



## Notice of Meetings & Explanatory Statement

**China Steel Australia Limited ACN 128 988 732**

This Circular contains notice of a:

- **General Meeting of China Steel Australia Limited** to be held as follows:  
Held at: The Williams Room, 2nd floor, Tattersalls Club, 215 Queen St, Brisbane, Australia  
Commencing: 7 March 2012 at 10:00am EST (Brisbane time)
- **Special Meeting of Shareholders who are to be Exiting Shareholders** to be held as follows:  
Held at: The Williams Room, 2nd floor, Tattersalls Club, 215 Queen St, Brisbane, Australia  
Commencing: promptly following the conclusion or adjournment of the General Meeting.

This is an IMPORTANT DOCUMENT and requires your attention. You should read this document in its entirety. If you are in doubt as to how to deal with this document, please consult your professional adviser.

## Table of Contents

Important dates .....	6
Important information and notices.....	8
Letter from the Independent Directors .....	9
Letter from the Chairman .....	12
Section A – Glossary .....	15
Section B – Notice of General Meeting .....	18
1. Resolution 1 : Disposal of main undertaking .....	18
2. Resolution 2 : Capital reduction and cancellation.....	18
3. Resolution 3 : Related party benefit.....	19
4. Resolution 4 : Return of capital to Shareholders .....	19
5. Other business .....	20
6. Interdependence of Resolutions .....	20
Section C – Notice of Special Meeting.....	21
1. Resolution 1 : Capital reduction and cancellation.....	21
2. Attendance restricted .....	21
3. Interdependence of Resolutions .....	21
Section D – Directors’ recommendations.....	23
1. Director interests.....	23
2. Independent Directors .....	23
2.1 Recommendation .....	23
2.2 Interests.....	24
3. Non-Independent Directors .....	24
3.1 Recommendation .....	24
3.2 Interests.....	24
Section E – How to vote .....	25
1. Voting in person or by attorney.....	25
2. Voting by proxy .....	25
3. Voting by corporate representative.....	26
4. Attendance and Voting restrictions at the General Meeting.....	26
5. Attendance and voting restrictions at the Special Meeting.....	27
Part F – Explanatory Statement.....	28

<b>General information .....</b>	<b>28</b>
<b>1. Background to the Transaction .....</b>	<b>28</b>
1.1 The litigation .....	28
1.2 Decision to sell China Steel Singapore (China Steel Pte Ltd) .....	29
1.3 Decision to acquire a new main undertaking .....	29
1.4 The Transaction – Tranche 1 and Tranche 2.....	30
1.5 What happens if Tranche 1 is not completed.....	30
1.6 What happens if Tranche 1 does complete but Tranche 2 is not completed.....	31
<b>2. Tranche 1 – The sale of the main undertaking (China Steel Pte Ltd) .....</b>	<b>31</b>
2.1 Note to Shareholders .....	31
2.2 The Asset 1 Share Sale and Purchase Agreement .....	31
2.3 Material terms of the Asset 1 Share sale and Purchase Agreement .....	31
2.4 How was the consideration for the Sale been calculated? .....	33
2.5 Actions following completion of the sale of China Steel Singapore .....	33
2.6 Impact on the Directors .....	33
<b>3. Tranche 2 – The acquisition of the business and assets of Reservoir Star and re-admission.....</b>	<b>34</b>
3.1 Note to Shareholders .....	34
3.2 Introduction to Reservoir Star.....	34
3.3 Future Plans .....	35
3.4 What is Enhanced Oil Recovery?.....	35
3.5 Patented Products.....	35
3.6 Key Management .....	35
3.7 The value of Reservoir Star.....	35
3.8 Public reports of Reservoir Star .....	36
3.9 The Asset 2 Sale Facilitation Agreement.....	36
3.10 Material terms of the Asset 2 Share Sale and Purchase Agreement.....	36
3.11 Re-admission.....	37
3.12 What if the Asset 2 Share Sale and Purchase Agreement does not complete.....	38
<b>4. Advantages and disadvantages of Tranche 1 to Shareholders .....</b>	<b>39</b>
4.1 Advantages and disadvantages to Shareholders with the exception of the Exiting Shareholders .....	39
4.2 Advantages and disadvantages to Exiting Shareholders.....	40
<b>5. The Company.....</b>	<b>41</b>
5.1 Overview of the Company .....	41
5.2 The Company’s Share price and trading history .....	42
5.3 The Company’s financial performance and financial position – 2010 and 2011.....	42
<b>6. Tax implications of Tranche 1.....</b>	<b>42</b>
6.1 Overview.....	42

6.2	Tax Report.....	43
<b>The Resolutions .....</b>		<b>43</b>
<b>7.</b>	<b>Resolution 1 : Disposal of main undertaking (General Meeting) .....</b>	<b>43</b>
7.1	Overview.....	43
7.2	The Resolution .....	43
7.3	The law .....	43
7.4	Interdependence of Resolution 1 .....	44
7.5	Rationale for Sale of main undertaking/substantial asset .....	44
7.6	Potential advantages of disposal of main undertaking.....	45
7.7	Potential disadvantages of disposal of main undertaking .....	45
7.8	Overview of the proposed Tranche 1 Transaction .....	45
7.9	Impact of the sale on the Company.....	45
7.10	The Company's intentions for the future .....	45
7.11	Additional Information.....	46
7.12	Recommendation and Directors' intention .....	48
7.13	Voting requirements and exclusion .....	48
<b>8.</b>	<b>Resolution 2 (General Meeting) &amp; Resolution 1 (Special Meeting) : Capital Reduction and Cancellation .....</b>	<b>48</b>
8.1	Introduction.....	48
8.2	The Resolutions.....	48
8.3	The law .....	48
8.4	General Meeting .....	49
8.5	Special Meeting .....	50
8.6	Interdependence of Resolution 2 (General Meeting) and Resolution 1 (Special Meeting).....	50
8.7	Reasons for the Capital Reduction and Cancellation.....	50
8.8	Potential advantages and disadvantages if the Capital Reduction and Cancellation is implemented .....	50
8.9	Summary of and effect of proposed Capital Reduction and Cancellation on the Company .....	50
8.10	Specific effect for each Shareholder of the proposed Capital Reduction and Cancellation.....	51
8.11	Effect on control of the Company.....	51
8.12	Independent Expert's Report.....	52
8.13	Section 256B information to be provided to Shareholders.....	52
8.14	Other Material Information.....	53
8.15	Tax implications .....	53
8.16	Directors' interests.....	53
8.17	Recommendation .....	53
8.18	Voting requirements and exclusions – Resolution 2 (General Meeting) .....	54
8.19	Voting requirements and exclusions– Resolution 1 (Special Meeting).....	54

<b>9.</b>	<b>Resolution 3 (General Meeting) : Related Party Benefit.....</b>	<b>54</b>
9.1	Introduction.....	54
9.2	The Resolution .....	55
9.3	The law .....	55
9.4	Specific information required under section 219 of the Corporations Act.....	56
9.5	Any other information .....	57
9.6	Independent Expert's Report.....	58
9.7	Director recommendation .....	58
9.8	Voting requirements and exclusions – Resolution 3 (General Meeting).....	58
<b>10.</b>	<b>Resolution 4 (General Meeting) – Return of Capital .....</b>	<b>58</b>
10.1	Introduction.....	58
10.2	The Resolution .....	58
10.3	The law .....	58
10.4	Potential advantages and disadvantages if the Return of Capital is implemented .....	59
10.5	Reasons for the Return of Capital .....	59
10.6	Entitlement to participate in the Return of Capital.....	59
10.7	Summary of and effect of proposed Return of Capital .....	59
10.8	Effect of the Return of Capital on the Company.....	60
10.9	Effect of Reduction of Capital on Shareholders .....	60
10.10	Effect on control of the Company.....	60
10.11	Independent Expert's Report.....	60
10.12	Section 256B information to be provided to Shareholders.....	60
10.13	Other Material Information.....	61
10.14	Tax implications.....	61
10.15	Directors' interests.....	61
10.16	Recommendation .....	62
10.17	Voting requirements and exclusions – Resolution 2 (General Meeting).....	62
	<b>Section G – Independent Expert Report .....</b>	<b>63</b>
	<b>Section H – Taxation Report .....</b>	<b>64</b>
	<b>APPENDIX A – GENERAL MEETING PROXY FORM.....</b>	<b>65</b>
	<b>APPENDIX B – SPECIAL MEETING PROXY FORM.....</b>	<b>66</b>

## Important dates

---

Execution of Asset 1 Share Sale and Purchase Agreement	5 January 2012
Execution of the Asset 2 Sale Facilitation Agreement	5 January 2012
<b>Lodgement with the ASX</b> China Steel lodges the Circular with the ASX	11 January 2012
<b>Lodgement with ASIC</b> China Steel lodges the Circular with ASIC (ASIC Form 5057A (Related Party Benefit) and 2560 (Capital Reduction and Cancellation and Return of Capital)	20 January 2012
<b>Date of this Circular</b>	3 February January 2012
<b>Proxy forms : General Meeting</b> Deadline for lodgement of proxy forms for the General Meeting	10:00am EST (Brisbane time) 5 March 2012
<b>Proxy forms : Special Meeting</b> Deadline for lodgement of proxy forms for the Special Meeting	10:00am EST (Brisbane time) 5 March 2012
<b>Proxy forms : Annual General Meeting</b> Deadline for lodgement of proxy forms for the Annual general Meeting	10:00am EST (Brisbane time) 5 March 2012
<b>General Meeting Voting Entitlement Time</b> (i.e. time for determining entitlements to vote at the General Meeting)	5:00pm EST (Brisbane time) 5 March 2012
<b>Special Meeting Voting Entitlement Time</b> (i.e. time for determining entitlements to vote at the Special Meeting)	5:00pm EST (Brisbane time) 5 March 2012
<b>Annual General Meeting Voting Entitlement Time</b> (i.e. time for determining entitlements to vote at the General Meeting Meeting)	5:00pm EST (Brisbane time) 5 March 2012
<b>General Meeting</b>	10:00am EST (Brisbane time) 7 March 2012
<b>Special Meeting</b>	Promptly following the conclusion or adjournment of the General Meeting
<b>Annual General Meeting</b>	Promptly following the conclusion or adjournment of the Special Meeting
<b>ASIC Notification*</b> Company notifies ASIC (Form 2205) that Resolution 2 of the General Meeting and Resolution 1 of the Special Meeting have been passed (Capital Reduction and Cancellation Resolution) and	7 March 2012

<p>Company notifies ASIC (Form 2205) that Resolution 4 of the General Meeting been passed (Return of Capital Resolution)</p> <p>Notification lodged with ASIC setting out the text of the Related Party Benefit resolution (Resolution 3)</p>	
<p><b>ASX Notification 1*</b></p> <p>Company notifies ASX that the Resolutions have been passed at the Meetings and specifically the Capital Reduction and Cancellation and Return of Capital</p>	7 March 2012
<p><b>ASX Notification 2*</b></p> <p>The Company notifies ASX that it is 14 days after it lodged the Resolutions approving the Capital Reduction and Cancellation and the Return of Capital with ASIC (i.e. lodgement of Form 2205 with ASIC) (day 0) (ASX Notification 2)</p>	21 March 2012
<p><b>Completion*</b></p> <p>Presently anticipated date of completion of Asset 1 Share Sale and Purchase Agreement.</p>	21 March 2012
<p><b>Cancellation*</b></p> <p>Shares held by the Exiting Shareholders are cancelled</p>	21 March 2012
<p><b>ASIC Notification*</b></p> <p>Notification to ASIC of cancellation (Form 484)</p>	22 March 2012
<p><b>Record Date (for Return of Capital)*</b></p>	2 April 2012
<p><b>Payment of Return of Capital to Continuing Shareholders*</b></p>	3 April 2012

\*Dates are indicative only and subject to change. The occurrence of milestones after the General Meeting and the Special Meeting is conditional on the passing of the Resolutions at the General Meeting and the Special Meeting.

#### **IMPORTANT NOTICE**

For the reasons set out in this Circular, the Independent Directors unanimously recommend that Shareholders approve the Resolutions to be considered at the General Meeting and the Special Meeting of Exiting Shareholders. The Independent Expert has concluded that the Capital Reduction and Cancellation and the Tranche 1 Transaction is fair and reasonable to Shareholders as a whole.

## Important information and notices

---

**Shareholders are urged to read the Circular in full before making a decision on if and how to vote on the Resolutions to be considered at the Meetings.**

### **No investment or financial product advice**

This is an important document which requires your attention. The Circular provides Shareholders with information which will assist them in evaluating the Resolutions contained in Notice of Meetings. Please note that the Circular does not take into account your investment objectives, financial situation or particular needs. You should obtain independent financial, investment, legal and taxation advice before deciding whether or not to attend and vote at the relevant Meetings and on how to vote in respect of the Resolutions. The Company is not licensed to provide financial product advice in relation to Shares or any other financial products.

### **Forward looking statements**

Certain statements in the Circular relate to the future or are forward looking statements including (without limitation) in particular in connection with Tranche 2 – the acquisition of the business and assets of Reservoir Star and proposed re-admission. Forward looking statements may be identified by words such as 'expects', 'anticipates', 'intends', 'believes', 'seeks', 'estimates' or 'will' or words of similar meaning and include, without limitation, forward looking statements regarding the Company's financial position and performance and its business strategy, plans and objectives for future operations. These forward looking statements are based on the Company's current expectations about future events. Shareholders are cautioned not to place undue reliance on forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the Company as well as matters pertaining to general economic conditions and the state of the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected. None of the Company, any of its directors or officers or any person named in the Circular or involved in the preparation of the Circular makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. The forward looking statements in the Circular reflect views held only as at the date of the Circular.

### **ASIC and ASX lodgement**

The Circular (including the Notice of Meetings, the Explanatory Statement and the Independent Expert's Report) has been lodged with ASIC in accordance with Sections 256C(5) and 218 of the Corporations Act. It has also been provided to ASX. Neither ASIC nor ASX takes any responsibility for the contents of the Circular.

### **Other sources of information**

In addition to the information set out in the Circular (including the Notice of Meetings and the Independent Expert's Report), you may wish to review information contained in the following other documents in deciding whether or not to attend and vote at the relevant Meetings and on how to vote in respect of the Resolutions:

- (a) ASX announcements made by the Company;
- (b) the 2011 Annual Report of the Company which is available on its website: [www.cnsteel.com.au](http://www.cnsteel.com.au); and
- (c) information regarding the Company which is available on its website: [www.cnsteel.com.au](http://www.cnsteel.com.au)

A copy of any of the ASX announcements made by the Company and the 2011 Annual Report of the Company may also be obtained by contacting the Company. Note that none of the above documents forms part of the Circular or any accompanying document.

### **Supplementary information**

The Company will issue a supplementary document to the Circular if it becomes aware of any of the following prior to the Meetings:

- (a) a material statement in the Circular is false or misleading;
- (b) a material omission from this Circular;
- (c) a significant change affecting a matter in the Circular; or
- (d) a significant new matter has arisen and it would have been required to be included in the Circular if known at the date of despatch of the Circular to Shareholders.

Depending on the nature and the timing of the changed circumstances and subject to obtaining any relevant approvals, the Company may circulate and publish any supplementary document by posting the supplementary document on the Company's website, making an announcement to ASX or sending a copy of the supplementary document to Shareholders.

### **Date**

This Circular is dated 3 February 2012.



## Letter from the Independent Directors

---

### Dear Shareholders

This Circular contains the Notice of Meetings required to implement Tranche 1 of the Transaction detailed in the announcement lodged on the ASX on 23 November 2011.

The purpose of this Circular is to provide you with information to assist you in assessing Tranche 1 of the Transaction.

Tranche 1 of the Transaction involves:

- (a) the Sale of China Steel Singapore to Jadedfield Group Limited, China Powerplus Limited and Ms Zhang Guangxia in consideration for:
  - (i) AUD\$2,703,853.50;
  - (ii) China Steel Singapore will forgive the debt owed by the Company in the amount of \$1,321,514;
  - (iii) the cancellation of all options in the Company held by Jadedfield Group Limited and Ms Zhang Guangxia; and
  - (iv) the selective reduction of capital and cancellation by the Company of the shares held by Jadedfield Group Limited, China Powerplus Limited and Ms Zhang Guangxia (**Capital Reduction and Cancellation**); and
- (b) a return of capital to Shareholders with the exception of Jadedfield Group Limited, China Powerplus Limited and Ms Zhang Guangxia of AUD\$0.03426 per Share held.

Jadedfield Group Limited will provide a cash payment of \$250,000 to the Company to cover transaction costs payable. These transaction costs relate to Tranche 1 of the Transaction and include advisory, legal and accounting fees as well as certain duties and taxes. The Company will not be required to repay this amount to Jadedfield Group Limited after completion of Tranche 1 of the Transaction.

To implement Tranche 1 of the Transaction, approval of the Shareholders is required for the following:

### **Sale of China Steel Singapore, being the main undertaking and substantial asset of the Company**

The Sale of China Steel Singapore requires Shareholders to approve Resolution 1 of the General Meeting Resolutions at the General Meeting in order to be implemented.

### **Related Party Benefit**

The financial benefit to a related party, being the Sale of China Steel Singapore to Jadedfield Group Limited, China Powerplus Limited and Ms Zhang Guangxia requires Shareholders to approve Resolution 3 of the General Meeting Resolutions at the General Meeting in order to be implemented.

### **Capital Reduction and Cancellation**

The Capital Reduction and Cancellation requires the Shareholders to approve:

- (a) Resolution 2 of the General Meeting Resolutions at the General Meeting; and
  - (b) the Special Meeting Resolution at the Special Meeting,
- in order to be implemented.

### **Return of Capital**

The Return of Capital requires the Shareholders to approve Resolution 4 of the General Meeting Resolutions at the General Meeting in order to be implemented.

The Resolutions for the Sale of China Steel Singapore, the Related Party Benefit, the Capital Reduction and Cancellation and the Return of Capital are all interdependent which means that **all Resolutions need to be passed in order for Tranche 1 of the Transaction to be implemented.**

## The Meetings

The Meetings are scheduled to be held at the Williams Room, 2nd floor, Tattersalls Club, 215 Queen St, Brisbane, Australia on 7 March 2012 commencing from 10:00am EST (Brisbane time).

This Circular contains Notices of the General Meeting and the Special Meeting at which Shareholders will be asked to approve the Tranche 1 Transaction. Such approval requires the specific approval of the following:

- (a) General Meeting:
  - (i) Sale of main undertaking;
  - (ii) Capital Reduction and Cancellation;
  - (iii) Related Party Benefit; and
  - (iv) Selective Return of Capital.
- (b) Special Meeting:
  - (i) Capital Reduction and Cancellation.

Detail of Tranche 1 of the Transaction is stipulated in the Explanatory Statement which accompanies the Notice of Meetings and forms part of this Circular.

### The role of the Independent Directors

The role of the Independent Directors is to consider the merits of Tranche 1 of the Transaction and make a recommendation to Shareholders, oversee the Sale of China Steel Singapore, the Related Party benefit and the Capital Reduction and Cancellation process and be satisfied that Shareholders are provided with the information they require to make an informed decision on the Resolutions.

In considering the Related Party Benefit and the Capital Reduction and Cancellation, the Company engaged BDO Corporate Finance (QLD) Ltd (**Independent Expert**) to prepare an Independent Expert's Report on the Related Party Benefit and the Capital Reduction and Cancellation. The Independent Expert's Report is included in full in Section G of this Circular and should be read by Shareholders in its entirety. The Independent Expert has concluded that Tranche 1 of the Transaction and the Capital Reduction and Cancellation is fair and reasonable to Shareholders as a whole.

### The recommendation of the Independent Directors

The purpose of this letter is to confirm:

- (a) to all Shareholders (with the exception of the Exiting Shareholders) that your Independent Directors unanimously recommend that you vote **IN FAVOUR OF** the Resolutions 1, 2 and 3 at the General Meeting;
- (b) to Exiting Shareholders, that your Independent Directors unanimously recommend that you vote **IN FAVOUR OF** Resolution 4 at the General Meeting;
- (c) to all Shareholders (with the exception of the Exiting Shareholders), that your Independent Directors unanimously recommend that you **DO NOT VOTE AGAINST** Resolution 4 at the General Meeting;
- (d) to Exiting Shareholders, that your Independent Directors unanimously recommend that you **DO NOT VOTE AGAINST** Resolution 2 at the General Meeting; and
- (e) to Exiting Shareholders, that your Independent Directors unanimously recommend that you vote **IN FAVOUR OF** the Special Meeting Resolution at the Special Meeting.

**Independent Directors' interests**

The Independent Directors have no interest, whether directly or indirectly, in the Shares of the Company and, as such, are able to make the recommendation set out above.

**Voting instructions**

Voting instructions for the Meetings are contained in Section E of this Circular and personalised proxy forms are enclosed. Your vote is important and we encourage you to vote at the Special Meeting and General Meeting either in person or by proxy. If you are unsure as to how to vote, we recommend that you speak with your professional adviser.

**Questions**

Should you wish to discuss the matters in this Circular please do not hesitate to contact the Director Chen Lidong, on +65 6266 5967.

We look forward to the participation of all Shareholders at the General Meeting and the participation of Exiting Shareholders at the Special Meeting on 7 March 2012

Yours faithfully

**Brian Chee Fai Ho**  
Independent Director

**Chung Leung Cheung**  
Independent Director

**Wong Wing Wang**  
Independent Director

*Note: This letter contains general information only, and has been prepared without taking account of the objectives, financial situation or needs of any particular person. Accordingly, before acting on any information in this letter, you should consider the appropriateness of the information to your objectives, financial situation and needs and consult a professional adviser where necessary. The Company is not licensed to provide financial product advice.*

## Letter from the Chairman

---

### Dear Shareholders

On 23 November, the Company made an announcement relating to the intention of Jadefield Group Limited, China Powerplus Limited and Ms Zhang Guangxia to negotiate the acquisition of the business and assets of China Steel Singapore.

This announcement stipulated that it was considering the proposed terms and the most effective way to implement a restructure of the Company 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 (**Transaction**).

This Booklet contains information about the Transaction, but in particular, Tranche 1 of the Transaction which involves the Sale of the main undertaking of the Company and incorporates a Capital Reduction and Cancellation, Related Party Benefit and Return of Capital

Tranche 1 of the Transaction is subject to Shareholder approval of the Resolutions being obtained at Meetings to be held on 7 March 2012. The Circular (including the Notice of each of the Meetings) accompanies this letter. The Company will not proceed with Tranche 1 of the Transaction unless all of the Resolutions are passed.

### Overview

The Transaction is to proceed in two tranches:

#### **Tranche 1:**

Under Tranche 1, Jadefield Group Limited, China Powerplus Limited and Ms Zhang Guangxia wish to acquire the entire share capital of China Steel Singapore.

China Steel Singapore is the holder of the shares in Linyi Yilida Steel Mill Co Ltd. In consideration for the Sale:

- (a) Jadefield Group Limited will pay the Company AUD\$2,703,853.50. This amount constitutes 16% of the value of China Steel Singapore (based on the valuation of China Steel Singapore contained in the Independent Expert Report);
- (b) China Steel Singapore will forgive the debt owed by the Company in the amount of \$1,321,514;
- (c) the cancellation of all options in the Company held by Jadefield Group Limited and Ms Zhang Guangxia; and
- (d) The shares held by Jadefield Group Limited, China Powerplus Limited, Ms Zhang Guangxia will be cancelled pursuant to the requirements for a selective Capital Reduction and Cancellation.

Jadefield Group Limited will provide a cash payment of \$250,000 to the Company to cover transaction costs payable. These transaction costs relate to Tranche 1 of the Transaction and include advisory, legal and accounting fees as well as certain duties and taxes. The Company will not be required to repay this amount to Jadefield Group Limited after completion of Tranche 1 of the Transaction.

Tranche 1 is documented in the Asset 1 Share Sale and Purchase Agreement which was entered into on 5 January 2012. Completion of the Sale is conditional on each of the Resolutions contained in the Notices being approved by Shareholders.

The AUD\$2,703,853.50 paid to the Company will then be paid to Shareholders with the exception of the Exiting Shareholders by way of a Return of Capital.

If the Resolutions are approved and the Asset 1 Share Sale and Purchase Agreement is completed (including the implementation of the selective Capital Reduction and Cancellation), the capital structure of the Company will be as follows:

Shareholder	Number of Shares	% of shares held
Jadefield Group Limited	0	0
China Powerplus Limited	0	0
Ms Zhang Guangxia	0	0
UOB Kay Hian Private Limited <Clients A/C>	55,821,000	70.73%
Queensland Nickel Pty Ltd	2,814,816	3.57%
Syracuse Capital Pty Ltd <The Tenacity A/c)	1,210,000	1.53%
Murdoch Capital Pty Ltd <The Glover Super Fund A/c>	800,000	1.01%
Kym Rex Beggs <Kym Beggs Super Fund A/c>	700,000	0.89%
Cindy Dean	440,000	0.56%
Minority Shareholders	17,135,184	21.71%
<b>Total</b>	<b>78,921,000</b>	<b>100.00%</b>

The Company commissioned BDO Corporate Finance (QLD) Ltd (Independent Expert) to prepare an Independent Expert's Report on the Capital Reduction and Cancellation, the Related Party Benefit and the Return of Capital. The Independent Expert's Report is included in full as Section G to this Circular. The Independent Expert has concluded that Tranche 1 of the Transaction and the Capital Reduction and Cancellation is fair and reasonable to Shareholders as a whole.

### **Tranche 2**

Under Tranche 2, the Company intends to acquire the business and assets of Beijing Reservoir Star Energy Technology Limited (**Reservoir Star**). The acquisition of Reservoir Star is anticipated to be implemented by way of the acquisition of the issued share capital of Reservoir Star Holdings which will own, or own through an interposed entity, the entire issued share capital of Reservoir Star. Reservoir Star is a Beijing-based petroleum service company incorporated in 2004. The Company owns unique Enhanced Oil Recovery (**EOR**) technology and patented products, which in turn provide an increased production volume and a reduction in costs of oil extraction. Its main business is to provide its EOR services to oilfields in the Middle East and South East Asia. In consideration for the Acquisition of the business and assets of Reservoir Star, the Company intends to pay the vendors by way of shares in the Company.

The Acquisition of the business and assets of Reservoir Star is the subject of Asset 2 Sale Facilitation Agreement which annexes a highly conditional Asset 2 Share Sale and Purchase Agreement which was entered into on 5 January 2012. One of the conditions to completion of the Asset 2 Share Sale and Purchase Agreement is that shareholders approve the issue of Shares in the Company to the vendors of the business and assets of Reservoir Star (being the consideration payment) in order to fall within an exception to the takeover provisions of the Corporations Act.

Following the completion of the proposed Acquisition of the business and assets of Reservoir Star, the Company intends to lodge an application for re-admission to trading on the Official List of the ASX. In order to be re-admitted to trading on the ASX, the Company will be required to comply with Chapters 1 and 2 of the ASX Listing Rules. Such compliance will include the requirement that the Company demonstrate that there is sufficient interest in its continued listing on the ASX which will be done by preparing and issuing a prospectus in order to increase its spread of shareholders to the number of shareholder required by the ASX Listing Rules.

**Please note: The Resolutions contained in the Notices relate ONLY to Tranche 1. In order for Tranche 2 to proceed, a further General Meeting of Shareholders (Second General Meeting) will need to be convened to approve the implementation of Tranche 2. It is anticipated that this meeting will be convened on 30 March 2012.**

For the reasons set out in this Circular, the Independent Directors have unanimously recommended:

- (a) to all Shareholders (with the exception of the Exiting Shareholders) that your Independent Directors unanimously recommend that you vote **IN FAVOUR OF** the Resolutions 1, 2 and 3 at the General Meeting;
- (b) to all Shareholders (with the exception of the Exiting Shareholders), that your Independent Directors unanimously recommend that you **DO NOT VOTE AGAINST** Resolution 4 at the General Meeting;
- (c) to Exiting Shareholders, that your Independent Directors unanimously recommend that you vote **IN FAVOUR OF** Resolution 4 at the General Meeting;
- (d) to Exiting Shareholders, that you **DO NOT VOTE AGAINST** Resolution 2 at the General Meeting; and
- (e) to Exiting Shareholders, that you vote **IN FAVOUR OF** the Special Meeting Resolution at the Special Meeting.

Given that Brian Ho, Chung Cheung and Wong Wing Wang are not Shareholders and have no interest in the proceedings at the General Meeting or the Special Meeting, they will be in attendance at both the General Meeting and the Special Meeting.

I urge you to consider this Circular carefully and, if you are in any doubt as to the action you should take, please contact your professional adviser immediately.

Yours faithfully

**Xue Yongwen**  
Chairman

*Note: This letter contains general information only, and has been prepared without taking account of the objectives, financial situation or needs of any particular person. Accordingly, before acting on any information in this letter, you should consider the appropriateness of the information to your objectives, financial situation and needs and consult a professional adviser where necessary. The Company is not licensed to provide financial product advice.*

## Section A – Glossary

---

<b>\$ or AUD\$</b>	means Australia dollars
<b>Acquisition</b>	means the acquisition of the business and assets of Reservoir Star.
<b>Annual General Meeting</b>	mean the annual general meeting called by the Company pursuant to the notice of annual general meeting accompanying this Circular to be convened immediately following the Special Meeting.
<b>ASIC</b>	means the Australian Securities & Investments Commission.
<b>Asset 1 Share Sale and Purchase Agreement</b>	means the share sale and purchase agreement between the Company and the Exiting Shareholders for the sale of entire share capital of China Steel Singapore as detailed in paragraph 2.1 of the Explanatory Statement.
<b>Asset 2 Sale Facilitation Agreement</b>	means the sale facilitation agreement between the Company and the Controlling Reservoir Star Shareholders for the Acquisition of the business and assets of Reservoir Star as detailed in paragraphs 3.9 and 3.10 of the Explanatory Statement.
<b>Asset 2 Share Sale and Purchase Agreement</b>	means the share sale and purchase agreement between the Company and the Reservoir Star Vendor for the Acquisition of entire share capital of Reservoir Star (or the entity that owns, or owns through an interposed entity, the entire share capital of Reservoir Star) as detailed in paragraph 3.7 of the Explanatory Statement.
<b>ASX</b>	means the Australian Securities Exchange operation by ASX Limited.
<b>Business Day</b>	means a day which is not a Saturday, Sunday or public holiday in Brisbane, Australia.
<b>Capital Reduction and Cancellation</b>	means the proposed selective reduction of capital of the Company to be effected by the cancellation of all Shares held by the Exiting Shareholders as part consideration for the acquisition of China Steel Singapore by the Exiting Shareholders from the Company.
<b>China Powerplus Ltd</b>	China Powerplus Ltd Registration number: 200208614Z (Incorporated in Singapore).
<b>China Steel Singapore</b>	means China Steel Pte Ltd registration number 200311609H (Incorporated in Singapore).
<b>Circular</b>	means this document, including the Notice of General Meeting, the Notice of Special Meeting, the Explanatory Statement and the Independent Expert's Report.
<b>Company</b>	means China Steel Australia Limited ACN 128 988 732.
<b>Continuing Shareholders</b>	means those Shareholders with the exception of the Exiting Shareholders.
<b>Controlling Reservoir Star Shareholders</b>	Means each of Wang Ju, Chen Hanshun, Gang Yu, and Yang Haiying.
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Commonwealth) for the time being in force together with the regulations of the Corporations Act.
<b>Directors</b>	means the directors of the Company.
<b>EST</b>	means Australian Eastern Standard Time in Brisbane.
<b>Exiting Shareholders</b>	means Jadefield Group Limited Registration No. 507494 / UF35666E, China Powerplus Ltd Registration number: 200208614Z (Incorporated in Singapore) and Ms Zhang Guangxia.
<b>Explanatory Statement</b>	means the information set out in Section F of this Circular.
<b>General Meeting</b>	means the meeting of Shareholders called by the Company, and referred to in Section B of this Circular, at which the General Meeting Resolutions will be proposed.

<b>General Meeting Resolutions</b>	means a those resolutions set out in Section B of this Circular that will be proposed at the General Meeting and at which votes of the Exiting Shareholders will not be counted for Resolutions 1 and 3 and votes cast IN FAVOUR of Resolution 2 by Exiting Shareholders will be disregarded.
<b>Glossary</b>	means the glossary contained in Part A to this Circular.
<b>General Meeting</b>	means the general meeting of Shareholders.
<b>Hebei</b>	means Hebei Metallurgical Construction Group Co. Ltd.
<b>Independent Directors</b>	means Mr Brian Chee Fai Ho, Mr Chung Leung Cheung and Mr Wong Wing Wang.
<b>Independent Expert</b>	means BDO Corporate Finance (QLD) Ltd.
<b>Independent Expert's Report</b>	means the report prepared by the Independent Expert set out in Section G of this Circular.
<b>Jadefield Group Limited</b>	means Jadefield Group Limited Registration No. 507494 / UF35666E.
<b>Linyi Plant</b>	means the steel and alloy plant 100% owned by Linyi Yilida and located near the city of Linyi in the Shandong Province of China.
<b>Linyi Yilida</b>	means Linyi Yilida Steel Mill Co. Ltd, whose shares are fully held by China Steel Singapore.
<b>Listing Rules</b>	means the Listing Rules of the ASX.
<b>Meetings</b>	means the General Meeting and the Special Meeting.
<b>Minority Shareholders</b>	means those Shareholders who hold less than 0.09% of the Shares.
<b>Notice of General Meeting</b>	means the notice of meeting of Shareholders set out in Section B of this Circular.
<b>Notice of Meetings</b>	means the Notice of General Meeting and the Notice of Special Meeting.
<b>Notice of Special Meeting</b>	means the notice of meeting of Exiting Shareholders set out in Section C of this Circular.
<b>Non-Independent Directors</b>	means Mr Xue Yongwen and Mr Chen Lidong.
<b>Official List</b>	means the official list of the ASX.
<b>Plant 2</b>	the second production plant which the Company began to construct on land adjacent to the Linyi Plant in 2007 and which has been completely impaired in the Company's 2011 annual report.
<b>Proxy Form</b>	means the proxy forms appended as Appendix A and Appendix B to this Circular.
<b>Record Date</b>	means the date the Company notifies in writing to the ASX after the Resolutions are passed, being the date which is 6 Business Days after the date on which the Company informs ASX that it is 14 days after the Company lodged with ASIC a copy of the Return of Capital Resolution approving the Return of Capital and Capital Reduction and Cancellation. The Record Date is expected to be 21 March 2012.
<b>Related Party Benefit</b>	means the financial benefit proposed to be provided to the Exiting Shareholders by way of the transfer of shares in China Steel Singapore to the Exiting Shareholders.
<b>Reservoir Star</b>	means Beijing Reservoir Star Energy Technology Limited 110000410215409
<b>Reservoir Star Group</b>	means Reservoir Star and each other Reservoir Star Group Member



<b>Reservoir Star Group Member</b>	includes the Controlling Reservoir Star Shareholders, Reservoir Star and any other related entity that becomes a Reservoir Star Group Member as a result of the restructure of the Reservoir Star Group.
<b>Reservoir Star Holdings</b>	means the entity which, post restructure of the Reservoir Star Group, holds the entire issued share capital in Reservoir Star (whether directly or through an interposed entity).
<b>Reservoir Star Vendor</b>	means the vendor of the assets and the business of Reservoir Star.
<b>RSI</b>	means Reservoir Star International, Inc.
<b>Resolutions</b>	means the General Meeting Resolutions and the Special Meeting Resolution.
<b>Return of Capital</b>	means the proposed return of capital of the Company to be effected by the distribution of AUD\$2,703,853.50 being the cash consideration paid by Jadefield Group Limited as part consideration for the acquisition of China Steel Singapore by the Exiting Shareholders.
<b>Sale</b>	means the sale of China Steel Singapore to the Exiting Shareholders.
<b>Second General Meeting</b>	means the general meeting of Shareholders proposed to be convened for the purposes of approving Tranche 2 of the Transaction.
<b>Section</b>	means a section of this Circular.
<b>Shareholders</b>	means a holder of one or more Shares.
<b>Shares</b>	means all of the shares on issue in the share capital of the Company and <b>Share</b> means any one of them.
<b>Special Meeting</b>	means the meeting of Exiting Shareholders called by the Company, and referred to in Section C of this Circular, at which the Special Meeting Resolution will be proposed.
<b>Special Meeting Resolution</b>	means the special resolution regarding the Capital Reduction and Cancellation in the form of the special resolution set out in Section C of this Explanatory Statement that will be proposed at the Special Meeting.
<b>Tranche 1</b>	<p>Means:</p> <p>(a) the Sale of the entire share capital of China Steel Singapore to the Exiting Shareholders as documented in the Asset 1 Share Sale and Purchase Agreement in consideration for:</p> <ul style="list-style-type: none"> <li>(i) \$2,703,853.50 in cash;</li> <li>(ii) the forgiveness of the debt in the about of \$1,321,514 owed by the Company to China Steel Singapore;</li> <li>(iii) the cancellation of all options in the Company held by Jadefield Group Limited and Ms Zhang Guangxia; and</li> <li>(iv) he Capital Reduction and Cancellation of the Shares in the Company held by the Exiting Shareholders; and</li> </ul> <p>(b) the Return of Capital.</p> <p>Full detail of Tranche 1 is set out in the Explanatory Statement.</p>
<b>Tranche 2</b>	<p>means the Acquisition of the business and assets of Reservoir Star by the Company as documented in the Asset 2 Sale Facilitation Agreement and the Asset 2 Share Sale and Purchase Agreement and re-admission to the Official List of the ASX (subject to compliance with Chapters 1 and 2 of the ASX Listing Rules).</p> <p>Full detail of Tranche 2 is set out in the Explanatory Statement.</p>
<b>Transaction</b>	means both of Tranche 1 and Tranche 2.

## Section B – Notice of General Meeting

---

### Time and place

Notice is hereby given that the General Meeting will be held as follows:

- (a) Held at: The Williams Room, 2nd floor, Tattersalls Club, 215 Queen St, Brisbane, Australia.
- (b) Commencing on: at 10:00am EST (Brisbane time) on 7 March 2012.

### Explanatory Statement

The Explanatory Statement which accompanies and forms part of this Notice of General Meeting describes the matters to be considered at the General Meeting.

### Defined terms

Terms used in this Notice of General Meeting have the meaning given to them in the Glossary in Section A of this Circular in which this Notice of General Meeting is contained.

## 1. Resolution 1 : Disposal of main undertaking

---

To consider and, if thought fit, pass, with or without amendment, the following resolution as an **ordinary resolution**:

*“That, subject to resolution 2, resolution 3 and resolution 4 being passed and the Special Meeting Resolution being passed, for all purposes, including ASX Listing Rule 11.2, 10.1.1 and 10.1.2, approval is given to the sale by the Company of the entire issued share capital in China Steel Singapore 200311609H (Incorporated in Singapore) which holds entire issued share capital of Linyi Yilida Steel Mill Co. Ltd to Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia on the terms set out in the Asset 1 Share Sale and Purchase Agreement as described in the Explanatory Statement accompanying this Notice of General Meeting”*

### Voting Exclusion Statement

The Company will disregard any votes cast on Resolution 1 by Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia or their associates. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## 2. Resolution 2 : Capital reduction and cancellation

---

To consider and, if thought fit, pass, with or without amendment, the following resolution as a **special resolution**:

*“That, subject to resolution 1, resolution 3 and resolution 4 being passed and the Special Meeting Resolution being passed, for the purposes of Section 256C(2) of the Corporations Act and for all other purposes, approval is given for the capital of the Company to be reduced by cancelling those shares on issue in the capital of the Company held by Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia as part consideration for the acquisition by Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia of the entire share capital of China Steel Singapore 200311609H*

(Incorporated in Singapore), on the terms and conditions set out in the Explanatory Statement accompanying this Notice of General Meeting”.

### Voting Exclusion Statement

The Company will disregard any votes cast in favour of Resolutions 2 by Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia or their associates. However, the Company need not disregard a vote cast in favour if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## 3. Resolution 3 : Related party benefit

---

To consider and, if thought fit, pass, with or without amendment, the following resolution as a **special resolution**:

*“That, subject to resolution 1, resolution 2 and resolution 4 being passed and the Special Meeting Resolution being passed, the sale by the Company to Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia of the entire share capital in China Steel Singapore 200311609H (Incorporated in Singapore), being a financial benefit as disclosed in the Explanatory Statement accompanying this Notice of General Meeting, be approved as a financial benefit by the Company given to Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia for the purposes of chapter 2E of the Corporations Act, on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

### Voting Exclusion Statement

The Company will disregard any votes cast on Resolutions 3 by Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia or their associates. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## 4. Resolution 4 : Return of capital to Shareholders

---

To consider and, if thought fit, pass, with or without amendment, the following resolution as a **special resolution**:

*“Subject to resolution 1, resolution 2, resolution 3 and the Special Meeting Resolution being passed, that for the purposes of section 256C of the Corporations Act and all other purposes, the capital of the Company be reduced by means of a distribution to the holders of fully paid ordinary shares in the Company (with the exception of Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia) of an aggregate of AUD\$2,703,853.50, such distribution to be made pro rata to the number of fully paid ordinary shares held by each shareholder on the register at the Record Date (with the exception of Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia), on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

### Voting Exclusion Statement

The Company will disregard any votes cast on Resolutions 4 by those Shareholders with the exception of Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia or their

associates. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## **5. Other business**

---

To transact any other business which may be brought forward in accordance with the Company's Constitution.

## **6. Interdependence of Resolutions**

---

Tranche 1 of the Transaction will not proceed and the above General Meeting Resolutions will not take effect unless all of the above Resolutions are passed and the Special Meeting Resolution set out in Section C of this Circular is also passed by the requisite majority of Shareholders who are to be Exiting Shareholders at the Special Meeting.

## Section C – Notice of Special Meeting

---

### Time and place

Notice is hereby given that a Special Meeting of Exiting Shareholders (being Jadefield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia) will be held as follows:

- (a) Held at: The Williams Room, 2nd floor, Tattersalls Club, 215 Queen St, Brisbane, Australia.
- (b) Commencing on: promptly following the conclusion or adjournment of the General Meeting.

### Explanatory Statement

The Explanatory Statement which accompanies and forms part of this Notice of Special Meeting describes the matters to be considered at each of the Special Meeting.

### Defined terms

Terms used in this Notice of Special Meeting have the meaning given to them in the Glossary in Section A of this Circular in which this Notice of Special Meeting is contained.

## 1. Resolution 1 : Capital reduction and cancellation

---

To consider and, if thought fit, pass, with or without amendment, the following resolution as a **special resolution**:

*“That, subject to all the General Meeting Resolutions being passed, the selective reduction of share capital described in General Meeting Resolution 2 and involving the cancellation of all Shares held by Jadefield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia is approved for the purposes of section 256C(2) of the Corporations Act”.*

### Voting Exclusion Statement

The Company will disregard any votes cast on Resolutions 1 **with the exception of** Jadefield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia or their associates. However, the Company need not disregard a vote if:

- it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## 2. Attendance restricted

---

Note that this Meeting is a meeting of Exiting Shareholders, being Jadefield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia and their associates.

Shareholders other than Exiting Shareholders and their associates will not be permitted to attend or vote at the Special Meeting other than as proxy or representative of one or more Shareholders who are to be Exiting Shareholders. See the information on how to vote at this Special Meeting in Section E of this Circular.

## 3. Interdependence of Resolutions

---

The Capital Reduction and Cancellation will not proceed and the above Special Meeting Resolution will not take effect unless all of the General Meeting Resolutions set out in

Section B of this Circular are also passed by the requisite majority of Shareholders at the General Meeting.

## Section D – Directors’ recommendations

### 1. Director interests

The following table sets out the interests held by or on behalf of each director of the Company at the date of this Circular. Other than as set out below, no Director will receive any payment or benefit of any kind as a consequence of the approval of the Resolutions contained in this Circular.

In the event the resolutions contained in the Notices are approved, Mr Xue Yongwen, as a shareholder of China Powerplus Limited, will receive the indirect benefit in the form of the transfer of China Steel Singapore from the Company to each of China Powerplus Limited, Jadefield Group Limited and Ms Zhang Guangxia as a result of Mr Xue Yongwen’s shareholding in China Powerplus Limited.

Director	Number of Shares held directly and indirectly as at date of Circular	Number of Shares held directly and indirectly if all resolutions are passed
Xue Yongwen	Nil held directly 142,450,000 (29.63%) held indirectly by way of his shareholding in China Powerplus Limited	0% held directly 0% held directly
Chen Lidong	Nil share held directly Nil share held indirectly	0% held directly 0% held directly
Brian Chee Fai Ho	Nil share held directly Nil share held indirectly	0% held directly 0% held directly
Chung Leung Cheung	Nil share held directly Nil share held indirectly	0% held directly 0% held directly
Wong Wing Wang	Nil share held directly Nil share held indirectly	0% held directly 0% held directly

### 2. Independent Directors

#### 2.1 Recommendation

For the reasons set out in this Circular, the Independent Directors:

- (a) unanimously recommend that:
  - (i) Shareholders (with the exception of the Exiting Shareholders) vote **in favour of** the General Meeting Resolution at the General Meeting;
  - (ii) Exiting Shareholders vote **in favour of** the Special Meeting Resolution at the Special Meeting; and
  - (iii) Exiting Shareholders **do not vote against** the General Meeting Resolution 2 at the General Meeting;
- (b) intend to vote open proxies they hold **in favour of** the Resolutions to the extent that they are not excluded from doing so.

**2.2 Interests**

As noted in the Letter from the Independent Directors, none of the Independent Directors hold, or have any interest in any Shares in the Company.

**3. Non-Independent Directors**

---

**3.1 Recommendation**

None of the Non-Independent Directors make any recommendations with respect to the Resolutions contained in this Circular.

**3.2 Interests**

Mr Xue Yongwen, as the controlling shareholder of China Powerplus Ltd has a material personal interest in the outcome of the Resolutions. Accordingly, he makes no recommendation to Shareholders in relation to how they should vote in the respect of the Resolutions.

Mr Chen Lidong does not hold, or have any interest in any Shares in the Company.



## Section E – How to vote

---

If you are entitled to vote at the General Meeting or the Special Meeting, you may vote by attending the meeting in person or by attorney, proxy or, in the case of corporate shareholders, corporate representative.

### 1. Voting in person or by attorney

---

Shareholders or their attorneys wishing to vote in person should attend the relevant Meeting.

Persons are asked to arrive at least 15 minutes prior to the commencement of the General Meeting so that their shareholding in the Company may be checked against the register and their attendance at the relevant Meeting noted. In this way, Exiting Shareholders will not risk being absent at the Special Meeting which is scheduled to commence promptly following the conclusion or adjournment of the General Meeting.

Attorneys should bring with them the original copy or a certified copy of the power of attorney under which they have been authorised to attend and vote at the relevant Meeting, unless it has already been provided to the Company.

### 2. Voting by proxy

---

Shareholders wishing to vote by proxy must complete, sign, and deliver the appropriate personalised proxy form or forms in accordance with the instructions on the forms prior to 10:00am EST (Brisbane time) 5 March 2012 by:

- (a) post in the reply paid envelope provided to: Computershare Investor Services Pty Limited, GPO Box 242, Melbourne, Victoria 3001; or
- (b) fax to: 1800 783 447 (within Australia) or + 61 3 9473 2555 (outside Australia).

A proxy form for each of the General Meeting and the Special Meeting is enclosed with this Circular. Each Shareholder may appoint a proxy to attend and vote on their behalf. If a Shareholder is entitled to cast 2 or more votes, they may appoint 1 or 2 proxies. If more than 1 proxy is appointed:

- (a) the appointor may specify the proportion or number of votes each proxy is appointed to exercise but if the appointor does not do so, each proxy may exercise half the votes; and
- (b) neither proxy will have the right to vote on a show of hands (but each may vote on a poll).

A proxy need not be a member of the Company. A proxy may be an individual or a body corporate. In the case of joint holders of Shares all holders should sign the proxy form. In the case of corporations, proxies must be executed in accordance with section 127 of the Corporations Act or signed by an authorised officer or attorney.

To be valid, a proxy form signed under a power of attorney must be accompanied by the signed original power of attorney, or a certified copy of the power of attorney.

If the abstention box on the proxy form for any item of business is marked, the proxy will be directed not to vote on a show of hands or on a poll and the relevant Shares will not be counted in calculating the required majority on a poll. If no box is marked, the proxy will not be directed as to how to vote and may vote as he or she sees fit.

If the proxy form is signed by the Shareholder but does not name the proxy or proxies in whose favour it is given, or the proxy does not, or the proxies do not attend, the relevant Meeting, the chairman of the relevant Meeting may act as proxy.

The chairman of the relevant Meeting intends to vote all undirected proxies from Shareholders (who are eligible to vote in favour of a Resolution) in favour of that Resolution.

The chairman of the relevant Meeting will not vote any undirected proxies from Shareholders ineligible to vote in favour of the Resolutions.

### 3. Voting by corporate representative

---

Corporate shareholders or corporate proxies voting by corporate representative should:

- (a) obtain an appointment of corporate representative form from the Company;
- (b) complete and sign the form in accordance with the instructions on; and
- (c) bring the completed and signed form with them to the relevant Meeting.

### 4. Attendance and Voting restrictions at the General Meeting

---

- (a) Attendance

All Shareholders may attend the General Meeting.

- (b) Resolution 1 and Resolution 3 at the General Meeting:

Shareholders who are to be Exiting Shareholders and their associates **may not vote** on Resolution 1 or Resolution 3 at the General Meeting.

- (c) Resolution 2 at the General Meeting:

- (i) Shareholders who are to be Exiting Shareholders and their associates may **not vote in favour** of Resolution 2 at the General Meeting.
- (ii) Shareholders who are to be Exiting Shareholders and their associates **may vote against or abstain** from voting on Resolution 2 at the General Meeting.
- (iii) Any **votes in favour** of Resolution 2 at the General Meeting cast by Shareholders who are to be Exiting Shareholders or their associates **will be disregarded**.
- (iv) Any **votes against** Resolution 2 at the General Meeting cast by Shareholders who are to be Exiting Shareholders or their associates will be counted and **will not be disregarded**.

- (d) Resolution 4 at the General Meeting:

- (i) Shareholders with the exception of Exiting Shareholders and their associates may **not vote in favour** of Resolution 4 at the General Meeting.
- (ii) Shareholders with the exception of Exiting Shareholders and their associates **may vote against or abstain** from voting on Resolution 4 at the General Meeting.

- (iii) Any **votes in favour** of Resolution 4 at the General Meeting cast by Shareholders with the exception of Exiting Shareholders or their associates **will be disregarded**.
- (iv) Any **votes against** Resolution 4 at the General Meeting cast by Shareholders with the exception of Exiting Shareholders or their associates will be counted and **will not be disregarded**.

## **5. Attendance and voting restrictions at the Special Meeting**

---

Only Shareholders who are to be Exiting Shareholders may attend the Special Meeting, in person or by attorney, proxy or corporate representative. Shareholders who are to be Exiting Shareholders may vote in favour of or against the Special Meeting Resolution, or may abstain from voting on the Special Meeting Resolution.

Shareholders other than Exiting Shareholders will not be permitted to attend or vote at the Special Meeting other than as proxy or representative of one or more Shareholders who are to be Exiting Shareholders.

## Part F – Explanatory Statement

---

The Explanatory Statement forms part of the Notice of General Meeting and Notice of Special Meeting of China Steel Australia Limited (**Company**) to be held at the Williams Room, 2nd floor, Tattersalls Club, 215 Queen St, Brisbane, Australia, commencing on 10:00am EST (Brisbane time) 7 March 2012.

The Explanatory Statement is to be read in conjunction with the Notice of General Meeting and Notice of Special Meeting.

The purpose of the Explanatory Statement is to provide information which the Directors believe is material:

- (a) to Shareholders (excluding Exiting Shareholders) in deciding whether or not to pass the Resolutions to be put forward in the General Meeting; and
- (b) to Exiting Shareholders in deciding whether or not to pass the Resolution to be put forward in the Special Meeting.

### Read the Circular

The Directors recommend Shareholders read the Notice of General Meeting and Notice of Special Meeting and this Explanatory Statement in full before making any decisions relating to the Resolutions contained in the Notice of Meetings.

### Defined terms

Terms used in this Explanatory Statement have the meaning given to them in the Glossary in Section A of this Circular in which this Explanatory Statement is contained.

## General information

### 1. Background to the Transaction

---

#### 1.1 The litigation

The Company holds all of the issued shares in China Steel Pte Ltd (**China Steel Singapore**), who in turn holds the entire issued share capital in Linyi Yilida Steel Mill Co. Ltd (**Linyi Yilida**). Linyi Yilida is a company incorporated in the People's Republic of China ('China'). Linyi Yilida wholly owns a steel and alloy plant located near the city of Linyi in the Shandong province of China, which produces Nickel Pig Iron and Merchant Pig Iron for the Chinese market ('the Linyi Plant'). Linyi Yilida also wholly owns a second, partially constructed steel and alloy plant located on land adjacent to the Linyi Plant (**Plant 2**).

As previously announced on the ASX, there is currently litigation on foot between Linyi Yilida and a contractor of Linyi Yilida, Hebei Metallurgical Construction Group Co. Ltd (**Hebei**). The dispute is in relation to a construction contract between Hebei and Linyi Yilida for the construction of a 588M3 blast furnace.

Hebei has claimed that after delivering the required equipment, Linyi Yilida breached the construction contract by refusing to make progress payments. Hebei is claiming progress payments from Linyi Yilida in the amount of RMB39.07 million<sup>1</sup> plus interest. In December 2010, Linyi Yilida paid an amount of RMB30 million to Hebei. Accordingly, the amount currently outstanding under the court summons has been reduced to RMB9 million plus interest.

---

<sup>1</sup> Being AUD\$5,844,865 assuming AUD\$ to RMB conversion rate of 1:6.6845

On 4 March 2011 a hearing was held in the Linyi Municipal People's Court (**Court**) during which the Court acted as facilitator for negotiations between Hebei and Linyi Yilida in relation to the remaining amount.

No conclusion was reached during the negotiation. To date no new date has been fixed for the negotiation.

Shareholder should note that while negotiations towards a settlement agreement are in an advance stage, there is no assurance that such negotiations will be successful. The settlement could be in the form of an instalment payment scheme or a deferred payment plan. If a settlement cannot be reached, the most unfavourable outcome would be seizure of the assets of the Company by the Court for the protection of Linyi Yilida's creditors.

## 1.2 Decision to sell China Steel Singapore (China Steel Pte Ltd)

The Company has been trying to raise funds since its listing in 2008 but has been unsuccessful due to many reasons including the global financial crisis and the unfavourable operating environment for its business generally. The inability to raise funds has made the construction of the expansion plant (Blast Furnace 2) by Linyi Yilida (started in 2007) not possible to finish. After payment of RMB 30 million by Linyi Yilida to Hebei, Linyi Yilida is unable to commence expanded operations due to a shortness of working capital and a general limited ability to service its customers. In the meantime, high regulatory holding costs have prevented the Company's overall financial and general business position from improving.

Given the risk to the Company, the Company formed a view that it was in the best interests of the Company to divest itself of Linyi Yilida by way of the sale of shares in Linyi Yilida's holding company, China Steel Singapore.

The rationale for the disposal of China Steel Singapore is to eliminate costs and also relieve the Company from any potential exposure to financial losses arising from the unfavourable operating environment of China Steel Singapore and existing legal issues relating to China Steel Singapore.

In November 2011 the Company entered into negotiations with Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia (**Exiting Shareholders**) for the sale of the China Steel Singapore to the Exiting Shareholders.

Jadedfield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia wish to acquire China Steel Singapore in order to realise their strategy for China Steel Singapore, Linyi Yilida, the Linyi Plant and Plant 2 outside of an ASX listed environment (which may enable them to adopt a longer term view) and without having to consider the interests of the Continuing Shareholders. On 5 January 2012, the Company and the Exiting Shareholders entered into a conditional Asset 1 Share Sale and Purchase Agreement for the sale by the Company to the Exiting Shareholders of the entire issued share capital in China Steel Singapore.

Detail of the material terms of the Asset 1 Share Sale and Purchase Agreement are set out in paragraph 2.3 below.

## 1.3 Decision to acquire a new main undertaking

Given the proposed sale of China Steel Singapore to the Exiting Shareholders, the Company wishes to acquire the business and assets of Reservoir Star Energy Technology Limited (**Reservoir Star**) so that it may continue as a going concern albeit assuming and operating a business different in nature to that which is currently operated.

See paragraph 3 below which provides detail of Reservoir Star.

On 5 January 2012, the Company and the Controlling Reservoir Star Shareholders entered into the Asset 2 Sale Facilitation Agreement annexing the conditional Asset 2 Share Sale

and Purchase Agreement for the Acquisition by the Company of the assets and business of Reservoir Star.

As at the date of this Circular, it is anticipated that the proposed Acquisition of the business and assets of Reservoir Star by the Company will be implemented by way of the acquisition of the issued share capital of the entity that wholly owns Reservoir Star, whether directly or through an interposed entity (referred throughout this Circular as "**Reservoir Star Holdings**").

Detail of the material terms of the Asset 2 Sale Facilitation Agreement and the Asset 2 Share Sale and Purchase Agreement are set out in paragraphs 3.9 and 3.10 respectively of this Explanatory Statement.

#### 1.4 The Transaction – Tranche 1 and Tranche 2

The Transaction is to proceed in two tranches.

The Sale of China Steel Singapore (China Steel Pte Ltd) is to be completed in Tranche 1 (see paragraph 2 for a full overview of Tranche 1).

The Acquisition of the assets and business of Reservoir Star and the application for re-admission to trading on the ASX is to be completed in Tranche 2 (see paragraph 3 for a full overview of Tranche 2).

Each Tranche requires separate Shareholder approval.

**Note: This Circular sets out the approval requirements for Tranche 1 solely. There is no guarantee that in the event Tranche 1 is approved and completed that Tranche 2 will proceed to shareholder approval and completion of the Asset 2 Share Sale and Purchase Agreement.**

#### 1.5 What happens if Tranche 1 is not completed

In the event Tranche 1 does not complete for any reason (including if any of the Resolutions contained in this Circular are not approved):

- (a) Shareholders will continue to hold an interest in China Steel Singapore, Linyi Yilida, the Linyi Plant and Plant 2. Continuing Shareholders will therefore retain exposure to all of the risks and rewards of holding an interest in these assets.
- (b) Shareholders will continue to be exposed to the risk associated with the legal dispute with Hebei.
- (c) the suspension of the Company from trading on the ASX will continue.
- (d) Tranche 2 of the Transaction, involving the Acquisition of the business and assets of Reservoir Star) will not be implemented.
- (e) the Exiting Shareholders will (for the time being) remain shareholders of the Company.
- (f) Shareholders will not have the opportunity to receive the Return of Capital which may be paid out of the cash consideration received from Jadefield Group Limited. As noted earlier, Continuing Shareholders may not get another opportunity to realise value for their Company shares in the short to medium term.
- (g) Shareholders wishing to retain exposure to nickel pig iron manufacturing will not be required to find an alternative to investing in the Company.
- (h) it is possible that the Shareholders may receive an offer from another entity that is superior to Tranche 1 of the Transaction. So far as the Directors are aware, no

superior offer has been received by the shareholders of the Company as at the date of this Circular.

## 1.6 What happens if Tranche 1 does complete but Tranche 2 is not completed

In the event Tranche 1 is completed but Tranche 2 does not complete for any reason (including if any resolutions required for Tranche 2 are not passed at the Second General Meeting or the Asset 2 Share Sale and Purchase Agreement does not complete for any reason), the Acquisition of the business and assets of Reservoir Star will not proceed and the Company will either:

- (a) acquire a new main undertaking; or
- (b) be wound up.

In the event the Company is wound up, the Shareholders will have a right to participate in those assets available for distribution to Shareholders. Given that the Return of Capital would have completed by such a date, the Company does not anticipate that there would be any additional material assets available for distribution.

Notwithstanding the above, the application for re-admission to trading on the ASX will not proceed as detailed in this Circular in the event the Asset 2 Share Sale and Purchase Agreement does not complete.

## 2. Tranche 1 – The sale of the main undertaking (China Steel Pte Ltd)

### 2.1 Note to Shareholders

This Circular sets out the approval requirements for Tranche 1 solely. This paragraph 2 contains an overview of Tranche 1.

### 2.2 The Asset 1 Share Sale and Purchase Agreement

On 5 January 2012, the Company and the Exiting Shareholders entered into a conditional Asset 1 Share Sale and Purchase Agreement for the sale by the Company to the Exiting Shareholders of the entire issued share capital in China Steel Pte Ltd registration number 200311609H (Incorporated in Singapore) (**China Steel Singapore**).

The share capital in China Steel Singapore is to be sold to the Exiting Shareholders in the following proportions:

Exiting Shareholder	Shares	% of Shares
Jadefield Group Limited	97,434,683	51.71%
China Powerplus Limited	55,830,394	29.63%
Ms Zhang Guangxia	35,160,147	18.66%

As part of the transaction, Jadefield Group Limited has agreed to provide a cash payment of \$250,000 to the Company to cover transaction costs payable. These transaction costs relate to Tranche 1 of the Transaction and include advisory, legal and accounting fees as well as certain duties and taxes. The Company will not be required to repay this amount to Jadefield Group Limited after completion of Tranche 1 of the Transaction.

### 2.3 Material terms of the Asset 1 Share sale and Purchase Agreement

#### *The consideration*

In consideration for the Sale of the entire issued share capital in China Steel Singapore to the Exiting Shareholders:

- (a) Jadedfield Group Limited will pay the Company AUD\$2,703,853.50, being 16% of the value of China Steel Singapore based on the valuation of China Steel Singapore contained in the Independent Expert Report;
- (b) China Steel Singapore will forgive the debt owed by the Company in the amount of \$1,321,514;
- (c) Jadedfield Group Limited and Ms Zhang Guangxia will the cancel all options in the Company which they hold; and
- (d) the Exiting Shareholders will have all of the shares they hold in the Company cancelled.

### ***Conditions precedent to completion***

Completion of the Asset 1 Share Sale and Purchase Agreement is conditional upon:

- (a) Shareholders (with the exception of the Exiting Shareholders) approving the:
  - (i) Resolution 1 of the General Meeting : Sale of main undertaking;
  - (ii) Resolution 2 of the General Meeting : Capital Reduction and Cancellation ;
  - (iii) Resolution 3 of the General Meeting : Related Party Benefit;
  - (iv) Resolution 4 of the General Meeting: Return of Capital; and
- (b) Exiting Shareholders approving Resolution 1 of the Special Meeting : Capital Reduction and Cancellation.

### ***As is where is***

The sale of the entire issued share capital in China Steel Singapore is on an “as is where is basis”. This means that the Company has provided no warranties or representations with respect to China Steel Singapore and Linyi Yilida.

### ***Contingent liability***

The Asset 1 Share Sale and Purchase Agreement provides a release of all liability with respect to China Steel Singapore and Linyi Yilida from the Exiting Shareholders to the Company.

In particular, under the Asset 1 Share Sale and Purchase Agreement:

- (a) the Exiting Shareholders forever releases and discharges the company and its officers, employees, agents (**Released Parties**) from all actions, suits, courses of actions, claims, demands, costs and expenses or payments which the Exiting Shareholders now have or may at any time hereafter have against the Released Parties for all liability of the Released Parties including any liability arising from or relating in anyway to any rights or entitlement of the Exiting Shareholders as shareholders of the Company.
- (b) the Exiting Shareholders forever release and discharge, and will procure that China Steel Singapore following completion of the Asset 1 Share Sale and Purchase Agreement forever releases and discharges, the Company and its officers, employees, agents (**Released Parties**), from all actions, suits, courses of actions, claims, demands, costs and expenses or payments which the Exiting Shareholders or China Steel Singapore or a related body corporate of the Exiting Shareholders or China Steel Singapore now have or may at any time hereafter have against the Released Parties with respect to the shares in China Steel Singapore or China Steel Singapore, including any assets owned by China Steel Singapore



**Warranty by the Directors**

The Asset 1 Share Sale and Purchase Agreement provides a warranty and representation from the Directors that the Company is not party to a contract, arrangement or understanding whether binding or not under which the Company is, may be or may become liable under any law to any extent to Hebei or any of its related bodies corporates in connection with Hebei's litigation against Linyi Yilida and/or the Company.

**2.4 How was the consideration for the Sale been calculated?**

The consideration for the Sale has been calculated on a valuation of China Steel Singapore.

Please refer to Section G (Independent Expert Report) for further details.

**2.5 Actions following completion of the sale of China Steel Singapore**

Following the completion of the sale of China Steel Singapore, subject to the approval of the Resolutions, the Directors will pay the AUD\$2,703,853.50, received from Jadefield Group Limited under the Asset 1 Share Sale and Purchase Agreement as follows:

Use of funds	Amount AUD\$
a Return of Capital to all Shareholders on the register at the Record Date with the exception of the Exiting Shareholders	AUD\$0.03426 per Share in the Company.
<b>TOTAL</b>	<b>AUD\$2,703,853.50</b>

The payment of AUD\$0.03426 per Share represents 40.9% of the 3 month weighted average closing price before the Company was suspended from trading on the ASX on 22 February 2011 in the amount of \$0.0836

Please refer to paragraph 10 of this Explanatory Statement which contains detail of the Return of Capital which requires the approval of all with the exception of the Exiting Shareholders in order for it to be effected.

For information about the tax treatment of this Return of Capital, please refer to paragraph 6 of this Explanatory Statement and the Tax Report set out in Section H of this Circular.

**2.6 Impact on the Directors**

Mr Chen Lidong, Mr Brian Ho, Mr Chung Cheung and Mr Wong Wing Wang are not in any way related to the Exiting Shareholders or have any other interest in the outcome of Meetings.

Mr Xue Yongwen, as a shareholder of China Powerplus Limited currently has an indirect interest in the Company by way of his shareholding in China Powerplus Limited.

In the event all of the Resolutions contained in this Circular are passed and Tranche 1 of the Transaction is implemented, Mr Xue Yongwen will receive an indirect benefit of the transfer of China Steel Singapore to the Exiting Shareholders as a result of his shareholding in China Powerplus Limited.

Details of the interests of the Directors as at the date of this Circular and in event all of the Resolutions contained in this Circular are passed and Tranche 1 of the Transaction is implemented are set out below:

Director	Number of Shares held directly and indirectly as at date of Circular	Number of Shares held directly and indirectly if all resolutions are passed
Xue Yongwen	Nil held directly 142,450,000 (29.63%) held indirectly by way of his shareholding in China Powerplus Limited	0% held directly 0% held indirectly
Chen Lidong	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Brian Chee Fai Ho	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Chung Leung Cheung	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Wong Wing Wang	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly

### 3. Tranche 2 – The acquisition of the business and assets of Reservoir Star and re-admission

#### 3.1 Note to Shareholders

This Circular sets out the approval requirements for Tranche 1 solely. This Circular does not contain the approval requirements for Tranche 2 (which is summarised in this paragraph 3).

In the event the Company proceeds with Tranche 2, another general meeting of shareholders (**Second General Meeting**) will need to be held to approve a number of resolutions required for Tranche 2 to be implemented. The notice of meeting for the convening of the Second General Meeting will contain the level of disclosure required pursuant to the ASX Listing Rules, Corporations Act and ASIC regulatory guides.

The information summarised in this paragraph 3, has been provided for general information purposes only. There is no guarantee that in the event Tranche 1 is approved and completed that a Second General Meeting will be held or that the transaction document implementing Tranche 2 (i.e. the Asset 2 Share Sale and Purchase Agreement) will be completed.

Any information in this Circular concerning the Reservoir Star Group, Reservoir Star, Reservoir Star's assets and securities has been prepared from public information and certain disclosures made by Reservoir Star to the Company for the purpose of the Tranche 2 Transaction.

This information has not been independently verified and accordingly, the Company makes no representations or warranties, express or implied, as the accuracy of such information to the extent permitted by the Corporations Act.

#### 3.2 Introduction to Reservoir Star

Beijing Reservoir Star Energy Technology Limited (**Reservoir Star**) is a Beijing-based petroleum service company incorporated in 2004.

Reservoir Star licences unique Enhanced Oil Recovery (**EOR**) technology and patented products, which in turn provide an increased production volume and a reduction in costs of oil extraction. Its main business is to provide its EOR services to oilfields in the Middle East and South East Asia.

*Current structure*

As at the date of this Circular, Reservoir Star is wholly-owned by Reservoir Star International, Inc. (**RSI**), a company incorporated in Texas, USA. RSI is in turn wholly owned by the Reservoir Star Controlling Shareholders.

*Restructure*

At the date of this Circular, it is anticipated that following an ongoing restructuring exercise, Reservoir Star will become wholly owned (or owned through an interposed entity) by a newly incorporated entity within the Reservoir Star Group (**Reservoir Star Holdings**). The Reservoir Star Controlling Shareholders will be the majority shareholders of Reservoir Star Holdings.

It is anticipated that the proposed Acquisition of the business and assets of Reservoir Star by the Company will be implemented by way of the acquisition of the issued share capital of Reservoir Star Holdings.

**3.3 Future Plans**

Going forward, Reservoir Star Holdings aims to diversify its business through the acquisition of oil production and/or oil exploration assets in the Middle East and/or South East Asia, through various means such as joint ventures, the purchase of concessions (tenements) or other forms of production sharing contracts.

Such acquisitions may be in progress, or implemented, prior to the Second General Meeting which will mean that full detail will be contained in the circular for the Second General Meeting.

**3.4 What is Enhanced Oil Recovery?**

EOR is a term for techniques for increasing the amount of crude oil that can be extracted from an oil field. Using EOR, approximately 30 – 60% of a reservoir's original oil can be extracted, compared to approximately 20 – 40% using primary and secondary recovery methods. EOR is also called improved oil recovery or tertiary recovery.

EOR is achieved by gas injection, chemical injection, microbial injection, or thermal recovery (which includes cyclic steam, steam flooding and fire flooding).

**3.5 Patented Products**

The Controlling Reservoir Star Shareholders and its management team have several patents which are licensed to Reservoir Star in its operations. These patents include apparatus and method for combined acoustic and seismoelectric logging measurements, hanging oil draining device, magnetic single flow valve, and Multi function hydraulic anchor order flow device, to improve operational efficiency and enhance oil production.

**3.6 Key Management**

The management team in Reservoir Star comprises mainly academics and field operators of the oil and gas production industry. Each has held various positions of responsibility in large oil companies.

**3.7 The value of Reservoir Star**

Following the completion of the restructure of the Reservoir Star Group, it is estimated that the assets and business of Reservoir Star Holdings (including Reservoir Star) will be valued at least AUD\$10,000,000.

A full valuation of Reservoir Star Holdings (including Reservoir Star) will be detailed in the notice of meeting for the Second General Meeting for the approval of Tranche 2.

### 3.8 Public reports of Reservoir Star

For further information on Reservoir Star, please refer to their website at <http://reservoirstar.com>.

### 3.9 The Asset 2 Sale Facilitation Agreement

As at the date of this Circular, the Asset 2 Share Sale and Purchase Agreement cannot be entered into as it is anticipated that following a restructure of the Reservoir Star Group, Reservoir Star will be held by a newly incorporated entity (whether through an interposed entity) ultimately controlled by the Controlling Reservoir Star Shareholders (referred to throughout this Circular as "Reservoir Star Holdings"). As such, on 5 January 2012 the Asset 2 Sale Facilitation Agreement was entered between the Company and the Controlling Reservoir Star Shareholders to facilitate the acquisition of the business and assets of Reservoir Star, however the restructure is implemented, from the entity with the capacity to deliver ownership or control of the business and assets of Reservoir Star following the completion of the restructure of the Reservoir Star Group.

The Asset 2 Sale Facilitation Agreement provides that following notification of completion of the restructure of the Reservoir Star Group, the Controlling Reservoir Star Shareholders must procure that each entity with the capacity to deliver ownership or control (or both) of all, or any of, the business and the assets of Reservoir Star enters into an agreement with the Company on terms identical, or substantially similar, to the terms of the Asset 2 Share Sale and Purchase Agreement under which the Company will acquire from each entity ownership or control (or both) over the business and the assets of Reservoir Star owned or controlled by that entity.

As stipulated above, it is anticipated that the proposed Acquisition of the business and assets of Reservoir Star by the Company will be implemented by way of the acquisition of the issued share capital of Reservoir Star Holdings which will wholly own (or own through an interposed entity) the entire issued share capital of Reservoir Star. The Asset 2 Share Sale and Purchase Agreement

The Asset 2 Share Sale and Purchase Agreement is appended to the Asset 2 Sale Facilitation Agreement and will be completed and executed once the restructure of the Reservoir Star Group has been completed.

### 3.10 Material terms of the Asset 2 Share Sale and Purchase Agreement

Material terms of the Asset 2 Share Sale and Purchase Agreement are set out below:

#### ***The consideration***

In consideration for the Acquisition by the Company of the business and assets of Reservoir Star (which is anticipated to be implemented by way of the acquisition of the issued share capital of Reservoir Star Holdings which will own, or own through an interposed entity, the entire issued share capital of Reservoir Star) from the entity that controls the business and assets of Reservoir Star (which is anticipated to be the holder of the shares in Reservoir Star Holdings) (**Reservoir Star Vendor**), the Company will issue 1,499,499,000 shares in the Company to the Reservoir Star Vendor which, as at the date of this Circular equates to 95% of the Company.

#### ***Conditions precedent to completion***

Completion of the Asset 2 Share Sale and Purchase Agreement is conditional upon:

- (a) The Company's due diligence investigations of Reservoir Star and Reservoir Star Holdings, its business and the shares in Reservoir Star and Reservoir Star Holdings and the Company being satisfied with the results of that investigation;

- (b) The Shareholders giving all necessary approvals for the completion of the Asset 2 Share Sale and Purchase Agreement as required under the Corporations Act and the Listing Rules. Without limitation, such approval include the following:
  - (i) Shareholders have approved of the issue and allotment of the Shares in the Company to the Reservoir Star Vendor under the terms of the Asset 2 Share Sale and Purchase Agreement in accordance with section 611, item 7 of the Corporations Act;
  - (ii) Shareholders have approved the change in nature of activities by way of the proposed acquisition of the shares in Reservoir Star Holdings in accordance with Listing Rules 11.1.2 and 11.1.3;
- (c) the Company, the Reservoir Star Vendor, Reservoir Star, and Reservoir Star Holdings, have all consents, approvals and other things the Company requires on terms satisfactory to the Company, and have completed all arrangements the Company requires on terms satisfactory to the Company;
- (d) after the date of execution of this Asset 2 Share Sale and Purchase Agreement the Company has not become aware of any fact, matter or other thing which has or may have an adverse effect on the value or existence of Reservoir Star's and Reservoir Star Holdings' assets or the shares in Reservoir Star or Reservoir Star Holdings or the financial or trading position or the reputation or prospects of Reservoir Star or Reservoir Star Holdings or their business;
- (e) the Company's board of directors has approved:
  - (i) entry into the Asset 2 Share Sale and Purchase Agreement; and
  - (ii) the Company proceeding with completion of the Asset 2 Share Sale and Purchase Agreement;
- (f) the Company obtains (on terms satisfactory to the Company) all government approvals that, in the Company's opinion, the Company considers it is required or desirable to obtain to proceed or before proceeding with the purchase of the shares in Reservoir Star Holdings;
- (g) the Reservoir Star Vendor has not breached any provision of the Asset 2 Share Sale and Purchase Agreement.

### 3.11 Re-admission

Prior to the completion of the Acquisition of the business and assets of Reservoir Star, the Company intends to lodge an application for the re-admission of its securities to the Official List of the ASX.

In order to be re-admitted to trading on the ASX, given that the Company will have a new main undertaking (in the business and assets of Reservoir Star); the Company will be required to comply with Chapters 1 and 2 of the ASX Listing Rules. Such compliance will include the requirement that the Company demonstrate that there is sufficient interest in its continued listing on the ASX which will be done by preparing and issuing a prospectus in order to increase its spread of shareholders to the number of shareholder required by the ASX Listing Rules.

The shareholder spread requirements of the Listing Rules require that the Company have either:

- (a) 500 holders with AUD\$2,000 of shares; or
- (b) 400 holders (AUD\$2,000 shares) and 25% or more not being issued to related parties.

**The Prospectus will provide that the issue of shares to new shareholders and hence the proposed re-admission to trading on the Official List of the ASX is conditional upon the approval of the Tranche 2 Resolutions and the completion of the Asset 2 Share Sale and Purchase Agreement.**

The Company intends to implement the process for application for re-admission to the Official List of the ASX at the same time as the process for the Acquisition of the business and assets of Reservoir Star under the Asset 2 Share Sale and Purchase Agreement is being implemented.

A summary of the proposed timetable for the readmission to quotation on the Official List of the Shares in the Company in the ASX is set out below. Please note that these dates are indicative only and subject to change:

Lodge Prospectus with ASIC (conditional on shareholder approval of the resolutions contained in the Notice of General Meeting and Notice of Special Meeting and completion of the Asset 1 Share Sale and Purchase Agreement and Asset 2 Share Sale and Purchase Agreement).	8 March 2012
Lodge re-admission application with the ASX.	8 March 2012
ASIC Exposure Period starts (7 days).	9 March 2012
ASIC Exposure Period ends.	17 March 2012 (7 days after Exposure Period starts)
Despatch Prospectus.	19 March 2012
Offer period opens.	21 March 2012
Second General Meeting of the Company to be held to pass all resolutions required for Tranche 2 of the Transaction.	30 March 2012
Offer period closes.	4 April 2012
Directors resolve that Chapter 1 and 2 requirements of the Listing Rules are capable of satisfaction and seek re-instatement of the Company's securities to quotation.	11 April 2012
Complete Asset 2 Share Sale and Purchase Agreement.	17 April 2012
Allotment date	20 April 2012
Despatch of holding statement to subscribers under the Prospectus.	23 April 2012
Re-quotation of the Company's securities to trading.	30 April 2012

### 3.12 What if the Asset 2 Share Sale and Purchase Agreement does not complete

In the event Tranche 1 is completed but Tranche 2 does not complete for any reason (including if any resolutions required for Tranche 2 are not passed at the Second General Meeting or the Asset 2 Share Sale and Purchase Agreement does not complete for any reason), the Acquisition of the business and assets of Reservoir Star will not proceed and the Company will either:

- (a) acquire a new main undertaking; or
- (b) be wound up.

In the event the Company is wound up, the Shareholders will have a right to participate in those assets available for distribution to Shareholders. Given that the Return of Capital

would have completed by such a date, the Company does not anticipate that there would be any additional material assets available for distribution.

Notwithstanding the above, the proposed re-admission to trading on the ASX will not proceed as detailed in this Circular in the event the Asset 2 Share Sale and Purchase Agreement does not complete.

#### 4. Advantages and disadvantages of Tranche 1 to Shareholders

##### 4.1 Advantages and disadvantages to Shareholders with the exception of the Exiting Shareholders

The below table summarises the advantages and disadvantages to the Shareholders with the exception of the Exiting Shareholders (**Continuing Shareholders**) of approving the Resolutions for Tranche 1.

Further detail of advantages and disadvantages to Continuing Shareholders are contained in sections 8.1.1 and 8.2.1 of the Independent Expert's Report.

Advantages	Disadvantages
Potential to realise some value via the receipt of a Return of Capital.	If the Resolutions are approved, the Company will no longer hold any interest in China Steel Singapore, Linyi Yilida, the Linyi Plant and Plant 2. Accordingly, Continuing Shareholders will have no exposure to any potential upside in the value of China Steel Singapore, Linyi Yilida, the Linyi Plant and Plant 2.
As the Company shares are currently suspended from official quotation on the ASX, it would be relatively difficult for Continuing Shareholders to realise a similar value in a timely manner for their shares in the Company.	<p>The Company is engaging in the sale of its main undertaking (i.e. the operation and maintenance of the Linyi Plant) and will essentially become a shell company following the completion of Tranche 1 of the Transaction. As a result, the Continuing Shareholders will initially hold an investment in a company with no main undertaking following the completion of Tranche 1 of the Transaction.</p> <p>As noted earlier, the directors of the Company intend to acquire all of the issued equity in Reservoir Star immediately following the completion of Tranche 1 of the Transaction.</p> <p>The Company may remain without a main undertaking for an indeterminate period of time or be liquidated in the event the proposed Acquisition of the business and assets of Reservoir Star does not proceed.</p>
<p>As noted in paragraph 1.1 of this Circular, Linyi Yilida (a subsidiary of the Company) is a party to a legal dispute with Hebei in relation to the construction of Plant 2. The outcome of the dispute with Hebei is highly uncertain and currently represents a liability to the Company.</p> <p>The completion of Tranche 1 of the Transaction will remove the Continuing Shareholders' exposure to the legal dispute with Hebei and the associated liability. The Continuing Shareholders will no longer be exposed to the risk of the dispute with Hebei being resolved in a manner</p>	<p>Continuing Shareholders will no longer hold shares in a company focussed on the manufacture of nickel pig iron after completion of Tranche 1 of the Transaction.</p> <p>Continuing Shareholders who wish to retain exposure to nickel pig iron manufacturing will therefore need to find an alternative to investing in the Company.</p>

that is unfavourable to Linyi Yilida (such as the seizure of the Linyi Plant by the local authorities, which is a possibility as at the date of this Circular).	
<p>Linyi Yilida's application for assignment of the leasehold land on which the Linyi Plant and Plant 2 are located has been in progress with the relevant Chinese authorities since 2004 and is yet to be approved. The directors of the Company do not believe approval for the assignment of the leasehold land will be granted by the relevant Chinese authorities anytime in the near future.</p> <p>Tranche 1 of the Transaction will mean that Continuing Shareholders are no longer exposed to the risk of the Chinese authorities withholding their approval for the assignment of the relevant leasehold land to Linyi Yilida.</p>	<p>The Company may potentially issue additional shares in itself either as consideration for the acquisition of a main undertaking (e.g. Reservoir Star as currently contemplated) or for capital raising purposes more generally. Future issues of shares in the Company will dilute Continuing Shareholders' holdings within the Company.</p>
<p>The Company will be better placed to consider other business opportunities following the successful completion of Tranche 1 of the Transaction as it will no longer have to bear the financial commitments associated with maintaining the Linyi Plant (which was not in operation as at the date of this Circular) or completing the construction of Plant 2.</p> <p>The directors of the Company intend to acquire the business and assets of Reservoir Star following the completion of Tranche 1 of the Transaction.</p>	
<p>Continuing Shareholders will go from holding a minority interest in the Company to holding a controlling interest in the event the Resolutions are approved. As a result, Continuing Shareholders will have the ability to jointly determine the future strategic direction of the Company.</p>	
<p>The directors of the Company believe that the Transaction is the best (and only) proposal that has been received and that, apart from the Transaction, no other proposals have been made.</p>	

#### 4.2 Advantages and disadvantages to Exiting Shareholders

The below table summarises the advantages and disadvantages to the Exiting Shareholders of approving the Resolutions for Tranche 1 (being Resolution 4 of the General Meeting and the Special Meeting Resolution).

Further detail of advantages and disadvantages to Exiting Shareholders are contained in sections 8.1.2 and 8.2.2 of the Independent Expert's Report.

Advantages	Disadvantages
The Exiting Shareholders will hold a 100% interest in China Steel Singapore, Linyi Yilida, the Linyi Plant	The Exiting Shareholders will no longer hold an investment in an ASX listed company.



and Plant 2 if the Resolutions are approved.	which may make it more difficult for them to exit their investment and/or access capital markets for funding (particularly in relation to Plant 2) in the short to medium term.
<p>Tranche 1 of the Transaction (including the Proposed Capital Reduction and Cancellation) is the result of proposals put forward by the Exiting Shareholders.</p> <p>If Tranche 1 of the Transaction is approved, the Exiting Shareholders will have the opportunity to realise their strategy for China Steel Singapore, Linyi Yilida, the Linyi Plant and Plant 2 outside of an ASX listed environment (which may enable the Exiting Shareholders to adopt a longer term view) and without having to consider the interests of Continuing Shareholders.</p>	<p>Completion of Tranche 1 of the Transaction will mean that the Exiting Shareholders continue to be exposed to the legal dispute with Hebei. The Exiting Shareholders will solely bear the risk of the dispute with Hebei being resolved in a manner that is unfavourable to Linyi Yilida (such as, for example, the Linyi Plant being seized by the Court, which we are instructed is a possibility as at the date of this Report).</p>
<p>The Exiting Shareholders will be able to dispose of the shares they hold in the Company without incurring brokerage fees as the proposed Capital Reduction involves the cancellation of the Company shares held by the Exiting Shareholders rather than their sale.</p>	<p>Completion of Tranche 1 of the Transaction will mean that the Exiting Shareholders continue to be exposed to the approvals process of the Chinese authorities. The Exiting Shareholders will solely bear the risk of the Chinese authorities withholding their approval for the assignment of the relevant leasehold land to Linyi Yilida.</p>
<p>The cost of complying with regulatory requirements is likely to be reduced as China Steel Singapore and its subsidiaries will not be subsidiaries of an entity listed on the ASX following the completion of Tranche 1 of the Transaction.</p>	

## 5. The Company

### 5.1 Overview of the Company

The Company is an Australian incorporated company that has been listed on the ASX since 29 February 2008. In 2008, the Company acquired a 100% interest in China Steel Singapore, which wholly owned the Linyi Plant and Plant 2 through its subsidiary, Linyi Yilida.

The Linyi Plant, which is the Company's primary asset, is located at Dazhuang town, near the city of Linyi in the Shandong Province of China. Linyi Yilida began producing merchant pig iron at the Linyi Plant in 2004.

However, as a result of the strong demand for nickel pig iron from China's stainless steel industry, Linyi Yilida began to produce nickel pig iron in 2006. Nickel pig iron is a substitute for pure nickel and is a major element in the production of stainless steel. The Linyi Plant operates principally as a throughput operation, whereby customers supply the raw materials required to produce nickel pig iron, and has the capacity to produce approximately 45,000 tonnes of nickel pig iron per year.

On 5 January 2011, the Company ceased production of nickel pig iron at the Linyi Plant. The termination of production resulted from power supply rationing to heavy industry imposed by the local authority in Linyi. The Company did not recommence production during the 2011 financial year and subsequently leased the Linyi Plant to a third party on 1 June 2011 for a period of one year.

The Company began the construction of a second production plant (Plant 2) on land adjacent to the Linyi Plant during 2007. Plant 2's production capacity was expected to be approximately 135,000 tonnes per year, increasing the total production capacity of the Company to approximately 180,000 tonnes of nickel pig iron per year. However no progress

on Plant 2 has been made since 9 December 2008 due to the Company being unable to raise the funds required for completion. The Company estimates that approximately AUD\$44 million in additional funds is required to complete the construction of Plant 2.

## 5.2 The Company's Share price and trading history

On 22 February 2011, the Company was suspended from trading on the ASX.

The below diagram provides a general indication of the historical trading price of Shares and the trading volume of Shares from the Company's admission to the official list of ASX in 29 February 2008 to 22 February 2011, being the last day on which Shares traded on ASX before the it was suspended from trading.

Lowest price / date	Highest Price / date
0.0745 – 18 February 2011	0.1572– 9 April 2010

The 3 month weighted average closing price before the Company was suspended from trading on the ASX on 22 February 2011 was \$0.0836.

Further information regarding the Share price and trading history is included in section 5.3 of the Independent Expert's Report (refer to Section G of this Circular).

## 5.3 The Company's financial performance and financial position – 2010 and 2011

The Company's financial performance for the 2010 and 2011 financial years are set out below:

	2011	2010
(Loss)/profit for the year attributable to members	(53,036)	25,955
Total Asset	20,274	81,759
Net Asset	16,112	78,654

## 6. Tax implications of Tranche 1

### 6.1 Overview

The Tax Report provides as follows:

- (a) On the disposal of China Steel Singapore shares, the Company will realise a capital loss. This capital loss should however be ignored for income tax purposes;
- (b) On the cancellation of the existing majority shareholders' shares in the Company, there should be no income tax implications for the Company;
- (c) On the cancellation of the Exiting Shareholders' shares in the Company, there will be a return of capital to the shareholders. The Exiting Shareholders should be assessed under the Australian Capital Gains Tax (CGT) provisions in respect of the return of capital;
- (d) The share cancellation of the Exiting Shareholders will be paid out of share capital and as such should not be a dividend for taxation purposes;
- (e) Any Australian capital gain or loss derived by the Exiting Shareholders from the cancellation of their shares should be ignored on the basis they are non residents;

- (f) The Continuing Shareholders should be assessed under the Australian Capital Gains Tax (CGT) provisions in respect of share capital reduction. The share capital reduction of the Continuing Shareholders will be paid out of share capital and as such should not be a dividend for taxation purposes;
- (g) The return of capital to the Continuing Shareholders will reduce the tax cost base in their shares to the same extent. Any surplus return over the tax cost base would produce a capital gain. This capital gain may be disregarded by non-resident shareholders;
- (h) the Company's tax losses of \$1,655,794 will no longer be available following the restructure.

## 6.2 Tax Report

For further information regarding the taxation conclusions see the Tax Report set out in Section H of this Circular.

## The Resolutions

### **7. Resolution 1 : Disposal of main undertaking (General Meeting)**

---

#### 7.1 Overview

This Resolution is required to be approved to allow the Company to sell off its main undertaking, being the entire share capital of China Steel Singapore which in turn holds the entire share capital of Linyi Yilida.

#### 7.2 The Resolution

Resolution 1 of the General Meeting requires Shareholder approval for the Sale by the Company of the entire issued share capital in China Steel Singapore to the Exiting Shareholders on the terms set out in the Asset 1 Share Sale and Purchase Agreement.

#### 7.3 The law

##### **ASX Listing Rule 11.2**

Shareholder approval is required under Listing Rule 11, which applies if an entity proposes to make a significant change to the nature or scale of its activities and the significant change involves the entity disposing of its main undertaking.

ASX Listing Rule 11.2 provides that a company may not dispose of its main undertaking (that is, its main asset or business) without the approval of its shareholders.

Listing Rule 11.2 is relevant as the Sale of China Steel Singapore (which holds the shares in Linyi Yilida) constitutes the sale of the Company's main undertaking as the Company will not carry on any significant business following such sale.

Accordingly, Resolution 1 seeks Shareholder approval, for the purposes of Listing Rule 11.2, of the Company's proposed Sale of China Steel Singapore, in accordance with the terms of the Asset 1 Share Sale and Purchase Agreement dated 5 January 2012 between the Company and the Exiting Shareholders.

The Sale of China Steel Singapore requires the approval by way of an ordinary resolution of the Shareholders of the Company with the exception of the Exiting Shareholders.

Resolution 1 of the General Meeting seeks this approval.

**ASX Listing Rule 10.1**

ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a substantial holder without the approval of holders of the entity's ordinary securities.

ASX Listing Rule 10.2 defines an asset as 'substantial' if its value, or the value of the consideration for it, is greater than 5% of the equity interests of the entity as set out in the latest accounts given to ASX under the listing rules. As China Steel Singapore represents more than 5% of the total value of the equity interests of the Company (as disclosed by the Company in the Company's 2011 financial accounts), China Steel Singapore is deemed to be a 'substantial asset' of the Company under the definitions provided in ASX Listing Rule 10.2.

ASX Listing Rule 10.1 defines a 'substantial holder' as a person (or persons) who have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities. The Exiting Shareholders, to whom China Steel Singapore is to be predominantly transferred to under Tranche 1 of the Transaction, together currently hold 83.59% of the share capital in the Company.

Accordingly, the Exiting Shareholders are deemed to be 'substantial holders' of the Company under the definitions provided in ASX Listing Rule 10.1

Having regard to the above, Tranche 1 of the Transaction represents the disposal of a substantial asset to a substantial holder. The Company is therefore required to obtain the approval of holders of the Company's ordinary securities whose votes are not to be disregarded (i.e. the Shareholders with the exception of the Exiting Shareholders) under ASX Listing Rule 10.1.

The Company must also include a report from an independent expert on Tranche 1 of the Transaction in the circular to be sent to Shareholders under ASX Listing Rule 10.10. Shareholder approval sought for the purpose of ASX Listing Rule 10.1 must include a report on the proposed Transaction from an independent expert.

Accompanying this Explanatory Statement is an Independent Expert's Report in Section G Annexure prepared by BDO Corporate Finance Pty Ltd.

**7.4 Interdependence of Resolution 1**

Resolution 1 of the General Meeting is subject to the approval of all the other Resolutions contained in the Notices.

**7.5 Rationale for Sale of main undertaking/substantial asset**

The Directors have reviewed the alternative to the Sale of China Steel Singapore and have formed the opinion that Sale of the China Steel Singapore represents the best option for the Company's Shareholders.

The Company announced detail of the proposed Sale of China Steel Singapore on 23 November 2011. This Circular reflects the detail of the Sale as contained in that ASX announcement.

The Directors are of the view that completion of the Sale of China Steel Singapore will reduce its risk exposure and provide a Return of Capital to Shareholders with the exception of the Exiting Shareholders, while allowing the Company to refocus its efforts in other areas. The future intentions of the Company are discussed below at paragraph 7.10.

**7.6 Potential advantages of disposal of main undertaking**

For information on the advantages of the disposal of the main undertaking (being a substantial asset as defined in the Listing Rules), please refer to paragraph 4 of this Circular.

**7.7 Potential disadvantages of disposal of main undertaking**

For information on the disadvantages of the disposal of the main undertaking, please refer to paragraph 4 of this Circular.

**7.8 Overview of the proposed Tranche 1 Transaction**

See paragraph 2 for an overview of the proposed Tranche 1 Transaction including the material terms of the Asset 1 Share Sale and Purchase Agreement.

**7.9 Impact of the sale on the Company**

- (a) Impact of the sale on the Board and management

The Sale of China Steel Singapore will not result in any change to the Board.

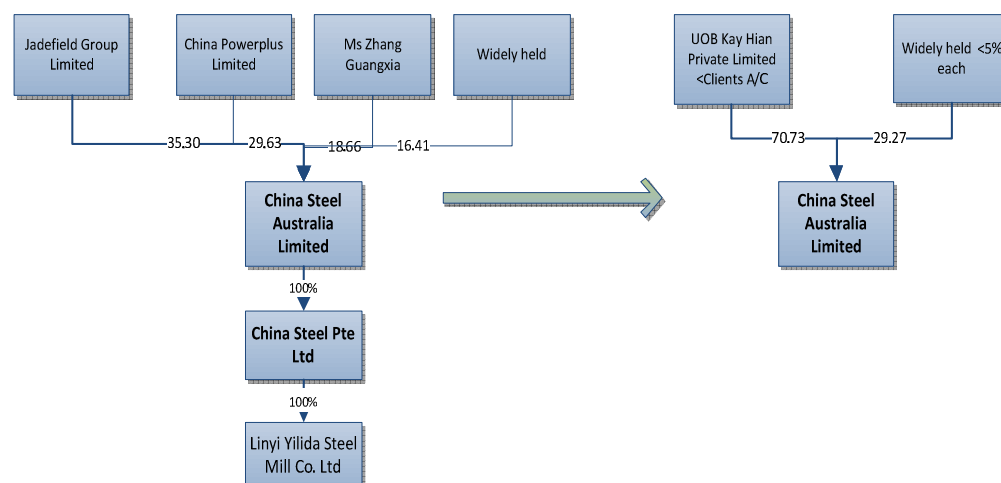
- (b) Impact of the sale on capital structure

The Company's capital structure will change as a result of the sale of China Steel Singapore given that part of the consideration to be paid by the Exiting Shareholders is the Capital Reduction and Cancellation of the Shares held by each of the Exiting Shareholders in the Company.

See paragraph 8.10 for a snapshot of the pre and post Tranche 1 capital structure.

- (c) Impact of the sale on the corporate structure

The corporate structure of the Company pre and post the proposed Tranche 1 Transaction is set out below:



**7.10 The Company's intentions for the future**

Following the completion of the Sale of China Steel Singapore, the Directors will

Following the completion of the Sale of China Steel Singapore, the Directors will pay the AUD\$2,703,853.50, received from Jadefield Group Limited under the Asset 1 Share Sale and Purchase Agreement as follows:

Use of funds	Amount AUD\$
a Return of Capital to all Shareholders on the register at that time with the exception of the Exiting Shareholders	AUD\$0.03426 per Share in the Company.
<b>TOTAL</b>	<b>AUD\$2,703,853.50</b>

The payment of AUD\$0.03426 per Share represents 40.9% of the 3 month weighted average closing price before the Company was suspended from trading on the ASX on 22 February 2011 of \$0.0836.

For information about the tax treatment of this Return of Capital, please refer to paragraph 6 of this Explanatory Statement and the Tax Report set out in Section H of this Circular.

#### 7.11 Additional Information

(a) Implications if the Sale does not proceed

In the event the Sale does not proceed:

- (i) China Steel Singapore will remain a wholly owned subsidiary of the Company and hence the Company will remain exposed to the risk flowing from the ongoing dispute between Hebei and Linyi Yilida;
- (ii) Shareholders with the exception of the Exiting Shareholders will not receive any Return of Capital; and
- (iii) Tranche 2 of the Transaction will not proceed.

(b) Directors' interests

No Director will receive any payment or benefit of any kind as a consequence of the Sale other than as a Shareholder.

Set out below are details of each of the Directors' relevant interest in Shares of the Company as at the date of this Circular:

Director	Number of Shares (date of Circular)	% of Shares (date of Circular)
Xue Yongwen	Nil held directly 142,450,000 held indirectly by way of his shareholding in China Powerplus Limited	0% held directly 29.63% held indirectly
Chen Lidong	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Brian Chee Fai Ho	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Chung Leung Cheung	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Wong Wing Wang	Nil share held directly	0% held directly

	Nil share held indirectly	0% held indirectly
--	---------------------------	--------------------

- (c) The Company's share price

See Paragraph 5.2 for information on the Company's share price.

- (d) Other material information

The Company is a "disclosing entity" for the purposes of section 111AC of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations. These disclosure obligations require the Company to disclose to the ASX any information that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Since the announcement of the results of the Company's last annual general meeting on 26 November 2010, the Company has made the following announcements:

Date Announced	Announcement
11/01/2012	Initial Director's Interest Notice
11/01/2012	Appointment of non-executive director
29/11/2011	Initial Director's Interest Notice
29/11/2011	Initial Director's Interest Notice
29/11/2011	Appointment of non-executive directors
23/11/2011	Proposed Reconstruction
21/11/2011	Change in substantial holding
09/11/2011	Update of Corporate directory
04/11/2011	Annual report to shareholders 2011
29/08/2011	Market Update for non filing of financial statement
12/05/2011	Impairment Charges and Other Updates
11/03/2011	Court Summons received by Linyi Yilida Steel Mill Co. Ltd
7/03/2011	Change of Share Registry Address
28/02/2011	Half Yearly Report
24/02/2011	Court Summons received by Linyi Yilida Steel Mill Co. Ltd
22/02/2011	Resignation of Directors
22/02/2011	Suspension from Official Quotation
21/02/2011	Trading halt
15/02/2011	Schedule of unquoted options on issue
10/02/2011	Director Resignation and Final Director's Interest Notice
05/01/2011	Temporary cessation of production at Linyi Plant
05/01/2011	Trading halt
23/12/2010	China Steel Australia Share Trading Policy
09/12/2010	China Steel Postpones Dual Listing Plans
26/11/2010	Results of Meeting

Further information can also be found on the Company's website: [www.cnsteel.com.au](http://www.cnsteel.com.au)

There is no other information material to the making of a decision by Shareholders whether or not to vote in favour of Resolution 1 (being information that is known to the Directors which has not previously been disclosed to Shareholders) other than as set out in this Circular.

### 7.12 Recommendation and Directors' intention

The Independent Directors considers that the advantages of the proposed disposal of the Company's main undertaking outweigh the disadvantages and accordingly recommends to Shareholders that they vote in favour of Resolution 1 at the General Meeting.

### 7.13 Voting requirements and exclusion

The Resolution 1 of the General Meeting is an ordinary resolution and so requires the approval of more than 50% of the votes cast by Shareholders.

The Exiting Shareholders are excluded from casting a vote on Resolution 1 of the General Meeting.

## 8. Resolution 2 (General Meeting) & Resolution 1 (Special Meeting) : Capital Reduction and Cancellation

---

### 8.1 Introduction

On 23 November 2011 the Company announced that it had agreed to sell all of its right, title and interests in the entire share capital of China Steel Singapore to the Exiting Shareholders in consideration for:

- (a) Cash in the amount of AUD\$2,703,853.50 being equal to 16% of the value of China Steel Singapore based on the valuation of China Steel Singapore contained in the Independent Expert Report;
- (b) China Steel Singapore will forgive the debt owed by the Company in the amount of \$1,321,514; and
- (c) The Capital Reduction and Cancellation and cancellation of the Shares in the Company held by Exiting Shareholders.

See paragraph 2 for further details of the Sale and on how the consideration was calculated.

This Resolution is required to allow the shares in the Company held by the Exiting Shareholders to be reduced and cancelled.

### 8.2 The Resolutions

Resolution 1 of the General Meeting requires Shareholder approval for the capital of the Company to be reduced by cancelling those shares on issue in the capital of the Company held by Jadefield Group Limited, China Powerplus Ltd and Ms Zhang Guangxia (**Exiting Shareholders**) as part consideration for the acquisition by Exiting Shareholders of the entire share capital of China Steel Singapore.

Resolution 1 of the Special Meeting requires Shareholder approval of those shareholders whose shares are being cancelled of the selective reduction of Share Capital involving the cancellation of all Shares held by Exiting Shareholders is approved for the purposes of section 256C(2) of the Corporations Act.

### 8.3 The law

- (a) Approval requirements

Pursuant to Section 256C(2) of the Corporations Act, a company may make a selective Capital Reduction and Cancellation if it is approved by a:



- (i) a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or whose liability to pay amounts unpaid on shares is to be reduced, or by their associates; or
- (ii) a resolution agreed to, at a general meeting by all ordinary shareholders.

The phrase “no votes being cast” is intended to operate in a similar way to the way in which voting exclusion statements operate in the context of the Listing Rules.

If the reduction of capital involves the cancellation of shares, the reduction must also be approved by a special resolution passed at meeting of the shareholders whose shares are to be cancelled.

(b) Protection of shareholders and creditors

The Corporations Act provides that the rules relating to a reduction of share capital are designed to protect the interests of shareholders and creditors by:

- (i) addressing the risk of the transaction leading to the company’s solvency;
- (ii) seeking to ensure fairness between the shareholders of the company; and
- (iii) requiring the company to disclose all material information.

(c) Conditions to reduction of capital

In particular, Section 256B of the Corporations Act requires that a company may only reduce its capital if:

- (i) it is fair and reasonable to the shareholders as a whole;
- (ii) it does not materially prejudice the company’s ability to pay its creditors; and
- (iii) it is approved by shareholders in accordance with Section 256C of the Corporations Act (see paragraph 8.4 and 8.5 below).

Section 256C(4) of the Corporations Act requires that the company must include with the Notice a statement setting out all information known to the company that is material to the decision on how to vote on the resolution. However, the company does not have to disclose information if it would be unreasonable to require the company to do so because the company had previously disclosed the information to shareholders.

## 8.4 General Meeting

At the General Meeting (to be held prior to the Special Meeting), all Shareholders may cast a vote on the Resolution 2, namely the Capital Reduction and Cancellation. In order for the Capital Reduction and Cancellation to be implemented, the Resolution 2 must be approved by the requisite majority of Shareholders. As a special resolution, in order for Resolution 2 to be passed, it must be approved by at least 75% of the votes cast on Resolution 2 either in person or by proxy or representative.

Under the Corporations Act, any votes cast in favour of Resolution 2 by the Shareholders who are to be Exiting Shareholders and their associates will not be taken into account as these Shareholders will receive consideration under the Capital Reduction and Cancellation. However, **votes cast against** Resolution 2 by the Exiting Shareholders will be taken into account.

## 8.5 Special Meeting

Only the Shareholders who are to be Exiting Shareholders may vote on the Capital Reduction and Cancellation at the Special Meeting because only their Shares are to be cancelled if the Capital Reduction and Cancellation is implemented. As a special resolution, in order for the Special Meeting Resolution to be passed, it must be approved by at least 75% of the votes cast on the Special Meeting Resolution either in person or by proxy or representative. All votes cast by the Exiting Shareholders at the Special Meeting, whether for or against the Special Meeting Resolution, will be counted in this vote.

Shareholders with the exception of Exiting Shareholders may not attend or vote at the Special Meeting (other than as proxy or representative of one or more Exiting Shareholders).

## 8.6 Interdependence of Resolution 2 (General Meeting) and Resolution 1 (Special Meeting)

It is important to note that the Capital Reduction and Cancellation will not proceed unless both Resolutions are passed. Therefore:

- (a) if Exiting Shareholders want the Capital Reduction and Cancellation to proceed, they should vote in favour of the Special Meeting Resolution at the Special Meeting and not vote against the General Meeting Resolution at the General Meeting; and
- (b) if all Shareholders (with the exception of the Exiting Shareholders) want the Capital Reduction and Cancellation to proceed, they vote in favour of Resolutions 2 at the General Meeting.

## 8.7 Reasons for the Capital Reduction and Cancellation

The Capital reduction and Cancellation is required as it forms part of the consideration for the acquisition of China Steel Singapore by the Exiting Shareholders.

The payment of this consideration component is documented in the Asset 1 Share Sale and Purchase Agreement.

Please refer to paragraph 2 of this Explanatory Statement for detail on the Asset 1 Share Sale and Purchase Agreement.

## 8.8 Potential advantages and disadvantages if the Capital Reduction and Cancellation is implemented

For information on the advantages and disadvantages of the Capital Reduction and Cancellation, please refer to paragraph 4 of this Circular.

The Directors consider that the possible disadvantages which may arise if the Capital Reduction and Cancellation is implemented are outweighed by the potential advantages to Shareholders if the Capital Reduction and Cancellation is implemented. This is an important factor in the Independent Director's unanimous recommendation that Shareholders vote in favour of the Resolutions so that the Capital Reduction and Cancellation may be implemented.

## 8.9 Summary of and effect of proposed Capital Reduction and Cancellation on the Company

The overall effect of the selective Capital Reduction and Cancellation of the Exiting Shareholders shares is as follows:

<b>Current Issued capital:</b>	480,820,046
--------------------------------	-------------

<b>Less:</b>	Shares subject of Capital Reduction and Cancellation: 401,899,046
<b>Issued capital upon completion of selective Capital Reduction and Cancellation and cancellation of 401,899,046 Shares:</b>	78,921,000

The Shares the subject of the selective Capital Reduction and Cancellation and cancellation represent approximately 83.59% of the issued capital of the Company as at the date of the General Meeting and Special Meeting.

#### 8.10 Specific effect for each Shareholder of the proposed Capital Reduction and Cancellation

The overall effect of the selective Capital Reduction and Cancellation of the Exiting Shareholders shares is as follows:

Name	Ordinary shares before Capital Reduction and Cancellation		Ordinary shares after Capital Reduction and Cancellation	
	Number	%	Number	%
Jadefield Group Limited	169,738,640	35.30	Nil	Nil
China Powerplus Limited	142,450,000	29.63	Nil	Nil
Ms Zhang Guangxia	89,710,406	18.66	Nil	Nil
UOB Kay Hian Private Limited <Clients A/C>	55,821,000	11.61	55,821,000	70.73
Queensland Nickel Pty Ltd	2,814,816	0.59	2,814,816	3.57
Syracuse Capital Pty Ltd <The Tenacity A/c>	1,210,000	0.25	1,210,000	1.53
Murdoch Capital Pty Ltd <The Glover Super Fund A/c>	800,000	0.17	800,000	1.01
Kym Rex Beggs <Kym Beggs Super Fund A/c>	700,000	0.15	700,000	0.89
Cindy Dean	440,000	0.09	440,000	0.56
Minority Shareholders	17,135,184	3.56	17,135,184	21.71
<b>Total</b>	<b>480,820,046</b>	<b>100.00%</b>	<b>78,921,000</b>	<b>100.00%</b>

#### 8.11 Effect on control of the Company

The Company is currently controlled by Jadefield Group Limited, China Powerplus Limited and Ms Zhang Guangxia, being the Exiting Shareholders. If the Capital Reduction and Cancellation is implemented, the only remaining Shareholders will be UOB Kay Hian

Private Limited <Clients A/C>, Queensland Nickel Pty Ltd. Syracuse Capital Pty Ltd <The Tenacity A/c>, Murdoch Capital Pty Ltd <The Glover Super Fund A/c>, Kym Rex Beggs <Kym Beggs Super Fund A/c>, Cindy Dean and the Minority Shareholders.

### 8.12 Independent Expert's Report

The Independent Expert has concluded that the Capital Reduction and Cancellation is fair and reasonable to Shareholders as a whole.

A brief summary of some of the key aspects of the Independent Expert's Report are set out below. This summary should not be considered a substitute for the contents of the Independent Expert's Report, which should be read in its entirety (refer to Section G of this Explanatory Statement).

The Independent Expert's opinion that the Capital Reduction and Cancellation is fair and reasonable to Shareholders as a whole is based solely on information available at the date of its Independent Expert's Report as detailed in Appendix B of its Independent Expert's Report.

The principal factors that the Independent Expert has taken into account in forming its opinion are set out in paragraphs 7, 8 and 9 of its Independent Expert's Report.

In accordance with its basis of evaluation of the Capital Reduction and Cancellation (set out in Appendix B of its Independent Expert's Report), the Independent Expert has assessed whether the Capital Reduction and Cancellation is fair and reasonable to the Shareholders as a whole.

### 8.13 Section 256B information to be provided to Shareholders

Section 256B of the Corporations Act requires that a company may only reduce its capital if:

- (a) it is fair and reasonable to the shareholders as a whole;
- (b) it does not materially prejudice the company's ability to pay its creditors; and
- (c) it is approved by shareholders in accordance with Section 256C of the Corporations Act.

Section 256C(4) of the Corporations Act requires that the company must include with the Notice a statement setting out all information known to the company that is material to the decision on how to vote on the resolution. However, the company does not have to disclose information if it would be unreasonable to require the company to do so because the company had previously disclosed the information to shareholders.

#### ***Fair and reasonable***

The Directors believe that the Capital Reduction and Cancellation as proposed is fair and reasonable to shareholders for the reasons set out in this Explanatory Statement.

The Independent Expert has concluded that the Capital Reduction and Cancellation is fair and reasonable to Shareholders as a whole.

Further, given that the Capital Reduction and Cancellation is part of the consideration for the Sale of China Steel Singapore, the Directors believe it is appropriate that the Shares be cancelled in the circumstances.

#### ***The company's ability to pay its creditors***

The Independent Expert has concluded that after considering the relevant information, it is of the view that the ability of the Company will not be materially prejudiced as a result of the Capital Reduction and Cancellation.

**Approved by shareholders in accordance with Section 256C**

If Resolution 2 of the General Meeting and Resolution 1 of the Special Meeting are passed, the Capital Reduction and Cancellation will be approved for the purposes of Section 256C of the Corporations Act.

**8.14 Other Material Information**

There is no information material to the making of a decision by a Shareholder whether or not to approve the Resolution being information that is known to any of the Directors and which has not been previously disclosed to shareholders in the Company, other than as disclosed in this Explanatory Statement.

Once the Resolutions are passed by Shareholders and the Exiting Shareholders, the Company will not make the reduction of capital until 14 days after lodgement of the Resolution with the ASIC.

**8.15 Tax implications**

See paragraph 6 for information on the tax implications of the Tranche 1 Transaction.

**8.16 Directors' interests**

The following table sets out the interests held by or on behalf of each director of the Company at the date of this Circular. Other than as set out below, no Director will receive any payment or benefit of any kind as a consequence of the Capital Reduction and Cancellation.

Mr Xue Yongwen, as a shareholder of China Powerplus Limited currently has an indirect interest in the Company by way of his shareholding in China Powerplus Limited.

Mr Xue Yongwen will receive an indirect benefit of the transfer of China Steel Singapore to China Powerplus Limited, Jadedfield Group Limited and Ms Zhang Guangxia Resulting from his shareholding in China Powerplus Limited.

<b>Director</b>	<b>Number of Shares (date of Circular)</b>	<b>% of Shares (date of Circular)</b>
Xue Yongwen	Nil held directly 142,450,000 held indirectly by way of his shareholding in China Powerplus Limited	0% held directly 29.63% held indirectly
Chen Lidong	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Brian Chee Fai Ho	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Chung Leung Cheung	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Wong Wing Wang	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly

**8.17 Recommendation**

The Independent Directors, having read the Independent Expert's Report, and having arrived at their own opinions independently, have unanimously formed the view that the Capital Reduction and Cancellation:

- (a) is in the best interests of the Exiting Shareholders;
- (b) is fair and reasonable to the Shareholders of the Company as a whole; and
- (c) does not materially prejudice the Company's ability to pay its creditors.

The Independent Directors unanimously recommend that Shareholders approve the Capital Reduction and Cancellation for the reasons specified in paragraph 8.7 of this Explanatory Statement. The Independent Directors unanimously consider that the potential advantages of the implementation of the Capital Reduction and Cancellation outweigh the possible disadvantages outlined in paragraph 8.8 of this Explanatory Statement.

The Independent Directors recommend that:

- (a) Exiting Shareholders approve the Capital Reduction and Cancellation by voting IN FAVOUR OF the Special Meeting Resolution at the Special Meeting;
- (b) Exiting Shareholders DO NOT VOTE AGAINST the Resolution 2 at the General Meeting; and
- (c) The Shareholders (with the exception of the Exiting Shareholders) approve the Capital Reduction and Cancellation by voting IN FAVOUR OF the Resolution 2 at the General Meeting.

#### **8.18 Voting requirements and exclusions – Resolution 2 (General Meeting)**

Resolution 2 of the General Meeting is a special resolution and so requires the approval of at least 75% of the votes cast by Shareholders.

The Exiting Shareholders are excluded from casting a vote **in favour** of Resolution 2 of the General Meeting.

#### **8.19 Voting requirements and exclusions– Resolution 1 (Special Meeting)**

The Resolution 1 of the Special Meeting is a special resolution and so requires the approval of at least 75% of the votes cast by Exiting Shareholders.

All Shareholders with the exception of the Exiting Shareholders are excluded from casting a vote on Resolution 1 of the Special Meeting.

## **9. Resolution 3 (General Meeting) : Related Party Benefit**

---

### **9.1 Introduction**

On 23 November 2011, the Company announced that it had agreed to sell all of its right, title and interests in the entire share capital of China Steel Singapore to the Exiting Shareholders in consideration for:

- (a) Cash in the amount of AUD\$2,703,853.50. This amount constitutes 16% of the value of China Steel Singapore based on the valuation of China Steel Singapore contained in the Independent Expert Report;
- (b) China Steel Singapore will forgive the debt owed by the Company in the amount of \$1,321,514; and
- (c) The Capital Reduction and Cancellation and cancellation of the Shares in the Company held by Exiting Shareholders.

Given that the Sale is to a related party of the Company, shareholder approval is required as detailed below.

## 9.2 The Resolution

Resolution 3 of the General Meeting requires Shareholder approval for the proposed financial benefit to be given by the Company to Exiting Shareholders for the purposes of chapter 2E of the Corporations Act.

## 9.3 The law

### ***Overview of the regulatory approval requirements***

Shareholder approval under Resolutions 3 is sought for the proposed Sale of the entire share capital of China Steel Singapore to the Exiting Shareholders (one of whom is Jadedfield Group Limited) for the purposes of Chapter 2E of the Corporations Act, which governs the giving of financial benefits to related parties.

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit (which includes the sale of an asset to a related party) to a related party (which includes a controlling entity) of the Company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provisions; or
- (b) prior Shareholder approval is obtained for the giving of the financial benefit.

### ***Related party***

For the purposes of Chapter 2E a related party includes an entity that “controls” a public company.

The Corporations Act provides that an entity “controls” a second entity if the first entity has the capacity to determine the outcome of decisions about the second entity’s financial and operating policies.

In determining whether the first entity has this capacity:

- (a) the practical influence the first entity can exert (rather than the rights it can enforce) is the issue to be considered; and
- (b) any practice or pattern of behaviour affecting the second entity’s financial or operating policies is to be taken into account (even if it involves a breach of an agreement or a breach of trust).

Given that the Jadedfield Group Limited, China Powerplus Limited and Ms Zhang Guangxia hold 83.59% of the shares in the Company, Jadedfield Group Limited, China Powerplus Limited and Ms Zhang Guangxia could be deemed to “control” the Company and as such be a related parties of the Company.

### ***Financial benefit***

The Corporations Act provides that the selling of an asset to a related party constitutes a “financial benefit”.

Given the above, for the purposes of Chapter 2E, Jadedfield Group Limited, China Powerplus Limited and Ms Zhang Guangxia could be all deemed related parties of the Company and the proposed Sale of the entire share capital of China Steel Singapore to the Exiting Shareholders constitute the giving of a financial benefit.

As none of the nominated exceptions in the Corporations Act apply, Shareholder approval is required.

#### 9.4 Specific information required under section 219 of the Corporations Act

Section 219 of the Corporations Act sets out the information that must be included in the notice of meeting provided to shareholders for the purpose of obtaining shareholder approval pursuant to Chapter 2E of the Corporations Act.

For the purposes of section 219 of the Corporations Act the following information is provided to Shareholders to allow Shareholders to assess the proposed financial benefit to a related party.

No.	219 Corporations Act	Information																																																						
(i)	Identity of the related parties:	Jadefield Group Limited, China Powerplus Limited and Ms Xue Guanxia are related parties of the Company as they could be deemed to “control” the Company as defined in section 50AA of the Corporations Act.																																																						
(ii)	Nature of the financial benefit:	<p>The proposed Sale of the entire share capital of China Steel Singapore to the Exiting Shareholders constitutes the giving of a financial benefit.</p> <p>The reasons for giving the financial benefit are set of in paragraph 1.2 of this Explanatory Statement.</p> <p>The value of the financial benefit is set of in paragraph 2.4 of this Explanatory Statement.</p>																																																						
(iii)	Related party’s existing interest:	As at the date of this Circular, Jadefield Group Limited, China Powerplus Limited and Ms Xue Guanxia have the following interest in the Company:																																																						
		<table border="1"> <thead> <tr> <th></th> <th>Number of Shares</th> <th>% of shares</th> </tr> </thead> <tbody> <tr> <td>Jadefield Group Limited</td> <td>169,738,640</td> <td>35.30</td> </tr> <tr> <td>China Powerplus Limited</td> <td>142,450,000</td> <td>29.63</td> </tr> <tr> <td>Ms Zhang Guangxia</td> <td>89,710,406</td> <td>18.66</td> </tr> </tbody> </table>		Number of Shares	% of shares	Jadefield Group Limited	169,738,640	35.30	China Powerplus Limited	142,450,000	29.63	Ms Zhang Guangxia	89,710,406	18.66																																										
			Number of Shares	% of shares																																																				
		Jadefield Group Limited	169,738,640	35.30																																																				
China Powerplus Limited	142,450,000	29.63																																																						
Ms Zhang Guangxia	89,710,406	18.66																																																						
(iv)	Effect of the transaction on shareholder’s interests:	Given that on the completion of the Tranche 1 Transaction, the shareholding of the Exiting Shareholders will be cancelled. The effect of the transaction on all Shareholder’s interests is set out below:																																																						
		<table border="1"> <thead> <tr> <th rowspan="2">Shareholder</th> <th colspan="2">Shareholding (date of Circular)</th> <th colspan="2">Shareholding (Tranche Transaction completes) <sup>1</sup></th> </tr> <tr> <th>No.</th> <th>%</th> <th>No.</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Jadefield Group Limited</td> <td>169,738,640</td> <td>35.30</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>China Powerplus Limited</td> <td>142,450,000</td> <td>29.63</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Ms Zhang Guangxia</td> <td>89,710,406</td> <td>18.66</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>UOB Kay Hian Private Limited &lt;Clients A/C&gt;</td> <td>55,821,000</td> <td>11.61</td> <td>55,821,000</td> <td>70.73</td> </tr> <tr> <td>Queensland Nickel Pty Ltd</td> <td>2,814,816</td> <td>0.59</td> <td>2,814,816</td> <td>3.57</td> </tr> <tr> <td>Syracuse Capital Pty Ltd &lt;The Tenacity A/c&gt;</td> <td>1,210,000</td> <td>0.25</td> <td>1,210,000</td> <td>1.53</td> </tr> <tr> <td>Murdoch Capital Pty Ltd &lt;The Glover Super Fund A/c&gt;</td> <td>800,000</td> <td>0.17</td> <td>800,000</td> <td>1.01</td> </tr> <tr> <td>Kym Rex Beggs &lt;Kym Beggs Super Fund A/c&gt;</td> <td>700,000</td> <td>0.15</td> <td>700,000</td> <td>0.89</td> </tr> <tr> <td>Cindy Dean</td> <td>440,000</td> <td>0.09</td> <td>440,000</td> <td>0.56</td> </tr> </tbody> </table>	Shareholder	Shareholding (date of Circular)		Shareholding (Tranche Transaction completes) <sup>1</sup>		No.	%	No.	%	Jadefield Group Limited	169,738,640	35.30	Nil	Nil	China Powerplus Limited	142,450,000	29.63	Nil	Nil	Ms Zhang Guangxia	89,710,406	18.66	Nil	Nil	UOB Kay Hian Private Limited <Clients A/C>	55,821,000	11.61	55,821,000	70.73	Queensland Nickel Pty Ltd	2,814,816	0.59	2,814,816	3.57	Syracuse Capital Pty Ltd <The Tenacity A/c>	1,210,000	0.25	1,210,000	1.53	Murdoch Capital Pty Ltd <The Glover Super Fund A/c>	800,000	0.17	800,000	1.01	Kym Rex Beggs <Kym Beggs Super Fund A/c>	700,000	0.15	700,000	0.89	Cindy Dean	440,000	0.09	440,000	0.56
		Shareholder		Shareholding (date of Circular)		Shareholding (Tranche Transaction completes) <sup>1</sup>																																																		
			No.	%	No.	%																																																		
		Jadefield Group Limited	169,738,640	35.30	Nil	Nil																																																		
		China Powerplus Limited	142,450,000	29.63	Nil	Nil																																																		
		Ms Zhang Guangxia	89,710,406	18.66	Nil	Nil																																																		
		UOB Kay Hian Private Limited <Clients A/C>	55,821,000	11.61	55,821,000	70.73																																																		
		Queensland Nickel Pty Ltd	2,814,816	0.59	2,814,816	3.57																																																		
		Syracuse Capital Pty Ltd <The Tenacity A/c>	1,210,000	0.25	1,210,000	1.53																																																		
		Murdoch Capital Pty Ltd <The Glover Super Fund A/c>	800,000	0.17	800,000	1.01																																																		
Kym Rex Beggs <Kym Beggs Super Fund A/c>	700,000	0.15	700,000	0.89																																																				
Cindy Dean	440,000	0.09	440,000	0.56																																																				



		Minority Shareholders	17,135,184	3.56	17,135,184	21.71																		
		<b>Total</b>	<b>480,820,046</b>	<b>100.00%</b>	<b>78,921,000</b>	<b>100.00%</b>																		
(v)	Directors' recommendation:	See paragraph 9.6 below.																						
(vi)	Directors' interest in the outcome:	<p>Other than as set out below, none of the directors are in any way related to Jadefield Group Limited or have any other interest in the outcome of Resolution 3 of the General Meeting or any other Resolutions contained in the Notices.</p> <p>Mr Xue Yongwen, as a shareholder of China Powerplus Limited will receive the indirect benefit of the transfer of China Steel Singapore to China Powerplus Limited, Jadefield Group Limited and Ms Zhang Guangxia.</p> <p>It should be noted however, that in the event all of the Resolutions contained in this Circular are passed and Tranche 1 of the Transaction is implemented, the directors interest in the issued capital of the Company will change as follows:</p> <table border="1"> <thead> <tr> <th>Director</th> <th>Number of Shares held directly and indirectly as at date of Circular</th> <th>Number of Shares held directly and indirectly if all resolutions are passed</th> </tr> </thead> <tbody> <tr> <td>Xue Yongwen</td> <td>Nil held directly 142,450,000 (29.63%) held indirectly by way of his shareholding in China Powerplus Limited</td> <td>0% held directly 0% held indirectly</td> </tr> <tr> <td>Chen Lidong</td> <td>Nil share held directly Nil share held indirectly</td> <td>0% held directly 0% held indirectly</td> </tr> <tr> <td>Brian Chee Fai Ho</td> <td>Nil share held directly Nil share held indirectly</td> <td>0% held directly 0% held indirectly</td> </tr> <tr> <td>Chung Leung Cheung</td> <td>Nil share held directly Nil share held indirectly</td> <td>0% held directly 0% held indirectly</td> </tr> <tr> <td>Wong Wing Wang</td> <td>Nil share held directly Nil share held indirectly</td> <td>0% held directly 0% held indirectly</td> </tr> </tbody> </table>					Director	Number of Shares held directly and indirectly as at date of Circular	Number of Shares held directly and indirectly if all resolutions are passed	Xue Yongwen	Nil held directly 142,450,000 (29.63%) held indirectly by way of his shareholding in China Powerplus Limited	0% held directly 0% held indirectly	Chen Lidong	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly	Brian Chee Fai Ho	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly	Chung Leung Cheung	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly	Wong Wing Wang	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Director	Number of Shares held directly and indirectly as at date of Circular	Number of Shares held directly and indirectly if all resolutions are passed																						
Xue Yongwen	Nil held directly 142,450,000 (29.63%) held indirectly by way of his shareholding in China Powerplus Limited	0% held directly 0% held indirectly																						
Chen Lidong	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly																						
Brian Chee Fai Ho	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly																						
Chung Leung Cheung	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly																						
Wong Wing Wang	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly																						
(vii)	Other information:	<p>Shareholders should carefully note that the approval required for the related party benefit is only one of the approvals required in the overall transaction that is contemplated in the Tranche 1 Transaction.</p> <p>Shareholders should carefully read paragraphs 1 and 2 to understand the Tranche 1 Transaction as a whole.</p>																						
(viii)	Valuation of the financial benefit:	<p>The financial benefit (in the form the share capital of China Steel Singapore) has been valued at AUD\$16,861,301</p> <p>For further information on the valuation and the valuation methodology, please refer to Section G (Independent Expert's Report) and in particular Appendix E of the Independent Expert's Report.</p>																						

## 9.5 Any other information

In respect to Resolution 3, neither the Board nor the Company is aware of any other information that would reasonably be required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 3, other than as stated in this Explanatory Memorandum.

## 9.6 Independent Expert's Report

The Corporations Act does not specifically require that an independent expert's report be provided to the Shareholders in relation to the Related Party Benefit. Although not specifically required, ASIC Regulatory Guide 111 recommends that a company commission an expert report for transactions involving a related party.

The Directors requested the Independent Expert prepare the Independent Expert Report to accompany this Circular in accordance with the recommendations of ASIC Regulatory Guide 111.

## 9.7 Director recommendation

Given the risk posed to the Company by the ongoing dispute between Linyi Yilida and Hebei, the Independent Directors unanimously recommend that Shareholders (with the exception of the Exiting Shareholders) vote IN FAVOUR OF the Resolutions at the General Meeting so that the China Steel Singapore (and hence Linyi Yilida) can be removed as a liability to the Company.

## 9.8 Voting requirements and exclusions – Resolution 3 (General Meeting)

The Resolution 3 of the General Meeting is a special resolution and so requires the approval of at least 75% of the votes cast by Shareholders.

The Exiting Shareholders are excluded from casting a vote in favour of Resolution 1 of the General Meeting.

# 10. Resolution 4 (General Meeting) – Return of Capital

---

## 10.1 Introduction

This resolution is required in order for the Company to reduce its share capital and return a cash payment to Shareholders (with the exception of the Exiting Shareholders) (**Return of Capital**).

## 10.2 The Resolution

Resolution 4 requires Shareholder approval to allow the Company to reduce its share capital by approximately AUD\$2,703,853.50 through a payment of AUD\$0.03426 per Share to all Shareholders registered on that date with the exception of the Exiting Shareholders.

## 10.3 The law

For the Return of Capital to be implemented, the requirements for a selective capital reduction must be followed.

### (a) Approval requirements

Pursuant to Section 256C(2) of the Corporations Act, a company may make a selective capital reduction if it is approved by a:

- (i) a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction or whose liability to pay amounts unpaid on shares is to be reduced, or by their associates; or
- (ii) a resolution agreed to, at a general meeting by all ordinary shareholders.

The phrase “no votes being cast” is intended to operate in a similar way to the way in which voting exclusion statements operate in the context of the Listing Rules.

If the reduction of capital involves the cancellation of shares, the reduction must also be approved by a special resolution passed at meeting of the shareholders whose shares are to be cancelled. Given that Resolution 4 involves a Return of Capital solely and not a cancellation of Shares, such a further resolution is not required.

(b) Protection of shareholders and creditors

The Corporations Act provides that the rules relating to a reduction of share capital are designed to protect the interests of shareholders and creditors by:

- (i) addressing the risk of the transaction leading to the company's solvency;
- (ii) seeking to ensure fairness between the shareholders of the company; and
- (iii) requiring the company to disclose all material information.

(c) Conditions to reduction of capital

In particular, Section 256B of the Corporations Act requires that a company may only reduce its capital if:

- (i) it is fair and reasonable to the shareholders as a whole;
- (ii) it does not materially prejudice the company's ability to pay its creditors; and
- (iii) it is approved by shareholders in accordance with Section 256C of the Corporations Act (see paragraph 8.4 and 8.5 below).

Section 256C(4) of the Corporations Act requires that the company must include with the Notice a statement setting out all information known to the company that is material to the decision on how to vote on the resolution. However, the company does not have to disclose information if it would be unreasonable to require the company to do so because the company had previously disclosed the information to shareholders.

#### 10.4 Potential advantages and disadvantages if the Return of Capital is implemented

For information on the advantages and disadvantages of the Return of Capital, please refer to paragraph 4 of this Circular.

#### 10.5 Reasons for the Return of Capital

The Return of Capital in the amount of AUD\$0.03426 per Share is proposed to be provided to Shareholders to allow Shareholders to realise some value in the Company prior to the implementation of Tranche 2 of the Transaction.

#### 10.6 Entitlement to participate in the Return of Capital

In accordance with the Listing Rules, the Record Date for determining the entitlement to participate in the reduction of capital is expected to be 21 March 2012 (and will be separately announced by the Company after Shareholders have approved the Return of Capital). All Shareholders registered on that date with the exception of the Exiting Shareholders will be entitled to participate in the Return of Capital.

#### 10.7 Summary of and effect of proposed Return of Capital

The overall effect of the selective Return of Capital to the Shareholders (with the exception of the Exiting Shareholders) is that they will receive a payment of AUD\$0.03426 per Share per each share held.

**10.8 Effect of the Return of Capital on the Company**

The cash payment on the Record Date is AUD\$0.03426 per Share, with an estimated total value of approximately AUD\$2,703,853.50. This return will see a reduction of cash assets in the Company's statement of financial position of this amount and a diminution in Shareholder's funds of the same amount.

**10.9 Effect of Reduction of Capital on Shareholders**

Shareholders will receive a cash payment of AUD\$0.03426 per Share. The number of Shares that each Shareholder owns in the Company or their proportionate interests in the share capital of the Company will not change as a result of the Return of Capital.

**10.10 Effect on control of the Company**

Given that the Return of Capital does not involve any cancellation of Shares, it will have no effect on the control of the Company.

**10.11 Independent Expert's Report**

The Independent Expert has concluded that the Return of Capital is fair and reasonable to Shareholders as a whole.

A brief summary of some of the key aspects of the Independent Expert's Report are set out below. This summary should not be considered a substitute for the contents of the Independent Expert's Report, which should be read in its entirety (refer to Section G of this Explanatory Statement).

The Independent Expert's opinion that the Return of Capital is fair and reasonable to Shareholders as a whole is based solely on information available at the date of its Independent Expert's Report as detailed in Appendix B of its Independent Expert's Report.

The principal factors that the Independent Expert has taken into account in forming its opinion are set out in paragraph 7 and 8 of its Independent Expert's Report.

**10.12 Section 256B information to be provided to Shareholders**

Section 256B of the Corporations Act requires that a company may only reduce its capital if:

- (a) it is fair and reasonable to the shareholders as a whole;
- (b) it does not materially prejudice the company's ability to pay its creditors; and
- (c) it is approved by shareholders in accordance with Section 256C of the Corporations Act.

Section 256C(4) of the Corporations Act requires that the company must include with the Notice a statement setting out all information known to the company that is material to the decision on how to vote on the resolution. However, the company does not have to disclose information if it would be unreasonable to require the company to do so because the company had previously disclosed the information to shareholders.

***Fair and reasonable***

The Directors believe that the Return of Capital as proposed is fair and reasonable to Shareholders as a whole. for the reasons set out in this Explanatory Statement.

The Independent Expert has concluded that the Return of Capital is fair and reasonable to Shareholders as a whole.

***The company's ability to pay its creditors***

The Independent Expert has concluded that the ability of the Company to pay its creditors will not be materially prejudiced as a result of the Return of Capital.

**Approved by shareholders in accordance with Section 256C**

If Resolution 4 of the General Meeting is passed, the Return of Capital will be approved for the purposes of Section 256C of the Corporations Act.

**10.13 Other Material Information**

There is no information material to the making of a decision by a Shareholder whether or not to approve Resolution 4 being information that is known to any of the Directors and which has not been previously disclosed to shareholders in the Company, other than as disclosed in this Explanatory Statement.

Once the Resolutions are passed by Shareholders and the Exiting Shareholders, the Company will not make the Reduction of Capital until 14 days after lodgement of the Resolution with the ASIC.

**10.14 Tax implications**

See paragraph 6 for information on the tax implications of the Return of Capital.

**10.15 Directors' interests**

The following table sets out the interests held by or on behalf of each director of the Company at the date of this Circular. Other than as set out below, no Director will receive any payment or benefit of any kind as a consequence of the Return of Capital.

Mr Xue Yongwen, as a shareholder of China Powerplus Limited currently has an indirect interest in the Company by way of his shareholding in China Powerplus Limited.

Mr Xue Yongwen will receive an indirect benefit of the transfer of China Steel Singapore to China Powerplus Limited, Jadefield Group Limited and Ms Zhang Guangxia Resulting from his shareholding in China Powerplus Limited.

Director	Number of Shares (date of Circular)	% of Shares (date of Circular)
Xue Yongwen	Nil held directly 142,450,000 held indirectly by way of his shareholding in China Powerplus Limited	0% held directly 29.63% held indirectly
Chen Lidong	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Brian Chee Fai Ho	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Chung Leung Cheung	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly
Wong Wing Wang	Nil share held directly Nil share held indirectly	0% held directly 0% held indirectly

### 10.16 Recommendation

The Independent Directors, having read the Independent Expert's Report, and having arrived at their own opinions independently, have unanimously formed the view that the Return of Capital:

- (a) is fair and reasonable to the Shareholders of the Company as a whole; and
- (b) does not materially prejudice the Company's ability to pay its creditors.

The Independent Directors unanimously recommend that Shareholders approve the Return of Capital for the reasons specified in paragraph 10.5 of this Explanatory Statement. The Independent Directors unanimously consider that the potential advantages of the implementation of the Return of Capital outweigh the possible disadvantages outlined in paragraph 10.4 of this Explanatory Statement.

The Independent Directors recommend that:

- (a) The Exiting Shareholders approve the Return of Capital by voting IN FAVOUR OF the Resolution 4 at the General Meeting; and
- (b) Shareholders (with the Exception of the Exiting Shareholders) DO NOT VOTE AGAINST Resolution 4 at the General Meeting.

### 10.17 Voting requirements and exclusions – Resolution 2 (General Meeting)

Resolution 4 of the General Meeting is a special resolution and so requires the approval of at least 75% of the votes cast by Shareholders.

Shareholders (with the Exception of the Exiting Shareholders) are excluded from casting a vote **in favour** of Resolution 4 of the General Meeting.

## **Section G – Independent Expert Report**

---

## **Section H – Taxation Report**

---



**APPENDIX A – GENERAL MEETING PROXY FORM**

**APPENDIX B – SPECIAL MEETING PROXY FORM**