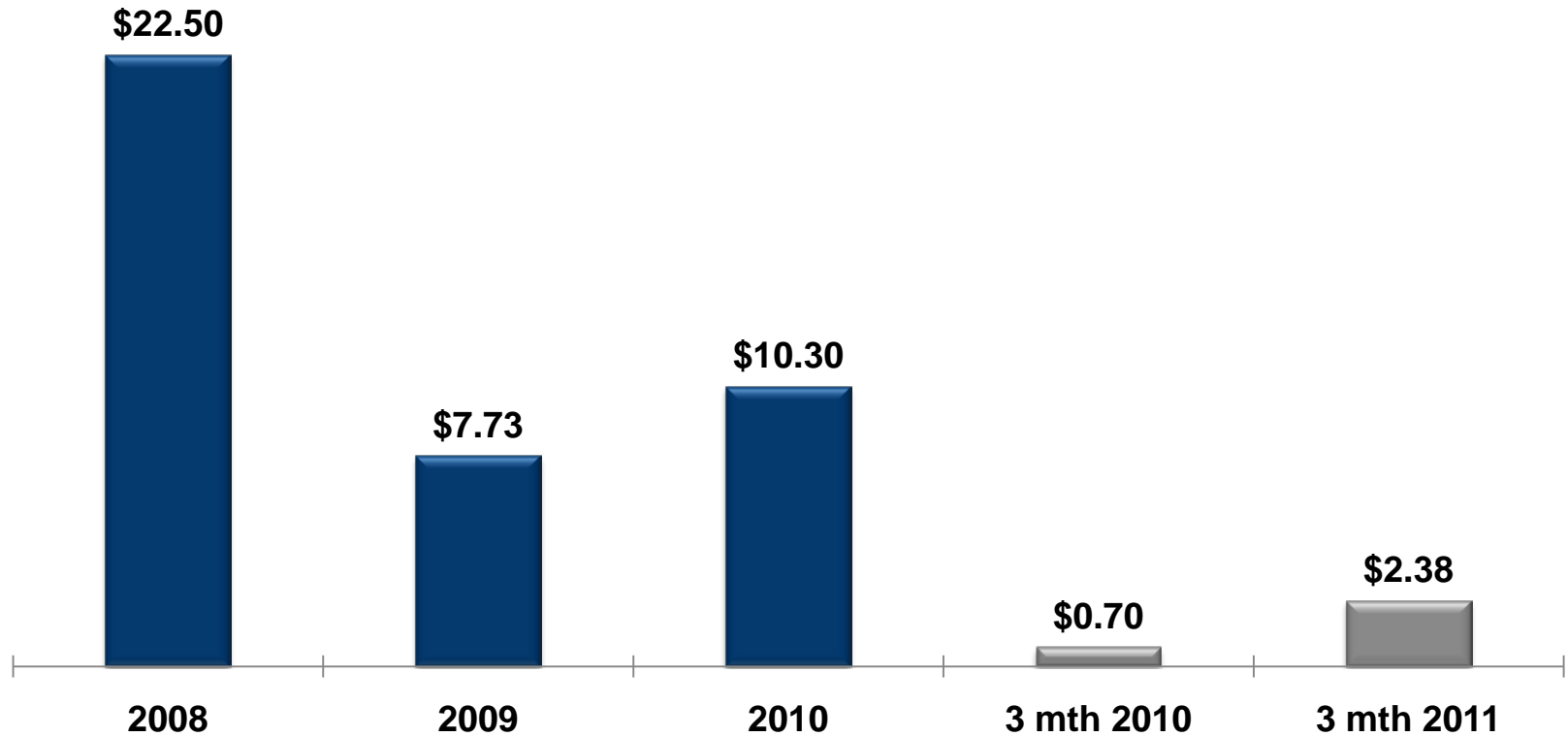
# Increasing Revenue Growth



**\$ millions**

*Source: SEC filings, audited for year end*

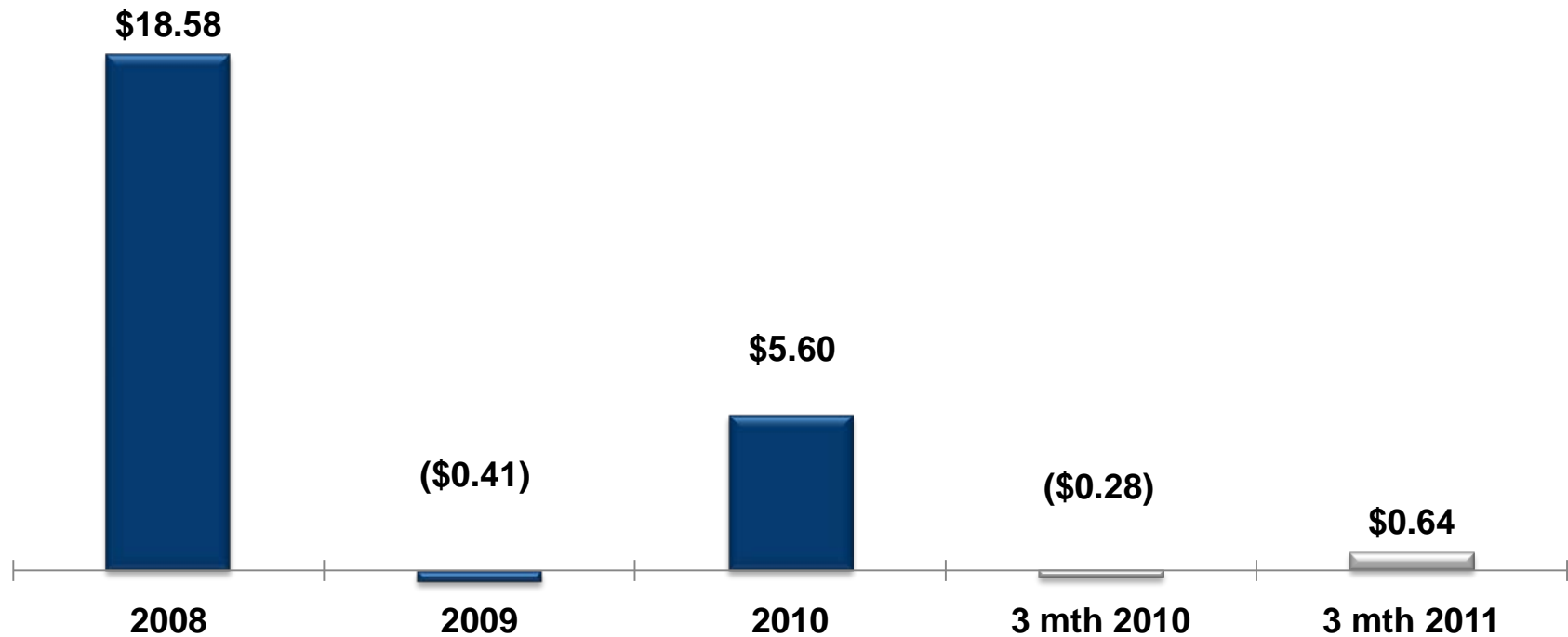
# Gross Profit Rebounding



**\$ millions**

*Source: SEC filings, audited for year end*

# Net Income Rebounding



**\$ millions**

*Source: SEC filings, audited for year end*

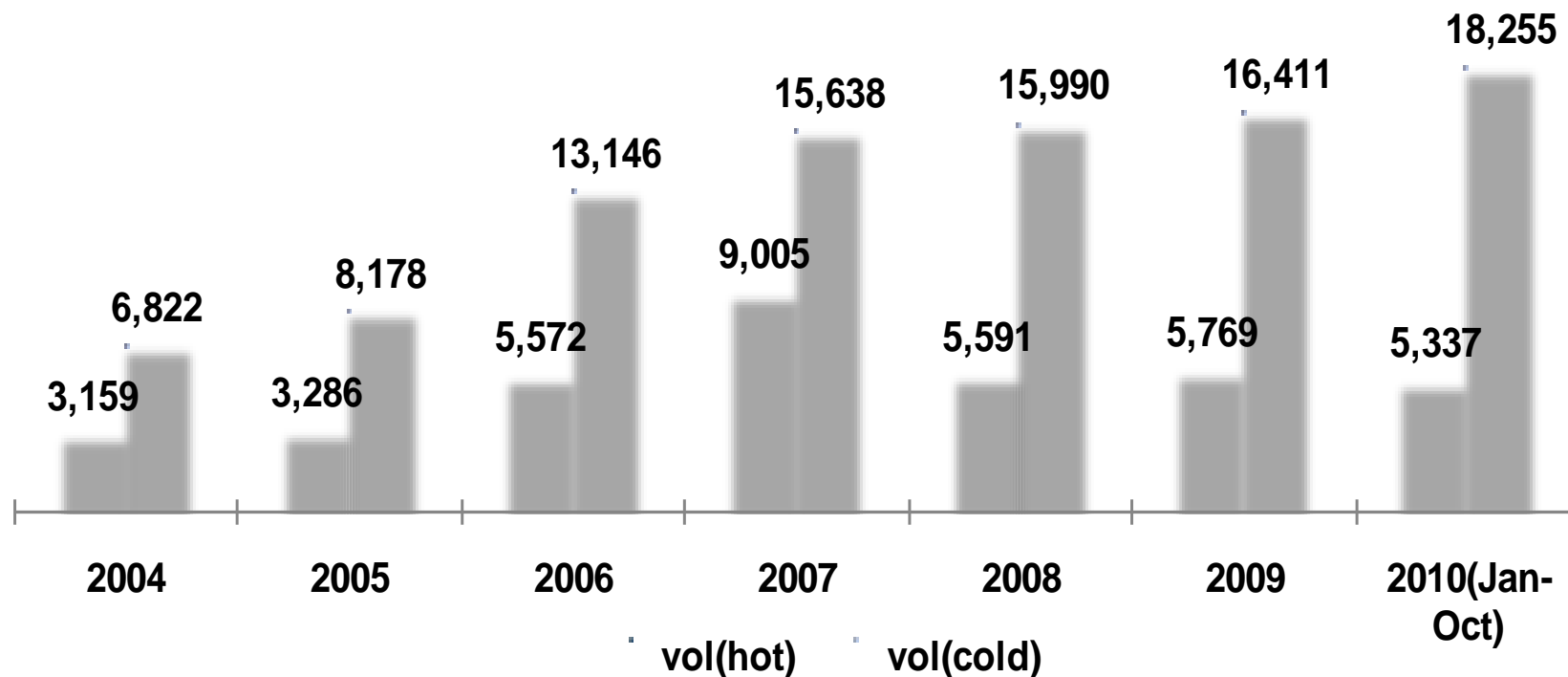
# Select Balance Sheet Data

<b>In \$millions</b>	<b>9/30/2010</b>	<b>6/30/2010</b>
<b>Cash and Equivalents</b>	<b>\$12.7</b>	<b>\$29.0</b>
<b>Current Assets</b>	<b>\$111.1</b>	<b>\$117.8</b>
<b>Total Assets</b>	<b>\$192.7</b>	<b>\$193.6</b>
<b>Current Liabilities</b>	<b>\$44.9</b>	<b>\$48.4</b>
<b>Long-term Liabilities</b>	<b>\$18.3</b>	<b>\$18.1</b>
<b>Shareholders' Equity</b>	<b>\$129.4</b>	<b>\$127.1</b>

# Hot Rolled Sheet and Cold Rolled Sheet Production in China



(in thousand tons)

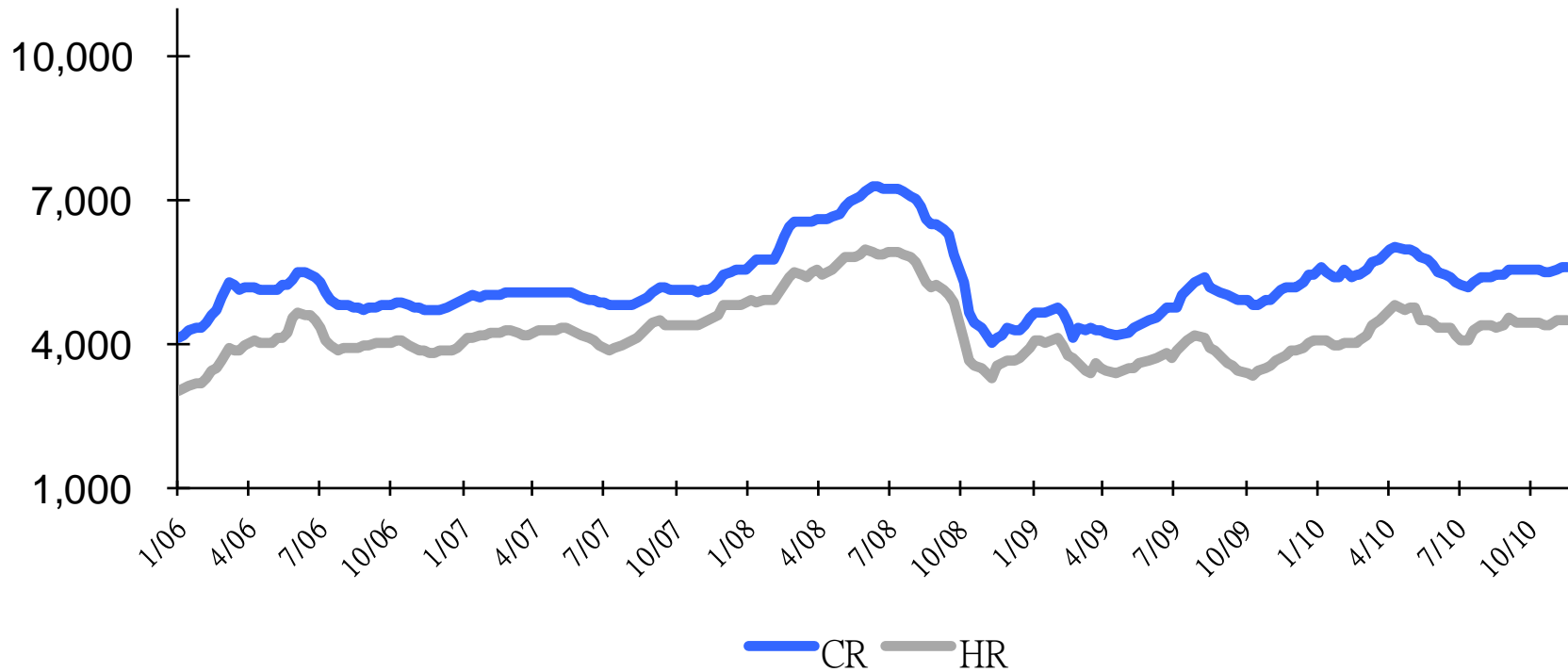


***Hot Rolled Production has lagged behind Cold Rolled***

Source: [Chinamining.org](http://Chinamining.org), [Gcdcs.com](http://Gcdcs.com)

# Hot Rolled and Cold-Roll Steel Average Price

(RMB/Tonne)



**Cold-rolled steel prices maintain a consistent premium to hot-rolled steel**

HR Specification: 3mm

CR Specification: 0.5 mm

Source: Bloomberg.com, Orient Securities Co. Ltd., Gcdcs.com, steelcn.com



- Strong domestic growth as China's economy growth moves to consumption based
- International markets still in recovery
- Target gross margin around 10% for next few years
- Backlog of \$33.8 million, as of September 30, 2010
- Ramping up of new mill coincides with increasing demand

# Investment Summary

- Expanding customer base strengthens long-term growth
- Long-term domestic demand driven by increased domestic consumption
- Strong brand recognition enhances market position
- Additional third cold-rolled mill supports revenue growth
- Increasing market penetration in developing international markets
- Advanced technology and processing supports competitive position



# Contact Information

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THANK YOU !

