NORTH ASIA STRATEGIC HOLDINGS LIMITED
北亞策略控股有限公司*

(Formerly known as iSteelAsia Holdings Limited (亞鋼集團有限公司)*)

(Incorporated in Bermuda with limited liability)

(Stock code: 8080)

VERY SUBSTANTIAL ACQUISITION AND RESUMPTION OF TRADING

On 26th August, 2005, Ace Level, a wholly-owned subsidiary of the Company, entered into the Agreement to acquire from the Vendor, a third party independent of the Company and its connected persons, the Sales Shares, which represent a 70% of the entire issued share capital of the Target, for a total cash consideration of HK$509.6 million. The Target Group is principally engaged in the distribution of and the provision of after sale services for sophisticated computerised knitting machines.

The Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules and is subject to the approval of the Shareholders. A circular will be despatched as soon as practicable to the Shareholders containing details of, among other things, the Acquisition and a notice to convene the SGM.

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 29th August, 2005 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 2nd September, 2005.

On 26th August, 2005, Ace Level, a wholly-owned subsidiary of the Company, entered into the Agreement to acquire from the Vendor, a third party independent of the Company and its connected persons, the Sales Shares, which represent 70% of the entire issued share capital of the Target. Details of the Acquisition are set out as below.

THE AGREEMENT

Date: 26th August, 2005

Parties: Purchaser: Ace Level, a wholly-owned subsidiary of the Company

Vendor: the Vendor is a Hong Kong entrepreneur engaging in the distribution of sophisticated computerised knitting machines who, to the best of the knowledge, information and belief of the Directors and after making all reasonable enquiries, is a third party independent of the Company and its connected persons.

Guarantor: the Company acts as the guarantor to guarantee to the Vendor that the Purchaser will duly perform and fulfil all of its payment obligations under the Agreement.

Assets to be acquired:

Ace Level agrees to acquire, and the Vendor agrees to sell, the Sale Shares free from all encumbrances and with all rights and benefits now or hereafter attached or accruing to them at any time on or after Completion (including the right to receive any dividends, distributions or returns of capital declared, paid or made by the Target on or after Completion but excluding any right to the distributable reserves of the Target Group as at Completion Date as shown in the audited consolidated accounts of the Target Group for the period from 1st April, 2005 to the Completion Date, which shall, subject to the terms of the Agreement, be payable to the Vendor notwithstanding Completion). The Vendor is the sole beneficial shareholder of Target Group prior to Completion. The Sale Shares represent 70% of the entire issued share capital of the Target.

The Target Group's business was founded by the Vendor in 1970s. The Target Group is engaged in the distribution of and provision of after sale services including technical support and maintenance services for sophisticated computerised knitting machines in Hong Kong, the PRC and Macau under the Distribution Agreements with a renowned Japanese manufacturer for terms ranging from one year to five years. Products distributed by the Target Group are principally mid-priced knitting machinery. At present, the Target Group only distributes the products of the aforesaid Japanese manufacturer.

Set out below are details of the Distribution Agreements:

(a) a distribution agreement dated 21st October, 1993 as amended by the memorandum dated 1st December, 2004 in respect of the exclusive distribution right of the sophisticated computerised knitting machines in the region of Hong Kong for an initial term of 5 years with effect from 1st December, 2004 renewable automatically for additional periods of 1 year upon the terms thereof;

(b) a distribution agreement dated 11th July, 2002 as amended by the memorandum dated 1st December, 2004 in respect of the exclusive distribution right of the sophisticated computerised knitting machines in the region of PRC (including Macau but excluding Taiwan and Hong Kong) for an initial term of 5 years with effect from 1st December, 2004 renewable automatically for additional periods of 1 year upon the terms thereof; and

(c) a distribution agreement dated 11th July, 2002 as amended by the memorandum dated 1st December, 2004 in respect of the non-exclusive distribution right of mainly Computer Aided Design (CAD) systems and accessories in the region of PRC (excluding Taiwan, Hong Kong and Macau) for an initial term of 1 year with effect from 1st December, 2004 renewable automatically for additional periods of 1 year upon the terms thereof.

No minimum sales target was specified in the Distribution Agreements during existing distributorship period until their respective expiry.

According to the unaudited combined accounts of the Target Group (which were prepared in accordance with the generally accepted accounting principles in Hong Kong) provided by the Vendor, the Target Group recorded an unaudited profit before taxation of approximately HK$218.6 million and unaudited profit after taxation of approximately HK$184.1 million for the year ended 31st March, 2004; and unaudited profit before taxation of approximately HK$302.7 million and unaudited profit after taxation of approximately HK$265.1 million for the year ended 31st March, 2005.

The unaudited combined net assets of the Target Group as at 31st March, 2005 was approximately HK$125.1 million.

As set out in the section headed "Conditions precedent" below, a reorganisation will take place pursuant to which the Target shall become the holding company for seven companies owned by the Vendor which carry on the distribution and after sale service business. Though each of these companies has its own audited accounts, there are no audited consolidated accounts in respect of the Target Group. Accordingly, only the unaudited combined figures are presented above.

Consideration:

The consideration for the Sales Shares is HK$509.6 million and shall be payable to the Vendor in cash upon Completion.

The aggregate consideration for the Sale Shares is determined after arm's length negotiation between Ace Level and the Vendor after considering the performance and prospects of the Target Group. The consideration for the Sale Shares values the entire equity interest of the Target Group at HK$728 million. The consideration for the Acquisition therefore represents a historical price earning multiple of 2.75 times of the Target Group's unaudited combined profit after taxation of approximately HK$265.1 million for the year ended 31st March, 2005. The Board considers the consideration to be fair and reasonable.

It is intended that the consideration will be financed by borrowings of the Group from independent financial institutions.

Conditions precedent:

Completion is subject to, among other things, the following conditions having been fulfilled or waived (as the case may be):

(a) the completion of a reorganisation of the Target Group on or before 21st September, 2005 pursuant to which the Target shall become the holding company of the companies wholly and beneficially owned by the Vendor which carry on the business of distribution of and provision of after sale services for sophisticated computerised knitting machines in Hong Kong, the PRC and Macau and certain properties located in Hong Kong which are currently occupied by the Target Group for the aforesaid business. Following completion of the said reorganisation, such companies shall become the wholly-owned subsidiaries of the Target;

(b) the Purchaser being satisfied with the results of the due diligence review to be conducted on the business, commercial, legal, financial and taxation aspects of the Target Group and the properties referred to in (a) above;

(c) the following to the satisfaction of the Purchaser in respect of the Distribution Agreements:

  (i) the obtaining of a waiver by the Japanese manufacturer of its right to terminate the Distribution Agreements in respect of the transfer of controlling stake of the Target Group from the Vendor to the Purchaser and the change in the management of the Target Group as contemplated in the Acquisition;

  (ii) each of the Distribution Agreements remaining legal, valid, binding and enforceable against the parties thereto;

  (iii) there is no occurrence of any event which would entitle any party under the Distribution Agreements to terminate, or not to renew, any of the Distribution Agreements;

(d) the obtaining of all necessary consents and approvals which are required or desirable to be obtained for the implementation of the transactions contemplated under the Agreement including the passing of the required resolution(s) by the Shareholders approving the transactions contemplated under the Agreement;

(e) the adoption of a business plan for the Target Group for the two years ending 31st December, 2007 in a form agreed between the parties. The business plan is expected to cover, among others, the business strategy, budget including marketing, sales targets, operating costs and expenses and dividend policy;

(f) there being no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares and/or any transactions contemplated under the Agreement; and

(g) the obtaining by the Purchaser of legal opinions satisfactory to the Purchaser issued by legal advisers in Hong Kong, the PRC, Macau, Japan, the Cayman Islands and/or such other jurisdictions in relation to such questions relating to the companies of the Target Group, and their respective assets and businesses, the sale and purchase of the Sale Shares, the reorganisation referred to in (a) above, the Agreement, the Distribution Agreements, the deed of indemnity to be entered into upon Completion among the Purchaser, the Target and the Vendor which provides the Purchaser and the Target with an indemnity by the Vendor concerning taxation matters of the Target Group, the shareholders' agreement to be entered into upon Completion for the management and operation of the Target and the respective rights and obligations of its shareholders, the consultancy agreement and service agreement with certain senior management of the Target Group and the transactions as contemplated under the aforesaid agreements and such other questions of the law in the relevant jurisdiction as required by the Purchaser, each of such legal opinions to be in such form and substance acceptable to the Purchaser.

The Purchaser may, in its absolute discretion, waive all or any of the aforesaid conditions (other than conditions (a), (d) and (f)) at any time by notice in writing to the Vendor. In the event that any of the aforesaid conditions shall not have been fulfilled or waived (as the case may be) prior to Completion, the Agreement shall lapse and no party to the Agreement shall have any claim against or liability to the other parties, save in respect of any antecedent breaches of the Agreement.

Completion:

Completion shall take place on 15th October, 2005 or such later date as may be agreed between the Vendor and the Purchaser.

Undertakings:

1. The Purchaser agrees that, notwithstanding Completion, the distributable reserves of the Target as evidenced by the audited consolidated accounts as at Completion Date are for the benefit of the Vendor and the Purchaser agrees to procure that the subsidiaries of Target shall pay by way of dividend the distributable reserves to the Vendor as soon as possible following the determination of the audited consolidated accounts as at Completion Date.

2. The Vendor further undertakes that in the event that as at Completion or at any time during the 12 months following Completion, the current assets of the Target Group fail to meet its current liabilities, the Vendor agrees to provide financing to the Target Group by way of an interest free loan for such period as is necessary to enable the Group to be in a position where such current assets meet its liabilities as they fall due. The Company will ensure compliance with the relevant provisions of the GEM Listing Rules in the event any financial assistance to the Group is to be provided by the Vendor.

Others:

It is expected that a shareholders' agreement will be executed among the Vendor, the Company, the Purchaser and the Target to regulate the respective shareholder's rights of the Vendor and the Purchaser in the Target upon Completion. Final terms of such shareholders' agreement are being negotiated. It is currently intended that the Purchaser and the Vendor shall appoint 4 and 2 directors of the Target respectively so long as the Vendor holds 30% or more shareholdings in the Target. The Vendor will also undertake not to dispose of his remaining 30% interests in the Target within two years from the date of the shareholders' agreement unless with prior written consent of the Purchaser or where the Vendor exercises his tag-along rights in case the Purchaser transfers its shares in the Target. Both parties shall have the right of first refusal in respect of any disposal of shares in the Target by the other party.

The Group intends to retain the Vendor as a senior adviser to the board of directors of Target and certain senior management of the Target Group as director/employees of the Target Group following Completion so that the Group can continue to capitalise on their managerial experiences and established business connections for the benefit of the Group. The Target Group will, upon Completion, enter into a consultancy agreement with the Vendor and a service agreement with a senior management of the Target Group respectively, each for a term of 3 years. It is expected that the consultancy agreement will include advisory service on sales and marketing opportunities in the ordinary course of business of the Target

Group. The Group is entitled to extend the term of the consultancy agreement by giving written notice to the Vendor prior to its expiry. The entering into of the consultancy agreement with the Vendor will constitute a continuing connected transaction of the Company under the GEM Listing Rules, but be exempted from the reporting, announcement and the independent shareholders' approval requirements pursuant to Rule 20.33(3)(b) of the GEM Listing Rules. There is no provision in the Agreement which entitles the Vendor to appoint its representative to the Board following Completion.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the trading of steel products, provision of procurement services for steel products, operation of an e-commerce vertical portal for the provision of online steel trading services and ancillary services. The Group will continue its existing business in the trading of steel products and the provision of procurement services for steel products and ancillary services following the completion of the Acquisition.

The Group suffered an audited loss attributable to the Shareholders of approximately HK$25.7 million and HK$10.4 million respectively for each of the two years ended 31st March, 2004 and 2005 respectively. Steel trading remains difficult due to the lasting adverse effect of the PRC government's continuous macro-entrenchment policies to limit the excessive investments in several overheated industries including steel, aluminium, automobile and cement industries as well as the real estate sector.

The Ajia Parties became the controlling Shareholders through a subscription of new Shares and convertible bonds of the Company, which subscription was completed on 8th August, 2005. As stated in the open offer prospectus of the Company dated 21st July, 2005, the Ajia Parties intended to explore opportunities in the acquisition of strategic, possibly controlling, stakes in companies with strong cashflow in growth sectors such as the consumer, industrial, technology, media and telecommunications businesses. The Acquisition is a step to implement the strategies of the Ajia Parties for the Group to diversify from the narrow focus of the existing cyclical steel business.

On average, the product life cycle of knitting machines is around three years. Garment manufacturers generally tend to purchase machinery from the same manufacturer to ensure compatibility of the technological operating platform, minimise maintenance and training costs and maintain consistent quality of their products. The Target Group, with its established client base of around 2,000 throughout the markets it serves and the replacement of the knitting machines, is expected to continue to enjoy consistent sales from the replacement market. In addition, garment manufacturers would seek to upgrade and buy new knitting machines with improved technology and performance to enhance their productivity. The Directors are of the view that the garment industry in Hong Kong, Macau and the PRC will continue to grow not only to serve the export market but also the domestic Chinese market as the population becomes more affluent. Accordingly, the Directors expect that the overall market for the business carried on by the Target Group will grow steadily.

Upon completion of the Acquisition, the Target Group will become subsidiaries of the Group and the accounts of the Target Group will be consolidated into the accounts of the Group. In view of the profitable track record and the prospects of the Target Group, the Directors consider that the Acquisition will enhance the Group's overall business performance and strengthen its revenue base. Taking into account the benefits of the Acquisition as described above, in particular, the historical performance and prospects of the Target Group and the performance of the Group in recent years, the Board is of the view that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

GEM LISTING RULES IMPLICATIONS

The undertaking of the distribution of and the provision of after sale services for sophisticated computerised knitting machines will constitute a fundamental change of principal business activities of the Group pursuant to Rule 17.25 of the GEM Listing Rules. As this change will take place outside the period of two financial years after the first dealings in the Shares, it is not subject to the prior approval of the independent Shareholders pursuant to the GEM Listing Rules.

The Acquisition constitutes a very substantial acquisition for the Company under the GEM Listing Rules and is subject to the approval by the Shareholders at the SGM. No Shareholder or Director is required under the GEM Listing Rules to abstain from voting at the SGM in respect of the Acquisition. A circular will be despatched as soon as practicable to the Shareholders containing details of, among other things, the Acquisition and a notice to convene the SGM.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 29th August, 2005 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 2nd September, 2005.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Ace Level” or “Purchaser”	Ace Level Investments Limited, a company incorporated in the British Virgin Island and a wholly-owned subsidiary of the Company
“Acquisition”	the proposed acquisition of the Sale Shares on the terms contained in the Agreement
“Agreement”	the conditional sale and purchase agreement dated 26th August, 2005 entered into among Ace Level, the Company and the Vendor relating to the sale and purchase of the Sale Shares
“Ajia Parties”	North Asia Strategic Acquisition Corp., a company incorporated in the Cayman Islands, and Mr. Tsang Moses Kwok Tai
“Board”	board of the Directors

"Company"	North Asia Strategic Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM
"Completion"	completion of the Agreement with performance by the parties to the Agreement of their respective obligations in accordance with its provisions
"Completion Date"	15th October, 2005 or such later date as may be agreed between the Vendor and the Purchaser, being the expected date for Completion
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Director(s)"	director(s) of the Company
"Distribution Agreements"	three distribution agreements entered into between the Target Group and a renowned Japanese manufacturer in relation to the distribution of and provision of after sale services including technical support and maintenance services for sophisticated computerised knitting machines in Hong Kong, the PRC and Macau
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Macau"	Macau Special Administrative Region of the PRC
"PRC"	the People's Republic of China, which for the purpose of this announcement, shall exclude Hong Kong and Macau
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition
"Sale Shares"	70% of the entire issued share capital of the Target legally and beneficially owned by the Vendor as at Completion
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Target"	Best Quality Limited, a company incorporated in the Cayman Islands which is wholly and beneficially owned by the Vendor before Completion
"Target Group"	the Target and its subsidiaries upon Completion
"Vendor"	the sole beneficial shareholder of Target prior to Completion and the vendor of the Sale Shares
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"%"	per cent.

By Order of the Board
North Asia Strategic Holdings Limited
Chow Savio Sing Nam
Executive Director and Chief Executive Officer

Hong Kong, 1st September, 2005

As at the date of this announcement, the Board comprises Mr. Göran Sture Malm (Chairman), Mr. Chow Savio Sing Nam (Chief Executive Officer), Mr. Andrew Cho Fai Yao, Mr. Desmond Hay Ching Fu, Mr. Cho Henry Kim (executive Directors), Mr. Philip King Huen Ma, Mr. Kwan Chi Ping Edgar and Mr. Kenny King Ching Tam (independent non-executive Directors).

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief that:- (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcement" page for at least seven days from the date of its posting.

* *For identification purposes only*