THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, other licensed corporation, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in North Asia Strategic Holdings Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, other licensed corporation or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

Financial adviser to North Asia Strategic Holdings Limited

SOMERLEY LIMITED

A letter from the board of directors of North Asia Strategic Holdings Limited is set out on pages 4 to 17 of this circular.

A notice convening a special general meeting of North Asia Strategic Holdings Limited to be held at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong at 3:00 p.m. on Monday, 10th October 2005 is set out on pages 132 to 133 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

23rd September 2005

* *For identification purpose only*

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

"Ace Level" or "Purchaser"	Ace Level Investments Limited, a company incorporated in the British Virgin Islands 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
"Announcement"	the announcement dated 1st September 2005 issued by the Company in relation to the Acquisition
"associates"	has the meaning ascribed to it in the GEM Listing Rules
"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"	the expected date for Completion, being 15th October 2005 or such later date as may be agreed between the Vendor and the Purchaser
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Convertible Bonds"	convertible bonds, with total face value of HK$20 million, issued by the Company to the Ajia Parties, which are convertible into new Shares at an initial conversion price of HK$0.1566 per Share (subject to adjustments), details of which are set out in the circular of the Company dated 20th June 2005

"Director(s)"	director(s) of the Company
"Distribution Agreements"	three distribution agreements entered into between the Target Group and the Manufacturer in relation to the distribution of and provision of after sale services including technical support and maintenance services for sophisticated computerised knitting machines, design systems and related accessories and spare parts in Hong Kong, the PRC and Macau
"Enlarged Group"	the Group together with the Target Group
"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
"Huge Top"	Huge Top Industrial Limited, a company incorporated in the British Virgin Islands
"Latest Practicable Date"	20th September 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Macau"	Macau Special Administrative Region of the PRC
"Manufacturer"	Shima Seiki Mfg., Ltd., a renowned Japanese manufacturer and a party to the Distribution Agreements
"Placement"	the proposed placement of non-redeemable convertible preference shares by the Company to eight institutional investors pursuant to six conditional subscription agreements dated 16th September 2005 and two conditional subscription agreements dated 19th September 2005
"PRC"	The People's Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of this circular
"Sale Shares"	70% of the entire issued share capital of the Target legally and beneficially owned by the Vendor

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Acquisition
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target"	Best Quality Limited, a company incorporated in the Cayman Islands which is wholly and beneficially owned by the Vendor
"Target Group"	the Target and its subsidiaries
"Vendor"	Mr. Lam Kam Chuen, the sole legal and beneficial shareholder of the Target and the vendor of the Sale Shares
"VSC"	Van Shung Chong Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange
"VSC BVI"	Van Shung Chong (B.V.I.) Limited, a wholly-owned subsidiary of VSC
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

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)

Executive Directors:
Mr. Göran Sture Malm *(Chairman)*
Mr. Chow Savio Sing Nam *(Chief Executive Officer)*
Mr. Cho Henry Kim
Mr. Andrew Cho Fai Yao
Mr. Desmond Hay Ching Fu

Independent non-executive Directors:
Mr. Philip King Huen Ma
Mr. Kenny King Ching Tam
Mr. Edgar Kwan Chi Ping

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
78th Floor
The Center
99 Queen's Road Central
Hong Kong

23rd September 2005

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

On 1st September 2005, the Company announced that Ace Level, a wholly-owned subsidiary of the Company, entered into the Agreement dated 26th August 2005 to acquire from the Vendor, a third party independent of the Company and its connected persons, the Sale Shares (representing 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.

The purpose of this circular is to provide you with, among other things, further details of the Acquisition, financial information of the Enlarged Group and a notice to convene the SGM, at which an ordinary resolution will be proposed to consider and approve the Acquisition.

* *For identification purpose only*

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 the Target Group. 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 principally 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 the Manufacturer for terms ranging from one year to five years. The Manufacturer, a company listed on the Tokyo Stock Exchange, was established in 1962 and has been in the market for over 40 years. Products distributed by the Target Group are principally mid-priced knitting machinery. At present, the Target Group only distributes the products of the Manufacturer.

The Distribution Agreements comprise:

(a) a distribution agreement dated 21st October 1993 as amended by a memorandum dated 1st December 2004 in respect of the exclusive distribution right of sophisticated computerised knitting machines, design systems and related accessories and spare parts 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 memoranda dated 11th July 2002 and 1st December 2004 respectively in respect of the exclusive distribution right of the sophisticated computerised knitting machines, design systems and related accessories and spare parts 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

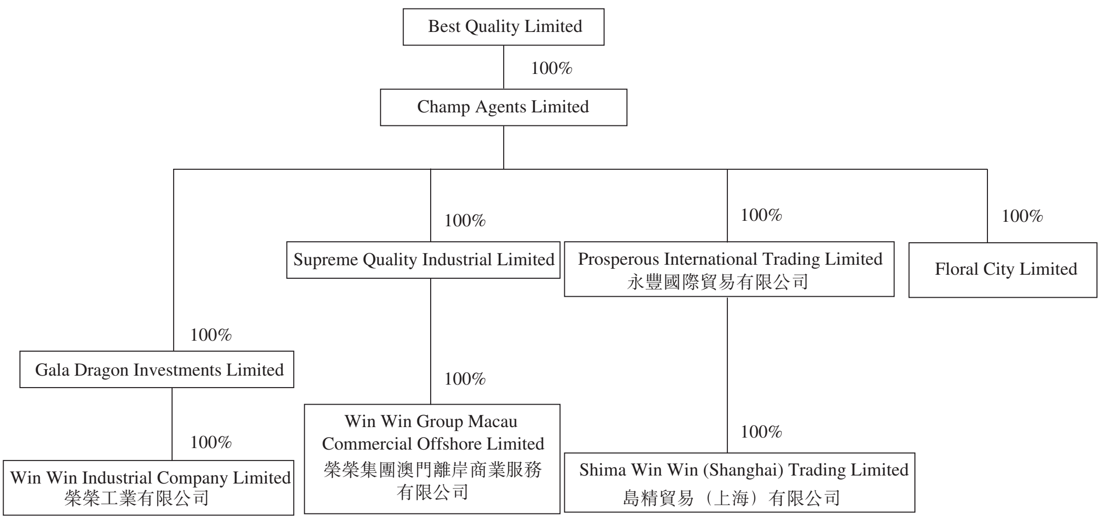
(c) a distribution agreement dated 11th July 2002 as amended by memoranda dated 11th July 2002 and 1st December 2004 respectively in respect of the non-exclusive distribution right of mainly computer aided design (CAD) systems and accessories in the region of PRC (excluding Taiwan, Hong Kong and Macau) 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 in respect of the existing distributorship period until their respective expiry. Pursuant to the Distribution Agreements, either party may terminate the Distribution Agreements should there be a significant change in the ownership, organisation and/or management of the other party except as a result of an initial public offering or a new listing on a stock exchange of shares of the Target Group. The Manufacturer may also terminate the Distribution Agreements in the event that the Vendor and his children resign from the management or other representative positions of the Target Group. As described in paragraph (c) in the sub-section headed "Conditions precedent" below, Completion is subject to the obtaining of a waiver from the Manufacturer in respect of the changes contemplated in the Acquisition.

As set out in the accountants' report contained in the Appendix II to this circular, the Target Group recorded an audited combined profit before taxation of approximately HK$203.4 million and an audited combined profit after taxation and minority interests of approximately HK$168.2 million for the year ended 31st March 2004; and an audited combined profit before taxation of approximately HK$301.7 million and an audited combined profit after taxation and minority interests of approximately HK$264.1 million for the year ended 31st March 2005. The audited combined net assets of the Target Group as at 31st March 2005 was approximately HK$157.0 million.

As set out in the sub-section headed "Conditions precedent" below, a reorganisation will take place before Completion, pursuant to which the Target shall become the holding company for eight companies owned by the Vendor which carry on the distribution and after sale service business. Prior to Completion, the Target shall become the holding company of the eight companies comprising the Target Group. Pursuant to the Agreement, prior to Completion (but not before 10th October 2005), the Vendor shall also procure acquisition by the Target Group of certain properties located in Hong Kong which are currently occupied by the Target Group for its business operation and the payment will be satisfied by paid in capital of the Target. The Purchaser may conduct its investigation of the title of the properties and may at its sole discretion require the Vendor to procure the production of a comprehensive policy title insurance from reputable title insurance company or certificate of title from the Vendor's solicitors in a form satisfactory to the Purchaser. If on or before 10th October 2005, the Purchaser is not satisfied with the title of the properties, or if the Vendor is unable to comply with the terms in respect of the transfer of properties or warranties on such properties under the Agreement, the Purchaser and the Vendor have the right to reject or not to procure the said transfer of properties respectively.

Set out below is the group structure of the Target Group immediately after the completion of the reorganisation:



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 negotiations 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 and represents a historical price-earnings multiple of 2.76 times of the Target Group's audited combined profit after taxation and minority interests of approximately HK$264.1 million for the year ended 31st March 2005. The Board considers the consideration to be fair and reasonable.

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. 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 currently used by the Target Group for its business operations;

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

    (i) the obtaining of a waiver by the 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 Agreement;

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

    (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 (i) the companies of the Target Group and their respective assets and businesses; (ii) the sale and purchase of the Sale Shares; (iii) the reorganisation referred to in (a) above; (iv) the Agreement; (v) the Distribution Agreements; (vi) the deed of indemnity to be entered into upon Completion among the Purchaser, the Target and the Vendor in relation to a tax indemnity given by the Vendor; (vii) 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; (viii) the consultancy agreement and service agreement with certain senior management of the Target Group; and (ix) 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.

Pursuant to the Agreement, prior to Completion (but not before 10th October 2005), the Vendor shall procure acquisition by the Target Group of certain properties located in Hong Kong which are currently occupied by the Target Group for its business operation and the payment will be satisfied by paid in capital of the Target. The Purchaser may conduct its investigation of the title of the properties and may at its sole discretion require the Vendor to procure the production of a comprehensive policy title insurance from reputable title insurance company or certificate of title from the Vendor's solicitors in a form satisfactory to the Purchaser. If on or before 10th October 2005, the Purchaser is not satisfied with the title of the properties, or if the Vendor is unable to comply with the terms in respect of the transfer of properties or warranties on such properties under the Agreement, the Purchaser and the Vendor have the right to reject or not to procure the said transfer of properties respectively.

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. As at the Latest Practicable Date, none of the aforesaid conditions has been fulfilled or waived. 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, he shall to provide financing to the Target Group by way of an interest-free loan for such period as is necessary to enable the Target 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 Target 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. The terms of such shareholders' agreement are substantially finalised. The Directors confirm that the shareholders' agreement shall include the following principal terms:

(i) the Purchaser and the Vendor shall appoint four and two directors of the Target respectively so long as the Vendor holds 30% or more shareholdings in the Target;

(ii) the Vendor will 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 to participate in the proposed disposition of the shareholding interest in the Target in case the Purchaser transfers its shares in the Target; and

(iii) 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 the 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 service agreements with senior management of the Target Group respectively, each for a term of three years. It is expected that the Vendor shall provide 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. It is expected that the consultancy fee payable to the Vendor under the consultancy agreement will be determined on normal commercial terms where each of the percentage ratios (other than the profits ratio) referred to in Rule 19.07 of the GEM Listing Rules represented by such fee on an annual basis is more than 0.1% but less than 2.5% and the annual consultancy fee is less than HK$1,000,000. Accordingly, such continuing connected transaction will be exempted from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 20.33(3) 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, and the 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 Completion.

The Group suffered an audited loss attributable to Shareholders of approximately HK$25.7 million and HK$10.4 million 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 the Convertible Bonds, 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 lasts for 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, 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, 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 and in view of 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.

It is intended that the consideration for the Acquisition will be financed by borrowings of the Group from independent financial institutions. As stated in the Company's circular dated 20th June 2005 (the "Circular"), it is intended that financial investors will be brought in and new capital will be raised for the Company by way of placement of equity related instruments such as convertible notes or preference shares and some preliminary contacts with potential professional investors had been made before mid June 2005. On 16th September 2005, the Company entered into six conditional subscription agreements and two further conditional subscription agreements on 19th September 2005 with eight institutional investors for the placement of non-redeemable convertible preference shares by the Company. It is expected that the Placement, if completed successfully, will raise approximately HK$845.8 million before expenses for the Group. It is expected that out of the net proceeds (after deducting placement fee and other related expenses) of approximately HK$833.3 million received from the Placement, approximately HK$509.6 million will be used to repay the aforesaid borrowings of the Group from independent financial institutions. Discussions with other investors are still ongoing which may lead to the issue of further non-redeemable convertible preference shares.

The Acquisition is not conditional on the Placement. The Directors do not consider the Group would have problem with its cashflow if the Placement does not proceed, on the grounds that the Target Group has demonstrated strong positive cash flow in the past and would be able to contribute to the overall cashflow of the Group. The Company may, depending on the then market conditions and circumstances, consider other means to raise additional capital for the Group in place of the Placement, such as bank borrowings or other equity fund raising exercises.

MANAGEMENT DISCUSSION ON THE TARGET GROUP

Set out below is a summary of the key financial data of the Target Group, which are extracted from the accountants' report of the Target Group contained in Appendix II to this circular.

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Results			
Turnover	824,179	1,376,214	1,992,668
Gross profit	135,613	253,280	350,096
Profit before taxation	116,499	203,422	301,702
Net profit for the year	99,259	168,181	264,064

	As at 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities			
Non-current assets	161,545	238,435	261,910
Current assets	705,797	1,567,350	1,856,913
Current liabilities	(503,688)	(1,138,542)	(1,402,513)
Non-current liabilities	(144,395)	(283,934)	(559,327)
Minorities interests	(4,131)	—	—
Net assets	215,128	383,309	156,983

Financial and business performance

Year ended 31st March 2003

Turnover for the year reached approximately HK$824 million with gross profit at approximately HK$136 million. During the year, a total of 3,297 units of knitting machines were sold with 1,642 units sold in Hong Kong, Thailand, Macau and Cambodia and 1,655 units in the PRC. The Target Group's network of liaison offices in the PRC continued to attract new customers. During the year, approximately 123 new customers mainly from Hong Kong and the PRC were solicited representing sales of around HK$500 million. Cost control measures taken during the year had successfully made the distribution and administrative expenses at approximately 6% of sales resulting in record post-tax profits of approximately HK$99 million for the Target Group.

Year ended 31st March 2004

The Target Group achieved a turnover of approximately HK$1.4 billion with gross profit at approximately HK$253 million. These represented increases of approximately 67% and 87% respectively as compared to those of 2003. Total number of new customers was 47. The continued growth in both the local and PRC economy kept on fueling the demand for machinery, which significantly boosted the Target Group's turnover. In total, number of machines sold were 4,795, with 3,076 and 1,719 attributable to Hong Kong and the PRC respectively. The economy of scale from large orders and the ongoing cost control measures contributed to significant savings in distribution costs and other administrative expenses. Profit after tax was approximately HK$168 million for the year, representing an increase of 69% from previous year.

Year ended 31st March 2005

The Target Group achieved record turnover and gross profit of approximately HK$2.0 billion and HK$350 million respectively benefiting from increased orders from both old and new customers in Hong Kong and the PRC. These represented increases of approximately 45% and 38% respectively as compared to those of 2004. A total of 64 new customers were solicited with sales value of approximately HK$453 million representing approximately 23% of the year's turnover. Consistent with previous years, Hong Kong based customers remain the dominant contributor to the Group's sales while the number of PRC customers has increased significantly and represented around 24% of sales in value during the year. The main reason for such increases is believed to be the growing demand from PRC customers to upgrade their facilities with automated machinery to offset higher labor costs. Total number of units sold for the year was 4,997, with 3,680 in Hong Kong and 1,317 in PRC but with a much higher proportion in the more sophisticated models. Whereas turnover growth achieved a record of approximately 45%, increase in distribution and administrative costs was maintained at approximately 13% compared to previous year. Profit after tax for the year was HK$264 million, representing a 57% improvement from 2004.

Prospects of the Target Group

The lifting of textile quota in 2005 resulted in a more competitive environment among garment manufacturers and while it has the effect of an expansion of manufacturing facilities in some categories, the net result has been more aggressive pricing due to excess of supply. However, among the Target Group's customers, there appears to be little concern of a significant downturn in the industry despite the current PRC/United States/European Union discussions on placing a cap on textile exports following the sudden surge from the PRC's exports in the first half of 2005. Garment manufacturers are now also focusing on the development of the domestic market for high-end knitwear, the demand for which has been growing.

With the appreciation of RMB by 2.1% recently due to the re-pegging of the currency against a basket of currencies instead of the US dollars, the Target Group acknowledges that domestic raw material costs would increase as well as local costs, which would have an impact on profit margin. However, it has to be noted that the PRC labor costs have been growing at a much higher rate in the past three years and the effect of the currency appreciation is, for all practical purposes, relatively insignificant. There are no signs that under the present circumstances, the garment manufacturers would need to increase prices on finished goods to compensate for the currency re-rating.

Financial resources and liquidity

The Target Group's capital structure as of 31st March 2005 consisted of shareholders' equity of approximately HK$157 million and bank borrowings of approximately HK$248 million, compared to shareholders' equity of approximately HK$383 million and bank borrowings of approximately HK$186 million as at 31st March 2004 and shareholders' equity of approximately HK$215 million and bank borrowings of approximately HK$16 million as at 31st March 2003.

Gearing ratios (bank borrowings divided by shareholders' equity) as at 31st March, 2003, 2004 and 2005 were 0.07, 0.49 and 1.58 respectively.

The Target Group generated strong positive cash-flow from operations of approximately HK$122 million, HK$202 million and HK$203 million for each of the three years ended 31st March 2003, 2004 and 2005 respectively.

Fixed assets amounted to approximately HK$6.2 million as at 31st March 2005 with additions of approximately HK$2.1 million during the year which were funded by internal sources.

Cash and cash equivalents

As at 31st March 2005, bank deposits amounted to approximately HK$596 million, out of which approximately HK$307 million was pledged as collateral for the Target Group's banking facilities.

Investments

The Target Group did not have any investments as at 31st March 2005.

Foreign currency exposure

The Target Group's sales are predominantly in US dollars and Hong Kong dollars whereas its machinery purchases from the Manufacturer are also denominated in the same currencies as the sales contracts. It therefore does not have significant foreign exchange exposure.

Number of employees and remuneration policies

The Target Group has about 166 employees. Total salary and bonuses amounted to about HK$29 million in 2005 compared to approximately HK$23 million and approximately HK$18 million in 2004 and 2003 respectively. The Target Group's remuneration policy includes a bonus scheme that is based on performance.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Upon Completion, the Target will become an indirect majority-owned subsidiary of the Company and its results would be consolidated into the accounts of the Group.

The Group had an audited net asset value of approximately HK$2.14 million and an audited net tangible asset value of approximately HK$2.12 million as at 31st March 2005. The Acquisition would not have any effect on the net asset value of the Group. As shown in the pro forma financial information of the Enlarged Group contained in Appendix III to this circular, a goodwill of approximately HK$491.4 million will arise from the Acquisition. It should be noted that such goodwill is estimated on the assumption that the fair value of the net assets of the Target Group is the same as their carrying amount. The amount of goodwill to be recorded will depend on the fair value of the net assets of the Target Group to be determined on Completion.

Since HK$509.6 million borrowings were raised to finance the Acquisition, the level of borrowings of the Enlarged Group will increase upon Completion.

The Group recorded an audited turnover of approximately HK$859.7 million and loss attributable to Shareholders of approximately HK$10.4 million for the year ended 31st March 2005. The Target Group recorded an audited combined turnover of approximately HK$2.0 billion and combined profit after tax and minority interest of approximately HK$264.1 million for the year ended 31st March 2005. Given the historical financial performance of the Target Group, the Acquisition is expected to enhance the revenue and earnings base of the Group in the future.

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. 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 as required under Rule 17.25 of 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 of the Shareholders. No Shareholder or Director is required under the GEM Listing Rules to abstain from voting at the SGM in respect of the Acquisition.

SGM

Set out in this circular is a notice convening the SGM which will be held at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong at 3:00 p.m. on Monday, 10th October 2005 at which an ordinary resolution will be proposed to approve the Acquisition.

A form of proxy for use at the SGM is accompanying this circular. Whether or not you are able to attend the meeting or not, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon to the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

RECOMMENDATION

The Directors consider that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition.

GENERAL

Your attention is drawn to the additional information set out in the appendices to this circular.

For and on behalf of
North Asia Strategic Holdings Limited
Chow Savio Sing Nam
Executive Director and Chief Executive Officer

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the three years ended 31st March 2005 as extracted from the relevant annual reports of Company is set out below:

Results

	Year ended 31st March		
	2003	**2004**	**2005**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Turnover	811,142	1,429,443	859,685
Profit/(Loss) before taxation	8,464	(25,042)	(4,497)
Taxation	(1,840)	(889)	(5,946)
Profit/(Loss) before minority interests	6,624	(25,931)	(10,443)
Minority interests	(34)	220	—
Profit/(Loss) attributable to Shareholders	6,590	(25,711)	(10,443)
Profit/(Loss) per Share (HK cents)			
— Basic	0.42	(1.63)	(0.65)

Assets and Liabilities

	As at 31st March		
	2003	**2004**	**2005**
	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*
Total assets	338,718	387,187	165,748
Total liabilities	(324,033)	(374,542)	(163,611)
Shareholders' equity	14,685	12,645	2,137

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the audited consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity of the Group, the balance sheet of the Company together with the notes to the financial statements of the Group as extracted from pages 35 to 76 of the annual report of the Company for the year ended 31st March 2005. References to page numbers in this section are to the page numbers of such annual report of the Company.

"**Consolidated Profit and Loss Account**
For the year ended 31st March 2005

	Note	**2005** *HK$'000*	**2004** *HK$'000*
Turnover	*3*	859,685	1,429,443
Cost of sales		(828,580)	(1,390,654)
Gross profit		31,105	38,789
Other revenue	*3*	1,239	1,078
Selling and distribution expenses		(7,494)	(7,891)
General and administrative expenses		(25,139)	(28,682)
Gain on disposal of investments, net	*13*	911	—
Impairment loss of an investment		—	(20,414)
Loss on disposal of subsidiaries, net	*25(c)*	(63)	—
Operating profit/(loss)	*4*	559	(17,120)
Finance costs	*5*	(5,056)	(7,922)
Loss before taxation		(4,497)	(25,042)
Taxation	*8*	(5,946)	(889)
Loss after taxation but before minority interests		(10,443)	(25,931)
Minority interests		—	220
Loss attributable to shareholders	*9*	(10,443)	(25,711)
Loss per share — Basic	*10*	HK(0.65) cents	HK(1.63) cents

Balance Sheets

As at 31st March 2005

		Consolidated		Company	
		2005	**2004**	**2005**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Fixed assets	*11*	1,411	2,922	—	—
Website development costs	*12*	21	43	—	—
Long-term investment	*13*	780	2,136	—	2,136
Deferred tax assets	*20*	—	4,483	—	—
Investments in subsidiaries	*14*	—	—	1	1
Total non-current assets		2,212	9,584	1	2,137
Current assets					
Short-term investment	*13*	—	23,400	—	—
Inventories	*15*	94,936	131,082	—	—
Deposits for purchase of inventories		27,387	89,321	—	—
Prepayments, deposits and other receivables		7,893	12,735	30	53
Accounts and bills receivable	*16*	3,977	31,193	—	—
Pledged bank deposits	*17*	16,080	34,439	13,049	13,645
Cash and other bank deposits	*17*	13,263	55,433	12	3,961
Total current assets		163,536	377,603	13,091	17,659
Current liabilities					
Short-term bank borrowings	*18*	(24,360)	(51,426)	—	—
Accounts and bills payable	*2 & 19*	(121,018)	(284,445)	—	—
Other payables		(1,807)	(517)	—	—
Accruals		(5,634)	(2,082)	(71)	(50)
Receipts in advance		(5,256)	(30,065)	—	—
Taxation payable		(5,536)	(6,007)	—	—
Total current liabilities		(163,611)	(374,542)	(71)	(50)
Net current (liabilities)/assets		(75)	3,061	13,020	17,609
Non-current liabilities					
Amounts due to subsidiaries	*14*	—	—	(3,907)	(4,702)
Net assets		2,137	12,645	9,114	15,044

		Consolidated		Company	
		2005	2004	2005	2004
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Representing:					
Share capital	*21*	159,659	159,638	159,659	159,638
Reserves	*24*	(157,522)	(146,993)	(150,545)	(144,594)
Shareholders' equity		2,137	12,645	9,114	15,044

Consolidated Cash Flow Statement

For the year ended 31st March 2005

	Note	2005 HK$'000	2004 HK$'000
Operating activities			
Net cash (outflow)/inflow generated from operations	25(a)	(52,162)	55,554
Interest received		580	657
Interest paid		(5,056)	(7,922)
Mainland China enterprise income tax paid		(2,096)	(704)
Mainland China enterprise income tax refunded		473	324
Net cash (outflow)/inflow from operating activities		(58,261)	47,909
Investing activities			
Dividend received from an investment		659	421
Increase in long-term investment		(780)	—
Proceeds from disposal of investments		26,447	—
Proceeds from disposal of subsidiaries, net of cash disposed of	25(c)	(1,396)	—
Additions of fixed assets		(191)	(1,021)
Proceeds from disposal of fixed assets		129	142
Additions of website development costs		(5)	(17)
Decrease/(Increase) in pledged bank deposits		18,359	(34,439)
Translation adjustments		(86)	(48)
Net cash inflow/(outflow) from investing activities		43,136	(34,962)
Net cash (outflow)/inflow before financing activities		(15,125)	12,947

	Note	2005 HK$'000	2004 HK$'000
Financing activities	25(b)		
Issue of ordinary shares		21	68
New short-term bank loans		6,615	68,480
Repayment of short-term bank loans		(9,450)	(62,857)
Net decrease in trust receipts bank loans		(24,231)	(11,331)
Distribution paid to minority shareholders of a subsidiary		—	(1,114)
Net cash outflow from financing activities		(27,045)	(6,754)
(Decrease)/Increase in cash and cash equivalents		(42,170)	6,193
Cash and cash equivalents, beginning of year		55,433	49,240
Cash and cash equivalents, end of year	25(d)	13,263	55,433

Consolidated Statement of Changes in Equity

For the year ended 31st March 2005

	Note	**2005** *HK$'000*	**2004** *HK$'000*
Balance as at beginning of year		12,645	13,351
Loss attributable to shareholders	*24*	(10,443)	(25,711)
Translation adjustments	*24*	(86)	(48)
Change in fair value of a long-term investment	*24*	548	1,451
Realisation of investment revaluation reserve upon disposal of a long-term investment	*24*	(548)	—
Investment revaluation reserve transferred to profit and loss account upon recognition of impairment loss of a long-term investment		—	20,414
Proceeds from issue of ordinary shares	*21*	21	3,188
Balance as at end of year		2,137	12,645

Notes to the Accounts

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except that investments are stated at fair value.

The HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Any significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the disposal and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and any related cumulative foreign currency translation adjustments.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority votes at the meetings of the board of directors.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) ***Contractual joint ventures***

A contractual joint venture is an entity established between the Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners being governed by a contract. If the Group is able to govern and control the financial and operating policies of the contractual joint venture so as to obtain benefits from its activities, such joint venture is considered as a subsidiary and is accounted for as such.

(e) ***Fixed assets and depreciation***

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Major expenditures on modifications and betterments of fixed assets which will increase their future economic benefits are capitalised, while expenditures on repairs and maintenance are expensed when incurred. Fixed assets are depreciated on a straight-line basis at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives. The principal annual rate is 20%.

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from fixed assets.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce that asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net disposal proceeds and the then carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) ***Website development costs***

Costs directly associated with the development of specific websites, which include external direct costs of materials and services consumed in developing or obtaining an internal-use website, are capitalised. The capitalisation of such costs ceases no later than the point at which the websites are substantially completed and ready for their intended purpose. Website development costs are amortised on a straight-line basis over a period of three years, which represents the expected useful life of the website. The Company's Directors and the Group's management review and evaluate the recoverability of the carrying value of website development costs periodically by reference to certain external factors, including, but not limited to, anticipated future revenue to be generated from the website and changes in technology.

Research and other development costs relating to website development and website maintenance costs are expensed as incurred.

(g) ***Investments***

Investments, which are held for non-trading purpose, are stated at fair value at the balance sheet date. Changes in fair value of individual investments are credited or debited to the investment revaluation reserve until the investments are sold or otherwise disposed of or until the investments are determined to be impaired. Upon disposal, the cumulative gain or loss, representing the difference between the net disposal proceeds and the carrying amount of the relevant investments, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account. When there is objective evidence that individual investments are impaired, the cumulative loss recorded in the investment revaluation reserve is taken to the profit and loss account.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(k) Provisions

Provisions are recognised when the Group has a present obligation, legal or constructive, as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset only when the reimbursement is virtually certain.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(m) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

(i) Sales revenue

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Commission from procurement and online steel trading services

Commission from procurement and online steel trading services is recognised when the services are rendered.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(iv) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Advance payments received from customers prior to delivery of goods and provision of services are recorded as receipts in advance.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group's contributions to defined contribution retirement schemes are expensed as incurred.

(o) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

(p) ***Operating leases***

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

(q) ***Foreign currency translation***

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the profit and loss account of the individual companies.

The Group prepares consolidated accounts in Hong Kong dollars. For the purpose of consolidation, all assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all income and expense items are translated at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative foreign currency translation adjustments.

(r) ***Segment reporting***

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of all of fixed assets, inventories, receivables and other operating assets. Segment liabilities consist primarily of all of the Group's operating liabilities. Capital expenditure comprises additions to fixed assets, website development costs and short-term/long-term investments.

In respect of geographical segment reporting, turnover is based on the destination of delivery of goods or the location for the provision of services. Total assets and capital expenditure are classified where the assets are located.

(s) ***Cash and cash equivalents***

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

2. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) The Group purchased inventories of approximately HK$399,246,000 (2004: HK$155,716,000) from Van Shung Chong Hong Limited ("VSCHL"), a related company, during the year ended 31st March 2005, and had an outstanding payable to VSCHL of approximately HK$118,843,000 as at 31st March 2005 (2004: HK$205,611,000) of which approximately HK$115,453,000 (2004: HK$198,417,000) was overdue. VSCHL has granted to the Group a normal credit period and has agreed not to demand repayment of overdue balances but charges interest on such balances based on commercial lending rates.

(b) Details of significant transactions with related parties were:

Name of related party/Nature of transaction	**2005**	**2004**
	HK$'000	*HK$'000*
Van Shung Chong Hong Limited *(i)*		
— Purchases made by the Group *(Note 2(a))*	399,246	155,716
— Commission from procurement services earned by the Group	2,221	1,894
— Interest charged to the Group *(Note 2(a))*	3,380	5,672
— Administrative fees charged to the Group	360	360
CFY Enterprises Limited *(i)*		
— Rental expense charged to the Group	162	198

Note:

(i) Van Shung Chong Hong Limited and CFY Enterprises Limited are wholly owned by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company.

(c) The amounts due to related companies arising from transactions described in Note 2(b) were included in accounts payable. Details of such balances are as follows:

Name of related company	**2005**	**2004**
	HK$'000	*HK$'000*
Van Shung Chong Hong Limited *(i)*	118,843	205,611

Note:

(i) The balance is unsecured, repayable within ordinary credit term and bore interest at commercial lending rates for overdue balances.

3. Turnover and revenues

Revenues recognised are as follows:

	2005	2004
	HK$'000	*HK$'000*
Sales revenue	854,564	1,416,236
Commission from procurement and online steel trading services	5,121	13,207
Total turnover	859,685	1,429,443
Dividend income	659	421
Interest income	580	657
	1,239	1,078
Total revenues	860,924	1,430,521

4. Operating profit/(loss)

Operating profit/(loss) is determined after charging and crediting the following items:

	2005	2004
	HK$'000	*HK$'000*
After charging—		
Staff costs (including directors' emoluments) *(Note 6)*	9,416	15,232
Operating lease rental in respect of premises paid to		
— a related company *(Note 2(b))*	162	198
— others	990	1,656
Loss on disposal of an listed investment *(Note 13)*	194	—
Loss on disposal of a subsidiary *(Note 25(c))*	263	—
Depreciation of fixed assets	1,016	1,069
Loss on disposal of fixed assets	87	118
Amortisation of website development costs	27	892
Write-off of and provision for bad and doubtful debts	1,761	439
Provision for inventories	1,448	420
Auditors' remuneration	500	438
After crediting—		
Gain on disposal of an unlisted investment *(Note 13)*	1,105	—
Gain on disposal of a subsidiary *(Note 25(c))*	200	—
Dividend income from an unlisted investment	659	421
Interest income from bank deposits	580	657
Net exchange gain	328	376

5. Finance costs

	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	1,676	2,250
Interest on amount due to a related company *(Note 2(b))*	3,380	5,672
	5,056	7,922

6. Staff costs (including directors' emoluments)

	2005	2004
	HK$'000	*HK$'000*
Salaries and allowances	7,947	12,556
Bonus	1,238	2,376
Pension costs — defined contribution schemes *(Note 27)*	231	300
	9,416	15,232

7. Directors' and senior executives' emoluments

(a) Directors' emoluments

	2005	2004
	HK$'000	*HK$'000*
Fees for independent non-executive directors	60	20
Fees for non-executive directors	11	15
Other emoluments for executive directors		
— Salaries and allowances	1,855	3,863
— Discretionary bonuses	—	1,440
— Retirement contributions	—	21
	1,926	5,359

During the year ended 31st March 2005, Mr. Andrew Cho Fai Yao waived his emolument of approximately HK$636,000 (2004: HK$636,000).

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the years ended 31st March 2005 and 2004.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2005	**2004**
Executive directors		
— Nil to HK$1,000,000	2	2
— HK$1,500,001 to HK$2,000,000	1	1
— HK$2,000,001 to HK$2,500,000	—	1
Non-executive directors		
— Nil to HK$1,000,000	2	4
Independent non-executive directors		
— Nil to HK$1,000,000	3	3
	8	11

For the year ended 31st March 2005, the executive directors received individual emoluments of approximately HK$1,855,000 (2004: HK$1,806,000), Nil (2004: HK$480,000), Nil (2004: HK$546,000) and Nil (2004: HK$2,492,000). The non-executive directors and independent non-executive directors received individual fees of approximately HK$10,000 (2004: HK$10,000), HK$1,000 (2004: HK$10,000), HK$10,000 (2004: HK$6,000), Nil (2004: HK$4,000), Nil (2004: HK$4,000), HK$10,000 (2004: HK$1,000) and HK$40,000 (2004: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2004: two directors) whose emoluments are reflected in the analysis presented in Note 7(a) above. The emoluments paid/payable to the remaining four (2004: three) individuals were as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Basic salaries and allowances	2,191	1,925
Bonuses	—	553
Retirement contributions	24	36
	2,215	2,514

The emoluments fell within the following band:

	2005	**2004**
Nil to HK$1,000,000	4	3

8. Taxation

The Company is exempted from taxation in Bermuda until 2016.

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong.

The subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2004: 15% to 33%).

The amount of taxation charged to the consolidated profit and loss account represents:

	2005	2004
	HK$'000	*HK$'000*
The Company and subsidiaries —		
Current taxation		
Hong Kong profits tax	—	—
Mainland China enterprise income tax		
— Current year	1,988	6,262
— Overprovisions in prior years	(525)	(890)
Deferred taxation relating to the origination and reversal of temporary differences	4,483	(4,483)
	5,946	889

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the profits tax rate of Hong Kong, the home country of the Group, and the reconciliation was as follows:

	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	(4,497)	(25,042)
Calculated at Hong Kong profits tax rate of 17.5% (2004: 17.5%)	(787)	(4,382)
Effect of		
— different tax rates in other jurisdictions	479	146
— income not subject to taxation	(36)	(37)
— expenses not deductible for income tax purposes	338	3,591
— deferred tax assets not recognised	2,043	3,031
— reversal of previously recognised deferred tax assets	4,483	—
— reversal of previously unrecognised deferred tax assets	(49)	(570)
— Overprovisions in prior years	(525)	(890)
Taxation charge	5,946	889

9. Loss attributable to shareholders

The consolidated loss attributable to shareholders included a loss of approximately HK$5,951,000 (2004: HK$14,680,000) dealt with in the accounts of the Company.

10. Loss per share

The calculation of basic loss per share for the year ended 31st March 2005 is based on the consolidated loss attributable to shareholders of approximately HK$10,443,000 (2004: HK$25,711,000) and the weighted average of approximately 1,596,443,000 (2004: 1,575,758,000) ordinary shares in issue during the year.

No diluted loss per share is presented as the outstanding warrants and share options were anti-dilutive.

11. Fixed assets

Movements were:

	Consolidated 2005			
	Leasehold improvements and furniture *HK$'000*	**Office equipment** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
Cost				
Beginning of year	651	2,415	2,460	5,526
Additions	94	97	—	191
Disposals	(164)	(224)	(145)	(533)
Disposal of subsidiaries *(Note 25(c))*	(38)	(75)	(536)	(649)
End of year	543	2,213	1,779	4,535
Accumulated depreciation				
Beginning of year	362	1,626	616	2,604
Charge for the year	143	471	402	1,016
Disposals	(97)	(178)	(42)	(317)
Disposal of subsidiaries *(Note 25(c))*	(14)	(34)	(131)	(179)
End of year	394	1,885	845	3,124
Net book value				
End of year	149	328	934	1,411
Beginning of year	289	789	1,844	2,922

12. Website development costs

Movements were:

	Consolidated 2005 HK$'000	Consolidated 2004 HK$'000
Cost		
Beginning of year	33,364	33,347
Additions	5	17
End of year	33,369	33,364
Accumulated amortisation and impairment		
Beginning of year	33,321	32,429
Amortisation for the year	27	892
End of year	33,348	33,321
Net book value		
End of year	21	43
Beginning of year	43	918

13. Investments

	Consolidated 2005 HK$'000	Consolidated 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Long-term investment				
Listed shares in Hong Kong *(i)*				
At cost	—	22,550	—	22,550
Change in fair value	—	(20,414)	—	(20,414)
At quoted market value	—	2,136	—	2,136
Unlisted investments, at cost *(ii)*	780	—	—	—
	780	2,136	—	2,136
Short-term investment				
Unlisted investments *(iii)*				
At cost	—	25,925	—	—
Accumulated impairment loss	—	(2,525)	—	—
	—	23,400	—	—

Notes:

(i) Investment in listed shares represented investment in shares in AcrossAsia Limited (formerly known as AcrossAsia Multimedia Limited), a company incorporated in the Cayman Islands and whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. During the year ended 31st March 2005, the Group disposed of its entire investment in AcrossAsia Limited for a consideration of approximately HK$1,942,000 and recognised a loss of approximately HK$194,000.

(ii) Unlisted investment represents a 10% interest in Foshan Nanhai STS Metal Co., Ltd., a joint venture enterprise established in Mainland China. Foshan Nanhai STS Metal Co., Ltd., is principally engaged in manufacturing, processing and trading of cold rolled stainless steel. The Company's directors and the Group's management consider the cost approximates the fair value of this investment at 31st March 2005.

(iii) Investment in unlisted shares represented a 3.5% equity interest in Stemcor Holdings Limited ("Stemcor"), a company incorporated in the United Kingdom, which is principally engaged in the trading of steel products and the provision of specialist services to the steel and metals industries. During the year ended 31st March 2005, the Group exercised its put option to sell back its entire equity interest to Stemcor for approximately HK$24,505,000 and recognised a gain of approximately HK$1,105,000.

14. Investments in subsidiaries

	Company	
	2005	**2004**
	HK$'000	*HK$'000*
Unlisted shares, at cost	3,500	3,500
Due from subsidiaries	135,876	130,132
	139,376	133,632
Less: Accumulated impairment losses	(139,375)	(133,631)
	1	1

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March 2005.

Details of the subsidiaries as at 31st March 2005 were:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity attributable to the Group *(i)*	Principal activities
Chongqing iSteelAsia Trading Company Limited *(ii)*	Mainland China	US$60,000	100%	Trading of steel
Greater China Metal Limited	British Virgin Islands	US$1	100%	Investment holding
i-AsiaB2B Group Limited *(i)*	British Virgin Islands	US$1	100%	Investment holding
ISA (China) Investment Limited	British Virgin Islands	US$1	100%	Investment holding
ISA Group Holdings Limited	British Virgin Islands	US$10,000	100%	Investment holding
iSteel Holdings (B.V.I.) Limited	British Virgin Islands	US$1	100%	Investment holding
iSteel (MT) Holdings Limited	British Virgin Islands	US$1	100%	Investment holding
iSteelAsia (Hong Kong) Limited	Hong Kong	HK$2	100%	Operation of an e-commerce vertical portal business for online steel trading
iSteelAsia Limited	British Virgin Islands	US$10	100%	Operation of an e-commerce vertical portal business for online steel trading
iSteelAsia Logistics Macao Commercial Offshore Company Limited	Macau	MOP100,000	100%	Trading of steel
ISA (South China) Company Limited *(ii)*	Mainland China	US$200,000	100%	Trading of steel
iSteelAsia (Stemcor) Holdings Limited	British Virgin Islands	US$1	100%	Investment holding
MetalAsia Holdings Limited	British Virgin Islands	US$2,000	100%	Investment holding

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity attributable to the Group *(i)*	Principal activities
Metal Logistics Company Limited	Hong Kong	HK$4	100%	Trading of steel and provision of procurement services
Shanghai iSteelAsia International Limited *(ii)*	Mainland China	US$200,000	100%	Trading of steel
Shenzhen iSteelAsia Trading Company Limited *(ii)*	Mainland China	HK$2,000,000	100%	Trading of steel
Tianjin iSteelAsia International Limited *(ii)*	Mainland China	US$200,000	100%	Trading of steel
Ya Gang Wang Co. Limited	British Virgin Islands	US$1	100%	Investment holding
Yu Tai Steel (Shanghai) Co. Ltd. *(ii)*	Mainland China	US$200,000	100%	Trading of steel

Notes:

(i) The shares of i-AsiaB2B Group Limited are held directly by the Company. The shares of the other subsidiaries are held indirectly.

(ii) These are wholly foreign owned enterprises established in Mainland China to operate for periods ranging from 10 to 50 years up to 2011 to 2052.

15. Inventories

Inventories consisted of rolled flat steel products for trading purposes. As at 31st March 2005, inventories of approximately HK$22,499,000 (2004: HK$7,329,000) were stated at net realisable value.

Certain inventories were held under trust receipts bank loans *(Note 30)*.

16. Accounts and bills receivable

The Group generally requires sales to be settled by cash upon delivery, with some limited cases granting a credit period of not more than 30 to 90 days. Ageing analysis of accounts and bills receivable was as follows:

	Consolidated	
	2005	**2004**
	HK$'000	*HK$'000*
0 to 90 days	3,959	29,869
91 to 180 days	3	1,376
181 to 270 days	15	497
271 to 365 days	—	—
Over 365 days	478	2
	4,455	31,744
Less: Provision for bad and doubtful receivables	(478)	(551)
	3,977	31,193

17. Cash and bank deposits

As at 31st March 2005, bank deposits of the Group and the Company of approximately HK$16,080,000 (2004: HK$34,439,000) and HK$13,049,000 (2004: HK$13,645,000), respectively, were pledged as collateral for the Group's banking facilities respectively *(Note 30)*.

As at 31st March 2005, cash and bank deposits of the Group of approximately HK$11,701,000 (2004: HK$42,448,000) were denominated in Chinese Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

18. Short-term bank borrowings

	Consolidated	
	2005	**2004**
	HK$'000	*HK$'000*
Trust receipts bank loans	2,625	26,856
Short-term bank loans	21,735	24,570
	24,360	51,426

Details of the Group's banking facilities are set out in Note 30.

All of the short-term bank loans were denominated in Chinese Renminbi.

19. Accounts and bills payable

Ageing analysis of accounts and bills payable was as follows:

	Consolidated	
	2005	**2004**
	HK$'000	*HK$'000*
0 to 90 days	18,272	86,032
91 to 180 days	93,467	36,927
181 to 270 days	8,079	56,354
271 to 365 days	—	61,534
1 to 2 years	1,200	43,598
	121,018	284,445

20. Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on the deferred tax assets, arising primarily from cumulative tax losses, is as follows:

	Consolidated	
	2005	**2004**
	HK$'000	*HK$'000*
Beginning of year	4,483	—
Deferred taxation (charged)/credited to profit and loss account	(4,483)	4,483
End of year	—	4,483

As at 31st March 2005, the Group had an unprovided deferred tax assets of approximately HK$22,734,000 (2004: HK$15,679,000), primarily representing the tax effect of cumulative tax losses (subject to agreement by relevant tax authorities) which can be carried forward indefinitely.

21. Share capital

Movements were:

	2005		2004	
	Number of shares	**Nominal value**	**Number of shares**	**Nominal value**
	'000	*HK$'000*	*'000*	*HK$'000*
Authorised (Ordinary shares of HK$0.10 each)	4,000,000	400,000	4,000,000	400,000
Issued and fully paid (Ordinary shares of HK$0.10 each):				
Beginning of year	1,596,384	159,638	1,564,503	156,450
Issue of shares upon exercise of warrants *(Note 22)*	206	21	681	68
Issue of shares for settlement of payables	—	—	31,200	3,120
End of year	1,596,590	159,659	1,596,384	159,638

22. Warrants

Movements were:

			Number of warrants		
Date of issue	**Exercise period**	**Subscription price per share**	**Beginning of year**	**Exercised**	**End of year**
		HK$	*'000*	*'000*	*'000*
23rd May 2002	18th June 2002 to 17th June 2005	0.10	312,216	(206)	312,010

On 23rd May 2002, the Company issued approximately 312,900,000 warrants to its shareholders on the basis of one warrant for every five ordinary shares of the Company at no charge. The warrants entitle the holders to subscribe in cash for ordinary shares of HK$0.10 each in the Company at a subscription price of HK$0.10 each (subject to adjustment) and are exercisable between 18th June 2002 to 17th June 2005. During the year ended 31st March 2005, 206,000 warrants (2004: 681,000 warrants) were exercised to subscribe for 206,000 shares (2004: 681,000 shares) of the Company at a consideration of approximately HK$21,000 (2004: HK$68,000).

23. Share options

The Company has a share option scheme ("the New Scheme") under which it may grant options to any person being an employee, agent, consultant or representative (including executive directors and non-executive directors) of the Group to subscribe for shares in the Company, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The exercise price will be determined by the Company's Board of Directors and shall be the highest of (i) the closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited on the date of grant of the options; (ii) the average closing prices of the Company's shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of the Company's shares of HK$0.10 each. The New Scheme was adopted to replace an old scheme, with all options granted under the old scheme continue to be exercisable in accordance with the old terms.

Movements of share options were:

		Subscription	Number of share options		
		price per	Beginning		
Date of grant	**Exercise period**	**share**	**of year**	**Lapsed**	**End of year**
		HK$	*'000*	*'000*	*'000*
3rd July 2000	1st October 2002 to 12th April 2010	0.360	19,850	(7,500)	12,350
7th November 2000	8th November 2002 to 12th April 2010	0.485	55,400	(13,000)	42,400
			75,250	(20,500)	54,750

24. Reserves

	Consolidated					
	Share premium	**Capital reserve**	**Investment revaluation reserve**	**Cumulative foreign currency translation adjustments**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st April 2003	11,099	2,700	(21,865)	153	(135,186)	(143,099)
Loss attributable to shareholders	—	—	—	—	(25,711)	(25,711)
Change in fair value of a long-term investment	—	—	1,451	—	—	1,451
Investment revaluation reserve transferred to profit and loss account upon recognition of impairment loss of a long-term investment	—	—	20,414	—	—	20,414
Translation adjustments	—	—	—	(48)	—	(48)
As at 31st March 2004	11,099	2,700	—	105	(160,897)	(146,993)
Loss attributable to shareholders	—	—	—	—	(10,443)	(10,443)
Change in fair value of a long-term investment	—	—	548	—	—	548
Realised upon disposal of a long-term investment	—	—	(548)	—	—	(548)
Translation adjustments	—	—	—	(86)	—	(86)
As at 31st March 2005	11,099	2,700	—	19	(171,340)	(157,522)

	Company			
	Share premium	**Investment revaluation reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1st April 2003	11,099	(21,865)	(141,013)	(151,779)
Loss attributable to shareholders	—	—	(14,680)	(14,680)
Change in fair value of a long-term investment	—	1,451	—	1,451
Investment revaluation reserve transferred to profit and loss account upon recognition of impairment loss of a long-term investment	—	20,414	—	20,414
As at 31st March 2004	11,099	—	(155,693)	(144,594)
Loss attributable to shareholders	—	—	(5,951)	(5,951)
Change in fair value of a long-term investment	—	548	—	548
Realised upon disposal of a long-term investment	—	(548)	—	(548)
As at 31st March 2005	11,099	—	(161,644)	(150,545)

25. Notes to the consolidated cash flow statement

(a) Reconciliation of loss before taxation to net cash (outflow)/inflow generated from operations was as follows:

	Note	2005 HK$'000	2004 HK$'000
Loss before taxation		(4,497)	(25,042)
Interest income		(580)	(657)
Interest expense		5,056	7,922
Dividend income		(659)	(421)
Depreciation of fixed assets		1,016	1,069
Loss on disposal of fixed assets		87	118
Amortisation of website development costs		27	892
Loss on disposal of subsidiaries, net	*25(c)*	63	—
Gain on disposal of investments, net		(911)	—
Impairment loss of an investment		—	20,414
Operating (loss)/profit before working capital changes		(398)	4,295
Decrease in inventories		35,850	24,147
Decrease in prepayments, deposits and other receivables		5,877	6,624
Decrease/(increase) in deposits for purchase of inventories		5,749	(40,089)
Decrease in accounts and bills receivable		23,914	6,232
(Decrease)/increase in accounts and bills payable		(148,697)	52,442
Increase in other payables		10,343	19
Increase in accruals		4,018	210
Increase in receipts in advance		11,182	1,674
Net cash (outflow)/inflow generated from operations		(52,162)	55,554

(b) Analysis of changes in financing was as follows:

	Share capital and share premium HK$'000	Short-term bank borrowings HK$'000
As at 1st April 2003	167,549	57,134
Issue of shares upon exercise of warrants *(Note 21)*	68	—
Issue of shares for settlement of payables *(Note 21)*	3,120	—
New short-term bank loans	—	68,480
Repayment of short-term bank loans	—	(62,857)
Net decrease in trust receipts bank loans	—	(11,331)
As at 31st March 2004	170,737	51,426
Issue of shares upon exercise of warrants *(Note 21)*	21	—
New short-term bank loans	—	6,615
Repayment of short-term bank loans	—	(9,450)
Net decrease in trust receipts bank loans	—	(24,231)
As at 31st March 2005	170,758	24,360

(c) Disposal of subsidiaries:

Details of disposal of subsidiaries were as follows:

	Note	2005 HK$'000	2004 HK$'000
Net assets disposed of			
Fixed assets		470	—
Inventories		296	—
Deposits for purchase of inventories		56,185	—
Prepayments, deposits and other receivables		501	—
Accounts and bills receivable		3,302	—
Cash and other bank deposits		2,890	—
Accounts and bills payable		(14,730)	—
Other payables		(9,053)	—
Accruals		(466)	—
Receipts in advance		(35,991)	—
Taxation payable		(311)	—
Net assets		3,093	—
Total consideration		3,030	—
Loss on disposal, net	*25(a)*	63	—
Satisfied by:			
Other receivables *(i)*		1,536	—
Cash		1,494	—
		3,030	—

Note:

(i) The outstanding purchase consideration was included as other receivables as at 31st March 2005, and was settled subsequently.

	2005	**2004**
	HK$'000	*HK$'000*
Analysis of net cash inflow in respect of disposal of subsidiaries		
Cash consideration received	1,494	—
Less: Cash and cash equivalents disposed of	(2,890)	—
Proceeds from disposal of subsidiaries, net of cash disposed of	(1,396)	—

For the year ended 31st March 2005, the disposed subsidiaries contributed approximately HK$192,336,000 (2004: HK$382,277,000) of turnover and approximately HK$5,176,000 (2004: HK$5,658,000) of loss attributable to shareholders of the Group.

(d) Cash and cash equivalents:

Cash and cash equivalents represent cash and other bank deposits of approximately HK$13,263,000 as at 31st March 2005 (2004: HK$55,433,000).

26. Segment information

(a) Primary segment

The Group is organised into three major business segments — steel trading, procurement services and investment holding. The steel trading business segment derives revenue from the sale of goods. The procurement services business segment derives commission income from procurement and online steel trading services. The investment holding business segment derives revenue from dividend income. Analysis by business segment is as follows:

	2005			
	Steel trading	**Procurement services**	**Investment holding**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — Sales to external customers	854,564	5,121	—	859,685
Segment results	(1,654)	604	(62)	(1,112)
Other revenue	578	—	661	1,239
Gain on disposal of investments, net	—	—	911	911
Loss on disposal of subsidiaries, net	(63)	—	—	(63)
Unallocated corporate expenses				(416)
Operating profit				559
Finance costs				(5,056)
Taxation				(5,946)
Loss after taxation but before minority interests				(10,443)
Assets				
Segment assets	164,155	353	780	165,288
Unallocated assets				460
				165,748
Liabilities				
Segment liabilities	(163,235)	—	(71)	(163,306)
Unallocated liabilities				(305)
				(163,611)
Capital expenditure	191	5	780	976
Depreciation and amortisation	1,016	27	—	1,043

	2004			
	Steel trading	**Procurement services**	**Investment holding**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — Sales to external customers	1,416,236	13,207	—	1,429,443
Segment results	(2,667)	5,757	(52)	3,038
Other revenue	657	—	421	1,078
Impairment loss of a long-term investment	—	—	(20,414)	(20,414)
Unallocated corporate expenses				(822)
Operating loss				(17,120)
Finance costs				(7,922)
Taxation				(889)
Loss after taxation but before minority interests				(25,931)
Assets				
Segment assets	360,392	859	25,536	386,787
Unallocated assets				400
				387,187
Liabilities				
Segment liabilities	(373,448)	(16)	(50)	(373,514)
Unallocated liabilities				(1,028)
				(374,542)
Capital expenditure	1,021	17	—	1,038
Depreciation and amortisation	1,069	892	—	1,961

(b) ***Secondary segment***

The Group's activities are conducted predominantly in Hong Kong and Mainland China. Turnover by geographical segments is determined on the basis of the destination of shipment of goods for steel trading, location of service performed for procurement services, location of sellers for online commission income, and location of the short-term/long-term investments for dividend income. Analysis by geographical segment is as follows:

	2005			
	Hong Kong	**Mainland China**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — Sales to external customers	15,280	844,405	—	859,685
Segment results	(586)	4,162	(2,601)	975
Unallocated corporate expenses				(416)
Operating profit				559
Assets	1,891	163,373	484	165,748
Capital expenditure	61	910	5	976

	2004			
	Hong Kong	**Mainland China**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover — Sales to external customers	39,029	1,390,414	—	1,429,443
Segment results	(21,072)	11,678	(6,904)	(16,298)
Unallocated corporate expenses				(822)
Operating loss				(17,120)
Assets	49,393	311,808	25,986	387,187
Capital expenditure	260	759	19	1,038

27. Pension schemes

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme generally at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employer and employees are subject to a cap of HK$1,000 and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The employees contribute approximately 6% to 20% of their basic salaries, while the Group contributes approximately 14% to 22.5% of such salaries and has no further obligations for the actual payment of pensions or post-retirement benefits beyond these contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended 31st March 2005, the aggregate amount of the Group's contributions to the aforementioned schemes was approximately HK$231,000 (2004: HK$300,000).

28. Operating lease commitments

Total commitments payable under various non-cancellable operating agreements in respect of rented premises are analysed as follows:

	Consolidated	
	2005	**2004**
	HK$'000	*HK$'000*
Amounts payable		
— Not later than one year	705	683
— Later than one year and not later than five years	322	572
	1,027	1,255

29. Contingent liabilities

As at 31st March 2005, the Company had provided guarantees of approximately HK$88,725,000 (2004: HK$146,545,000) to banks in respect of the banking facilities granted to its subsidiaries *(Note 30)*. The Company's Directors and the Group's management anticipate that no material liabilities will arise from such guarantees which arose in the ordinary course of business.

30. Banking facilities

As at 31st March 2005, the Group had aggregate banking facilities of approximately HK$88,125,000 (2004: HK$159,155,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK$63,765,000 (2004: HK$69,691,000). These facilities were secured by:

(i) pledge of the Group's and the Company's bank deposits of approximately HK$16,080,000 (2004: HK$34,439,000) and HK$13,049,000 (2004: HK$13,645,000), respectively *(Note 17)*;

(ii) inventories held under trust receipts bank loan arrangements *(Note 15)*; and

(iii) guarantees provided by the Company *(Note 29)*.

31. Subsequent events

Subsequent to year end, on 19th May 2005, the Company's Board announced that it would put forward to the Company's shareholders to approve, subject to conditions, the following items at an upcoming special general meeting:

(i) A capital reorganisation, including the following:

- consolidate the Company's every 100 ordinary shares of HK$0.10 each into one consolidated share of HK$10.0 and thereafter reduce the Company's issued share capital by way of cancellation of the paid-up capital to the extent of HK$9.99 on each issued consolidated share such that the par value of all the issued consolidated shares would be reduced from HK$10.0 each to HK$0.01 each;

- increase in the Company's authorised share capital back to its original amount of HK$400,000,000, by the creation of additional new ordinary share of HK$0.01 each; and

- cancel the Company's entire share premium reserve of approximately HK$11.1 million.

The credits arising from the aforementioned capital reduction of approximately HK$159.5 million and from the cancellation of the share premium reserve of approximately HK$11.1 million, totalling approximately HK$170.6 million, would be transferred to the Company's contributed surplus account which will be used to set off against the Company's accumulated losses which amounted to approximately HK$161.6 million as at 31st March 2005.

(ii) An offer to existing shareholders to subscribe new shares of HK$0.01 each at a subscription price of HK$0.1566 each, on the basis of one new share for holder of one share after the aforementioned capital reorganisation. The Company would raise an aggregate sum of approximately HK$2.5 million. Such an offer is underwritten by Van Shung Chong (B.V.I.) Limited, a substantial shareholder holding approximately 18.9% of the Company's equity interest at 31st March 2005.

(iii) Issue an aggregate of 63,856,960 shares of HK$0.01 each, after the aforementioned capital reorganisation, to third parties (North Asia Strategic Acquisition Corp. and Mr. Moses Kwok Tai Tsang) at a subscription price of HK$0.1566 each, raising a total of approximately HK$10.0 million.

(iv) Issue convertible and redeemable bonds to third parties (North Asia Strategic Acquisition Corp. and Mr. Moses Kwok Tai Tsang) at face value of HK$20.0 million. These bonds are non-interest bearing and can be converted into the Company's ordinary shares of HK$0.01 each at an initial conversion price of HK$0.1566 each (subject to adjustments) at any time, or have the right to request the Company to redeem the whole or in part of the outstanding bonds from December 2007 to the date which is five years after the date of issue.

(v) The Company's name will be changed to North Asia Strategic Holdings Limited.

32. Approval of accounts

The accounts were approved by the board of directors on 9th June 2005."

3. UNAUDITED CONSOLIDATED FIRST QUARTER FINANCIAL STATEMENTS

Set out below is the unaudited first quarter results of the Group for the three months ended 30th June 2005 as extracted from pages 3 to 8 of the first quarterly report of the Company. References to page numbers in this section are to the page numbers of such first quarterly report.

“Results

		For the three months ended 30th June	
		2005	**2004**
	Note	*HK$'000*	*HK$'000*
Turnover	*3*		
— Sales		97,981	236,288
— Commission		943	1,299
Cost of sales		(96,597)	(232,475)
Gross profit		2,327	5,112
Other revenue	*4*	3,065	553
Selling and distribution expenses		(932)	(2,274)
General and administrative expenses		(3,059)	(4,603)
Operating profit/(loss)		1,401	(1,212)
Finance costs		(1,138)	(1,340)
Profit/(Loss) before taxation		263	(2,552)
Taxation	*5*	(213)	43
Profit/(Loss) for the period		50	(2,509)
Attributable to:			
Equity holders of the Company		50	(2,536)
Minority interests		—	27
		50	(2,509)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company — Basic	*6*	HK0.003 cents	HK(0.159) cents

Notes:

1. Basis of preparation

The unaudited condensed consolidated accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These unaudited condensed consolidated accounts should be read in conjunction with the 2005 annual accounts.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated accounts are consistent with those used in the annual accounts for the year ended 31st March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

These unaudited condensed consolidated accounts have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31st March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these unaudited condensed consolidated accounts.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. Changes in accounting policies

Effect of adopting new HKFRS

In the three months ended 30th June 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 32, 33, 36, 38 and 39 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest and other disclosures.

— HKASs 2, 7, 8, 10, 16, 17, 23, 27, 33, 36 and 38 and HKFRS 3 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

— The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss.

— The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payments. In prior years, the provision of share options to employees did not result in an expense in the profit and loss account. The transitional provision of HKFRS 2 requires the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 should be expensed retrospectively in the profit and loss account of the respective periods. However, as no share options have been granted since 7th November 2002, the provision of HKFRS 2 is not applicable to the Group's outstanding options as at 30th June 2005.

3. Turnover

Turnover represents (i) the net invoiced value of merchandise sold after allowances for returns and discounts and (ii) commission from procurement and online steel trading services.

4. Other revenue

Other revenue for the three months ended 30th June 2005 mainly represents a write-back of provision for customer's claims made in last year.

5. Taxation

Taxation consisted of:

	For the three months ended 30th June	
	2005	**2004**
	HK$'000	*HK$'000*
Mainland China enterprise income tax:		
— Current taxation	213	136
— Tax refund	—	(179)
	213	(43)

The Company is exempted from taxation in Bermuda until 2016. No provision for Hong Kong profits tax has been provided as the Group had no assessable profit during the three months ended 30th June 2005 (2004: Nil). Subsidiaries established in Mainland China are subject to Mainland China enterprise income tax at rates ranging from 15% to 33% (2004: 15% to 33%).

6. Earnings/(Loss) per share

The basic earnings/(loss) per share for three months ended 30th June 2005 was calculated based on the unaudited consolidated profit attributable to shareholders of approximately HK$50,000 (2004: loss of approximately HK$2,536,000) and on the weighted average number of 1,596,692,713 (2004: 1,596,388,429) shares and in issue during the three months ended 30th June 2005.

No diluted earnings/(loss) per share is presented as the outstanding share options were anti-dilutive.

7. Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2005.

8. Movements in share capital and reserves

For the three months ended 30th June 2005, movements in share capital and reserves are as follows:

	2005					
	Share capital	**Reserves**				
		Share premium	**Capital reserve**	**Cumulative foreign currency translation adjustments**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st April 2005	159,659	11,099	2,700	19	(171,340)	(157,522)
Profit attributable to shareholders	—	—	—	—	50	50
Issue of shares upon exercise of warrants	30	—	—	—	—	—
Balance at 30th June 2005	159,689	11,099	2,700	19	(171,290)	(157,472)

For the three months ended 30th June 2004, movements in share capital and reserves are as follows:

	2004						
	Share capital	Reserves					
		Share premium	Capital reserve	Investment revaluation reserve	Cumulative foreign currency translation adjustments	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st April 2004	159,638	11,099	2,700	—	105	(160,897)	(146,993)
Change in fair value of a long-term investment	—	—	—	377	—	—	377
Loss attributable to shareholders	—	—	—	—	—	(2,536)	(2,536)
Issue of shares upon exercise of warrants	1	—	—	—	—	—	—
Balance at 30th June 2004	159,639	11,099	2,700	377	105	(163,433)	(149,152)

9. Subsequent events

Subsequent to 30th June 2005 on 14th July 2005, the Company approved the following transactions at its special general meeting:

(i) A capital reorganisation, including the following:

- consolidate the Company's every 100 ordinary shares of HK$0.10 each into one consolidated share of HK$10.0 and thereafter reduce the Company's issued share capital by way of cancellation of the paid-up capital to the extent of HK$9.99 on each issued consolidated share such that the par value of all the issued consolidated shares would be reduced from HK$10.0 each to HK$0.01 each;

- increase in the Company's authorised share capital back to its original amount of HK$400,000,000, by the creation of additional new ordinary share of HK$0.01 each; and

- cancel the Company's entire share premium reserve of approximately HK$11.1 million.

The credits arising from the aforementioned capital reduction of approximately HK$159.5 million and from the cancellation of the share premium reserve of approximately HK$11.1 million, totalling approximately HK$170.6 million, would be transferred to the Company's contributed surplus account which will be used to set off against the Company's accumulated losses which amounted to approximately HK$161.6 million as at 31st March 2005.

(ii) An offer to shareholders to subscribe new shares of HK$0.01 each at a subscription price of HK$0.1566 each, on the basis of one new share for holder of one share after the aforementioned capital reorganisation. The Company would raise an aggregate sum of approximately HK$2.5 million. Such an offer is underwritten by Van Shung Chong (B.V.I.) Limited, a substantial shareholder holding approximately 18.9% of the Company's equity interest at 31st March 2005.

(iii) Issue an aggregate of 63,856,960 shares of HK$0.01 each, after the aforementioned capital reorganisation, to third parties (North Asia Strategic Acquisition Corp. and Mr. Tsang Moses Kwok Tai) at a subscription price of HK$0.1566 each, raising a total of approximately HK$10.0 million.

(iv) Issue convertible and redeemable bonds to third parties (North Asia Strategic Acquisition Corp. and Mr. Tsang Moses Kwok Tai) at face value of HK$20.0 million. These bonds are non-interest bearing and can be converted into the Company's ordinary shares of HK$0.01 each at an initial conversion price of HK$0.1566 each (subject to adjustments) at any time. Holders of these bonds also have the right to request the Company to redeem in whole or in part of the outstanding bonds on a date which is 5 business days after 30th November 2007. Unless previously converted or redeemed, the outstanding principal amount of the bonds will be redeemed by the Company at par on the date which is 5 years after the date of issue or such later dates as may be agreed between the holders of the bonds and the Company.

The effective date of the capital reorganisation was on 15th July 2005 and the other transactions above were completed on 8th August 2005."

4. STATEMENT OF INDEBTEDNESS

(a) Borrowings

As at the close of business on 31st July 2005, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding short-term bank borrowings of approximately HK$21,735,000. These loans were denominated in Renminbi and bore interest at rates ranging from approximately 5.5% to 6% per annum.

(b) Collaterals

The borrowings were secured by:

(i) pledge of the Enlarged Group's bank deposits of approximately HK$28,761,000;

(ii) inventories held under trust receipts bank loan arrangements; and

(iii) guarantees provided by the Company.

As at 31st July 2005, the Enlarged Group also pledged its bank deposit of approximately HK$3,524,000 to secure general banking facilities granted by a bank to a related company. The pledge on the deposit will be discharged before Completion.

(c) Contingent liabilities

As at 31st July 2005, the Enlarged Group had no material contingent liabilities.

(d) Disclaimer

Save as disclosed in the preceding paragraph and apart from intra-group liabilities, at the close of business on 31st July 2005, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Enlarged Group since 31st July 2005.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st March 2005, the date to which the latest audited consolidated financial statements of the Group were made up.

6. WORKING CAPITAL

Taking into account the Enlarged Group's internal resources, presently available banking and other facilities and the proposed borrowings from the independent financial institutions for financing the Acquisition and in the absence of the unforeseen circumstances, the Directors are of the opinion that the Enlarged Group shall have sufficient working capital for a period of twelve months from the date of this circular.

7. MANAGEMENT DISCUSSION AND ANALYSIS OF THE OPERATING RESULTS OF THE GROUP

For the year ended 31st March 2003

For the year ended 31st March 2003, profit attributable to Shareholders was approximately HK$6,590,000. In a year of uncertainty in both the global and local economies, the result was a remarkable improvement compared to the net loss of approximately HK$17,340,000 for the previous year ended 31st March 2002.

Since the listing of the Company on GEM of the Stock Exchange 3 years ago, the global business environment has been adversely affected by a number of significant events, namely the bursting of the dot-com bubble, the tragic 9-11 event, and the subsequent collapse of a few large corporations in the United States of America owing to the questionable integrity of the management and its advisers. More recently, the Gulf conflict, and the disaster in the form of the SARS epidemic have further contributed to this protracted worldwide recession. The capital markets globally have spiraled downwards over the last few years in response to these events and the ensuing recession.

The management has continued to evaluate the dynamism of the operating environment in order to carve a niche market and has sought to identify the growth opportunities within the steel industry. With PRC's accession to the World Trade Organisation ("WTO") in December 2001, Beijing's winning the right to host the 2008 Olympic Games and Shanghai's winning the right to host the 2010 World Expo, the PRC is expected to be a key growth engine to the world's economy. In the past 2 years, the management has redeployed and refocused its resources from an "online trading platform" to a "value-added distribution operation" catering and providing value enhancements to the customers in this emerging market. The turnaround in the Company's performance is a positive testimony of this strategy.

Financial and operational review

For the year ended 31st March 2003, the Group recorded a turnover of approximately HK$811 million, representing an 89.4% increase in turnover over the previous year ended 31st March 2002. This is the 2nd consecutive year that the Group has achieved almost 100% growth in annual turnover. The growth is attributable to the fruitage of a very professional sales infrastructure developed and continuously enhanced in the past 2 years. During the past years, the Group has expanded continuously its sales distribution network in the PRC with coverage in strategic cities like Beijing, Shanghai, Guangzhou, Tianjin, Shenzhen and Chongqing. These cities are highly populated and developed with the highest average annual income per capita in PRC. These factors translate into high demands for household appliances, estate properties and infrastructure construction, which are the key driving forces for steel consumptions. As a result, the Group is able to tap these market opportunities and increase the returns to the Shareholders.

For the year ended 31st March 2003, profit attributable to Shareholders was approximately HK$6,590,000, reflecting a successful deployment/refocus strategy adopted by the Group in the past year. The total cost excluding cost of inventories sold and finance cost (the "Operating Cost") was approximately HK$33,729,000 (2002: HK$35,498,000) which had slightly improved by comparing the Operating Cost incurred for the previous year ended 31st March 2002. However, during the year ended 31st March 2003, the Group has expanded to establish 4 more sales offices covering Guangzhou, Tianjin, Shenzhen and Chongqing. Headcount has been increased from 52 to 83. The Group is encouraged by its effectiveness towards cost control and will continue to expand the current steel trading network by optimising its cost structure with the goal to further increase the operational effectiveness through economies of scale. Although the Group's key products are steel and steel related materials, the SARS outbreak in PRC, especially in and around the Beijing/Tianjin areas did have an adverse effect on the business of the Group. For the months of January to March 2003, business activities in the North Eastern China especially around the Beijing region almost came to a grinding halt firstly due to the cold harsh winter weather conditions and secondly the SARS outbreak. As such, the demands and business volumes for the Beijing and Tainjin offices were exceptionally low. However, as a team with concerted efforts, other offices within the Company network were able to continue to expand their businesses to absorb some of the slack inventories from the Beijing and Tianjin offices. As compared to the first three quarters of this financial year, turnover in the fourth quarter amounted to approximately HK$294 million, or an increase of 56.7% from the first 3 quarters. However due to the reshipment of inventories to other offices, cumulative gross margin decreased to a less desirable level Q1-8.2%, Q2-7.5%, Q3-5.3%, and Q4-3.7%. The management is pleased with the various offices' ability to unite for the Group as a whole, and together continue to grow the business, thus reaffirming the management's belief of devoted employees providing quality value-added services to selective loyal customers. Although the SARS outbreak in the Beijing and Tianjin regions appears to be over the peak, and business is slowly coming back to normal, and prices are starting to increase again due to the quota system for certain steel products in the PRC, the management continues to take a prudent approach by writing down the cost of certain inventories as at 31st March 2003 by approximately HK$3.9 million.

It is obvious that PRC has the potential but at the same time it also carries a high degree of business risk. The bad debt and lack of "an acceptable attitude towards professionalism" are all problems in PRC that are very real and at times severely detrimental to business operations. Hopefully, the continuous restructuring/reforms that have been carried out by the PRC Central Government will address these problems. The management has therefore adopted a very conservative approach in its dealings with its PRC customers. Sales were mainly conducted with payment terms of cash on delivery ("COD") with advanced deposits. Credit was only granted to customers with sound financial backings and whom the Group already has long history business relationships. This stringent approach is a result of the Group's effort spent on product positioning —

i.e. of the over 3,000 types of steel products, the Company focuses on only a few that it can genuinely differentiate from the mass market in terms of specification, quality, availability, and customer base.

At the same time, on the customer front, the Group has adopted a very selective and direct approach (middlemen are seldom used) strategy, focusing on one of the fastest growing business sectors — small to medium domestic enterprises. These companies are considered as the most competitive and the growth engine of the PRC in the future. The Group is selling its total solution package to these customers, providing logistics arrangement, steel industry information, warehousing services and allowing these companies to achieve “0” inventory.

The Group continued to strive for its stated mission to become the dominant steel trading network and be one of the most efficient, cost effective distributors and value-added service providers throughout the entire metal ecosystem in Asia especially in the PRC.

During the period under review, the actual business progress of the Group was generally in line with the business objectives as previously stated in the prospectus dated 14th April 2000 and the Group continued to enjoy a reputation representing quality and value-added provision through its persistent marketing efforts. As stated in the Group’s business objectives, the goal of the traditional trading operation is to serve customers who are not ready for an online trading platform or those who have special requirements that require a high degree of personal assistance. The Group believed that the traditional trading operation has helped to expand the export market for the PRC’s steel mills by actively marketing through its network and also made available imported quality flat steel at competitive prices to the domestic PRC end users. The Group has and will continue to organise technical seminars for the PRC steel industry especially in the introduction of Western technologies. During the period under review, the Group has successfully expanded its customer base in other parts of the PRC outside Southern China region. Although the market sentiment towards the Internet has not been very positive, we will continue to revamp/enhance our website to be on the leading edge of technology and strive to offer quality services in the most cost efficient way. The Group continued to fulfill its business objectives with the aim to provide value-added services to the steel industry participants.

The Group believed that the tremendous values brought on by the Internet cannot be ignored. Although the development of the Internet industry is much slower than expected, and the current focus of the Company’s efforts is mainly on the development of a first class distribution network as mentioned in its prospectus (the “Traditional Trading Operation”), the Group continues to maintain its presence in the “B2B” arena by providing online services to customers. During the year ended 31st March 2003, the Group’s revenue directly derived from online steel trading business was minimal. However, as a tool used by the Group, the values of the platform provided to our traditional steel trading operation were enormous. The platform enabled the Group to develop a more accurate customers' need profile which allowed the Group to offer more effective services to its customers. In addition, the platform helped build community for the steel industry participants by using it as a means to exchange steel market and industry information.

Financial resources and liquidity

As at 31st March 2003, the Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK$57,134,000 (2002: HK$64,335,000). The short-term working capital bank loans amounted to approximately HK$18,947,000 (2002: HK$11,580,000) with interest rates ranging from 5.0% to 5.8% per annum (2002: 4.4% to 5.8% per annum). As at 31st March 2003, the gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 4.28 (2002: 6.39). The decrease in the gearing ratio was mainly due to continual improvement in the business operations, thus increasing the Shareholders' equity as at 31st March 2003. As at 31st March 2003, the Group had aggregated banking facilities of approximately HK$122,540,000 (2002: HK$91,180,000) derived mainly from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK$37,131,000 (2002: HK$8,582,000). These facilities were secured by (a) corporate guarantees provided by the Company and/or (b) the Group's inventories held under trust receipts bank loan arrangement.

Subsequent to 31st March 2003, a PRC bank had granted the Group a revolving working capital bank loan of RMB30,000,000 secured by the corporate guarantee provided by the Company.

The Group will continue its effort to improve its financing capabilities and expand the business in a healthier and conservative manner.

Cash and cash equivalents

As at 31st March 2003, the Group's cash and bank deposits amounted to approximately HK$49,240,000 (2002: HK$49,058,000), of which approximately HK$18,960,000 was denominated in Renminbi and deposited with the banks in the PRC.

Investments

Investments comprised equity interests in Stemcor Holdings Limited ("Stemcor") and AcrossAsia Multimedia Limited ("AAM").

Under a share subscription agreement with Stemcor, Stemcor has granted the Group a put option under which the Group may require Stemcor to repurchase all of the shares subscribed by the Group for HK$23,400,000 (equivalent of US$3,000,000). The put option will be exercisable by the Group no earlier than the date on which the amount of shareholders' equity of Stemcor falls below £15,000,000 as shown in the management accounts of Stemcor from time to time or 30th April 2002, whichever is earlier, and no later than 31st October 2003. The Group intends to exercise such put option and accordingly has classified such investment as a short-term investment as at 31st March 2003.

During the year ended 31st March 2003, the Group had received dividend income of approximately HK$311,000 (2002: HK$70,000) from Stemcor. The return on investment was approximately 1.33% (2002: 0.29%). The Group will continue to explore various alternatives to increase the returns from this investment.

In August 2001, the Group acquired approximately 0.23% equity interest in AAM at a consideration of approximately HK$22,550,000 which had been satisfied in full by the issue and allotment of the Shares. As at 31st March 2003, the investment in AAM was worth approximately HK$685,000 after a deficit on revaluation of such investment of approximately HK$21,865,000. Such deficit had already been reflected in the Group's asset value. Treating it as a long-term investment, the management has and will continue to closely monitor AAM's performance, and is satisfied that AAM is a solid company, and should not produce any material value impairment to the Group's investment on a long-term basis. Nevertheless, from an operational side, the Directors believe that the acquisition is beneficial to forming a strategic relationship with a player of good connection in the region.

Foreign currency exposure

The foreign currency exposure of the Group is mainly driven by its business operations. The sales receipts are collected in Renminbi, United States dollars and Hong Kong dollars depending on the locations of the customers. On the other hand, the steel products purchases are mainly denominated in United States dollars. Therefore, with a minimal fluctuation in exchange rates between United States dollars with Renminbi and Hong Kong dollars, the Group considers the foreign currency exposure is minimal for the year under review. The Group will continue to exert efforts in managing its potential currency risk profile in the future.

Number of employees and remuneration policies

As at 31st March 2003, the Group employed 83 (2002: 52) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The Group provides on-the-job training and training subsidies to its employees in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$14,870,000 (2002: HK$17,082,000).

For the year ended 31st March 2004

Financial and Business Performance

For the year ended 31st March 2004, the Group recorded a turnover of approximately HK$1,429 million, representing a 76.2% in growth by comparing the results in last year. With an exceptional impairment loss of the investment in AcrossAsia Multimedia Limited ("AAM") of approximately HK$20,414,000 by reclassifying the amount from investment revaluation reserve (already reflected in the Group's prior years' balance sheet, as such no effect to the Group's net assets value from this reclassification) to profit and loss account, the consolidated loss attributable to Shareholders for the year ended 31st March 2004 was approximately HK$25,711,000. The investment net book value of AAM shares was HK$0.187 per share which represents the market price of AAM shares as at 31st March 2004. Taking out the effect of the impairment loss, the loss from operation was approximately HK$5,297,000. For the year under review, such operating result recorded was less than satisfactory as compared to the profit attributable to shareholders of approximately HK$6,590,000 for the previous year ended 31st March 2003. Due to the outbreak of epidemics of severe acute respiratory syndrome ("SARS") in March 2003, the first few quarterly results during the year ended 31st March 2004 had been severely affected, especially the results of three months ended 30th September 2003 ("Q2") and three months ended 31st December 2003 ("Q3"). As stated in the third quarterly report, the first six months in particular, a majority of the Company's markets (namely, Guangzhou, Tianjin and Beijing) were severely affected by the unexpected epidemics of SARS in a manner significantly worse than the management's expectation. Business activities and demands in these cities halted and dropped to near zero due to the inter-city quarantine restrictions, and in turn adversely affected the market prices and also customer demands of our steel products which increased inventory stock-up costs as customers were refrained from doing business. Fortunately, with persistent management efforts, the customers' demands and sales prices had picked up again in three months ended 31st March 2004 ("Q4") and thus, greatly improved our results in Q4. As compared to the loss of approximately HK$6,442,000 for the nine months ended 31st December 2003, the Group has successfully bucked the loss trend into a profit by capturing a profit attributable to shareholders of approximately HK$1,145,000 in Q4. During the year under review, the gross margin dropped in Q2 and rebounded in Q4 (Q1 — 2.6%, Q2 — 1.8%, Q3 — 2.6% and Q4 — 4.2%).

During the year under review, the Group had extended its sales activities by setting 2 more offices in the second tier cities such as Wuxi and Shunde (Le Chong), which enhanced the ability to grow market shares in the PRC and further diversify the existing customer bases. However, such strategy also increased the operating cost of the Group. For the year ended 31st March 2004, total cost excluding cost of inventories sold, impairment loss of AAM shares and finance costs ("Operating Cost") was approximately HK$36,573,000, representing an increase of 11.1% as compared to that of last year. The increase was mainly due to PRC market expansion and additional selling and distribution costs incurred which were necessary to support the rapid growth in turnover. Using turnover as a base factor, Operating Cost to turnover ratio had decreased from 72.1% in early 2001 and stabilised at around 2.6%, reflecting the Group's successful efforts in optimising its resources for economy of scale to achieve business growth.

Financial resources and liquidity

As at 31st March 2004, the Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK$51,426,000 (2003: HK$57,134,000). The short-term working capital bank loans amounted to approximately HK$24,570,000 (2003: HK$18,947,000) with interest rates ranging from 4.5% to 5.4% per annum (2003: 5.0% to 5.8% per annum). As at 31st March 2004, the gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 4.07 (2003: 4.28). The decrease in the gearing ratio was due to the decrease of short-term bank borrowings since the level of inventory has decreased. As at 31st March 2004, the Group had aggregate banking facilities of approximately HK$159,155,000 (2003: HK$122,540,000) offered by several banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately HK$69,691,000 (2003: HK$37,131,000). These facilities were secured by (a) pledged bank deposits of approximately HK$34,439,000 (2003: Nil); (b) corporate guarantees provided by the Company and/or (c) the Group's inventories held under trust receipts bank loan arrangement.

Subsequent to 31st March 2004, a foreign bank had granted the Group a facility of US$7.5 million.

Cash and bank deposits

As at 31st March 2004, bank deposits of approximately HK$34,439,000 (2003: Nil) were pledged as collateral for the Group's banking facilities.

As at 31st March 2004, the Group's cash and bank deposits amounted to approximately HK$89,872,000 (2003: HK$49,240,000), of which approximately HK$42,448,000 were denominated in Renminbi and deposited with the banks in the PRC.

Investments

Investments for the Group only comprised equity interests in Stemcor Holdings Limited ("Stemcor") and AAM.

Under a share subscription agreement with Stemcor, Stemcor has granted the Group a put option under which the Group may require Stemcor to repurchase all of the shares subscribed by the Group for HK$23,400,000 (equivalent to US$3,000,000). The due date for exercising the put option has been extended from 31st October 2002 to 31st October 2003 and further to 31st October 2004. On 13th May 2004, the Group exercised its put option to sell its 3.5% equity interest in Stemcor for HK$23,400,000 which was satisfied by a nine-month promissory note issued by Stemcor.

During the year ended 31st March 2004, the Group had received dividend income of approximately HK$421,000 (2003: HK$311,000) from Stemcor. The return on investment was approximately 1.80% (2003: 1.33%).

In August 2001, the Group acquired approximately 0.23% equity interest in AAM at a consideration of approximately HK$22,550,000 which had been satisfied in full by the issue and allotment of Shares. As at 31st March 2004, the carrying value of the investment in AAM was approximately HK$2,136,000 (which is HK$0.187 per share, representing the market price as at 31st March 2004) after a deficit on revaluation of such investment of approximately HK$20,414,000. Such deficit had already been reflected in the Group's net assets value and dealt with in the investment revaluation reserve of the Group's balance sheet in the prior years. As at 31st March 2004, the Group had taken a conservative approach to transfer the deficit from the investment revaluation reserve to the profit and loss account and recognised an impairment loss of the investment in AAM of approximately HK$20,414,000.

Treating it as a long-term investment, the management has and will continue to closely monitor AAM's performance. Nevertheless, from an operational side, the Directors believe that the acquisition is beneficial to forming a strategic relationship with a player of good connection in the region.

Foreign currency exposure

The foreign currency exposure of the Group is mainly driven by its business operations. The sales receipts are collected in Renminbi, United States dollars and Hong Kong dollars depending on the locations of the customers. On the other hand, the steel products purchases are mainly denominated in United States dollars and Renminbi. Therefore, with a comparatively minimal fluctuation in exchange rates between United States dollars with Renminbi and Hong Kong dollars, the Group considers the foreign currency exposure is minimal for the year under review. The Group will continue to exert efforts in managing its potential currency risk profile in the future.

Number of employees and remuneration policies

As at 31st March 2004, the Group employed 80 (2003: 83) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The Group provides on-the-job training and training subsidies to its employees in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$15,232,000 (2003: HK$14,870,000).

For the year ended 31st March 2005

For the year under review, the Group recorded a loss attributable to Shareholders of approximately HK$10,443,000, an approximately 59% decline from last financial year's loss figure of approximately HK$25,711,000. However, on a closer analysis of the figures, the Group's performance of its core trading operations as represented by the operating loss of HK$352,000 (after excluding the gain on disposal of investments, net of approximately HK$911,000) for the year reflected a reduction in profit of approximately HK$3,646,000 as compared to the similar figure of approximately HK$3,294,000 (after excluding the impairment loss of an investment of approximately HK$20,414,000) for the previous year ended 31st March 2004. This weakening of operational profitability was mainly due to the continued challenging operating environment caused by the volatility in the steel prices and the selective austerity measures implemented by the PRC Central government during the financial year. Under such circumstances, the management proactively implemented efforts in consolidating the Group's limited financial resources to focus more on the selected higher margin steel products and selected geographic areas that could have brought greater returns. During the year under review, the Group has consolidated the coverage of the Beijing and Tianjin markets with its Shanghai office through the exiting of the two local offices there. The result of these efforts could be evidenced from the fact that, despite the decrease in turnover, the gross margin for the year increased 33% to approximately 3.6% by comparing the previous year's gross margin of 2.7%. On the investment front, the Group has also divested various investments including the receiving of the initial invested capital from its investment in Stemcor Holdings Limited ("Stemcor"), and also divested its investment in AcrossAsia Limited (formerly known as AcrossAsia Multimedia Limited), and reallocating these capitals for its core operations. At the same time, in light of the poor market condition and the risks so associated with, the management of the Group has also taken a prudent review on the carrying value of its assets and the operations and made necessary provisions for diminution in value relating to inventories, receivables, deferred tax assets and deposits in dispute amounting to approximately HK$9,889,000. Such provisions have been made on a conservative scenario basis.

In the meantime, the management of the Group successfully made its efforts in optimising resources for the economy of scale to achieve business growth over the year. It was mainly done through decreasing total cost excluding cost of inventories sold and finance costs ("Operating Cost") from approximately HK$36,573,000 in last year to approximately HK$32,633,000 this year, representing a decrease of about 11% over the same period. Although turnover decreased, interest expense from the year amounts to approximately HK$5,056,000 representing approximately 0.59% of the turnover, while interest expense represented only 0.55% of the turnover for the previous financial year due to an increasing interest rate.

Financial resources and liquidity

As at 31st March 2005, the Group's aggregate short-term bank borrowings, comprising trust receipts bank loans and short-term working capital bank loans, were approximately HK$24,360,000 (2004: HK$51,426,000). The short-term working capital bank loans amounted to approximately HK$21,735,000 (2004: HK$24,570,000) with interest rates ranging from 5.5% to 5.6% per annum (2004: 4.5% to 5.4% per annum). As at 31st March 2005, the gearing ratio (short-term bank borrowings divided by the shareholders' equity) was approximately 11.40 (2004: 4.07). The alarmingly large jump (180%) in the gearing ratio reflects the Group has significantly increased its leverage during the year under review. Although short-term bank borrowings has decreased resulting from a decrease in the Group's inventory level, it is still not sufficient to compensate for the Group's decrease in its equity value. The decrease in equity value caused by the Group's losses over the years, coupled with the macro sentiment of an increasingly risky profile for the volatile steel sector has prompted a tightening of banking resources available to the Group. As at 31st March 2005, the Group had aggregated banking facilities of approximately HK$88,125,000 (2004: HK$159,155,000) derived mainly from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately HK$63,765,000 (2004: HK$69,691,000). These facilities were secured by (a) corporate guarantees provided by the Company and/or (b) the Group's inventories held under trust receipts bank loan arrangement and pledged bank deposits.

In addition to the above said banking facilities, the Group also relies substantively from its largest Shareholder — Van Shung Chong Holdings Limited ("VSC") (Stock code: 1001) together with its subsidiaries ("the VSC Group") by leveraging off the VSC Group's aggregate purchasing power. Using the VSC Group as a supplier to the Group, the Company is able to enjoy much more favorable terms from the steel mills. As of the financial year end of 2004/05, the Group had outstanding balance due to the VSC Group in excess of HK$118,000,000 (2003/04: in excess of HK$205,000,000).

Cash and cash equivalents

As at 31st March 2005, bank deposits of approximately HK$16,080,000 (2004: HK$34,439,000) were pledged as collateral for the Group's banking facilities.

As at 31st March 2005, the Group's cash and bank deposits amounted to approximately HK$29,343,000 (2004: HK$89,872,000), of which approximately HK$11,701,000 was denominated in Renminbi and deposited with the banks in China.

Investments

During the year, investments comprised equity interests in Stemcor.

Under a share subscription agreement with Stemcor, Stemcor has granted the Group a put option under which the Group may require Stemcor to repurchase all of the shares subscribed by the Group for HK$23,400,000 (equivalent to US$3,000,000). The put option will be exercisable by the Group no earlier than the date on which the amount of shareholders' equity of Stemcor falls below £15,000,000 as shown in the management accounts of Stemcor from time to time or 30th April 2002, whichever is earlier, and no later than 31st October 2002 according to the Put Option Agreement. The due date for exercising the put option has been extended from 31st October 2002 to 31st October 2003 and further to 31st October 2004. At 13th May 2004, the Group exercised its put option to sell its 3.5% equity interest in Stemcor for HK$23,400,000 which was satisfied by a nine-month promissory note issued by Stemcor. Subsequently, the promissory note was realised at the maturity date on 1st March 2005.

During the year ended 31st March 2005, the Group had received dividend income of approximately HK$659,000 (2004: HK$421,000) from Stemcor. The return on investment was approximately 2.82% (2004: 1.80%).

Foreign currency exposure

The foreign currency exposure of the Group is mainly driven by its business operations. The sales receipts are collected in Renminbi, United States dollars and Hong Kong dollars, mainly depending on the locations of the customers. On the other hand, the steel products purchases are mainly denominated in United States dollars and Renminbi. Therefore, with a comparatively minimal fluctuation in exchange rates between United States dollars with Renminbi and Hong Kong dollars, the Group considers the foreign currency exposure is minimal for the year under review. The Group will continue to exert efforts in managing its potential currency risk profile in the future.

Number of employees and remuneration policies

As at 31st March 2005, the Group employed 42 (2004: 80) staff. Salaries and annual bonuses are determined according to positions and performance of the employees. The Group provides on-the-job training and training subsidies to its employees in addition to pension schemes and medical insurance. Total staff costs including contribution to retirement benefit schemes incurred during the year under review amounted to approximately HK$9,416,000 (2004: HK$15,232,000).

8. OUTLOOK OF THE GROUP

The consortium of investors, the Ajia Parties, are introduced to our Group. The series of transactions, which were announced on 19th May 2005, are inter-conditional of one another and involve a capital reorganisation of the Shares, an open offer to the Company's registered Shareholders and a subscription of Shares and Convertible Bonds by the Ajia Parties. These series of transactions were completed on 8th August 2005 (except the effective date of the capital reorganisation was on 15th July 2005) which has enhanced the Company's cash position by more than HK$30 million, with the Ajia Parties becoming the majority Shareholders. The management of the Company believes the exercise is beneficial to the Company in the long run, as it will substantially enhance the Company's financial position, and offer the opportunity to leverage off the expertise of a very seasoned and well connected group of international professional investors and managers. The Ajia Parties have stated that they intend to explore opportunities for the Group in the acquisition of strategic, possible controlling, stakes in companies with strong cash flow in growth sectors such as the consumer, industrial, technology, media and telecommunications business. They also intend to bring in financial investors and raise capital for the Company to capture sizeable investment opportunities. Up to the Latest Practicable Date, eight conditional subscription agreements were entered into with institutional investors to raise approximately HK$845.8 million before expenses by way of placement of non-redeemable convertible preference shares of the Company. The Directors believes that these plans, if materialise, will help to strengthen the overall financial position and diversify the Company from its cyclical steel trading business.

Furthermore, China announced the RMB appreciation on 21st July 2005. China is a complete steel import country, so at present the RMB appreciation is favorable to the steel industry. The advantage of the Company steel import resource as well as the sale in domestic market will efficiently decrease the cost of import steel, and achieve more gross margin.

Recently, PRC Central Government has announced "the Steel Industry Development Policy". China will designedly become a great steel country, and the next ten years will be the golden times of the steel industry. We believe that the austerity program and the standardization of the steel market would help the Group to shakeout smaller competitors with no distinct competitive advantages.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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111 Connaught Road Central
Hong Kong

23rd September 2005

The Directors
North Asia Strategic Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Best Quality Limited ("Best Quality") and its subsidiaries (hereinafter collectively referred to as the "Best Quality Group") for each of the three years ended 31st March 2005 (the "Relevant Periods"), for inclusion in the circular of North Asia Strategic Holdings Limited dated 23rd September 2005 in connection with the acquisition by North Asia Strategic Holdings Limited of 70% of the entire issued share capital of Best Quality (the "Circular").

Best Quality was incorporated and registered as an exempted company in the Cayman Islands on 28th June 2005. Through a group reorganisation in September 2005, Best Quality acquired the entire interest in Champ Agents Limited ("Champ Agents") from its sole shareholder, Mr. Lam Kam Chuen, Savio ("Mr. Lam"), in consideration of Best Quality issuing 40 shares to Mr. Lam. Before this, Champ Agents had acquired, through another reorganisation in August 2005, the entire interests in Gala Dragon Investments Limited, Prosperous International Trading Limited and Supreme Quality Industrial Limited from their then beneficial owner, Mr. Lam, in consideration of Champ Agents issuing 3 shares to Mr. Lam. After these two reorganisations (the "Group Reorganisation"), Best Quality becomes the holding company of the subsidiaries now comprising the Best Quality Group.

As at the date of this report, Best Quality has the following subsidiaries, which all are private companies with limited liability:

Name of company	Place and date of establishment/ incorporation	Issued and fully paid up registered/ share capital	Attributable equity interest held by the Best Quality *Directly*	*Indirectly*	Principal activities
Champ Agents	British Virgin Islands 8th June 2005	US$4 Ordinary shares	100%	—	Investment holding

Name of company	Place and date of establishment/ incorporation	Issued and fully paid up registered/ share capital	Attributable equity interest held by the Best Quality		Principal activities
			Directly	*Indirectly*	
Gala Dragon Investments Limited ("Gala Dragon")	British Virgin Islands 3rd June 2003	US$10 Ordinary shares	—	100%	Investment holding
Prosperous International Trading Limited ("Prosperous")	Hong Kong 2nd January 2003	HK$2 Ordinary shares	—	100%	Investment holding
島精貿易(上海)有限公司 Shima Win Win (Shanghai) Trading Limited ("Shima Win Win")	The People's Republic of China (the "PRC") 30th January 2002	US$300,000 Registered capital	—	100%	Sales of knitting and other machinery
Supreme Quality Industrial Limited ("Supreme Quality")	British Virgin Islands 8th May 2002	US$1 Ordinary share	—	100%	Investment holding
Win Win Group Macau Commercial Offshore Limited ("Win Win Macau")	Macau 21st December 2001	MOP$100,000 Quota Capital	—	100%	Sales of knitting and other machinery
Win Win Industrial Company Limited ("Win Win Industrial")	Hong Kong 7th April 1976	HK$3,000,000 Ordinary shares HK$2,000,000 Non-voting deferred shares	—	100%	Sales of knitting and other machinery
Floral City Limited ("Floral City")	Hong Kong 6th May 2005	HK$2 Ordinary shares	—	100%	Inactive

No audited financial statements have been prepared for Best Quality, Champ Agents and Floral City as they have not carried on any business, except for the transactions relating to the Group Reorganisation referred to herein, since their respective dates of incorporation. For the purpose of this report, we have, however, reviewed all the relevant transactions since their respective dates of incorporation to the date of this report.

No audited financial statements have been prepared for Gala Dragon and Supreme Quality as they were incorporated in a country where there is no statutory audit requirements. We have, however, reviewed all significant transactions of these companies for the Relevant Periods.

The financial statements of each of the other subsidiaries of Best Quality for the Relevant Periods were audited by member firms of Deloitte Touche Tohmatsu in Hong Kong and Macau with the following exceptions:

(a) the financial statements of Win Win Industrial for the year ended 31st March 2003 were audited by Messrs. Lau & Cho, certified public accountants registered in Hong Kong; and

(b) the financial statements of Shima Win Win for each of the three years ended 31st December 2004 were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC. For the year ended 31st December 2002 and 2003, its financial statements were audited by 上海同誠會計師事務所 Shanghai Tongcheng Certified Public Accountants. For the year ended 31st December 2004, its financial statements were audited by 上海光華會計師事務所有限公司 Guang Hua Certified Public Accountants Co., Ltd.. Both were certified public accountants registered in the PRC in accordance with Independent Auditing Standards for Chinese Certified Public Accountants.

We have examined the audited financial statements, or where appropriate, management accounts ("Underlying Financial Statements") of the companies now comprising the Best Quality Group for the Relevant Periods or since their respective dates of incorporation or establishment to 31st March 2005. We have carried out such additional procedures as necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The financial information of the Best Quality Group for the Relevant Periods (the "Financial Information") set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 of Section I below, after making such adjustments as we considered appropriate for the purpose of preparing our report for inclusion in the Circular.

The preparation of the Underlying Financial Statements is the responsibility of the directors of the respective companies, who approve their issue. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

Except for the effect of the non-consolidation of assets and liabilities; income and expense of certain subsidiaries and non-equity accounting for interest in an associate in the preparation of the Financial Information as fully explained in the basis of presentation set out in note 1 of Section I below (the "Basis of Presentation"), in our opinion, for the purpose of this report, the Financial Information, which is prepared on the Basis of Presentation, gives a true and fair view of the combined state of affairs of the Best Quality Group as at 31st March 2003, 2004 and 2005 and of the combined results and cash flows of the Best Quality Group for each of three years ended 31st March 2005.

I. FINANCIAL INFORMATION

Combined Income Statements

		Year ended 31st March		
		2003	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	5	824,179	1,376,214	1,992,668
Cost of inventories		(683,393)	(1,132,409)	(1,640,358)
Repair and maintenance cost		(604)	(644)	(539)
Warranty provision	*26*	(30,547)	(9,720)	(10,737)
Reversal of unused warranty provision	*26*	26,821	20,897	10,101
Other direct costs		(843)	(1,058)	(1,039)
Gross profit		135,613	253,280	350,096
Other operating income		12,523	2,329	11,848
Interest income		17,716	15,453	14,834
Distribution costs		(9,149)	(12,347)	(7,015)
Administrative expenses		(42,530)	(46,643)	(59,808)
Write-back of allowance for bad and doubtful debts		—	46,609	1,626
Allowance for bad and doubtful debts		(4,550)	(18,978)	(2,268)
Net exchange gain (loss)		6,876	(34,460)	(5,862)
Profit from operations	*7*	116,499	205,243	303,451
Interests on bank borrowings wholly repayable within five years		—	(1,321)	(1,749)
Loss on disposal of unlisted investment securities		—	(500)	—
Profit before taxation		116,499	203,422	301,702
Income tax expense	*8*	(13,119)	(34,494)	(37,638)
Profit before minority interests		103,380	168,928	264,064
Minority interests		(4,121)	(747)	—
Net profit for the year		99,259	168,181	264,064
Dividend	*9*	—	—	490,390

Combined Balance Sheets

		As at 31st March		
		2003	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*13*	6,051	5,879	6,200
Negative goodwill	*14*	—	(4,057)	(3,083)
Investment securities	*15*	31,156	470	—
Trade receivables	*16*	116,701	235,924	220,386
Bills receivable	*16*	—	—	38,064
Deferred tax assets	*17*	7,637	219	343
		161,545	238,435	261,910
CURRENT ASSETS				
Inventories	*18*	50,037	152,883	183,815
Trade receivables	*16*	161,918	512,322	644,185
Bills receivable	*16*	108,504	149,198	405,235
Other receivables, deposits and prepayments		31,135	12,248	24,098
Amounts due from related companies	*19*	44,710	74,500	3,506
Amount due from a director	*20*	21,302	141,125	—
Loans to officers	*21*	383	209	134
Pledged bank deposits	*22*	—	330,207	307,447
Bank balances and cash		287,808	194,658	288,493
		705,797	1,567,350	1,856,913
CURRENT LIABILITIES				
Trade payables	*23*	94,793	6,528	195,714
Bills payable	*23*	280,956	831,964	755,292
Other payables and accrued charges		5,191	3,669	19,085
Deposits received		5,058	27,666	18,212
Amounts due to related companies	*19*	75,440	55,356	472
Amount due to a director	*20*	—	—	127,701
Taxation payable		6,281	12,799	22,787
Bank and other borrowings due within one year	*24*	4,000	185,865	247,606
Deferred interest income	*25*	11,112	5,923	7,335
Warranty provision	*26*	20,857	8,772	8,309
		503,688	1,138,542	1,402,513
NET CURRENT ASSETS		202,109	428,808	454,400

		As at 31st March		
		2003	**2004**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		363,654	667,243	716,310
NON-CURRENT LIABILITIES				
Trade payables	*23*	—	99,604	111,078
Bills payable	*23*	132,395	184,330	448,249
Bank and other borrowings due after one year	*24*	12,000	—	—
		144,395	283,934	559,327
Minority interests		4,131	—	—
		215,128	383,309	156,983
CAPITAL AND RESERVE				
Share capital	*27*	—	—	—
Reserves		215,128	383,309	156,983
		215,128	383,309	156,983

Combined Statements of Changes in Equity

	Share capital *HK$'000*	Contributed surplus *HK$'000* *(Note 1)*	Legal reserve *HK$'000* *(Note 2)*	Accumulated profits *HK$'000*	Total *HK$'000*
At 1st April 2002	—	5,000	—	110,869	115,869
Profit for the year	—	—	—	99,259	99,259
At 31st March 2003	—	5,000	—	210,128	215,128
Profit for the year	—	—	—	168,181	168,181
At 31st March 2004	—	5,000	—	378,309	383,309
Profit for the year	—	—	—	264,064	264,064
Transfer	—	—	50	(50)	—
Interim dividend paid	—	—	—	(490,390)	(490,390)
At 31st March 2005	—	5,000	50	151,933	156,983

Notes:

1. The contributed surplus of the Group represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired by the Group pursuant to the Group Reorganisation and the nominal value of the Company's shares issued on the basis that the Group Reorganisation had been effected on 1st April 2002.

2. In accordance with the provisions of the Macau Commercial Code, Win Win Macau is required to transfer a minimum of 25% of its annual net profit to a legal reserve on the appropriation of profits to dividends until the reserve equals half of the quota capital. This reserve is not distributable to the shareholders.

Combined Cash Flow Statements

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
Profit before taxation	116,499	203,422	301,702
Adjustments for:			
Interest income	(17,716)	(15,453)	(14,834)
Interest expenses	—	1,321	1,749
Dividend income	—	—	(339)
Depreciation	1,316	1,664	1,733
Loss (gain) on disposal of property, plant and equipment	622	(12)	11
Loss on disposal of unlisted investment securities	—	500	—
Allowance for bad and doubtful debts	4,550	18,978	2,268
Release of negative goodwill	—	(811)	(974)
Write-back of allowance for bad and doubtful debts	—	(46,609)	(1,626)
Write-back of allowance for inventories	—	(5,207)	—
Allowance for inventories	—	—	444
Warranty provision	30,547	9,720	10,737
Reversal of unused warranty provision	(26,821)	(20,897)	(10,101)
Operating cash flow before movements in working capital	108,997	146,616	290,770
Increase in inventories	(42,913)	(97,639)	(31,376)
Increase in trade receivables	(27,119)	(441,996)	(116,967)
(Increase) decrease in other receivables, deposits and prepayments	(26,938)	18,887	(11,850)
Decrease (increase) in bills receivable	23,049	(40,694)	(294,101)
Increase in trade payables	81,728	11,339	200,660
Increase (decrease) in other payables and accrued charges	4,951	(1,522)	15,416
Increase (decrease) in deposits received	1,615	22,608	(9,454)
Increase in bills payable	1,022	602,943	187,247
Increase in deferred interest income	9,319	4,260	3,508
Decrease in warranty provision	(2,876)	(908)	(1,099)
Net cash generated from operations	130,835	223,894	232,754
Interest paid	—	(1,321)	(1,749)
Hong Kong Profits Tax paid	(9,155)	(20,558)	(27,774)
NET CASH FROM OPERATING ACTIVITIES	121,680	202,015	203,231

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES			
Purchase of investments in securities	(30,186)	—	—
Increase in amount due from a director	(20,232)	(119,833)	(200,666)
Purchase of property, plant and equipment	(4,013)	(1,492)	(2,065)
Decrease in amounts due from related companies	15,564	396	50,771
Interest received	8,778	6,004	12,738
Proceeds from disposal of property, plant and equipment	1,635	12	—
Repayment of loans to officers	1,031	174	75
(Increase) decrease in pledged bank deposits	—	(330,207)	22,760
NET CASH USED IN INVESTING ACTIVITIES	(27,423)	(444,946)	(116,387)
FINANCING ACTIVITIES			
Increase (decrease) in amounts due to related companies	75,404	(20,084)	(54,884)
Bank loans raised	16,000	272,094	171,938
Repayment of bank loans	—	(102,229)	(110,197)
Increase in amount due to a director	—	—	134
NET CASH FROM FINANCING ACTIVITIES	91,404	149,781	6,991
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	185,661	(93,150)	93,835
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	102,147	287,808	194,658
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	287,808	194,658	288,493
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS, represented by bank balances and cash	287,808	194,658	288,493

Notes to the Financial Information

1. Basis of presentation of financial information

The combined income statements, combined statements of changes in equity and combined cash flow statements include the results and cash flows of the companies comprising the Best Quality Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment, where this is a shorter period. The combined balance sheets of the Best Quality Group as at 31st March 2003, 2004 and 2005 have been prepared to present the assets and liabilities of the companies now comprising the Best Quality Group as if the current group structure had been in existence at those dates.

On 21st December 2001, Win Win Macau, a 90% owned subsidiary, was incorporated in Macau. The remaining 10% interest of Win Win Macau was acquired by Supreme Quality on 5th June 2003.

All significant inter-group transactions and balances have been eliminated on combination.

During the Relevant Periods, Win Win Industrial had the following investments in certain companies which were engaged in businesses other than the core business of the Best Quality Group:

(a) 86% interest in 啟源針織(上海)有限公司 Kai Yuen (Shanghai) Knitting Company Limited ("Kai Yuen"), a company established in the PRC and engaged in the business of manufacture of knitting products. Such investment was held by Win Win Industrial since 16th July 2002 and was disposed of on 7th July 2003.

(b) 50% interest in Sinocham (HK) Enterprises Limited ("Sinocham"), a company incorporated in Hong Kong and engaged in the business of general trading. Such investment was held by Win Win Industrial prior to 1st April 2002 and was disposed of on 31st January 2004.

(c) 100% interest in 柳州榮榮橡膠再生利用有限公司 Liuzhou Rongrong Rubber Re-cycle Company Limited ("Liuzhou Rongrong"), a company established in the PRC and engaged in the business of manufacture and sale of re-cycle rubber products. Such investment was held by Win Win Industrial prior to 1st April 2002 and was disposed of on 17th September 2004.

As the above-mentioned companies do not form part of the Group Reorganisation and they were not engaged in the same core business of the Best Quality Group, for the purposes of this report, the investments are accounted for as "investments in securities" as set out in note 15 and their underlying assets and liabilities; results and cash flows are not included in the preparation of the Financial Information. This accounting treatment is not in compliance with the Statement of Standard Accounting Practice No. 10 "Accounting for Investments in Associates" and No. 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", which require the investments be classified as investments in subsidiaries or associate and consolidated into the Financial Information or accounted for using equity accounting method, where appropriate.

2. Potential impact arising from the recently issued accounting standards

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRS") which are effective for accounting periods beginning on or after 1st January 2005. The Best Quality Group has not early adopted these new HKFRS in the Financial Information for the Relevant Periods.

The Best Quality Group has commenced considering the potential impact of these new HKFRS but is not yet in a position to determine whether these new HKFRS would have a significant impact on how its results of operations and financial position are presented. These new HKFRS may result in changes in the future as to how the results and financial position are presented.

3. Changes in accounting estimates

During the year ended 31st March 2004, the companies within the Best Quality Group had reviewed the appropriateness of the basis of a number of accounting estimates and the directors of respective group companies determined that changes in these accounting estimates would provide a better assessment on their financial performance. Details of which were set out below:

(i) Deferred interest income

In previous years, the amount of deferred interest income was estimated by reference to the trade receivables outstanding at balance sheet date and at average rate of 4%.

During the year ended 31st March 2004, the directors of the respective group companies reviewed the basis of estimate and determined that with effect from 1st April 2003, deferred interest income would be estimated by reference to the portion of trade receivables which due for settlement after one year from balance sheet date and at average market rate of 2%.

This change in accounting estimate decreased the deferred interest income and increased profit for the year ended 31st March 2004 by approximately HK$5,886,000.

(ii) Warranty provision

In prior periods, the warranty provision was determined using a standard rate per unit of knitting machine sold ranged from HK$5,000 to HK$30,000.

During the year ended 31st March 2004, the directors of the respective group companies revised the basis of their estimate based on average repair and maintenance costs incurred over the past few years for defective products within warranty period which has resulted in a decrease in standard rate per unit to HK$3,000.

This change in accounting estimate decreased the warranty provision and increased profit for the year ended 31st March 2004 by approximately HK$21,642,000.

(iii) Allowance for bad and doubtful debts

In previous years, allowance for bad and doubtful debts was assessed by the directors of the respective group companies by applying prescribed percentage on different debtor aging categories.

During the year ended 31st March 2004, the directors of the respective group companies revised the basis of their estimate based on assessment on the recoverability of individual trade debtor and specific allowance was determined accordingly.

This change in accounting estimate decreased the allowance for bad and doubtful debts by approximately HK$45,993,000 and increased profit for the year ended 31st March 2004 by the same amount.

4. Significant accounting policies

The combined financial information has been prepared under the historical cost convention. Set out below are the principal accounting policies adopted in preparing this combined financial information. Saved as mentioned in note 1, in respect of the accounting treatment of certain investments, these principal accounting policies conform with the accounting principles generally accepted in Hong Kong.

Negative goodwill

Negative goodwill represents the excess of the Best Quality Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Best Quality Group's rights to receive payment has been established.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over unexpired lease term
Buildings	2%
Leasehold improvements	15%
Furniture, fixtures and equipment	10% — 15%
Motor vehicles	25%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Best Quality Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in the income statement.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates, except where the Best Quality Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

On combination, the assets and liabilities of overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Retirement benefit costs

Payments to state-managed retirement benefits schemes, defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance and Mandatory Provident Fund Scheme established under the Mandatory Provident Fund Ordinance in December 2000 are charged as expenses as they fall due.

5. Turnover

Turnover represents the net amounts received and receivable for goods sold by the Best Quality Group, less return and allowances, and repair and maintenance income for the Relevant Periods, and is analysed as follows:

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Sales of goods	823,180	1,370,154	1,990,537
Repair and maintenance income	999	6,060	2,131
	824,179	1,376,214	1,992,668

6. Segmental information

Business Segment

No business segment analysis is presented as less than 10% of the Best Quality Group's turnover and contribution to results are contributed by activities other than the sale of knitting machinery.

Geographical segments

An analysis of the Best Quality Group's revenue and contribution to operating results and segmental assets and liabilities by geographical segments, irrespective of the origin of the goods, is presented below:

	For the year ended 31st March 2003			
	PRC	**Hong Kong**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	238,904	565,825	19,450	824,179
RESULTS				
Segment results	48,086	74,914	5,790	128,790
Other operating income				12,523
Interest income				17,716
Unallocated expenses				(42,530)
Profit before taxation				116,499
Income tax expense				(13,119)
Profit before minority interests				103,380
Minority interests				(4,121)
Net profit for the year				99,259
ASSETS				
Segment assets	151,833	414,596	5,085	571,514
Unallocated corporate assets				295,828
Consolidated total assets				867,342
LIABILITIES				
Segment liabilities	125,965	499,803	34	625,802
Unallocated corporate liabilities				22,281
Consolidated total liabilities				648,083
OTHER INFORMATION				
Capital addition	92	3,921	—	4,013
Depreciation and amortisation	5	1,311	—	1,316
Loss on disposal of property, plant and equipment	—	622	—	622

	For the year ended 31st March 2004			
	PRC	**Hong Kong**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	363,541	969,583	43,090	1,376,214
RESULTS				
Segment results	38,294	188,233	7,577	234,104
Other operating income				2,329
Interest income				15,453
Unallocated expenses				(46,643)
Profit from operations				205,243
Interests on bank borrowings wholly repayable within five years				(1,321)
Loss on disposal of unlisted investment securities				(500)
Profit before taxation				203,422
Income tax expense				(34,494)
Profit before minority interests				168,928
Minority interests				(747)
Net profit for the year				168,181
ASSETS				
Segment assets	326,868	953,624	—	1,280,492
Unallocated corporate assets				525,293
Consolidated total assets				1,805,785
LIABILITIES				
Segment liabilities	288,557	935,255	—	1,223,812
Unallocated corporate liabilities				198,664
Consolidated total liabilities				1,422,476
OTHER INFORMATION				
Capital addition	309	1,183	—	1,492
Depreciation and amortisation	55	1,609	—	1,664
Gain on disposal of property, plant and equipment	—	12	—	12

	For the year ended 31st March 2005			
	PRC	**Hong Kong**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	573,282	1,358,246	61,140	1,992,668
RESULTS				
Segment results	99,375	229,798	7,404	336,577
Other operating income				11,848
Interest income				14,834
Unallocated expenses				(59,808)
Profit from operations				303,451
Interests on bank borrowings wholly repayable within five years				(1,749)
Profit before taxation				301,702
Income tax expense				(37,638)
Net profit for the year				264,064
ASSETS				
Segment assets	325,674	1,186,061	10,671	1,522,406
Unallocated corporate assets				596,417
Consolidated total assets				2,118,823
LIABILITIES				
Segment liabilities	321,493	1,361,601	8,353	1,691,447
Unallocated corporate liabilities				270,393
Consolidated total liabilities				1,961,840
OTHER INFORMATION				
Capital addition	348	1,717	—	2,065
Depreciation and amortisation	109	1,624	—	1,733
Loss on disposal of property, plant and equipment	—	11	—	11

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets Year ended 31st March			Additions to property, plant and equipment Year ended 31st March		
	2003	**2004**	**2005**	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
PRC	154,206	329,886	330,649	7	303	344
Hong Kong	699,614	1,449,034	1,763,206	3,921	1,183	1,717
Others	13,522	26,865	24,968	85	6	4
	867,342	1,805,785	2,118,823	4,013	1,492	2,065

7. Profit from operations

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Staff cost, included directors' emoluments *(note 11)*:			
— salaries and other benefits	17,538	22,020	28,418
— retirement benefit scheme contributions	479	576	822
	18,017	22,596	29,240
Auditors' remuneration			
— current year	140	446	900
— underprovision in prior years	—	5	—
	140	451	900
Allowance for inventories	—	—	444
Depreciation	1,316	1,664	1,733
Loss on disposal of property, plant and equipment	622	—	11
and after crediting:			
Gain on disposal of property, plant and equipment	—	12	—
Interest income from:			
— banks	8,494	5,799	12,595
— loan receivables	284	205	143
— trade receivables	8,938	9,449	2,096
	17,716	15,453	14,834
Write-back of allowance for inventories	—	5,207	—
Release of negative goodwill	—	811	974
Rental income under operating lease, less outgoings of HK$31,000, HK$53,000 and HK$67,000 for the year ended 31st March 2003, 2004 and 2005, respectively	155	67	53

8. Income tax expense

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
The charge comprises:			
Hong Kong Profits Tax			
Current year	13,200	27,152	37,762
Overprovision in prior years	(81)	(76)	—
	13,119	27,076	37,762
Deferred taxation *(note 17)*			
Current year	—	8,133	(124)
Attributable to a change in tax rate	—	(715)	—
	—	7,418	(124)
	13,119	34,494	37,638

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%, 2003: 16%) of the estimated assessable profit for the Relevant Periods.

Pursuant to the relevant laws and regulations in Macau as stated in the Decree Law No. 58/99M, Chapter 2, Article 12 dated 18th October 1999, Win Win Macau is exempted from Macau Complementary Tax.

Pursuant to the relevant laws and regulations in the PRC, Shima Win Win is operated in Shanghai Free Trade Zone and entitled to a preferential enterprise income tax rate of 15%. No provision for the PRC enterprise income tax has been made in the financial statements as Shima Win Win incurred tax losses for Relevant Periods. No deferred tax asset has been recognised due to unpredictability of future profit streams. Shima Win Win had unused tax losses of HK$1,943,000 at 31st March 2003, HK$2,740,000 at 31st March 2004 and HK$3,279,000 at 31st March 2005 for offset against future assessable profits. The maximum benefit from unutilised tax losses can be carried forward up to five years from the year in which the losses were originated to offset future taxable profits.

Details of deferred taxation are set out in note 17.

The tax expense for the Relevant Periods can be reconciled to the profit before taxation per the combined income statements as follows:

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Profit before taxation	116,499	203,422	301,702
Tax at Hong Kong Profits Tax rate of 17.5% (2004: 17.5%, 2003: 16%)	18,640	35,599	52,798
Tax effect of expenses not deductible for tax purpose	1,384	4,748	3,176
Tax effect of income not taxable for tax purpose	(231)	(288)	(1,911)
Overprovision in prior years	(81)	(76)	—
Effect of tax exemptions granted to a subsidiary	(6,593)	(4,774)	(16,425)
Tax effect of increase in opening deferred tax asset resulting from an increase in applicable tax rate	—	(715)	—
Tax expense for the year	13,119	34,494	37,638

9. Dividend

No dividend has been declared by Best Quality since its date of incorporation. However, during the Relevant Periods, the following companies declared dividends on ordinary shares to their then shareholders on 30th November 2004:

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Supreme Quality	—	—	127,390
Gala Dragon	—	—	363,000
	—	—	490,390

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

10. Earnings Per Share

Earnings per share is not presented as such information is not meaningful having regard to the purpose of this report.

11. Emoluments of directors and highest paid individuals

Particulars of the emoluments of the directors and the five highest paid individuals are as follows:

(a) Directors' emoluments

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Other emoluments:			
Salaries and other benefits	725	1,035	1,277
Retirement benefit scheme contributions	21	18	33
	746	1,053	1,310

The emoluments of the directors are within the following bands:

	Number of directors		
	2003	**2004**	**2005**
Nil to HK$1,000,000	1	—	—
HK$1,000,001 to HK$1,500,000	—	1	1

Details of emoluments of directors are set out as follows:

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Mr. Lam	746	1,053	1,310

(b) Emoluments of the five highest paid individuals

The emoluments of the five highest paid individuals of the Best Quality Group included one director of the Company for each of the three years ended 31st March 2003, 2004 and 2005, whose emoluments are included in (a) above. The aggregate emoluments of the remaining four individuals are as follows:

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	4,759	3,174	3,676
Retirement benefit scheme contributions	77	77	82
	4,836	3,251	3,758

The emoluments of the employees are within the following bands:

	Number of individuals		
	2003	**2004**	**2005**
Nil to HK$1,000,000	3	4	2
HK$1,000,001 to HK$1,500,000	—	—	2
HK$2,500,001 to HK$3,000,000	1	—	—

None of the directors has waived any emoluments during the Relevant Periods.

12. Retirement benefits scheme

The Best Quality Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the ORSO Scheme) and a Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Best Quality Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Best Quality Group on or after 1st December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Best Quality Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Best Quality Group at a rate of 5% of the employee's basic salary.

The employees of Shima Win Win are members of a state-managed retirement benefit scheme operated by the PRC government. The Best Quality Group is required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Best Quality Group with respect to the retirement benefit scheme is to make the specified contributions.

13. Property, plant and equipment

	Land in Hong Kong under medium-term lease and buildings	**Leasehold improvements**	**Furniture, fixtures and equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1st April 2002	2,140	3,209	1,664	2,764	9,777
Additions	—	2,505	1,137	371	4,013
Disposals	(2,140)	—	(38)	(184)	(2,362)
At 31st March 2003	—	5,714	2,763	2,951	11,428
Additions	—	474	428	590	1,492
Disposals	—	—	(44)	—	(44)
At 31st March 2004	—	6,188	3,147	3,541	12,876
Additions	—	647	450	968	2,065
Disposals	—	—	—	(134)	(134)
At 31st March 2005	—	6,835	3,597	4,375	14,807
DEPRECIATION					
At 1st April 2002	45	966	1,416	1,739	4,166
Provided for the year	—	659	189	468	1,316
Eliminated on disposals	(45)	—	(37)	(23)	(105)
At 31st March 2003	—	1,625	1,568	2,184	5,377
Provided for the year	—	885	284	495	1,664
Eliminated on disposals	—	—	(44)	—	(44)
At 31st March 2004	—	2,510	1,808	2,679	6,997
Provided for the year	—	904	324	505	1,733
Eliminated on disposals	—	—	—	(123)	(123)
At 31st March 2005	—	3,414	2,132	3,061	8,607
NET BOOK VALUES					
At 31st March 2003	—	4,089	1,195	767	6,051
At 31st March 2004	—	3,678	1,339	862	5,879
At 31st March 2005	—	3,421	1,465	1,314	6,200

14. Negative goodwill

	HK$'000
GROSS AMOUNT	
Balance at 1st April 2002 and 31st March 2003	—
Arising on acquisition during the year	(4,868)
Balance at 31st March 2004 and 31st March 2005	(4,868)
RELEASED TO INCOME	
Balance at 1st April 2002 and 31st March 2003	—
Release for the year	811
Balance at 31st March 2004	811
Release for the year	974
Balance at 31st March 2005	1,785
CARRYING AMOUNT	
At 31st March 2003	—
At 31st March 2004	(4,057)
At 31st March 2005	(3,083)

The negative goodwill arose on the Best Quality Group's further acquisition of Win Win Macau. It is released to income on a straight-line basis of 5 years.

15. Investments in securities

	As at 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Investment securities			
Unlisted equity securities	31,156	470	—

At 31st March 2003, the amounts included investment cost of approximately HK$30,186,000 in 86% equity interests in the capital of Kai Yuen. Kai Yuen was established in the PRC and was engaged in the business of manufacture of knitting products. During the year ended 31st March 2004, the Best Quality Group disposed of its entire interests in Kai Yeun to a company controlled by Mr. Lam at cost.

At 31st March 2003, the amounts also included investment cost of approximately HK$500,000 in 50% equity interest in Sinocham, which was incorporated in Hong Kong and was engaged in the business of general trading. During the year ended 31st March 2004, the Best Quality Group disposed of its entire interests in Sinocham to Ms. Lam Lai Kwan, Anna ("Ms. Anna Lam"), a director of subsidiaries of Best Quality, at a consideration of HK$1.

In addition, the amounts at 31st March 2003 and 2004 included an investment cost of HK$470,000 in 100% equity interest in Liuzhou Rongrong, which was established in the PRC and was engaged in the business of manufacturing and sale of re-cycle rubber products. During the year ended 31st March 2005, the Best Quality Group disposed of its entire interest in Liuzhou Rongroug to a company controlled by Mr. Lam at cost.

16. Trade receivables and bills receivable

The Best Quality Group allows an average credit period of 1 to 2 years to its customers. The aged analysis of trade receivables and bills receivable is as follows:

	As at 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	270,422	661,520	1,049,420
More than 1 year and within 2 years	100,960	235,913	257,957
More than 2 years and within 3 years	15,741	11	492
More than 3 years	—	—	1
	387,123	897,444	1,307,870
Analysed as:			
Current			
Trade receivables	161,918	512,322	644,185
Bills receivable	108,504	149,198	405,235
Non-current			
Trade receivables	116,701	235,924	220,386
Bills receivable	—	—	38,064
	387,123	897,444	1,307,870

17. Deferred Taxation

The followings are the major deferred tax assets recognised and movements thereon during the Relevant Periods:

	Accelerated tax depreciation	**Deductible temporary differences**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st April 2002 and 31st March 2003	(101)	(7,536)	(7,637)
(Credit) charge to the income statement	(109)	8,242	8,133
Effect of change in tax rate credited to the income statement	(9)	(706)	(715)
At 31st March 2004	(219)	—	(219)
Credit to the income statement	(124)	—	(124)
At 31st March 2005	(343)	—	(343)

18. Inventories

	As at 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	12	134	11
Work-in-progress	391	704	—
Finished goods	49,634	152,045	183,804
	50,037	152,883	183,815

Included above are finished goods of HK$3,637,000, HK$3,790,000 and HK$48,262,000 at 31st March 2003, 2004 and 2005 respectively which are carried at net realisable value.

19. Amounts due from/to related companies

Particulars of amounts due from related companies are as follows:

	As at 31st March		
Name of related company	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Computer Knitting Machinery Services Centre Limited ("Computer Knitting")	71	1,109	394
Delta Energy Limited ("Delta Energy")	3,496	3,496	—
Jets International Investment Limited ("Jets International")	—	20,521	—
Kai Yuen	—	—	3,112
Link Concept International Limited ("Link Concept")	—	30,190	—
Liuzhou Rongrong	475	1,580	—
Million Zone Development Limited ("Million Zone")	—	8	—
Profit Year Trading Limited	10,798	10,588	—
Sinocham	6,948	7,008	—
Win Win Group International Limited ("Win Win International")	22,922	—	—
	44,710	74,500	3,506

The amounts are unsecured, interest-free and repayable on demand.

Maximum amounts outstanding during the year ended 31st March:

	As at 31st March		
Name of related company	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Computer Knitting	820	1,148	1,109
Delta Energy	4,042	3,496	3,496
Jets International	—	20,521	20,521
Kai Yuen	—	—	3,112
Link Concept	—	30,190	30,190
Liuzhou Rongrong	475	1,580	1,580
Million Zone	—	8	8
Profit Year Trading Limited	10,950	10,798	10,588
Sinocham	6,948	7,008	7,008
Win Win International	31,963	22,922	—

Particulars of amounts due to related companies are as follows:

	As at 31st March		
Name of related company	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Kong River Limited	294	797	—
Win Fair Overseas Limited ("Win Fair")	1,440	—	—
Win Win International	—	—	95
Win Success Industrial Limited ("Win Success")	73,706	54,559	—
Liuzhou Rongrong	—	—	377
	75,440	55,356	472

The amounts are unsecured, interest-free and repayable on demand.

Mr. Lam has beneficial interests in all of the above related companies except for Link Concept in which Ms. Anna Lam has beneficial interest.

20. Amount due from/to a director

Particulars of amount due from a director are as follows:

	As at 31st March		
Name	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Mr. Lam	21,302	141,125	—

The amount due from Mr. Lam is unsecured, interest-free and repayable on demand.

Maximum amount outstanding during the year ended 31st March:

Name	As at 31st March 2003 HK$'000	2004 HK$'000	2005 HK$'000
Mr. Lam	35,126	149,480	439,061

Particulars of amount due to a director are as follows:

Name	As at 31st March 2003 HK$'000	2004 HK$'000	2005 HK$'000
Mr. Lam	—	—	127,701

The amount due to Mr. Lam is unsecured, interest free and repayable on demand.

21. Loans to officers

Particulars of loans to officers are as follows:

Name	As at 31st March 2003 HK$'000	2004 HK$'000	2005 HK$'000
Mr. Chan Shu Tong	160	100	—
Mr. Sat Shing Hoi	160	100	—
Mr. Sin Kam Foo	63	9	—
Mr. Lee Ka Leung	—	—	134
	383	209	134

The amounts are unsecured, interest bearing and repayable on demand.

Maximum amount outstanding during the year ended 31st March:

Name	As at 31st March 2003 HK$'000	2004 HK$'000	2005 HK$'000
Mr. Chan Shu Tong	160	160	100
Mr. Sat Shing Hoi	160	160	100
Mr. Sin Kam Foo	63	63	9
Mr. Lee Ka Leung	—	—	134

22. Pledged bank deposits

The amounts represent deposits pledged to certain banks to secure banking facilities granted to the Best Quality Group and a related company in which Mr. Lam has beneficial interest. Deposits are pledged to secure short-term bank loans and undrawn facilities and are therefore classified as current assets.

23. Trade payables and bills payable

The aged analysis of trade payables and bills payable is as follows:

Name	As at 31st March 2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Within 1 year	375,749	838,492	951,006
More than 1 year and within 2 years	125,325	245,304	526,526
More than 2 years and within 3 years	7,070	31,941	19,831
More than 3 years	—	6,689	12,970
	508,144	1,122,426	1,510,333

Analysed as:

	2003	2004	2005
Current			
Trade payable	94,793	6,528	195,714
Bills payable	280,956	831,964	755,292
Non-current			
Trade payable	—	99,604	111,078
Bills payable	132,395	184,330	448,249
	508,144	1,122,426	1,510,333

24. Bank Borrowings

	At 31st March 2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
Bank loans, secured	16,000	185,865	247,606

The maturity profile of the above loans is as follows:

	At 31st March 2003	2004	2005
	HK$'000	*HK$'000*	*HK$'000*
On demand or within one year	4,000	185,865	247,606
More than one year, but not exceeding two years	4,000	—	—
Two to five years	8,000	—	—
	16,000	185,865	247,606
Less: Amount due within one year shown under current liabilities	(4,000)	(185,865)	(247,606)
	12,000	—	—

Bank loans of the Best Quality Group bear interest at prevailing market rates.

The bank loans are secured, amongst other things, by the followings:

(i) legal charges on the properties owned by certain related companies of the Best Quality Group in which Mr. Lam has beneficial interest; and

(ii) continuing personal guarantee provided by Mr. Lam.

25. Deferred interest income

	HK$'000
Balance at 1st April 2002	10,732
Addition in the year	9,318
Credit to income for the year	(8,938)
Balance at 31st March 2003	11,112
Addition in the year	4,260
Credit to income for the year	(9,449)
Balance at 31st March 2004	5,923
Addition in the year	3,508
Credit to income for the year	(2,096)
Balance at 31st March 2005	7,335

Deferred interest income represents unearned interest income arising from interest free credit period granted to trade debtors on unsettled trade receivables at respective balance sheet dates.

26. Warranty Provision

	HK$'000
Balance at 1st April 2002	17,691
Additional provision in the year	30,547
Utilisation of provision	(560)
Reversal of unused provision	(26,821)
Balance at 31st March 2003	20,857
Additional provision in the year	9,720
Utilisation of provision	(908)
Reversal of unused provision	(20,897)
Balance at 31st March 2004	8,772
Additional provision in the year	10,737
Utilisation of provision	(1,099)
Reversal of unused provision	(10,101)
Balance at 31st March 2005	8,309

The warranty provision represents management's best estimate of the Best Quality Group's liability under one year warranty granted on knitting machinery sold, based on prior experience for defective products.

27. Share Capital

On 5th September 2005, Best Quality issued one share at par value of US$1 on incorporation. Pursuant to a special resolution passed on 16th September 2005, each issued or unissued share of US$1 each in the share capital of Best Quality was subdivided into 10 shares of US$0.1 each and the authorised capital was increased from US$500,000 to US$3,000,000 divided into 30,000,000 shares of US$0.1 each. In connection with the Group Reorganisation, Best Quality issued 40 fully paid up shares of US$0.1 each on 16th September 2005. Accordingly, the balance of capital as at 31st March 2003, 2004 and 2005 shown below represents the capital amount of Best Quality as if the Group Reorganisation had been completed as at 1st April 2002.

	Number of share	**Value**
		US$'000
Ordinary shares of US$0.1 each:		
Authorised	30,000,000	3,000,000
Issued and fully paid	50	—
		HK$'000
Shown in the accountants' report as		—

28. Major Non-Cash Transactions

During the year ended 31st March 2005, the major non-cash transactions are as follows:

(a) The Best Quality Group disposed of its investment in Liuzhou Rongrong at consideration of HK$470,000 which was settled through current account with a related company.

(b) Amounts due from (to) related companies and group companies amounting to HK$20,693,000 had been settled through current account with a director.

(c) The Best Quality Group paid dividend of HK$490,390,000, which was settled through current account with a director.

(d) The Best Quality Group received dividend income from Liuzhou Rongrong of HK$339,000, which was settled through current account with a director.

During the year ended 31st March 2004, the major non-cash transaction is as follows:

(a) The Best Quality Group disposed of its investments in Kai Yuen and Sinocham at consideration of totally HK$30,186,000, which was settled through current account with related companies.

29. Operating Lease Arrangements

As lessee

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Minimum lease payments paid under operating leases in respect of office premises and warehouses during the year	6,336	6,945	6,518

At respective balance sheet dates, the Best Quality Group had commitments for future minimum lease payments in respect of office premises and warehouses under non-cancellable operating leases which fall due as follows:

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	3,116	4,710	5,778
In the second to fifth year inclusive	3,271	1,611	4,052
Over five years	1,363	1,104	809
	7,750	7,425	10,639

Leases are negotiated for an average term of one to two years and rentals are fixed over the relevant lease terms.

As lessor

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Minimum lease arrangements received under operating leases in respect of office premises during the year	186	120	120

At respective balance sheet dates, the Best Quality Group had contracted with a tenant for the following minimum lease payments:

	Year ended 31st March		
	2003	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	120	120	55
In the second to fifth year inclusive	120	—	65
	240	120	120

30. Contingent Liabilities

At 31st March 2004 and 2005, the Best Quality Group pledged a bank deposit to a bank to secure general banking facilities granted to a related company in which Mr. Lam has beneficial interest. No amount of facilities were utilised by the related company at respective balance sheet dates. No payments were made by the Best Quality Group in respect of the guarantee during the Relevant Periods.

31. Related Party Transactions

(a) During the Relevant Periods, the Best Quality Group entered into the following transactions with related parties:

Name of related company/party	**Nature of transaction**	**2003**	**2004**	**2005**
		HK$'000	*HK$'000*	*HK$'000*
Delta Energy	Rental expenses paid	2,316	2,316	2,316
Harvest Development Company ("Harvest")	Consultancy fees paid	480	480	480
Jets International	Proceeds from disposal of 100% interest in Liuzhou Rongrong	—	—	470
Kai Yuen	Sales of goods	—	—	3,112
Link Concept	Proceeds from disposal of 86% interest in Kai Yuen	—	30,186	—
Mr. Lam	Rental expenses paid	156	156	156
Sinocham	Rental income received	70	120	120
	Sales of goods	—	732	586
Win Fair	Management and advisory fees paid	1,440	1,920	1,560
Win Success	Rental expense paid	2,410	2,460	2,460
Win Win International	Business consultancy fees paid	6,366	7,843	2,194
	Rental expenses paid	1,200	1,500	1,200
桐鄉榮輝針織公司	Sales of goods	—	2,967	—

Mr. Lam has beneficial interests in all of the above related companies except for Harvest in which Mr. Lam Ming Leung, a director of a subsidiary of the Best Quality, has beneficial interest and Link Concept in which Ms. Anna Lam has beneficial interest.

The above transactions were based on mutually agreed terms.

(b) Win Success, Delta Energy and Kong River Limited have pledged their properties to a bank to secure banking facilities granted to the Best Quality Group.

(c) Mr. Lam has given a personal guarantee to a bank to secure banking facilities granted to the Best Quality Group.

(d) The Best Quality Group has pledged its bank deposits amounting to HK$3,440,000 and HK$3,498,000 as at 31st March 2004 and 2005, respectively, to a bank to secure banking facilities granted to Delta Energy.

Details of balances with related parties at respective balance sheet dates are set out in notes 19 and 20 of the Financial Information.

32. Subsequent events

On 25th July 2005, Mr. Lam entered into an agreement with the Best Quality Group. According to the agreement, Mr. Lam agrees to pay, on demand of the Best Quality Group after 31st December 2005, to the Best Quality Group the sum of not exceeding HK$12,988,000 in return for the Best Quality Group assigns and transfers all its rights, titles, benefits and interests in certain trade and other receivables of the Best Quality Group free from any encumbrance.

On 26th August 2005, Mr. Lam entered into an agreement with North Asia Strategic Holdings Limited and its subsidiary, Ace Level Investments Limited ("Ace Level"), to dispose of 70% equity interest of the Best Quality Group to Ace Level and as part of the reorganisation of the Best Quality Group, Mr. Lam shall procure the acquisition by the Best Quality Group of certain properties, which are owned by certain companies controlled by Mr. Lam, at an aggregate consideration of HK$26,000,000. All of the properties are located in Hong Kong and are currently occupied by the Best Quality Group. Subject to the terms of the agreement, Ace Level or Mr. Lam may have the right to reject or not to procure the acquisition by the Best Quality Group of all or any of such properties.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Best Quality Group, or any of the companies comprising the Best Quality Group have been prepared in respect of any period subsequent to 31st March 2005.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the unaudited pro forma financial information of the Enlarged Group prepared based on the audited consolidated financial statements of the Group as at 31st March 2005, extracted from its annual report for the year ended 31st March 2005 as set out in Appendix I to this circular, and adjusted to reflect the effect of the Acquisition.

The unaudited pro forma financial information was prepared for the purpose of illustrating how the Acquisition might have affected the financial position, results and cash flows of the Enlarged Group. As it is prepared for illustrative purpose only, and because of its nature, it may not purport to represent what the financial position, results and cash flows of the Enlarged Group are on Completion.

A. INTRODUCTION

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition of the Target Group by the Group in accordance with the Agreement. The consideration of the Acquisition will be financed by borrowings of the Group from independent financial institutions. As part of the group reorganisation and subject to the terms of the Agreement, the Vendor will procure the acquisition by one or more of the subsidiaries of the Target Group of certain properties currently being occupied by the Target Group in Hong Kong for its business operation (the "Properties") and the payment will be satisfied by paid in capital of the Target.

B. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

The following is the unaudited pro forma balance sheet of the Enlarged Group which is prepared based on the audited consolidated balance sheet of the Group as at 31st March 2005, as audited by PricewaterhouseCoopers, Certified Public Accountants, and the audited combined balance sheet of the Taget Group as at 31st March 2005 as extracted from the accountants' report, set out in Appendices I and II respectively to this circular as if the Acquisition had been completed on 31st March 2005.

The unaudited pro forma balance sheet is prepared to provide information on the Enlarged Group as a result of the Completion. As it is prepared for illustrative purpose only, it does not purport to represent what the financial position of the Enlarged Group is on Completion.

	The Group As at 31st March 2005	The Target Group As at 31st March 2005	Pro Forma Combined	Pro Forma Adjustments		Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
NON-CURRENT ASSETS						
Property, plant and equipment	1,411	6,200	7,611	26,000	*1*	33,611
Website development costs	21	—	21	—		21
Long-term investment	780	—	780	—		780
Goodwill	—	—	—	491,400	2	491,400
Negative goodwill	—	(3,083)	(3,083)	3,083	2	—
Accounts and bills receivable	—	258,450	258,450	—		258,450
Deferred tax assets	—	343	343	—		343
Total non-current assets	2,212	261,910	264,122			784,605
CURRENT ASSETS						
Inventories	94,936	183,815	278,751	—		278,751
Prepayments, deposits and other receivables	35,280	24,098	59,378	—		59,378
Accounts and bills receivable	3,977	1,049,420	1,053,397	—		1,053,397
Amounts due from related companies	—	3,506	3,506	—		3,506
Loans to officers	—	134	134	—		134
Pledged bank deposits	16,080	307,447	323,527	(3,498)	*3*	320,029
Cash and other bank deposits	13,263	288,493	301,756	3,498	*3*	305,254
Total current assets	163,536	1,856,913	2,020,449	—		2,020,449

	The Group As at 31st March 2005	The Target Group As at 31st March 2005	Pro Forma Combined	Pro Forma Adjustments		Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
CURRENT LIABILITIES						
Bank and other borrowings due within one year	24,360	247,606	271,966	509,600	*4*	781,566
Accounts and bills payable	121,018	951,006	1,072,024	—		1,072,024
Other payables and accruals	12,697	19,085	31,782	—		31,782
Deposits received	—	18,212	18,212	—		18,212
Amounts due to related companies	—	472	472	—		472
Amount due to the Vendor	—	127,701	127,701	160,066	*5*	287,767
Taxation payable	5,536	22,787	28,323	—		28,323
Deferred interest income	—	7,335	7,335	—		7,335
Warranty provision	—	8,309	8,309	—		8,309
Total current liabilities	163,611	1,402,513	1,566,124			2,235,790
NET CURRENT (LIABILITIES) ASSETS	(75)	454,400	454,325	—		(215,341)
Total assets less current liabilities	2,137	716,310	718,447	—		569,264
NON-CURRENT LIABILITIES						
Accounts and bills payable	—	559,327	559,327	—		559,327
Minority interests	—	—	—	7,800	*6*	7,800
Net assets	2,137	156,983	159,120			2,137
Representing:						
Share capital	159,659	—	159,659	—	*1&2*	159,659
Reserves	(157,522)	156,983	(539)	(156,983)	*2&5*	(157,522)
Shareholders' equity	2,137	156,983	159,120			2,137

C. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma income statement of the Enlarged Group which is prepared based on the audited consolidated income statement of the Group for the year ended 31st March 2005, as audited by PricewaterhouseCoopers, Certified Public Accountants, and the audited combined income statement of the Target Group for the year ended 31st March 2005 as extracted from the accountants' report, set out in Appendices I and II respectively to this circular as if the Acquisition had been completed on 1st April 2004.

The unaudited pro forma income statement is prepared to provide information on the Enlarged Group as a result of the Completion. As it is prepared for illustrative purpose only, it does not purport to represent what the income statement of the Enlarged Group is on the Completion.

	The Group Year ended 31st March 2005	The Target Group Year ended 31st March 2005	Pro Forma Combined	Pro Forma Adjustments		Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover	859,685	1,992,668	2,852,353	—		2,852,353
Cost of inventories	(828,580)	(1,640,358)	(2,468,938)	—		(2,468,938)
Repair and maintenance cost	—	(539)	(539)	—		(539)
Warranty provision	—	(10,737)	(10,737)	—		(10,737)
Reversal of unused warranty provision	—	10,101	10,101	—		10,101
Other direct costs	—	(1,039)	(1,039)	—		(1,039)
Gross profit	31,105	350,096	381,201	—		381,201
Other revenue	1,239	26,682	27,921	—		27,921
Selling and distribution expenses	(7,494)	(7,015)	(14,509)	—		(14,509)
General and administrative expenses	(25,139)	(59,808)	(84,947)	(45,084)	*7&8*	(130,031)
Gain on disposal of investments, net	911	—	911	—		911
Loss on disposal of subsidiaries, net	(63)	—	(63)	—		(63)
Write-back of allowance for bad and doubtful debts	—	1,626	1,626	—		1,626
Allowance for bad and doubtful debts	—	(2,268)	(2,268)	—		(2,268)
Net exchange loss	—	(5,862)	(5,862)	—		(5,862)

	The Group Year ended 31st March 2005	The Target Group Year ended 31st March 2005	Pro Forma Combined	Pro Forma Adjustments	Notes	Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Operating profit	559	303,451	304,010	—		258,926
Finance costs	(5,056)	(1,749)	(6,805)	(45,354)	*9&10*	(52,159)
(Loss) profit before taxation	(4,497)	301,702	297,205	—		206,767
Taxation	(5,946)	(37,638)	(43,584)	—		(43,584)
(Loss) profit after taxation but before minority interests	(10,443)	264,064	253,621	—		163,183
Minority interests	—	—	—	(80,436)	*11*	(80,436)
(Loss) profit attributable to shareholders	(10,443)	264,064	253,621	—		82,747

D. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP

The following is the unaudited pro forma cash flow statement of the Enlarged Group which is prepared based on the audited consolidated cash flow statement of the Group for the year ended 31st March 2005, as audited by PricewaterhouseCoopers, Certified Public Accountants and the audited combined cash flow statement of the Target Group for the year ended 31st March 2005 as extracted from the accountants' report set out in Appendices I and II respectively to this circular as if the Acquisition had been completed on 1st April 2004.

The unaudited pro forma cash flow statement is prepared to provide information on the Enlarged Group as a result of the Completion. As it is prepared for illustrative purpose only, it does not purport to represent what the cash flow of the Enlarged Group is on the Completion.

	The Group Year ended 31st March 2005	The Target Group Year ended 31st March 2005	Pro Forma Combined	Pro Forma Adjustments		Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
OPERATING ACTIVITIES						
(Loss) profit before taxation	(4,497)	301,702	297,205	(90,438)	*7, 8, 9 & 10*	206,767
Interest income	(580)	(14,834)	(15,414)	—		(15,414)
Interest expenses	5,056	1,749	6,805	32,614	*9*	39,419
Dividend income	(659)	(339)	(998)	—		(998)
Depreciation of property, plant and equipment	1,016	1,733	2,749	—		2,749
Loss on disposal of property, plant and equipment	87	11	98	—		98
Amortisation of website development costs	27	—	27	—		27
Loss on disposal of subsidiaries, net	63	—	63	—		63
Gain on disposal of investments, net	(911)	—	(911)	—		(911)
Allowance for bad and doubtful debts	—	2,268	2,268	—		2,268
Amortisation of goodwill	—	—	—	49,140	*8*	49,140
Release of negative goodwill	—	(974)	(974)	—		(974)
Write-back of allowance for bad and doubtful debts	—	(1,626)	(1,626)	—		(1,626)
Warranty provision	—	10,737	10,737	—		10,737
Reversal of unused warranty provision	—	(10,101)	(10,101)	—		(10,101)
Allowance for inventories	—	444	444	—		444

	The Group Year ended 31st March 2005	The Target Group Year ended 31st March 2005	Pro Forma Combined	Pro Forma Adjustments		Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Operating (loss) profit before working capital changes	(398)	290,770	290,372	—		281,688
Decrease (increase) in inventories	35,850	(31,376)	4,474	—		4,474
Decrease (increase) in prepayment, deposits and other receivable	11,626	(11,850)	(224)	—		(224)
Decrease (increase) in accounts and bills receivable	23,914	(411,068)	(387,154)	—		(387,154)
(Decrease) increase in accounts and bills payable	(148,697)	387,907	239,210	—		239,210
Increase in other payables and accruals	25,543	15,416	40,959	—		40,959
Decrease in deposits received	—	(9,454)	(9,454)	—		(9,454)
Increase in deferred interest income	—	3,508	3,508	—		3,508
Decrease in warranty provision	—	(1,099)	(1,099)	—		(1,099)
Net cash (outflow) inflow generated from operations	(52,162)	232,754	180,592	—		171,908
Interest received	580	12,738	13,318	—		13,318
Interest paid	(5,056)	(1,749)	(6,805)	(32,614)	*9*	(39,419)
Hong Kong Profits Tax paid	—	(27,774)	(27,774)	—		(27,774)
Mainland China enterprise income tax paid	(2,096)	—	(2,096)	—		(2,096)
Mainland China enterprise income tax refunded	473	—	473	—		473
Net cash (outflow) inflow from operating activities	(58,261)	215,969	157,708	—		116,410

	The Group Year ended 31st March 2005	The Target Group Year ended 31st March 2005	Pro Forma Combined	Pro Forma Adjustments		Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
INVESTING ACTIVITIES						
Purchase of subsidiaries (net of cash and cash equivalents acquired)	—	—	—	(314,942)	*2*	(314,942)
Proceeds from disposal of subsidiaries, net of cash disposed of	(1,396)	—	(1,396)	—		(1,396)
Increase in long-term investment	(780)	—	(780)	—		(780)
Additions of property, plant and equipment	(191)	(2,065)	(2,256)	—		(2,256)
Translation adjustments	(86)	—	(86)	—		(86)
Additions of website development cost	(5)	—	(5)	—		(5)
Proceeds from disposal of investments	26,447	—	26,447	—		26,447
Decrease in pledged bank deposits	18,359	22,760	41,119	—		41,119
Dividend received from an investment	659	—	659	—		659
Proceeds from disposal of property, plant and equipment	129	—	129	—		129
Decrease in amounts due from related companies	—	50,771	50,771	—		50,771
Repayment of loans to officers	—	75	75	—		75
Increase in amount due from the Vendor	—	(200,666)	(200,666)	—		(200,666)
Net cash inflow (outflow) from investing activities	43,136	(129,125)	(85,989)	—		(400,931)
FINANCING ACTIVITIES						
Net decrease in trust receipts bank loans	(24,231)	—	(24,231)	—		(24,231)
Repayment of bank loans	(9,450)	(110,197)	(119,647)	—	*9*	(119,647)
New bank loans	6,615	171,938	178,553	509,600	*4*	688,153
Issue of ordinary shares	21	—	21	—		21
Increase in amount due to the Vendor	—	134	134	—		134
Decrease in amounts due to related companies	—	(54,884)	(54,884)	—		(54,884)

	The Group Year ended 31st March 2005	The Target Group Year ended 31st March 2005	Pro Forma Combined	Pro Forma Adjustments		Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Net cash (outflow) inflow from financing activities	(27,045)	6,991	(20,054)	—		489,546
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(42,170)	93,835	51,665	—		205,025
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	55,433	194,658	250,091	(194,658)	2	55,433
CASH AND CASH EQUIVALENTS, END OF THE YEAR						
represented by cash and other bank deposits	13,263	288,493	301,756			260,458

Notes to the Unaudited Pro Forma Financial Information

1. The adjustment reflects the total consideration of HK$26,000,000 in connection with the acquisition of the Properties, satisfied by paid in capital of the Target.

2. The adjustment reflects the recognition of excess of the purchase consideration, which amounts to HK$509,600,000, incurred by the Group over the Group's 70% interests in the net fair value of the Target Group's identifiable assets, liabilities and contingent liabilities amounting to HK$18,200,000 at the date of completion, being 70% of the minimum net assets value of the Target Group after the dividend distributed to the Vendor according to the terms under the Agreement, with the assumption that the fair value of the net assets of the Target Group is the same as the carrying amount of the net assets after adding back negative goodwill of HK$3,083,000 as at 31st March 2005, and presented as an asset in the unaudited pro forma balance sheet of the Enlarged Group. The accounting treatment is in accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations" which is applicable to business combinations for which the agreement date is on or after 1st January 2005.

3. The adjustment reflects the release of pledged bank deposit as security to a bank for providing banking facilities to a related company according to the terms under the Agreement.

4. The adjustment reflects the borrowings of HK$509,600,000 by the Group from independent financial institutions to finance the Acquisition.

5. According to the Agreement, the Vendor will receive by way of dividend the distributable reserves of the Target Group as evidenced by the audited consolidated accounts as at Completion Date while the Vendor undertakes that the net asset value of the Target Group as at Completion will be not less than HK$26,000,000.

The adjustment represents the dividend payable by the Target Group to the Vendor assuming the reserves of the Target Group at 31st March 2005 after adjusting the negative goodwill of HK$3,083,000 are distributable and the dividend will be settled through current account with the Vendor.

6. The adjustment reflects the minority interest in the Target Group which is calculated as 30% of HK$26,000,000, being the minimum net asset value of the Target Group after dividend distributed to the Vendor.

7. The adjustment reflects the decrease of HK$4,056,000 in administrative expenses as a result of elimination of rental expenses against rental income extracted from the tenancy agreements of the Properties, which were leased to and used by the Target Group.

8. On the basis of amortising the goodwill of HK$491,400,000 to expenses on a straight line basis over the expected life of 10 years, the annual amortisation charged to income statement is approximately HK$49,140,000.

9. The adjustment reflects interest expenses on the borrowings to finance the Acquisition based on indicative terms from the independent financial institutions. Interest expenses on HK$407,680,000 borrowings for the Acquisition are calculated at Hong Kong Inter-Bank Offered Rate ("HIBOR") plus 1.75% per annum for the first six months and HIBOR plus 3.5% per annum thereafter, amounting to approximately HK$24,970,000 and the maturity is one year and one day. Interest expenses for the remaining HK$101,920,000 borrowings for the Acquisition are calculated at HIBOR plus 4% per annum amounting to approximately HK7,644,000 and the maturity is one year and one day. It is assumed that the HIBOR is 3.5%.

10. The adjustment reflects the arrangement fee required to pay on the borrowings for the Acquisition amounting to approximately HK$12,740,000.

11. The adjustment reflects the profit of the Target Group attributed to the minority interest and is calculated as 30% of HK$268,120,000 being the Target Group's profit after taxation of HK$264,064,000 after rental expense of HK$4,056,000 eliminated against rental income of the Properties as detailed in note 7 above.

The following is the full text of a letter received from Deloitte Touche Tohmatsu for the purpose of incorporation in this circular.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

23rd September 2005

The Directors
North Asia Strategic Holdings Limited

Dear Sirs,

We report on the pro forma financial information (the "Pro Forma Financial Information") of North Asia Strategic Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix III to the circular dated 23rd September 2005 (the "Circular") in connection with the proposed acquisition (the "Acquisition") by the Group of the 70% equity interest of Best Quality Limited ("Best Quality"). For the purpose of this letter, references to the "Enlarged Group" comprises the Group and Best Quality and its subsidiaries. The Pro Forma Financial Information of the Enlarged Group has been prepared, for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information of the Enlarged Group in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules").

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the Pro Forma Financial Information of the Enlarged Group and to report our opinion to you. We do not accept any responsibility for any reports on any financial information used in the compilation of the Pro Forma Financial Information of the Enlarged Group.

BASIS OF OPINION

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the listing rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information of the Enlarged Group with the directors of the Company.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and accordingly we do not express any such assurance on the Pro Forma Financial Information of the Enlarged Group.

The Pro Forma Financial Information of the Enlarged Group has been prepared on the basis set out in Appendix III to the Circular for illustrative purpose only and, because of its nature, it may not give an indicative of:

(a) the financial position of the Enlarged Group at 31st March 2005 or any future date; or

(b) the results and cash flows of the Enlarged Group for the year ended 31st March 2005 or any future period.

OPINION

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Enlarged Group; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular, 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 Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Göran Sture Malm, Chairman of the Company, is also the chairman of an investment company Boathouse Limited and of Project HOPE Hong Kong Foundation, a US originated charity. He also holds various board seats of companies in Hong Kong, Shanghai, Singapore and Sweden, including Samsung Electronics in Korea. Prior to joining Boathouse in 2000, Mr. Malm held positions as President of Dell Asia Pacific, Senior Vice President of Dell Computer Corporation, Senior Vice President of General Electric (GE) Company, President of General Electric Asia Pacific, President and Chief Executive Officer of GE Medical Systems Asia Ltd. and Vice President of General Electric (GE) Company. Mr. Malm holds a Master of Science degree in Economics and Business Administration from the University College of Economics and Business Administration in Göteborg, Sweden.

Mr. Chow Savio Sing Nam, is the Chief Executive Officer of the Company. Prior to joining the Group, Mr. Chow served as a Consultant at E.M. Warburg Pincus & Co. Asia Ltd. He has had about 20 years experience in the IT industry both in the US and Asia Pacific. He was the Managing Director of Yahoo! Inc. responsible for Asia. Prior to joining Yahoo, Mr. Chow held various senior management positions at Netscape Communications Corporation, Lotus Development Corporation and International Business Machines Corporation. He holds Master of Science degree in Engineering and Master of Business Administration degree from the University of California at Berkeley. Mr. Chow was an executive director of MediaNation Inc., a company listed on GEM (stock code: 8160), during July 2002 to February 2003.

Mr. Cho Henry Kim, is a co-founder and Managing Partner of Ajia Partners Inc. ("API"). He focuses primarily on investor/partner relations and activities for the real estate and special situations groups of API and companies controlled by it. Prior to founding the firm, he was a Principal at Bank of America, N.A. Prior to Bank of America, N.A., Mr. Cho was with HSBC Markets (Asia) Limited in Hong Kong. Mr. Cho received his Bachelor degree in Economics and International Relations from Brown University and Master of Business Administration degree from the Wharton School, University of Pennsylvania.

Mr. Andrew Cho Fai Yao, has been with the Group since the formal establishment of the trading operation in April 1997. He graduated from the University of California, Berkeley with a bachelor degree in finance and obtained a master of business administration degree from the Harvard University Graduate School of Business Administration. Mr. Yao has extensive experience in the steel trading business and is the chairman of VSC. He serves as a member of Hong Kong Housing Society and the chairman of the construction material for Federation of Hong Kong Industries. He also sits on the Shanghai People's Political Consultative Conference, deputy chairman of Shanghai Youths Federation, deputy chairman of the Hong Kong United Youth Association Limited and director of the Shanghai Fudan University.

Mr. Desmond Hay Ching Fu, joined the Group in May 2000. Mr. Fu has over 20 years of experience in China related steel business and investment with several multi-national steel companies including British Steel Corporation (now known as Corus), TradeArbed (now known as Arcelor) and Fletcher Challenge (the biggest private company in New Zealand). Mr. Fu holds a bachelor degree in Civil Engineering with honor from the University of London and a master degree in E-commerce from the University of Hong Kong.

Independent Non-executive Directors

Mr. Philip King Huen Ma, is the group managing director of The Sincere Company Limited, a listed company on the Stock Exchange. He joined the Group in March 2000. He is also very active in his community services and was the Chairman of the Hong Kong Retail Management Association from 1996-2000. He holds a masters degree in business administration from McMaster University in Canada.

Mr. Kenny King Ching Tam, joined the Group in September 2004. Mr. Tam is a qualified accountant in Hong Kong and Canada. He is a practising accountant in Hong Kong and is the owner of Kenny Tam & Co., Certified Public Accountants. He is also a registered Insolvency Practitioner of the Official Receiver's Office. He has substantial experience in the accounting and insolvency fields. He serves on a number of advisory committees in the Accountancy and Insolvency Profession and has been active in community work in Hong Kong for many years. Mr. Tam is also an independent non-executive director of a number of listed companies in Hong Kong.

Mr. Kwan Chi Ping Edgar, a civil engineer, has over 30 years of international experience in engineering, construction and project management. He currently holds a senior management position at a leading construction group in Hong Kong, responsible for overall management of a building division which primarily focuses on construction of building and project management. He holds Bachelor and Master degrees in Civil Engineering from the University of Hong Kong and a Master degree in Business Administration from the Chinese University of Hong Kong. His current major public services include acting as the Chairman of the Construction Industry Training Authority, Vice President of the Hong Kong Construction Association, member of the Independent Police Complaints Council, member of the Broadcasting Authority Complaints Committee, member of the Engineers Registration Board and member of the Appeal Tribunal (Building).

Qualified Accountant

Ms. Luk Pui Yin Grace, is the Chief Financial Officer of the Company. She has over 15 years of experience in auditing, accounting, financial management and private equity in Hong Kong and the Mainland China. Ms. Luk holds a bachelor degree in Business Administration with honor from the Chinese University of Hong Kong. She is a Fellow of the Association of Chartered Certified Accountants in the United Kingdom, an Associate of the Chartered Institute of Management Accountants in the United Kingdom and the Hong Kong Institute of Certified Public Accountants.

The business address of Mr. Göran Sture Malm, Mr. Chow Savio Sing Nam, Mr. Cho Henry Kim, Mr. Kwan Chi Ping Edgar and Ms. Luk Pui Yin Grace is 78th Floor, The Center, 99 Queen's Road Central, Hong Kong. The business address of the remaining Directors is Rooms 4902-8, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had interests and/or short positions in the securities of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the GEM Listing Rules relating to securities transactions by directors of listed companies to be notified to the Company and the Stock Exchange:

Long position in the Shares:

Name	Capacity/ Nature of Interest	Attributable interest to the Director	Number of Shares and approximate % of shareholding	
Mr. Andrew Cho Fai Yao	— Interest of a controlled corporation (TN) *(Note 1)*	deemed interest *(indirectly)*	1,633,676	(1.71%)
	— Interest of a controlled corporation (Huge Top) *(Note 2)*	more than one-third *(indirectly)*	1,598,113	(1.67%)
	— Interest of a controlled corporation (VSC BVI) *(Note 3)*	through Huge Top *(indirectly)*	6,336,309	(6.61%)
	— Interest of a controlled corporation (Right Action) *(Note 4)*	100% *(directly)*	1,024,000	(1.07%)
			10,592,098	(11.06%)

Notes:

1. As at the Latest Practicable Date, TN Development Limited ("TN") owns 1,633,676 Shares. VSC BVI owns 54% of the issued share capital of TN and Mr. Andrew Cho Fai Yao owns 10% of the issued share capital of TN. Mr. Andrew Cho Fai Yao is one of the two directors of TN. These interests of the aforesaid Director in the securities of the Company were corporate interests.

   All Shares held by TN are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April 2000. The sole purpose of TN is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.

2. As at the Latest Practicable Date, Huge Top owns 1,598,113 Shares. Mr. Andrew Cho Fai Yao directly holds approximately 11.91% and indirectly through Perfect Capital International Corp. ("Perfect Capital") owns approximately 42.86% of the issued share capital of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Perfect Capital. Mr. Andrew Cho Fai Yao is one of the two directors of Huge Top. These interests of the aforesaid Director in the securities of the Company were corporate interests.

3. As at the Latest Practicable Date, VSC BVI owns 6,336,309 Shares and Huge Top owns approximately 47.05% of the issued share capital of VSC. VSC BVI is a wholly-owned subsidiary of VSC. Mr. Andrew Cho Fai Yao is one of the two directors of VSC BVI. These interests of the aforesaid Director in the securities of the Company were corporate interests.

4. As at the Latest Practicable Date, Right Action Offshore Inc. ("Right Action") owns 1,024,000 Shares. Mr. Andrew Cho Fai Yao owns the entire issued share capital of Right Action and is also the sole director of that company. These interests were corporate interests in the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the securities of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the GEM Listing Rules relating to securities transactions by directors of listed companies to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following person(s) (other than the Directors or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in the Shares:

Name	**Capacity/ Nature of interest**	**Number of Shares and approximate % of shareholding**		*Notes*
Substantial Shareholders				
Mr. Tsang Moses Kwok Tai ("Mr. Tsang")	— beneficial owner	59,080,459	(61.68%)	1
	— interest of a controlled corporation (Oboe Development Trading Limited)	509,400	(0.53%)	
		59,589,859	(62.21%)	*1 & 2*
North Asia Strategic Acquisition Corp. ("NASAC")	— beneficial owner	132,490,421	(138.31%)	*3*
North Asia Strategic Advisors ("NASA")	— interest of a controlled corporation (NASAC)	132,490,421	(138.31%)	*3 & 4*
Ajia Partners Inc. ("API")	— interest of a controlled corporation (NASAC)	132,490,421	(138.31%)	*3, 4 & 5*

Name	Capacity/ Nature of interest	Number of Shares and approximate % of shareholding		Notes
Other Shareholders				
VSC BVI	— beneficial owner	6,336,309	(6.61%)	
	— interest of a controlled corporation (TN)	1,633,676	(1.71%)	
		7,969,985	(8.32%)	*6*
VSC	— interest of a controlled corporation (VSC BVI)	6,336,309	(6.61%)	
	— interest of a controlled corporation (TN)	1,633,676	(1.71%)	
		7,969,985	(8.32%)	*6 & 7*
Huge Top	— beneficial owner	1,598,113	(1.67%)	
	— interest of a controlled corporation (VSC BVI)	6,336,309	(6.61%)	
	— interest of a controlled corporation (TN)	1,633,676	(1.71%)	
		9,568,098	(9.99%)	*6, 7 & 8*
Perfect Capital	— interest of a controlled corporation (Huge Top)	1,598,113	(1.67%)	
	— interest of a controlled corporation (VSC BVI)	6,336,309	(6.61%)	
	— interest of a controlled corporation (TN)	1,633,676	(1.71%)	
		9,568,098	(9.99%)	*6, 7 & 8*

Name	Capacity/ Nature of interest	Number of Shares and approximate % of shareholding		Notes
Ms. Miriam Che Li Yao	— interest of a controlled corporation (Huge Top)	1,598,113	(1.67%)	
	— interest of a controlled corporation (VSC BVI)	6,336,309	(6.61%)	
	— interest of a controlled corporation (TN)	1,633,676	(1.71%)	
		9,568,098	(9.99%)	*6, 7, 8 & 9*

Notes:

1. As at the Latest Practicable Date, Mr. Tsang is directly interested in 19,693,486 Shares and a further 39,386,973 Shares which may fall to be issued if the Convertible Bonds are converted at the initial conversion price of HK$0.1566. Accordingly, Mr. Tsang is directly interested in a total of 59,080,459 Shares.

2. As at the Latest Practicable Date, Mr. Tsang is directly interested in 59,080,459 Shares. In addition, 509,400 Shares is directly owned by Oboe Development Trading Limited which is wholly owned by Mr. Tsang. Mr. Tsang is therefore deemed to be interested in an aggregate of 59,589,859 Shares.

3. As at the Latest Practicable Date, NASAC is directly interested in 44,163,474 Shares and a further 88,326,947 Shares which may fall to be issued if the Convertible Bonds are converted at the initial conversion price of HK$0.1566. Accordingly, NASAC is directly interested in a total of 132,490,421 Shares.

4. As at the Latest Practicable Date, NASA holds the single voting participating share of NASAC and is therefore deemed to be interested in 132,490,421 Shares.

5. As at the Latest Practicable Date, API wholly owns all the shares in NASA, which in turn holds the single voting participating share of NASAC. API is therefore deemed to be interested in 132,490,421 Shares.

6. VSC BVI owns 54% of the share capital of TN and is deemed to be interested in the 1,633,676 Shares held by TN as at the Latest Practicable Date. VSC BVI directly owns 6,336,309 Shares as at the Latest Practicable Date. VSC BVI is therefore directly and indirectly interested in an aggregate of 7,969,985 Shares.

7. As at the Latest Practicable Date, VSC owned the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 7,969,985 Shares.

8. Perfect Capital owns approximately 42.86% of the issued share capital of Huge Top as at the Latest Practicable Date. Huge Top is beneficially interested in approximately 47.05% of the issued share capital of VSC as at the Latest Practicable Date and Perfect Capital and

Huge Top are therefore deemed to be interested in the 1,633,676 Shares held by TN and the 6,336,309 Shares held by VSC BVI as at the Latest Practicable Date. As at the same date, Huge Top also directly owns 1,598,113 Shares. Huge Top is therefore directly and indirectly interested in an aggregate of 9,568,098 Shares, and Perfect Capital is indirectly interested in the same aggregate interests.

9. As at the Latest Practicable Date, Ms. Miriam Che Li Yao is one of the two directors for TN and Huge Top while the remaining director of these two companies is Mr. Andrew Cho Fai Yao who is the brother of Ms. Miriam Che Li Yao. Ms. Miriam Che Li Yao is therefore through Huge Top indirectly interested in an aggregate of 9,568,098 Shares.

Save as disclosed above and save for any interest or short positions in the securities of the Company which any person may have, or would deemed or taken to have, or which would fall to be disclosed under this paragraph by virtue of the Placement, the Directors and the chief executive of the Company were not aware of any person (other than the Directors or chief executive of the Company) who has an interest or short position in the securities of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

4. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years preceding the Latest Practicable Date and are or may be material:

1. a subscription agreement dated 20th October 2003 entered into by the Company, AFAC Equity, L.P. and McKinsey & Company Inc. Hong Kong;

2. a loan agreement dated 26th March 2004 between Win Win Industrial Company Limited as the lender and Hui Chun Lung, Band as the borrower for a loan in the amount of US$2.55 million;

3. the subscription agreement dated 19th May 2005 entered into among the Company, North Asia Strategic Acquisition Corporation, Mr. Tsang Moses Kwok Tai and Huge Top in relation to the subscription (the "Subscription") of 63,856,960 Shares and the Convertible Bonds, details of which are set out in the circular of the Company dated 20th June 2005;

4. the deed of indemnity dated 19th May 2005 made amongst Huge Top, Mr. Andrew Cho Fai Yao, the Company and the Ajia Parties in conjunction with the Subscription;

5. the underwriting agreement dated 19th May 2005 between the Company and VSC BVI relating to the underwriting of Shares pursuant to the open offer detailed in the prospectus of the Company dated 21st July 2005;

6. the Agreement; and

7. the six conditional subscription agreements dated 16th September 2005 and two conditional subscription agreements dated 19th September 2005 with institutional investors in relation to the Placement.

6. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

Save for the deed of indemnity as disclosed in the section headed "Material Contracts" in this appendix, of which Mr. Andrew Cho Fai Yao is an obligor, there is no contract or arrangement entered into by any member of the Enlarged Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31st March 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

8. COMPETING INTERESTS

Mr. Andrew Cho Fai Yao is the executive Director and also the chairman of VSC. VSC is also engaged in steel trading business. The Directors believe that there is a risk that such business may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Andrew Cho Fai Yao in the steel industry will complement the development of the Group's business.

Save for aforesaid, none of the Directors, management Shareholders, substantial Shareholders and their respective associates compete or may compete with the business of the Group, or have or may have any other conflicts of interest with the Group pursuant to the GEM Listing Rules.

9. AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The duties of the Audit Committee include reviewing the Company's annual reports and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The Audit Committee comprises three independent non-executive Directors, namely Mr. Philip King Huen Ma, Mr. Kenny King Ching Tam and Mr. Kwan Chi Ping Edgar. The biographies of members of the Audit Committee are set out in the paragraph headed "Directors and Senior Management" in this appendix.

10. CONSENT

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report and/or references to its name, in the form and context in which they respectively appear.

11. QUALIFICATION

The following is the qualification of the expert who has been named in this circular or have given their opinions, letters or advice which are contained in this circular:

Name	**Qualification**
Deloitte Touche Tohmatsu	Certified Public Accountants

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding in the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group, nor did it have any interest, direct or indirect, in any assets which had, since 31st March 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up), been acquired or disposed of by or leased to the Enlarged Group, or were proposed to be acquired or disposed of by or leased to the Enlarged Group.

12. PROCEDURES FOR DEMANDING A POLL BY THE SHAREHOLDERS

Pursuant to bye-law 66 of the bye-laws of the Company, at any general meeting, resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

13. GENERAL

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its head office and principal place of business in Hong Kong is at 78th Floor, The Centre, 99 Queen's Road Central, Hong Kong.

(b) The compliance officer of the Company is Mr. Chow Savio Sing Nam. His qualification is detailed under the section headed "Directors and senior management" in this appendix.

(c) The qualified accountant of the Company is Ms. Luk Pui Yin Grace. Her qualification is detailed under the section headed "Directors and senior management" in this appendix.

(d) The company secretary of the Company is Mr. Chau Kwok Ming. He has over 10 years of company secretarial experience at listed companies in Hong Kong. He is a Fellow of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

(e) The Hong Kong branch share registrar of the Company is Computershare Hong Kong Invertor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road Central, Hong Kong.

(f) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong at 78th Floor, The Centre, 99 Queen's Road Central, Hong Kong from the date of this circular up to and including 10th October 2005 and at the SGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31st March 2005 and the quarterly report for the three months ended 30th June 2005;

(c) the accountants' report on the Target Group, the text of which is set out in appendix II to this circular;

(d) the letter issued by Deloitte Touche Tohmatsu in connection with the pro forma financial information of the Enlarged Group, the text of which is set out in appendix III to this circular;

(e) the letter of consent from Deloitte Touche Tohmatsu referred to in the paragraph headed "Consent" in this appendix;

(f) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(g) the circular of the Company dated 20th June 2005 regarding the capital reorganisation, open offer, subscription of new shares and convertible bonds, application for whitewash and change of company name; and

(h) the prospectus of the Company dated 21st July 2005 in relation to an open offer of Shares.

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)

NOTICE IS HEREBY GIVEN that a special general meeting of North Asia Strategic Holdings Limited (the "Company") will be held at 78th Floor, The Center, 99 Queen's Road Central, Hong Kong, on Monday, 10th October 2005, at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(A) the acquisition of a 70% equity interest in the issued share capital of Best Quality Limited (the "Target") for a total cash consideration of HK$509.6 million, subject to the fulfillment of certain conditions, contemplated under the sale and purchase agreement (the "Sale and Purchase Agreement") dated 26th August 2005 entered into among Ace Level Investments Limited, a wholly-owned subsidiary of the Company, the Company, and the sole beneficial owner of the Target (a copy of the Sale and Purchase Agreement has been produced to this meeting marked "A" and initialed by the chairman of the meeting for identification purpose), and all other transactions as contemplated under the Sale and Purchase Agreement be and are hereby approved; and

(B) the Directors be and are hereby authorised to exercise all the powers of the Company and execute all documents and deeds and take all other steps as might in their opinion be desirable or necessary in connection with the Sale and Purchase Agreement and/or the transactions as contemplated thereunder and to agree to and make such, variation, amendment and waiver of any of the matters relating thereto or in connection therewith."

By Order of the Board
Chow Savio Sing Nam
Executive Director and Chief Executive Officer

Hong Kong, 23rd September 2005

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
78th Floor
The Center
99 Queen's Road Central
Hong Kong

* *For identification purpose only*

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint more than one proxy to attend and vote instead of him. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the relevant power of attorney or other authority (if any) under which it is signed (or notarially certified true copy thereof) must be deposited at the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.