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China Steel Australia (ASX:CNH)

Court Summons received by Linyi Yilida Steel Mill Co. Ltd (“our subsidiary”)

Our subsidiary has received a court summon dated 12th January 2011 from Linyi Municipal People’s Court (“the Court”). This is in relation to a construction contract dispute with our contractor – Hebei Metallurgical Construction Group Co. Ltd (“Hebei”) for the amount of RMB39.07 million and interest. However, in December 2010, our subsidiary has paid an amount of RMB30million to Hebei.

A representative from our subsidiary is required to attend the court hearing on 4th March 2011 at 10 a.m.

The project was delayed from its planned schedule due to the global economic crisis in 2008. The project completion date had lapsed since 30th October 2008. According to agreement signed between Hebei and our subsidiary for the completion of 588m³ blast furnace, Hebei and suppliers of equipments had entered into an agreement to supply our subsidiary with the relevant equipments. Hebei claimed that after delivering the equipments, our subsidiary had refused to make progress payment with the excuse of tight cash flow position. Now, Hebei requests our subsidiary to make progress payment of RMB39.07million and interest.

The bank account of our subsidiary was being monitored by the Court and was therefore not freely available for our subsidiary to use since the end of January 2011.

Our subsidiary is negotiating with Hebei for a settlement plan prior to the Court hearing. However, during the Court hearing, the Court will act as facilitator for the negotiation. The settlement could be via an instalment payment scheme or a deferred payment plan. If a settlement could not be reached, the most unfavourable outcome would be the seizure of the assets of the Company by the Court for the protection of our subsidiary’s creditors.

The Board will keep shareholders informed of any new developments.

China Steel Australia is an enterprise with a licence to manufacture steel and iron in China. The Brisbane-based company produces both nickel pig iron (NPI) and merchant pig iron (MPI) at its plant near the city of Linyi in China’s Shandong Province.

Ends
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