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ASX / Media Release

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China Steel Australia Limited (ASX:China Steel)

Proposed Reconstruction

The Board of Directors of China Steel Australia Limited (**China Steel**) wish to inform the market that one of its shareholders, China Powerplus Limited (**Powerplus**) lodged an announcement with the Singapore Exchange (SGX) on 22 November 2011.

This announcement relates to the intention of Powerplus, Jadefield Group Limited (**Jadefield**) and Ms Zhang Guangxia to negotiate for the acquisition of the business and assets of China Steel.

The Board of China Steel wish to inform China Steel shareholders and the market that it is currently considering the proposed terms and the most effective way to implement a reconstruction of China Steel with the aim of divesting its current main undertaking, Linyi Yilida Steel Mill Co. Ltd, acquiring a new main undertaking and seeking re-quotations of its shares on the ASX (**Reconstruction**).

The Board confirms that the Reconstruction is in its preliminary negotiation stages and the terms of the Reconstruction are incomplete and non-binding. Further, no agreements have been entered into by any party with respect to the reconstruction.

Detail of the proposed terms of the Reconstruction currently under consideration by the Board and for which a material number of draft documents have been prepared is set out below.

Overview of the reconstruction under consideration

The Board is considering implementing the Reconstruction in two stages. Each of the two stages will require the approval of China Steel shareholders prior to implementation.

An overview of each stage is set out below:

Stage 1:

Under Stage 1, it is proposed that Jadefield, Powerplus and Ms Zhang Guangxia acquire the entire share capital of China Steel Pte Ltd, being the wholly owned subsidiary of China Steel, which in turn wholly owns Linyi Yilida Steel Mill Co. Ltd.

In consideration for the acquisition of China Steel Pte Ltd, China Steel will receive cash consideration in the amount of AUD\$2,643,854 and the shares held by Jadefield, Powerplus and Ms Zhang Guangxia in China Steel will then be cancelled pursuant to the requirements for a selective capital reduction and cancellation.

The implementation of Stage 1 will require the prior approval of China Steel shareholders of the following:

- (a) Sale of main undertaking, being the shares in China Steel Pte Ltd;

- (b) The selective capital reduction of the shares in China Steel held by Jadedfield, Powerplus and Ms Zhang Guangxia; and
- (c) Any possible related party benefit.

Jadedfield, Powerplus and Ms Zhang Guangxia will also need to approve the cancellation of the shares they hold in China Steel.

The selective capital reduction will require a report from an independent expert concluding that the selective capital reduction is fair and reasonable to Shareholders as a whole and to Jadedfield, Powerplus and Ms Zhang Guangxia (being the exiting shareholders).

In the event the Reconstruction is to be implemented, the Notice of Meeting to implement Stage 1 would include full detail of Stage 1 and the report from the independent expert. The Notice of Meeting to implement Stage 1 will also include details of the implementation requirements of Stage 2, detail of which are set out below.

Stage 2

Under Stage 2, it is proposed that China Steel will acquire a new main undertaking (**New Main Undertaking**). The New Main Undertaking will be acquired in consideration for the issue of shares in China Steel to the vendors of the New Main Undertaking.

Prior to completion of the acquisition of the New Main Undertaking, it is proposed that China Steel will lodge an application with the ASX for re-admission to trading on the Official List of the ASX.

In order to be re-admitted to trading on the ASX, given that China Steel will have a New Main Undertaking, China Steel will be required to comply with Chapters 1 and 2 of the ASX Listing Rules. Such compliance will include the requirement that China Steel demonstrate that there is sufficient interest in its continued listing on the ASX which will be done by preparing and issuing a prospectus (**Prospectus**) in order to increase its spread of shareholders to the number of shareholder required by the ASX Listing Rules.

The Prospectus will be conditional upon the approval of the Stage 2 Resolutions (detailed below) and the completed of the sale agreement for the acquisition of the New Main Undertaking.

The implementation of Stage 1 will require the prior approval of China Steel shareholders of the following (**Stage 2 Resolutions**):

- (a) Change in scale of activities (i.e by way of the acquisition of the New Main Undertaking);
- (b) Issue of shares in China Steel to the vendors of the New Main Undertaking; and
- (c) Possible change of name of China Steel.

The issue of shares in China Steel to the vendors of the New Main Undertaking will require an independent expert report containing an analysis of whether the issue of the shares in China Steel to the vendors of the New Main Undertaking is fair and reasonable when considered in the context of the interests of the China Steel shareholders.

In the event the Reconstruction is to be implemented, the Notice of Meeting to implement Stage 2 would include full detail of Stage 2 including full detail of the New Main Undertaking to be acquired and the report from the independent expert.

China Steel will update the market progressively as the documents for the implementation of Stage 1 and Stage 2 are developed and the Reconstruction becomes more certain.

Further information

For further information please contact:

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