

China Precision Steel, Inc.
Form 424B5
November 01, 2007

[QuickLinks](#) -- Click here to rapidly navigate through this document

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-143454
Registration No. 333-147068

PROSPECTUS SUPPLEMENT
(To Prospectus dated July 16, 2007)

7,100,000 Shares

1,420,000 Warrants

CHINA PRECISION STEEL, INC.

Common Stock and Warrants

We are offering 7,100,000 shares of our common stock, par value \$0.001 per share, and warrants to purchase 1,420,000 shares of our common stock. We are offering our common stock at a price of \$6.75 per share and warrants to purchase shares of common stock at an exercise price of \$8.45 per share.

Our common stock is listed on The NASDAQ Capital Market and traded under the symbol "CPSL."

On October 31, 2007, the closing price of our common stock on The NASDAQ Capital Market was \$8.45 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-4 of this prospectus supplement.

PRICE 6.75 A SHARE

	Per Share	Total
Price to Investors	\$ 6.7500	\$ 47,925,000
Placement Agency Fees	\$ 0.4725	\$ 3,354,750
Proceeds, before expenses but after deducting placement agency fees, to us	\$ 6.2775	\$ 44,570,250

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Roth Capital Partners, LLC is acting as our placement agent in connection with this offering and is using its best efforts to introduce us to investors. The placement agent is not purchasing or selling any shares pursuant to this prospectus supplement or the accompanying prospectus, nor is the placement agent required to purchase or sell any specific number or dollar amount of shares.

Roth Capital Partners

Prospectus Supplement dated November 1, 2007.

TABLE OF CONTENTS

	<u>Page</u>
Prospectus Supplement	
Special Note Regarding Forward-Looking Statements	S-ii
Prospectus Supplement Summary	S-1
Risk Factors	S-4
Use of Proceeds	S-19
Description of Warrants	S-19
Plan of Distribution	S-21
Experts	S-22
Where You Can Find More Information	S-22
Incorporation of Certain Documents by Reference	S-23
Prospectus	
About this Prospectus	1
Special Note Regarding Forwarding Looking Statements	1
Summary	3
Risk Factors	7
Ratio of Earnings to Fixed Charges	7
Use of Proceeds	7
Description of Capital Stock	8
Description of Debt Securities	10
Description of Warrants	17
Description of Units	19
Legal Ownership of Securities	20
Plan of Distribution	24
Disclosure of Commission Position on Indemnification for Securities Act Liability	25
Enforceability of Civil Liabilities	25
Legal Matters	25
Experts	26
Where You Can Find More Information	26
Incorporation of Certain Information By Reference	26

You should rely only on the information provided or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which they relate, nor do this prospectus supplement and the accompanying prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus supplement and the accompanying prospectus is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus supplement and any accompanying prospectus is delivered or securities sold on a later date. In this prospectus supplement and the accompanying prospectus, unless otherwise indicated, "CPSL," "the Company," "we," "us" and "our" refer to China Precision Steel, Inc. and its subsidiaries.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents we file or have filed with the SEC that are incorporated herein by reference include "forward-looking statements" within the meaning of Section 27A of the United States Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases like "anticipate," "estimate," "plans," "projects," "continuing," "ongoing," "target," "expects," "management believes," "we believe," "we intend," "we may," "we will," "we should," "we seek," "we plan," the negative of those terms, and similar words or phrases. We base these forward-looking statements on our expectations, assumptions, estimates and projections about our business and the industry in which we operate as of the date of this prospectus supplement. These forward-looking statements are subject to a number of risks and uncertainties that cannot be predicted, quantified or controlled and that could cause actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Statements in this prospectus supplement, the accompanying prospectus and in documents incorporated into this prospectus describe factors, among others, that could contribute to or cause these differences. Actual results may vary materially from those anticipated, estimated, projected or expected should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, including, but not limited to, our critical accounting policies and statements relating to, among others:

- plans to expand our exports outside of China;
- plans to increase our production capacity and the anticipated dates that facilities may commence operations;
- our ability to obtain additional funding for our continuing operations and to fund our expansion;
- our ability to meet our financial projections for any financial year;
- our ability to retain our key executives and to hire additional senior management;
- continued growth of the Chinese economy and industries demanding our products;
- our ability to produce and sell cold-rolled precision steel products at high margins;
- our ability to secure at acceptable prices the raw materials we need to produce our products;
- political changes in China that may impact our ability to produce and sell our products in our target markets;
- general business conditions and competitive factors, including pricing pressures and product development; and
- changes in our relationships with customers and suppliers.

Because the factors discussed in this prospectus supplement, the accompanying prospectus or documents incorporated by reference could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except as required

Edgar Filing: China Precision Steel, Inc. - Form 424B5

by law, we undertake no obligation to publicly revise our forward-looking statements to reflect events or circumstances that arise after the date of this prospectus supplement or the accompanying prospectus or the date of documents incorporated by reference in this prospectus supplement that include forward-looking statements. See the section entitled "Risk Factors" in this prospectus supplement and in our Annual Report on Form 10-K/A for the year ended June 30, 2007.

S-iii

PROSPECTUS SUPPLEMENT SUMMARY

The following is only a summary, and does not contain all of the information that you need to consider in making your investment decision. We urge you to read this entire prospectus supplement, the accompanying prospectus and the other information incorporated by reference herein and therein under "Where You Can Find More Information" and "Incorporation of Certain Information by Reference" from our other filings with the SEC. Investing in our securities involves a high degree of risk. Therefore, please carefully consider the information provided under the heading "Risk Factors" beginning on page S-4.

Our Company

We are a niche and high value-added steel processing company principally engaged in the manufacture and sale of high precision cold-rolled steel products and in the provision of heat treatment and cutting of medium and high carbon hot-rolled steel strips. We use commodity steel to create a specialty premium steel intended to yield gross margins above the industry average. Specialty precision steel pertains to the precision of measurements and tolerances of thickness, shape, width, surface finish and other special quality features of highly-engineered end-use applications.

We conduct our operations principally in China through our wholly-owned operating subsidiary, Shanghai Chengtong Precision Strip Co., Limited, or Chengtong. Most of our sales are made domestically in China; however, during fiscal 2007, we began exporting our cold-rolled steel products to Nigeria, Thailand, Indonesia and the Philippines. We intend to expand into additional overseas markets in the future, subject to suitable market conditions and favorable regulatory controls.

We produce and sell precision ultra-thin and high strength cold-rolled steel products with thicknesses ranging from 7.5 mm to 0.03 mm. We also provide heat treatment and cutting of medium and high carbon hot-rolled steel strips not exceeding 7.5 mm thickness. Our process puts hot-rolled de-scaled (pickled) steel coils through a cold-rolling mill, utilizing our patented systems and high technology reduction processing procedures, to make steel coils and sheets in customized thicknesses, according to customer specifications. Currently, our specialty precision products are mainly used in the manufacture of automobile parts and components, plane friction discs, appliances, food packaging materials, saw blades, textile needles, microelectronics, packing and containers.

As of June 30, 2007, we had an annual production capacity of approximately 115,000 metric tons. We have been increasing our production capacity for cold-rolled precision steel as demand in China outpaces domestic supply. We began production with our second cold-rolled mill, which has a production design capacity of 150,000 metric tons per annum, in October 2006, and we plan to commence construction of our third mill in 2008, which has an equivalent design capacity. Each mill takes approximately three to four years to reach full operating capacity. As of June 30, 2007, the second mill was operating at 30% capacity and is expected to reach 50% capacity by the end of calendar year 2007.

Our Directors believe that the increased annual production capacity of approximately 300,000 metric tons from the second and third mills will be fully utilized within three to four years after commencement of operation. These facilities will focus on the production of high carbon, high strength cold-rolled steel products and the production of more complex precision steel products that cannot be manufactured in our first rolling mill. Our first rolling mill, which has an operating capacity of 70,000 metric tons, will continue to primarily manufacture low carbon cold-rolled steel products.

During the fiscal years ended June 30, 2007, 2006 and 2005, we earned net income before discontinued operations of \$7,472,661, \$7,514,101 and \$6,366,411, respectively. The discontinued operations represent those of OraLabs, Inc. which was spun off from the Company in December of 2006. At June 30, 2007, we had total assets of \$82,157,566. Chengtong currently has approximately 280

employees, including 30 senior management and technical staff members, and leases 20,000 square meters of production facilities in Jiading District, Shanghai, on four acres of property.

Corporate History and Structure

We are a Colorado company and became a public company in May 1997 through a reverse merger with SSI Capital Corporation. At that time, we changed our name to OraLabs Holding Corp. and our principal business was the production and sale of consumer products relating to oral care and lip care and the distribution of nutritional supplements through our wholly-owned subsidiary, OraLabs, Inc. In December 2006, we merged with Partner Success Holdings Limited, or PSHL, a British Virgin Islands business company which owns Chengtong. In connection with that transaction, we subsequently redeemed all of the shares of our outstanding common stock owned by our former President, Gary Schlatter, in exchange for all of the issued shares of OraLabs, Inc. Thereafter, we renamed ourselves China Precision Steel, Inc. to reflect our continuing operations.

Our business is conducted principally through Chengtong, in Shanghai, China. Chengtong is a wholly foreign owned enterprise, or WFOE, under Chinese law.

Our corporate headquarters are located at 8th Floor, Teda Building, 87 Wing Lok Street, Sheung Wan, Hong Kong, and our telephone number is (011) 852-2543-8223. Our agent for service of process in the United States is The Corporation Company, 1675 Broadway, Suite 1200, Denver, Colorado 80202. Our common stock is listed on The NASDAQ Capital Market under the symbol "CPSL." Although we maintain a website at www.chinaprecisionsteelinc.com, we do not intend that information available on our website be incorporated into this filing. As used herein, the "Group" refers to the Company, PSHL and Chengtong on a consolidated basis.

Growth Strategy

We aim to maintain our position as a leading supplier of high strength and ultra-thin cold-rolled premium specialty steel products in China, while building brand awareness and demand for our products internationally. We have identified six factors critical to the achievement of this goal:

Focus on Rapidly Growing Niche Segment. We will continue to focus on niche markets. According to publicly available information, the demand for precision cold-rolled steel products has been growing at a rate of 20% annually over the past five years in China. Export demand, coupled with domestic Chinese demand for automobile parts and components, saw blades, textile needles, microelectronics, packing and containers, is expected to continue, thereby increasing demand for high precision steel products. Moreover, new applications of steel products are continually being developed. Our research and development efforts are focused on advancing processing techniques and production of high strength and ultra-thin, cold-rolled precision steel products to enhance our product offerings and expand our market share.

Leverage Our Strengths to Compete Effectively with Imports. Specialty precision steel is a relatively new industry in China with the majority of precision steel imported from Japan, Korea, the European Union and the United States. As a result, the average quality and standards of China's high precision steel industry lags behind the international norm. Our lower cost base allows us to sell our products at an average of 10% below our international competitors with shorter delivery time and in accordance with customer specifications. We intend to leverage our lower operating cost base, our state-of-the-art patented manufacturing system and process, and our strategic relationships with our major suppliers to produce cold-rolled steel products with quality similar to international standards at lower cost than international competitors.

Focus on High Margin Products. We intend to continue to manufacture products with high sustainable margins. We increased our gross margin from 5.8% in 2004 to 26.4% in 2007. The

Edgar Filing: China Precision Steel, Inc. - Form 424B5

average gross margins of our high carbon steel products are 20-40% and 10-30% for our low carbon steel products. We will provide additional services such as heat treatment and cutting to further enhance our margins. We believe these high gross margins are sustainable despite fluctuations in steel prices because of the specialty of the end product which generally allow price increases of raw material to be passed directly to our customers.

Expand Manufacturing Capacity. We will increase our production capacity by adding a third cold-rolled mill with a design capacity of 150,000 metric tons in 2008. This will increase our total production design capacity to approximately 400,000 metric tons. The rolling mill installed in 2006, together with the third mill, will produce high carbon, high strength, cold-rolled steel products and more complex precision steel products.

Compete Internationally. We intend to expand our exports to compete in the international marketplace. We believe we are the only non-Japanese company able to compete in the global marketplace with low carbon precision cold-rolled steel products in the thickness range between 0.1 to 0.2 mm. In addition, we are not aware of any other company that currently manufactures high strength and ultra-thin cold-rolled steel with a width of 1400mm. These products provide us with a unique opportunity to compete in the global marketplace.

Retain Key Personnel. The Chinese market is highly competitive for experienced and talented executives and we will strive to retain our key executives, including our Chief Executive Officer, Wo Hing Li, and the General Manager of Chengtong, Hai Sheng Chen. Their experience in business operations and in Chinese steel manufacturing, respectively, is critical to our continued growth and success.

The Offering

Issuer	China Precision Steel, Inc., a Colorado corporation
Securities Offered by Us	7,100,000 shares of Common Stock and warrants to purchase 1,420,000 shares of Common Stock
Common Stock Outstanding After the Offering	45,896,288 shares
NASDAQ Symbol	CPSL
Use of Proceeds	Repayment of existing indebtedness, capital expenditures relating to the construction of a third reverse mill and general corporate purposes. See "Use of Proceeds" in this prospectus supplement.
Risk Factors	An investment in our common stock involves risks. Prospective investors should carefully consider the matters discussed upon the caption entitled "Risk Factors" beginning on page S-4 of this prospectus supplement before making a decision to invest in our common stock.

S-3

RISK FACTORS

We operate in a highly competitive environment in which there are numerous factors that can influence our business, financial position or results of operations and that can also cause the market value of our common stock to decline. Many of these factors are beyond our control and therefore, are difficult to predict. The following section sets forth what we believe to be the principal risks that could affect us, our business or our industry, and which could result in a material adverse impact on our financial results or cause the market price of our common stock to fluctuate or decline.

Risks Relating to the Company's Business

Steel consumption is cyclical and worldwide overcapacity in the steel industry and the availability of alternative products has resulted in intense competition, which may have an adverse effect on our profitability and cash flow.

Steel consumption is highly cyclical and generally follows general economic and industrial conditions both worldwide and in various smaller geographic areas. The steel industry has historically been characterized by excess world supply. This has led to substantial price decreases during periods of economic weakness, which have not been offset by commensurate price increases during periods of economic strength. Substitute materials are increasingly available for many steel products, which may further reduce demand for steel. Additional overcapacity or the use of alternative products could have a material adverse effect upon our results of operations.

Rapidly growing demand and supply in China and other developing economies may result in additional excess worldwide capacity and falling steel prices, which could adversely impact our results.

Over the last several years steel consumption in China and other developing economies such as India has increased at a rapid pace. Steel companies have responded by developing plans to rapidly increase steel production capability in these countries and entered into long-term contracts with iron ore suppliers in Australia and Brazil. Steel production, especially in China, has been expanding rapidly and could be in excess of Chinese demand depending on continuing growth rates. Because China is now the largest worldwide steel producer, any significant excess in Chinese capacity could have a major impact on domestic and international steel trade and prices.

Environmental compliance and remediation could result in substantially increased capital requirements and operating costs.

Our operating subsidiary, Chengtong, is subject to numerous Chinese provincial and local laws and regulations relating to the protection of the environment. These laws continue to evolve and are becoming increasingly stringent. The ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. Our consolidated business and operating results could be materially and adversely affected if Chengtong were required to increase expenditures to comply with any new environmental regulations affecting its operations.

We may require additional capital in the future and we cannot assure you that capital will be available on reasonable terms, if at all, or on terms that would not cause substantial dilution to stockholdings.

The development and expansion of our capacity to produce high quality specialty precision steel requires substantial funds. Sourcing external capital for product development and requisite capital expenditures are key factors that have and may in the future constrain our growth, production capability and profitability. To achieve the next phase of our corporate growth, increased production capacity, successful product development and additional external capital will be necessary. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to us, if at

all. Any sale of a substantial number of additional shares of common stock or securities convertible into common stock will cause dilution to the holders of our common stock and could also cause the market price of our common stock to decline.

We face significant competition from competitors who have greater resources than we do, and we may not have the resources necessary to successfully compete with them.

We are one of a few manufacturers of specialty precision steel products in China. Differences in the type and nature of the specialty precision steel products in China's steel industry are relatively small and, coupled with intense competition from international and local suppliers, consumers' demand can be price sensitive. Competitors may increase their market share through pricing strategies that adversely impact our business. Our business is in an industry that is becoming increasingly competitive and capital intensive, and competition comes from manufacturers located in China as well as from international competition. Our competitors may have financial resources, staff and facilities substantially greater than ours and we may be at a competitive disadvantage compared with larger companies.

We produce a limited number of products and may not be able to respond quickly to significant changes in the market or new market entrants.

Cold-rolled specialty precision steel is a relatively new industry in China; Chinese manufacturers of durable goods previously relied solely on imports from Japan, Korea, the European Union and the United States. We believe the average quality and standards of products of China's high precision steel industry lags behind the international norm. During the last three years, we have developed a nationally recognizable brand, however, we are not yet an internationally recognizable brand for our specialty steel products. Although we offer more than 40 high precision steel products, there are many other specialty precision steel products of similar nature in the market. If there are significant changes in market demands and/or competitive forces, we may not be able to change our product mix or adapt our production equipment quickly enough to meet customers' needs. Under such circumstances, our narrow band of precision steel products and/or new market entrants may negatively impact our financial performance.

Increased imports of steel products into China could negatively affect domestic steel prices and demand levels and reduce profitability of domestic producers, including Chengtong.

Through June 2007, China's total production of cold-rolled steel sheets increased approximately 54% over the comparable period in 2006. However, domestic production continues to be insufficient to meet demand. As a result, China continues to import a significant portion of its steel products. Foreign competitors may have lower labor costs, and are often owned, controlled or subsidized by their governments, which allows their production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions. Import levels may also be impacted by decisions of government agencies, under trade laws. Increases in future levels of imported steel could negatively impact future market prices and demand levels for our precision steel products.

We are dependent on our Chinese manufacturing operations to generate substantially all of our income and profits, and the deterioration of any current favorable local conditions may make it difficult or prohibitive to continue to operate or expand in China.

Our current manufacturing operations are located in China, our administrative offices are in Hong Kong and we have additional establishments in the British Virgin Islands. The geographical distances between these facilities create a number of logistical and communications challenges, including time

differences and differences in the cultures in each location, which makes communication and effective cooperation more difficult. Our operations in China could be affected by, among other things:

economic and political instability in China, including problems related to labor unrest,

lack of developed infrastructure,

variances in payment cycles,

currency fluctuations,

overlapping taxes and multiple taxation issues,

employment and severance taxes,

compliance with local laws and regulatory requirements,

greater difficulty in collecting accounts receivable, and

the burdens of cost and compliance with a variety of foreign laws.

Moreover, inadequate development or maintenance of infrastructure in China, including adequate power and water supplies, transportation, raw materials availability or the deterioration in the general political, economic or social environment could make it difficult, more expensive and possibly prohibitive to continue to operate or expand our facilities in China.

Chengtong is subject to numerous national, provincial and local governmental regulations, all of which can limit our ability to react to market pressures in a timely or effective way, thus causing us to lose business or miss opportunities to expand our business. These include, among others, regulations governing:

environmental and waste management,

our relationship with our employees, including: wage and hour requirements, working and safety conditions, citizenship requirements, work permits and travel restrictions,

property ownership and use in connection with our leased facilities in China, and

import restrictions, currency restrictions and restrictions on the volume of domestic sales.

Our operations are international and we are subject to significant worldwide political, economic, legal and other uncertainties that may make it difficult or costly to collect amounts owed to us or to conduct operations should materials needed from certain places be unavailable for an indefinite or extended period of time.

Edgar Filing: China Precision Steel, Inc. - Form 424B5

We have subsidiaries in the British Virgin Islands and China. We manufacture all of our products in China and substantially all of the net book value of our total fixed assets is located there. However, we sell our products to customers outside of China as well as domestically. As a result, we have receivables from and goods in transit to locations outside of China. Protectionist trade legislation in the United States or other countries, such as a change in export or import legislation, tariff or duty structures, or other trade policies, could adversely affect our ability to sell products in these markets, or even to purchase raw materials or equipment from foreign suppliers. Moreover, we are subject to a variety of United States laws and regulations, changes to which may affect our ability to transact business with certain customers or in certain product categories.

The end-use markets for certain of our products are highly competitive and customers are willing to accept substitutes for our products which could reduce our results of operations.

Buyers of certain cold-rolled steel products are in highly competitive markets. Cold-rolled precision steel competes with other materials, such as aluminum, plastics, composite materials and glass, among

S-6

others, for industrial and commercial applications. Customers have demonstrated a willingness to substitute other materials for cold-rolled steel. The willingness of our customers to accept substitutes for cold-rolled steel products could have a material adverse effect on our financial results.

We may not be able to pass on to customers the increases in the costs of our raw materials, particularly crude steel.

We require substantial amounts of raw materials in our business, consisting principally of steel slabs and strip steel. Any substantial increases in the cost of crude steel could adversely affect our financial condition and results of operations. The availability and price of crude steel depends on a number of factors outside our control, including general economic conditions, domestic and international supply and tariffs. Increased domestic and worldwide demand for crude steel has had and will continue to have the effect of increasing the prices that we pay for these raw materials, thereby increasing our cost of sales. Generally, there is a potential time lag between changes in prices under our purchase contracts and the point when we can implement a corresponding change under our sales contracts with our customers. As a result, we can be exposed to fluctuations in the price of raw materials, since, during the time lag period, we may have to temporarily bear the additional cost of the change under our purchase contracts, which could have a material adverse effect on our profitability. If raw material prices were to increase significantly without a commensurate increase in the market value of our products, our financial condition and results of operations would be adversely affected.

Although we are dependent on a steady flow of raw materials for our operations, we do not have in place long-term supply agreements for all of our material requirements.

We rely on several suppliers to provide us with the raw materials used in our operations, although a substantial portion of our raw material requirements is met by BaoSteel Trading Co., Ltd. We do not currently have long-term supply contracts with any particular supplier, including BaoSteel Trading Co., Ltd., to assure a continued supply of the raw materials we need. While we maintain good relationships with these suppliers, the supply of raw materials may nevertheless be interrupted on account of events outside our control, which will negatively impact our operations.

We have substantial indebtedness with floating interest rates and the cost of our borrowings may increase.

We are subject to interest rate risk on our non-derivative financial instruments. We do not hedge our interest rate risk. At June 30, 2007, our total bank debt outstanding was \$22,884,679, all of which was interest-bearing. Substantially all of the bank debt was floating-rate debt with interest rates which vary with changes in the standard rate set by the People's Bank of China. To the extent interest rates increase, we will be liable for higher interest payments to our lenders. For the 2008 financial year, annual interest on loans is anticipated to be approximately \$1.8 million. The impact of a 1% increase in interest rates will increase interest expense by approximately \$240,000. As our short-term borrowings mature, we will be required to either repay or refinance these borrowings. An increase in short-term interest rates at the time that we seek to refinance short-term borrowings may increase the cost of borrowings, which may adversely affect our earnings and cash available for distribution to our stockholders.

At June 30, 2007, the aggregate fair value of our financial instruments with exposure to interest rate risk was approximately \$23 million. The potential change in fair value for these financial instruments from an adverse 10% change in quoted interest rates across all maturities, often referred to as a parallel shift in the yield curve, would be approximately \$0.1 million at June 30, 2007.

The loss of any key executive or our failure to attract and retain key personnel could adversely affect our future performance, strategic plans and other objectives.

The loss or failure to attract and retain key personnel could significantly impede our future performance, including product development, strategic plans, marketing and other objectives. Our success depends to a substantial extent not only on the ability and experience of our senior management, but particularly upon our Chairman, Wo Hing Li; the General Manager of Chengtong, Hai Sheng Chen; and Chief Financial Officer, Leada Tak Tai Li. We do not currently have in place key man life insurance on Wo Hing Li, Hai Sheng Chen or Leada Tak Tai Li. To the extent that the services of these officers and directors would be unavailable to us, we would be required to recruit other persons to perform their duties. We may be unable to employ other qualified persons with the appropriate background and expertise to replace these officers and directors on terms suitable to us.

We may not be able to retain, recruit and train adequate management and production personnel. We rely heavily on those personnel to help develop and execute our business plans and strategies, and if we lose such personnel, it would reduce our ability to operate effectively.

Our continued operations are dependent upon our ability to identify and recruit adequate management and production personnel in China. We require trained graduates of varying levels and experience and a flexible work force of semi-skilled operators. Many of our current employees come from the more remote regions of China as they are attracted by the wage differential and prospects afforded by Shanghai and our operations. With the economic growth currently being experienced in China, competition for qualified personnel is substantial, and there can be no guarantee that a favorable employment climate will continue and that wage rates we must offer to attract qualified personnel will enable us to remain competitive internationally. The inability to attract such personnel or the increased cost of doing so could reduce our competitive advantage relative to other precision steel producers, reducing or eliminating our growth in revenues and profits.

We may not be able to protect adequately our intellectual property from infringement or unauthorized use by third parties.

Except for a patent on the Environment-Conscious Mill Bearing with Inner Circular Lubrication, we have no patents or licenses that protect our intellectual property. Unauthorized parties may attempt to copy aspects of our processes and know-how or to obtain and use information that we regard as proprietary. Policing unauthorized use of our processes and know-how is difficult. Our experienced key engineers and management staff are extensively involved in all facets of research, design, craftwork, styling and development of the specialty precision products. Potential risks on the divulgence of skills and the development of new products increase should these employees resign, as we rely heavily on them. Chengtong has elected to protect internally developed know-how and production processes (such as system pressure, cleanliness of the lubrication, temperature control, appropriate allocation of oil supply and retrieving, which are vital in providing a radical solution to the difficulties associated with lubricating rolling mills' backing bearing) by requiring all key personnel (production engineers and management staff) to sign non-disclosure and confidentiality contracts. However, this means of protecting our proprietary rights may not be adequate. In addition, the laws of some foreign countries do not protect our proprietary rights as extensively as do U.S. laws. Our failure to protect adequately our proprietary rights may allow third parties to duplicate our products, production processes or develop functionally equivalent or superior technology. In addition, our competitors may independently develop similar technologies or design around our proprietary intellectual property.

We are subject to risks associated with changing technology and manufacturing techniques, which could place us at a competitive disadvantage.

The successful implementation of our business strategy requires us to continuously develop our existing products and services and introduce new products and services to meet customers' needs. Our designs and products are characterized by stringent performance and specification requirements that mandate a high degree of manufacturing and engineering expertise. We believe that our customers rigorously evaluate our services and products on the basis of a number of factors, including, but not limited to:

quality,

price competitiveness,

technical expertise and development capability,

innovation,

reliability and timeliness of delivery,

product design capability,

operational flexibility,

customer service, and

overall management.

Our success depends on our ability to continue to meet our customers' changing requirements and specifications with respect to these and other criteria. There can be no assurance that we will be able to address technological advances or introduce new designs or products that may be necessary to remain competitive within the precision steel industry.

We depend upon our largest customers for a significant portion of our sales revenue, and we cannot be certain that sales to these customers will continue. If sales to these customers do not continue, then our sales may decline and our business may be negatively impacted.

We currently supply high precision steel products to 12 major customers in the Chinese domestic market. For the years ended June 30, 2007 and 2006, sales revenues generated from the top five major customers amounted to 51% and 50% of total sales revenues, respectively; sales to the largest single customer for the same periods amounted to 23% and 15% of total sales revenues, respectively. We do not enter into long-term contracts with our customers, and therefore cannot be certain that sales to these customers will continue. The loss of any of our largest customers would likely have a material negative impact on our sales revenues and business.

Defects in our products could impair our ability to sell products or could result in litigation and other significant costs.

Detection of any significant defects in our precision steel products may result in, among other things, delay in time-to-market, loss of market acceptance and sales of our products, diversion of development resources, injury to our reputation, litigation or fines, or increased costs to correct such defects. Defects could harm our reputation, which could result in significant costs and could impair our ability to sell our products. The costs we may incur in correcting any product defects may be substantial and could decrease our profit margins.

Failure to optimize our manufacturing potential and cost structure could materially increase our overhead, causing a decline in our margins and profitability.

We strive to utilize the manufacturing capacity of our facilities fully but may not do so on a consistent basis. Our factory utilization is dependent on our success in, among other things:

accurately forecasting demand,

predicting volatility,

timing volume sales to our customers,

balancing our productive resources with product mix, and

planning manufacturing services for new or other products that we intend to produce.

Demand for our products may not be as high as we expect, and we may fail to realize the expected benefit from our investment in our manufacturing facilities. Our profitability and operating results are also dependent upon a variety of other factors, including, but not limited to:

utilization rates of manufacturing lines,

downtime due to product changeover,

impurities in raw materials causing shutdowns, and

maintenance of contaminant-free operations.

Failure to optimize our manufacturing potential and cost structure could materially and adversely affect our business and operating results.

Moreover, our cost structure is subject to fluctuations from inflationary pressures in China and other geographic regions where we conduct business. China is currently experiencing dramatic growth in its economy. This growth may lead to continued pressure on wages and salaries that may exceed our budget and adversely affect our operating results.

Our production facilities are subject to risks of power shortages which may adversely affect our ability to meet our customers' needs and reduce our revenues.

Many cities and provinces in China have suffered serious power shortages since the second quarter of 2004. Many of the regional grids do not have sufficient power generating capacity to fully satisfy the increased demand for electricity driven by continual economic growth and persistent hot weather. Local governments have occasionally required local factories to temporarily shut down their operations or reduce their daily operational hours in order to reduce local power consumption levels. To date, our operations have not been affected by those administrative measures. However, there is a risk that our operations may be affected by those administrative measures in the future, thereby causing material production disruption and delay in delivery schedules. In such event, our business, results of operation and financial condition could be materially adversely affected. We do not have any back-up power generation system. Although we have not experienced any power outages in the past, we may be adversely affected by power outages in the future.

Unexpected equipment failures may lead to production curtailments or shutdowns.

Edgar Filing: China Precision Steel, Inc. - Form 424B5

Interruptions in our production capabilities caused by equipment malfunctions or failures may adversely affect our production costs, products available for sale and earnings for the affected period. In addition to equipment failures, our facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. Our manufacturing processes are dependent upon critical pieces of equipment, such as our various cold-rolling mills, as well as electrical equipment, such as transformers, and this equipment may, on occasion, be out of

S-10

service as a result of unanticipated failures. We have experienced and may in the future experience material plant shutdowns or periods of reduced production as a result of such equipment failures.

Our insurance may not be adequate if our production facilities were destroyed or significantly damaged as a result of fire or some other natural disaster.

All of our products are currently manufactured at our existing facilities located in the Jiading District in Shanghai, China. Fire fighting and disaster relief or assistance in China may not be as developed as in Western countries. While we maintain property damage insurance aggregating approximately \$18.5 million covering our raw materials, finished goods, equipment and buildings and another \$10.5 million insurance against equipment breakdown, we do not maintain business interruption insurance. Material damage to, or the loss of, our production facilities due to fire, severe weather, flood or other act of God or cause, even if insured, could have a material adverse effect on our financial condition, results of operations, business and prospects.

Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations.

Our limited operating history may not provide a meaningful basis on which to evaluate our business. Although our revenues have grown rapidly since inception, we might not be able to maintain our profitability or we may incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

Implement our business model and strategy and adapt and modify them as needed;

Manage our expanding operations and product offerings;

Maintain adequate control of our expenses;

Anticipate and adapt to changing conditions in the precision steel markets in which we operate as well as the impact of any changes in government regulation; and

Anticipate mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

Our business, business prospects and results of operations will be affected if we are not successful in addressing any or all of these risks and difficulties.

Failure to comply with the U.S. Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the U.S. Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. Foreign companies, including some that may compete with us, are not subject to these prohibitions, and therefore may have a competitive advantage over us. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC, and our executive officers and employees have not been subject to the U.S. Foreign Corrupt Practices Act prior to the completion of the Stock Exchange Agreement in December 2006. We can make no assurance that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based upon U.S. laws, including the federal securities laws or other foreign laws against us or our management.

Substantially all of our current operations are conducted in China. Moreover, all but one of our directors and all of our officers are nationals and residents of China or Hong Kong. All or substantially all of the assets of these persons are located outside the United States. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China or Hong Kong upon these persons. In addition, uncertainty exists as to whether the courts of China or Hong Kong would recognize or enforce judgments of U.S. courts obtained against us or our officers and/or directors predicated upon the civil liability provisions of the securities law of the United States or any state thereof, or be competent to hear original actions brought in China or Hong Kong against us or such persons predicated upon the securities laws of the United States or any state thereof.

Risks Relating to China

We face significant risks if the Chinese government changes its policies, laws, regulations, tax structure or its current interpretations of its laws, rules and regulations relating to our operations in China.

Chengtong's manufacturing facility is located in Shanghai, China. As of June 30, 2007, substantially all of our assets are located in China and, except for a small volume of exports, all of our sales revenues are generated in China. Our results of operations, financial state of affairs and future growth are, to a significant degree, subject to China's economic, political and legal development and related uncertainties. Our operations and results could be materially affected by a number of factors, including, but not limited to:

changes in policies by the Chinese government resulting in changes in laws or regulations or the interpretation of laws or regulations,

confiscatory taxation,

changes in employment restrictions,

restrictions on imports and sources of supply,

import duties,

corruption,

currency revaluation, and

the expropriation of private enterprise.

Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activities and greater economic decentralization. If the Chinese government does not continue to pursue its present policies that encourage foreign investment and operations in China, or if these policies are either not successful or are significantly altered, then our business could be adversely affected. Chengtong could even be subject to the risk of nationalization, which could result in the total loss of our stockholders' investment. Following the Chinese government's policy of privatizing many state-owned enterprises, the Chinese government has attempted to augment its revenues through increased tax collection. Continued efforts to increase tax revenues could result in increased taxation expenses being incurred by us. Economic development may be limited as well by the imposition of austerity measures intended to reduce inflation, the inadequate development of infrastructure and the potential unavailability of adequate power and water supplies, transportation and communications.

Chinese laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such Chinese laws and regulations may have a material and adverse effect on our business.

China's legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of Chinese laws and regulations, including but not limited to the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We are considered a foreign person or foreign funded enterprise under Chinese laws, and as a result, we are required to comply with Chinese laws and regulations. We cannot predict what effect the interpretation of existing or new Chinese laws or regulations may have on our businesses. If the relevant authorities find us in violation of Chinese laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

levying fines;

revoking our business and other licenses;

requiring that we restructure our ownership or operations; and

requiring that we discontinue any portion or all of our business.

A slowdown or other adverse developments in the Chinese economy may materially and adversely affect our customers, demand for our services and our business.

All of our operations are conducted in China and substantially all of our revenues are generated from sales to businesses operating in China. Although the Chinese economy has grown significantly in recent years, such growth may not continue. We do not know how sensitive we are to a slowdown in economic growth or other adverse changes in Chinese economy which may affect demand for precision steel products. A slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in China may materially reduce the demand for our products and in turn reduce our results of operations and our productivity.

Inflation in China could negatively affect our profitability and growth.

While the Chinese economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of raw materials, it may have an adverse effect on our profitability. In order to control inflation in the past, the Chinese government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowing of economic growth. In October 2004, the People's Bank of China, China's central bank, raised interest rates for the first time in nearly a decade and indicated in a statement that the measure was prompted by inflationary concerns in the Chinese economy.

Repeated increases in interest rates by the central bank will likely slow economic activity in China which could, in turn, materially increase our costs and also reduce demand for our products.

Controversies affecting China's trade with the United States could depress our stock price.

While China has been granted permanent most favored nation trade status in the United States through its entry into the World Trade Organization, controversies and trade disagreements between the United States and China may arise that have a material adverse effect upon our stock price. Political or trade friction between the United States and China, whether or not actually affecting its business, could also materially and adversely affect the prevailing market price of our common stock.

We may have difficulty establishing adequate management, legal and financial controls in China, which could impair our planning processes and make it difficult to provide accurate reports of our operating results.

China historically has not followed Western style management and financial reporting concepts and practices, and its access to modern banking, computer and other control systems has been limited. We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in China in these areas. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards, making it difficult for management to forecast its needs and to present the results of our operations accurately at all times.

Imposition of trade barriers and taxes may reduce our ability to do business internationally, and the resulting loss of revenue could harm our profitability.

We may experience barriers to conducting business and trade in our targeted emerging markets in the form of delayed customs clearances, customs duties and tariffs. In addition, we may be subject to repatriation taxes levied upon the exchange of income from local currency into foreign currency, substantial taxes of profits, revenues, assets and payroll, as well as value-added tax. The markets in which we plan to operate may impose onerous and unpredictable duties, tariffs and taxes on our business and products, and there can be no assurance that this will not reduce the level of sales that we achieve in such markets, which would reduce our revenues and profits.

There can be no guarantee that China will comply with the membership requirements of the World Trade Organization, which could leave us subject to retaliatory actions by other governments and reduce our ability to sell our products internationally.

China has agreed that foreign companies will be allowed to import most products into any part of China. In the sensitive area of intellectual property rights, China has agreed to implement the trade-related intellectual property agreement of the Uruguay Round. There can be no assurances that China will implement any or all of the requirements of its membership in the World Trade Organization in a timely manner, if at all. If China does not fulfill its obligations to the World Trade Organization, we may be subject to retaliatory actions by the governments of the countries into which we sell our products, which could render our products less attractive, thus reducing our revenues and profits.

Our labor costs are likely to increase as a result of changes in Chinese labor laws.

We have recently experienced an increase in the cost of labor. Recent changes in Chinese labor laws that are effective January 1, 2008 are likely to increase costs further and impose restrictions on our relationship with our employees. There can be no assurance that the labor laws will not change further or that their interpretation and implementation will vary, which may have a material adverse effect upon our business and results of operations.

We currently receive preferential tax treatment under Chinese law which will expire in 2008 and may negatively impact our profitability.

Prior to the adoption of the PRC Enterprise Income Tax Law on March 16, 2007 (the "EIT Law"), Chinese income tax law provided that any foreign-invested enterprise engaged in manufacturing and scheduled to operate for not less than 10 years was entitled to receive an exemption from the entire central government income tax for the two years beginning with its first profitable year and receive a 50% reduced income tax in the third through fifth years. As a wholly foreign owned enterprise, Chengtong has been entitled to such preferential tax treatment. The full tax exemption for the enterprise income tax expired on December 31, 2005 and the one-half reduction on the enterprise profit tax to 13.5% will expire on December 31, 2008. After such tax holidays, our profits will be subject to the full tax rate of 25%, effective as of January 1, 2008 in accordance with the EIT Law passed in 2007. If we are unable to increase gross income by an amount greater than that needed to offset the loss of this preferential tax treatment, such a condition could have a material adverse effect on the results of our operations.

Under the EIT Law, a uniform tax rate of 25.0% has been adopted for all enterprises (including foreign-invested enterprises) and several tax incentives enjoyed by foreign-invested enterprises have been cancelled. However, for foreign-invested enterprises established before the promulgation of the EIT Law, a five-year transition period is provided during which reduced rates will apply but gradually be phased out. Since the PRC government has not announced implementation measures for the transitional policy with regards to such preferential tax rates, we cannot reasonably estimate the financial impact of the new tax law to us at this time. Further, any future increase in the enterprise income tax rate applicable to us or other adverse tax treatments would have a material adverse effect on our results of operations and financial condition.

Fluctuations in exchange rates of the Renminbi, or RMB, could adversely affect the value of and dividends, if any, payable on shares of our common stock or otherwise impact our operations and profitability.

We collect revenue from operations principally in the Chinese Renminbi. Except for recent exports to Nigeria, Thailand, Indonesia and the Philippines, all of our local sales revenues are collected in and substantially all of our expenses are paid in the Chinese Renminbi. We face foreign currency rate translation risk when Chengtong's results are translated to U.S. Dollars, as well as foreign currency rate transaction risk with respect to sales outside of China and with respect to financial instruments denominated in foreign currencies. The results of operations denominated in foreign currency are translated at the average rate of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution.

The Chinese Renminbi remained stable against the U.S. Dollar at approximately 8.28 RMB to 1.00 U.S. Dollar for several years until July 21, 2005 when the Chinese currency regime was altered, with a 2.1% revaluation versus the U.S. Dollar. This move initially valued the Renminbi at 8.11 per U.S. Dollar. The Renminbi is no longer linked to the U.S. currency but rather to a basket of currencies with a 0.3% margin of fluctuation. However, there remains international pressure on the Chinese government to adopt an even more flexible currency policy. As of October 10, 2007, the exchange rate was 7.51 RMB to 1.00 U.S. Dollar. The exchange rate of Renminbi is subject to changes in China's government policies which are, to a large extent, dependent on the economic and political development both internationally and locally and the demand and supply of Renminbi in the domestic market. There can be no assurance that such exchange rate will continue to remain stable in the future amongst the volatility of currencies, globalization and the unstable economies in recent years.

Since (i) our income and profit are mainly denominated in Renminbi, and (ii) the payment of dividends, if any, will be in U.S. Dollars, any exchange fluctuation of the Renminbi against other foreign currencies would adversely affect the value of the shares and dividends payable to shareholders, in foreign currency terms. For example, to the extent that we need to convert U.S. Dollars we receive from an offering of our securities into Renminbi for our operations, if the Renminbi appreciates against the U.S. Dollar, the Renminbi equivalent of the US Dollar we convert would be reduced. Conversely, if we decide to convert our Renminbi into U.S. Dollars for the purpose of making payments for dividends on our common stock or for other business purposes and the U.S. Dollar appreciates against the Renminbi, the U.S. Dollar equivalent of the Renminbi we convert would be reduced. In addition, appreciation of the Renminbi could make our products more expensive relative to those of our competitors or increase our profitability in U.S. Dollar terms.

At June 30, 2007, our outstanding financial instruments with foreign currency exchange rate risk exposure had an aggregate fair value of \$7.5 million (including our non-U.S. Dollar denominated debt). The potential increase in the fair values of these instruments resulting from a 10% adverse change in quoted foreign currency exchange rates would be approximately \$0.75 million at June 30, 2007.

The ability of our Chinese operating subsidiary to pay certain foreign currency obligations, including dividends, may be restricted due to foreign exchange control regulations of China.

The ability of Chengtong to pay dividends may be restricted due to the foreign exchange control policies and availability of cash balances. Since substantially all of our operations are conducted in China and a majority of our revenues are generated in China, a significant portion of our revenue earned and currency received are denominated in Renminbi.

The Chinese government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Renminbi is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, if any, on our common stock or otherwise satisfy foreign currency denominated obligations. Under existing Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The Chinese government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

Risks Relating to Our Common Stock

The market price for shares of our common stock could be volatile and could decline.

Our common stock is listed on The NASDAQ Capital Market under the symbol "CPSL." The market price for the shares of our common stock may fluctuate in response to a number of factors, many of which are beyond our control. In some cases, these fluctuations may be unrelated to our operating performance. Many companies with Chinese operations have experienced dramatic volatility in the market prices of their common stock. We believe that a number of factors, both within and outside of our control, could cause the price of our common stock to fluctuate, perhaps substantially.

Factors such as the following could have a significant adverse impact on the market price of our common stock:

our ability to obtain additional financing and, if available, the terms and conditions of the financing;

our financial position and results of operations;

period-to-period fluctuations in our operating results;

changes in estimates of our performance by any securities analysts;

substantial sales of our common stock pursuant to Rule 144 or otherwise;

new regulatory requirements and changes in the existing regulatory environment;

the issuance of new equity securities in a future offering;

changes in interest rates; and

general economic, monetary and other national conditions, particularly in the U.S. and China.

The trading market in our common stock is limited and illiquid and may cause volatility in the market price.

As of June 30, 2007, 37.4%, or 13,964,883 shares, of our issued and outstanding common stock was not owned by affiliates, of which 10,338,729 were unrestricted and free to trade. The market price for our common stock is subject to volatility and holders of common stock may be unable to resell their shares at or near their original purchase price or at any price. In the absence of an active trading market:

investors may have difficulty buying and selling;

market visibility for our common stock may be limited; and

a lack of visibility for our common stock may have a depressive effect on the market for our common stock.

Shares eligible for future sale may adversely affect the market price of our common stock, as the future sale of a substantial amount of outstanding stock in the public marketplace could reduce the price of our common stock.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market, pursuant to Rule 144 promulgated under the Securities Act, subject to certain limitations or otherwise. In general, pursuant to Rule 144, a stockholder (or stockholders whose shares are aggregated) who has satisfied a one-year holding period may, under certain circumstances, sell within any three-month period a number of securities which does not exceed the greater of 1% of the then outstanding shares of common stock or the average weekly trading volume of the class during the four calendar weeks prior to such sale. Rule 144 also permits, under certain circumstances, the sale of securities, without any limitations, by a non-affiliate of our company that has satisfied a two-year holding period. Any substantial sale of common stock pursuant to Rule 144 or pursuant to a resale prospectus may have an adverse effect on the market price of our common stock.

One stockholder, who is our Chief Executive Officer, exercises significant control over matters requiring shareholder approval.

Wo Hing Li, our Chief Executive Officer, had voting power as of June 30, 2007 equal to approximately 59% of our voting securities. As a result, Wo Hing Li, through such stock ownership, exercises significant control over all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership in Wo Hing Li may also have the effect of delaying or preventing a change in control or other transactions that may otherwise be viewed as beneficial by shareholders other than Wo Hing Li.

We may be required to raise additional financing by issuing new securities with terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock.

We may require additional financing to fund future operations, develop and exploit existing and new products and to expand into new markets. We may not be able to obtain financing on favorable terms, if at all. If we raise additional funds by issuing equity securities, the percentage ownership of our current shareholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and the voting power of shares of our common stock. If we raise additional funds by issuing debt securities, the holders of these debt securities would similarly have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest expense for us.

We may incur significant costs to ensure compliance with U.S. corporate governance and accounting requirements.

We may incur significant costs associated with our public company reporting requirements, costs associated with applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the SEC and requirements in connection with the listing of our common stock on The NASDAQ Capital Market. We expect all of these applicable rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

Our officers and directors have limited experience with the regulatory requirements for U.S. public companies, which could impair our ability to satisfy public company filing requirements and could increase our securities compliance costs.

All of our officers and most of our directors do not have any prior experience as officers and directors of a U.S. publicly traded company, or in complying with the regulatory requirements applicable to a U.S. public company. As a result, we could have difficulty satisfying the regulatory requirements applicable to U.S. public companies, which could adversely affect the market for our common stock. At present, we rely upon outside experts to advise us on matters relating to financial accounting and public company reporting. While we believe that it will be possible to satisfy our public company reporting requirements through the use of third party experts, our general and administrative costs will remain higher until we have developed or acquired internal expertise in these matters.

Standards for compliance with Section 404 of the Sarbanes-Oxley Act of 2002 are uncertain, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting, and attestation of our assessment by our independent registered public accountants. The standards that must be met for management to assess the internal control over financial reporting as effective are complex, and require significant documentation, testing and possible remediation to meet the detailed standards and impose significant additional expenses on us. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. In addition, the attestation process required of our independent registered public accountants is new, and we may encounter problems or delays in completing the implementation of any requested improvements and receiving an attestation of our assessment by our independent registered public accountants. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

We do not foresee paying cash dividends in the foreseeable future.

We have not paid cash dividends on our stock, and we do not plan to pay cash dividends on our stock in the foreseeable future.

USE OF PROCEEDS

The Company expects that the net proceeds of the offering will be approximately \$44.0 million, after deducting underwriting commissions and discounts and other fees and expenses relating to the offering. The Company intends to use the net proceeds for repayment of certain existing bank debt in the amount of approximately \$22.0 million, capital expenditures related to the completion of the second reverse rolling mill and annealing furnace and construction of the third reverse rolling mill and related capital expenditures in the amount of approximately \$18.00 million, and the balance for general corporate purposes.

DESCRIPTION OF WARRANTS

The following description summarizes the material terms and provisions of the warrants being offered under this prospectus supplement.

Terms of Warrants

Exercise Price. The warrants are exercisable for shares of common stock at an exercise price of US\$8.45 per share.

Adjustment to Exercise Price. The exercise price of the warrants is subject to proportional adjustment in the case of stock splits, stock dividends, stock combinations, recapitalizations and similar matters.

Fundamental Transaction. Upon any merger or consolidation of our Company, sale of substantially all of our assets, any tender offer or exchange offer or similar fundamental transaction, the warrant holder shall have the right to receive the number of shares of Common Stock of the successor, the acquiring corporation, or of our Company, and any additional consideration received as a result of such transaction.

Subsequent Rights Offerings. If we, at any time while the warrant is outstanding, shall issue rights, options or warrants to all holders of Common Stock (and not to the warrant holders) entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the fair

market value at the record date, then the exercise price of the warrants shall be proportionally adjusted.

Pro Rata Distributions. If we, at any time while the warrant is outstanding, shall distribute to all holders of Common Stock (and not to warrant holders) evidences of its indebtedness or assets (including cash and cash dividends) or rights or warrants to subscribe for or purchase any security other than the Common Stock), then in each such case the exercise price of the warrants shall be proportionally adjusted.

Exercise Period. The warrants are exercisable for five years beginning on the date which is six months following the date of initial issuance of the warrants.

Before exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including the right to receive dividends, if any, or, payments upon our liquidation, dissolution or winding up or to exercise voting rights, if any.

Exercise of Warrants

Each warrant will entitle the holder to purchase shares of common stock at the exercise price stated above. Holders of the warrants may exercise the warrants at any time after the date which is six months following the date of initial issuance of the warrants up to the expiration date specified above. After the close of business on the expiration date, unexercised warrants will be automatically exercised via cashless exercise.

Holders of the warrants may exercise the warrants, in whole or in part, at any time or times on or after the date which is six months following the date of initial issuance of the warrants and on or before the expiration date by delivery to our warrant agent of a duly executed facsimile copy of a notice of exercise (or such other office or agency of the company as it may designate by notice in writing to the registered holder at the address of the holder appearing on our books) and paying to our warrant agent, for our account, within three trading days of the date said notice is delivered to our warrant agent, the aggregate exercise price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank.

In lieu of paying the aggregate exercise price, the warrant holder may exercise the warrant through a cashless exercise by surrendering the warrant, together with irrevocable instructions to our warrant agent, to issue in exchange for the warrant the number of shares of Common Stock equal to the product of (i) the number of shares as to which the warrants are being exercised multiplied by (ii) a fraction, the numerator of which is the fair market value of a share of Common Stock on the last business day immediately preceding the exercise date less the aggregate exercise price and the denominator of which is such fair market value. The fair market value of a share of Common Stock as of a particular date shall mean: (i) if traded on a securities exchange or if actively traded over-the-counter, the fair market value shall be deemed to be the last reported sale price of the Common Stock on such exchange or over-the-counter on the last business day before the date in question; (ii) if actively traded over-the-counter, but no sale is made on such day, the mean of the closing bid and asked prices such day on such over-the-counter quotation; and (iii) if there is no active public market, the fair market value shall be the value as determined in good faith by our Board of Directors upon a review of relevant factors, including due consideration of the warrant holder's determination of the value of our company.

Notwithstanding anything herein to the contrary, the holder shall not be required to physically surrender a warrant to our warrant agent until the holder has purchased all of the shares issuable upon exercise of such warrant and such warrant has been exercised in full, in which case, the holder shall surrender the warrant to our warrant agent for cancellation within three trading days of the date the final notice of exercise is delivered to us. Partial exercise of a warrant resulting in purchases of a

portion of the total number of shares issuable upon exercise thereof shall have the effect of lowering the outstanding number of shares issuable upon exercise thereof in an amount equal to the applicable number of shares so purchased. We, either directly or through our warrant agent, and the holder will maintain records showing the number of shares purchased and the date of such purchases.

If we fail to cause our warrant agent to transmit to the warrant holder a certificate or certificates representing the warrant shares pursuant to an exercise on or before the three trading days from the delivery to the warrant agent of a notice of exercise, and if after such date the warrant holder is required by its broker to purchase (in an open market transaction or otherwise) or the warrant holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the warrant holder of the warrant shares which the holder anticipated receiving upon such exercise, such a situation referred to as a "buy-in", then we shall (1) pay in cash to the warrant holder the amount by which (x) the warrant holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of warrant shares that we were required to deliver to the warrant holder in connection with the exercise at issue times (B) the price at which the sell order giving rise to such purchase obligation was executed, and (2) at the option of the warrant holder, either reinstate the portion of the warrant and equivalent number of warrant shares for which such exercise was not honored or deliver to the warrant holder the number of shares of Common Stock that would have been issued had we timely complied with its exercise and delivery obligations hereunder.

Enforceability of Rights by Holders of Warrants

Each warrant agent we use with respect to the warrants will act solely as our agent under a warrant agreement and will not assume any obligation or relationship of agency or trust with any holder of any warrant. A single bank or trust company may act as warrant agent for more than one issue of warrants. A warrant agent will have no duty or responsibility in case of any default by us under the applicable warrant agreement or warrant, including any duty or responsibility to initiate any proceedings at law or otherwise, or to make any demand upon us. Any holder of a warrant may, without the consent of the related warrant agent or the holder of any other warrant, enforce by appropriate legal action its right to exercise, and receive the securities purchasable upon exercise of, its warrants.

Outstanding Warrants

As of September 30, 2007, there were outstanding warrants to purchase 1,400,059 shares of our common stock. The exercise price for 1,300,059 of these warrants is \$3.00 per share. The exercise price for 100,000 of these warrants is \$3.60 per share. The currently outstanding warrants will expire in February 2010, unless earlier exercised.

PLAN OF DISTRIBUTION

We are directly selling to one or more purchasers, shares of our common stock under this prospectus supplement at a price of \$6.75 per share and warrants to purchase shares of common stock at an exercise price of \$8.45 per share. The gross proceeds from the financing will be approximately \$48.0 million, and we estimate the net proceeds from the financing to be approximately \$44.0 million after deducting placement agent fees and the estimated costs payable by us associated with the offering. We have negotiated with the purchasers regarding the sale of shares of our common stock and warrants being offered hereunder, and have entered into subscription agreements with the purchasers which set forth the specific terms of the transaction.

Pursuant to a placement agency agreement, dated October 31, 2007, we have engaged Roth Capital Partners, LLC, or Roth Capital, to act as our exclusive placement agent in connection with an

offering of our common stock and warrants under the registration statement on Form S-3, of which this prospectus supplement is a part. Under the terms of the placement agency agreement, Roth Capital agreed to be our exclusive placement agent, on a best efforts basis, in connection with the issuance and sale by us of our common stock and warrants in a proposed takedown from our registration statement. The terms of any such offering will be subject to market conditions and negotiations between us, Roth Capital and prospective purchasers. The placement agency agreement does not give rise to any commitment by Roth Capital to purchase any of the shares of common stock or warrants, and Roth Capital will have no authority to bind us by virtue of the placement agency agreement. Further, Roth Capital does not guarantee that it will be able to raise new capital in any prospective offering.

With respect to the offering, we have agreed to pay a placement fee to Roth Capital equal to 7.0% of the gross proceeds received from the sale of shares of our Common Stock in the offering. In addition Roth Capital will be entitled to receive warrants to purchase our Common Stock in an amount equal to 3% of the total shares of Common Stock sold in the offering.

We will not pay any other compensation in connection with the sale of our shares of common stock pursuant to the placement agency agreement. Under certain circumstances, the placement agency agreement requires us to pay a placement fee to Roth Capital in connection with an offering consummated with specified parties during a period of up to six months following the date of the placement agency agreement. We have agreed to indemnify Roth Capital against certain liabilities arising in connection with the engagement, including liabilities under federal securities laws.

This is a brief summary of the material provisions of the placement agency agreement and does not purport to be a complete statement of its terms and conditions. A copy of the placement agency agreement is on file with the Securities and Exchange Commission as Exhibit 10.2 to a Form 8-K dated October 31, 2007, that is incorporated by reference into the accompanying prospectus.

In compliance with the guidelines of the National Association of Securities Dealers, the maximum consideration or discount to be received by any NASD member may not exceed 8% of the aggregate amount of the securities offered pursuant to this prospectus supplement.

EXPERTS

The consolidated financial statements of China Precision Steel, Inc. as of and for the years ended June 30, 2007, 2006 and 2005, appearing in our Annual Report on Form 10-K/A, as amended, have been audited by Murrell, Hall, McIntosh & Co. PLLP, independent auditors, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.