

North Asia Strategic Holdings Limited

北亞策略控股有限公司*

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)



NORTH ASIA STRATEGIC

2005/06 中期業績報告
Interim Report

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“THE STOCK EXCHANGE”)

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.

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This report, for which the directors of North Asia Strategic Holdings Limited (the “Directors” or the “Board”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (“the GEM Listing Rules”) for the purpose of giving information with regard to North Asia Strategic Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Turnover

For the six months ended 30th September 2005, the Group recorded a turnover of approximately HK\$219,834,000, representing a 57% decrease by comparing with the results in the corresponding period last year. Steel trading was 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, real estate sector, aluminium, automobile and cement industries.

(Loss)/profit attributable to shareholders

The Group recorded a loss attributable to shareholders of approximately HK\$3,725,000 for the six months ended 30th September 2005, representing an increase of 149% over that of the corresponding period in 2004. This was mainly attributable to additional general and administration expenses (including legal fees incurred for the Group's recent fund raising activities) and interest expense totalling approximately HK\$3,730,000 recorded by the Group after the change of the Company's substantial shareholders on 8th August 2005. Discounting the effect of these additional general and administration expenses and interest expense, the Group achieved a small profit of approximately HK\$5,000 from its principal business activities of steel trading and procurement services, versus net loss of approximately HK\$1,500,000 for the corresponding period in 2004.

RESULTS

The followings are the unaudited consolidated results of North Asia Strategic Holdings Limited (the "Company" or the "North Asia Strategic") and its subsidiaries (collectively the "Group" or "North Asia Strategic Group") for the six months and three months ended 30th September 2005 together with the comparative unaudited figures for the corresponding periods in 2004:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30th September		For the three months ended 30th September	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	3				
— Sales		217,112	505,202	119,131	268,914
— Commission		2,722	2,446	1,779	1,147
Cost of sales		<u>(216,082)</u>	<u>(492,784)</u>	<u>(119,485)</u>	<u>(260,309)</u>
Gross profit		3,752	14,864	1,425	9,752
Other revenue		3,187	676	121	123
Selling and distribution expenses		(1,368)	(4,876)	(436)	(2,602)
General and administration expenses		<u>(7,970)</u>	<u>(9,582)</u>	<u>(4,910)</u>	<u>(4,979)</u>
Operating (loss)/profit		(2,399)	1,082	(3,800)	2,294
Finance costs		<u>(1,911)</u>	<u>(2,622)</u>	<u>(774)</u>	<u>(1,282)</u>
(Loss)/Profit before taxation		(4,310)	(1,540)	(4,574)	1,012
Taxation	4	<u>585</u>	<u>46</u>	<u>798</u>	<u>3</u>
(Loss)/Profit for the period		<u>(3,725)</u>	<u>(1,494)</u>	<u>(3,776)</u>	<u>1,015</u>
Attributable to :					
Equity holders of the Company		(3,725)	(1,500)	(3,776)	1,036
Minority interest		<u>—</u>	<u>6</u>	<u>—</u>	<u>(21)</u>
		<u>(3,725)</u>	<u>(1,494)</u>	<u>(3,776)</u>	<u>1,015</u>
(Loss)/Earnings per share for (loss)/profit attributable to the equity holders of the Company during the period					
— Basic	5	<u>HK(9.42) cents</u>	<u>HK(9.40) cents</u>	<u>HK(6.01) cents</u>	<u>HK6.49 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th September 2005 HK\$'000 (Unaudited)	As at 31st March 2005 HK\$'000 (Audited)
	<i>Notes</i>		
Non-current assets			
Fixed assets	7	1,029	1,411
Website development costs	7	11	21
Long-term investment		780	780
Total non-current assets		<u>1,820</u>	<u>2,212</u>
Current assets			
Inventories		49,455	94,936
Deposits for purchase of inventories		59,132	27,387
Prepayments and deposits		13,904	7,893
Accounts and bills receivable	8	23,585	3,977
Pledged bank deposits		16,139	16,080
Cash and other bank deposits		46,539	13,263
Total current assets		<u>208,754</u>	<u>163,536</u>
Current liabilities			
Short-term bank borrowings	9	(22,057)	(24,360)
Accounts and bills payable	10	(127,951)	(121,018)
Other payables		(3,891)	(1,807)
Accruals		(6,868)	(5,634)
Receipts in advance		(14,861)	(5,256)
Taxation payable		(5,183)	(5,536)
Total current liabilities		<u>(180,811)</u>	<u>(163,611)</u>
Net current assets/(liabilities)		<u>27,943</u>	<u>(75)</u>
Non-current liabilities			
Convertible bonds	9, 11	(13,844)	—
Net assets		<u>15,919</u>	<u>2,137</u>
Representing:			
Share capital		958	159,659
Other reserves	12	28,382	13,818
Accumulated losses		(13,421)	(171,340)
Shareholders' equity		<u>15,919</u>	<u>2,137</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited				Total HK\$'000
	Attributable to equity holders of the Company			Minority Interest	
	Share capital	Other reserves	Accumulated losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance, 1st April 2004	159,638	13,904	(160,897)	—	12,645
Loss for the period	—	—	(1,500)	6	(1,494)
Change in fair value of a long-term investment	—	548	—	—	548
Issuance of shares upon exercise of warrants	1	—	—	—	1
Balance, 30th September 2004	159,639	14,452	(162,397)	6	11,700
Loss for the period	—	—	(8,943)	—	(8,943)
Translation adjustments	—	(86)	—	—	(86)
Realised upon disposal of a subsidiary	—	—	—	(6)	(6)
Realised upon disposal of a long-term investment	—	(548)	—	—	(548)
Issuance of shares upon exercise of warrants	20	—	—	—	20
Balance, 31st March 2005	159,659	13,818	(171,340)	—	2,137
Loss for the period	—	—	(3,725)	—	(3,725)
Capital reorganisation	(159,529)	159,529	—	—	—
Elimination of accumulated losses	—	(161,644)	161,644	—	—
Issuance of shares					
— upon exercise of warrants	30	—	—	—	30
— under a subscription agreement	639	9,361	—	—	10,000
— under an open offer	159	2,341	—	—	2,500
Expenses for open offer	—	(1,799)	—	—	(1,799)
Convertible bonds					
— equity component (Note 11)	—	6,388	—	—	6,388
Translation adjustments	—	388	—	—	388
Balance, 30th September 2005	958	28,382	(13,421)	—	15,919

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September	
	2005 HK\$'000	2004 HK\$'000
Net cash generated from/(used in) operating activities	4,551	(21,106)
Net cash generated from/(used in) investing activities	296	(812)
Net cash generated from financing activities	<u>28,429</u>	<u>5,174</u>
Net increase/(decrease) in cash and cash equivalents	33,276	(16,744)
Cash and cash equivalents at 1st April	<u>13,263</u>	<u>55,433</u>
Cash and cash equivalents at 30th September	<u>46,539</u>	<u>38,689</u>

Notes:

1. Basis of preparation

The unaudited condensed consolidated accounts have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

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 HKASs (“new HKFRSs”) which are effective for accounting periods commencing on or after 1st January 2005.

In the six months ended 30th September 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, and all outstanding options were cancelled pursuant to the pass of an ordinary resolution at the special general meeting of the Company held on 14th July 2005, the provision of HKFRS 2 had no material effect on the Group's policy.

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

2. 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 period 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.

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

3. Turnover and segment information

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.

The primary segment is defined by major product and operational unit, while the secondary segment is defined by geographical locations.

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 sale of merchandise. 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. An analysis by business segments is as follows:

	For the six months ended 30th September							
	Steel trading		Procurement services		Investment holding		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
Sales to external customers	217,133	505,580	2,701	2,068	—	—	219,834	507,648
Segment results	(3,712)	544	2,003	58	(2,655)	(27)	(4,364)	575
Other revenue	3,086	325	—	—	101	351	3,187	676
Unallocated corporate expenses							(1,222)	(169)
Operating (loss)/profit							(2,399)	1,082
Finance costs							(1,911)	(2,622)
Taxation							585	46
Loss for the period							(3,725)	(1,494)
Capital expenditures	41	146	—	2	8	780	49	928
Depreciation and Amortisation	205	548	10	14	1	—	216	562

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 merchandise, location of service performed for procurement services and location of sellers for online commission income. An analysis by geographical segment is as follows:

	For the six months ended 30th September							
	Hong Kong		Mainland China		Others		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover — Sales to external customers	<u>15,280</u>	<u>11,585</u>	<u>204,554</u>	<u>496,063</u>	<u>—</u>	<u>—</u>	<u>219,834</u>	<u>507,648</u>
Segment results	<u>(2,868)</u>	<u>(371)</u>	<u>2,375</u>	<u>3,210</u>	<u>(684)</u>	<u>(1,588)</u>	<u>(1,177)</u>	<u>1,251</u>
Unallocated corporate expenses							<u>(1,222)</u>	<u>(169)</u>
Operating (loss)/profit							<u>(2,399)</u>	<u>1,082</u>
Capital expenditures	<u>49</u>	<u>37</u>	<u>—</u>	<u>889</u>	<u>—</u>	<u>2</u>	<u>49</u>	<u>928</u>

4. Taxation

Taxation consisted of:

	For the six months ended 30th September		For the three months ended 30th September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
	Mainland China enterprise income tax			
— Current taxation	<u>235</u>	<u>433</u>	<u>22</u>	<u>297</u>
— Tax refund	<u>(820)</u>	<u>(479)</u>	<u>(820)</u>	<u>(300)</u>
	<u>(585)</u>	<u>(46)</u>	<u>(798)</u>	<u>(3)</u>

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 subject to Hong Kong profits tax during the six months and three months ended 30th September 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%).

5. (Loss)/Earnings per share

The calculations of basic (loss)/earnings per share for the six months and three months ended 30th September 2005 were based on the unaudited consolidated loss attributable to shareholders of approximately HK\$3,725,000 (2004: HK\$1,500,000) and loss of approximately HK\$3,776,000 (2004: profit of HK\$1,036,000) respectively and on the weighted average number of 39,523,073 (2004: 15,963,893) shares and 62,823,174 (2004: 15,963,901) shares in issue during the six months and three months ended 30th September 2005 respectively, after taking into consideration of the one hundred-to-one consolidation of shares during the period.

6. Dividends

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

7. Fixed assets and website development costs

	Fixed assets	Website development costs
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Opening net book amount as at 1st April 2005	1,411	21
Additions	49	—
Disposals	(225)	—
Depreciation/amortisation charge (<i>Note 3a</i>)	(206)	(10)
	<u>1,029</u>	<u>11</u>
Closing net book amount as at 30th September 2005	<u><u>1,029</u></u>	<u><u>11</u></u>

8. Accounts and bills receivable (consolidated) consisted of:

	As at 30th September 2005	As at 31st March 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Accounts and bills receivable	24,060	4,455
Less: Provision for bad and doubtful receivable	(475)	(478)
	<u><u>23,585</u></u>	<u><u>3,977</u></u>

In giving credit to selected customers, the Group normally grants such customers credit periods ranging from 30 days to 90 days. Ageing analysis of accounts and bills receivable (consolidated) is as follows:

	As at 30th September 2005 HK\$'000 (Unaudited)	As at 31st March 2005 HK\$'000 (Audited)
0 to 90 days	23,215	3,959
91 to 180 days	—	3
181 to 270 days	368	15
271 to 365 days	—	—
1-2 years	477	478
	<u>24,060</u>	<u>4,455</u>
Less: Provision for bad and doubtful receivable	(475)	(478)
	<u>23,585</u>	<u>3,977</u>

9. Borrowings

	As at 30th September 2005 HK\$'000 (Unaudited)	As at 31st March 2005 HK\$'000 (Audited)
Non-current		
Convertible bonds (Note 11)	13,844	—
Current		
Short-term bank borrowings	<u>22,057</u>	<u>24,360</u>
Total borrowings	<u>35,901</u>	<u>24,360</u>

Total borrowings include secured liabilities of HK\$22,057,000 (At 31st March 2005: HK\$24,360,000), which are secured by the bank deposits of the Group of HK\$16,138,000 (At 31st March 2005: HK\$16,080,000) and guarantees provided by the Company of approximately HK\$30,225,000 (At 31st March 2005: HK\$88,725,000), and unsecured convertible bonds of HK\$13,844,000 (At 31st March 2005: Nil).

The maturity of borrowings is as follows:

	As at 30th September 2005 HK\$'000 (Unaudited)	As at 31st March 2005 HK\$'000 (Audited)
Within 1 year	22,057	24,360
Wholly repayable within 5 years	13,844	—
	35,901	24,360

The effective interest rates at the balance sheet date were as follows:

Short-term bank borrowings	5.48% — 6.02%	5.48% — 5.64%
Convertible bonds	8%	—

10. Accounts and bills payable

Ageing analysis of accounts and bills payable (consolidated) is as follows:

	As at 30th September 2005 HK\$'000 (Unaudited)	As at 31st March 2005 HK\$'000 (Audited)
0 to 90 days	61,814	18,272
91 to 180 days	60,811	93,467
181 to 270 days	5,290	8,079
271 to 365 days	36	—
1 to 2 years	—	1,200
	127,951	121,018

11. Convertible bonds

On 8th August 2005, the Company issued convertible bonds at par value of HK\$20 million.

The bonds will mature in August 2010 or can be converted into a total of 127,713,920 shares at the holders' option of HK\$0.1566 per share. In addition, the holders will have the right to request the Group to redeem in whole or in part the outstanding bonds on a date which is five business days after 30th November 2007.

The fair values of the liability component and the equity conversion component were determined at issuance of the bonds.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for a term loan offered to the Group. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity as other reserves (Note 12).

The convertible bonds recognised in the balance sheet is calculated as follows:

	As at 30th September 2005 HK\$'000 (Unaudited)	As at 31st March 2005 HK\$'000 (Audited)
Face value of convertible bonds issued on 8th August 2005	20,000	—
Equity component	(6,388)	—
Liability component on initial recognition at 8th August 2005	13,612	—
Accrued interest expense	232	—
Liability component at 30th September 2005	13,844	—

The fair value of the liability component of the convertible bonds at 30th September 2005 amounted to HK\$13,844,000.

The fair value is calculated using cash flows discounted at a rate based on the offered term loan rate of 8% per annum.

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 8% to the liability component.

12. Other reserves

	Contributed surplus <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Convertible bonds <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2004	—	11,099	—	2,700	—	105	13,904
Change in fair value of a long-term investment	—	—	—	—	548	—	548
Balance, 30th September 2004	—	11,099	—	2,700	548	105	14,452
Translation adjustments	—	—	—	—	—	(86)	(86)
Realised upon disposal of a long-term investment	—	—	—	—	(548)	—	(548)
Balance, 31st March 2005	—	11,099	—	2,700	—	19	13,818
Capital reorganisation	170,628	(11,099)	—	—	—	—	159,529
Elimination of accumulated losses	(161,644)	—	—	—	—	—	(161,644)
Issuance of shares							
— under a subscription agreement	—	9,361	—	—	—	—	9,361
— under an open offer	—	2,341	—	—	—	—	2,341
Expenses for open offer	—	(1,799)	—	—	—	—	(1,799)
Convertible bonds							
— equity component (<i>Note 11</i>)	—	—	6,388	—	—	—	6,388
Translation adjustments	—	—	—	—	—	388	388
Balance, 30th September 2005	<u>8,984</u>	<u>9,903</u>	<u>6,388</u>	<u>2,700</u>	<u>—</u>	<u>407</u>	<u>28,382</u>

13. 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. Significant transactions with related parties are summarised below:

Name of related party/Nature of transaction	For the six months ended 30th September	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Van Shung Chong Hong Limited (i)		
— Purchases made by the Group	120,727	264,341
— Commission from procurement services earned by the Group	—	1,360
— Interest charged to the Group	973	1,655
— Administrative fees charged to the Group	30	180
CFY Enterprises Limited (i)		
— Rental expenses charged to the Group	13	81
— Rates, management fees and utilities charged to the Group	9	49
Ajia Partners (HK) Limited (ii)		
— Rental expenses charged to the Group	131	—
— Administrative services fee charged to the Group	135	—

Notes:

- (i) Van Shung Chong Hong Limited and CFY Enterprises Limited are wholly owned and controlled by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company until completion of the raising of HK\$30 million from North Asia Strategic Acquisition Corp. and Mr. Tsang Moses Kwok Tai on 8th August 2005 ("Completion of the Subscription") as mentioned in our first quarterly report dated 12th August 2005.
- (ii) Ajia Partners (HK) Limited is an associate of North Asia Strategic Acquisition Corp., a substantial shareholder of the Company after the Completion of the Subscription.

14. Subsequent event

Subsequent to 30th September 2005, on 10th October 2005, the Company's shareholders approved the acquisition (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 (the "Purchaser"), a wholly-owned subsidiary of the Company, the Company, and the sole beneficial owner of the Target (the "Vendor"), and all other transactions as contemplated under the Sale and Purchase Agreement. The Target and its subsidiaries (the "Target Group") are principally engaged in the distribution of and the provision of after sale services for sophisticated computerised knitting machines. Pursuant to the Sale and Purchase Agreement, completion shall take place on 15th October 2005 or such other date as may be agreed between the Vendor and the Purchaser. As of the date of this report, the Purchaser and the Vendor have mutually agreed to extend the completion date to a date on or before 30th November 2005, as certain conditions precedent to the completion, including the obtaining of a waiver by the sole supplier of the Target Group 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, are yet to be fulfilled.

BUSINESS REVIEW

Finance and Business Performance

For the six months ended 30th September 2005, the Group recorded a loss attributable to shareholders of approximately HK\$3,725,000, representing an increase of approximately 149% over that of the corresponding period in 2004. This was mainly attributable to additional general and administration expenses of approximately HK\$3.5 million (including professional fees of approximately HK\$2.4 million incurred by the Company in relation to the Placement) and interest expense on convertible bonds of HK\$232,000 incurred by the Company after the change of the substantial shareholders in the Company on 8th August 2005. Discounting the effect of these expenses totalling approximately HK\$3.7 million, the Group achieved a small profit attributable to shareholders of approximately HK\$5,000 from its principal business activities of steel trading and procurement services, representing a significant improvement from the loss attributable to shareholders of HK\$1.5 million for the corresponding period in 2004.

Like the corresponding period in 2004, the Group's turnover of HK\$219,834,000 for the six months ended 30th September 2005 were all generated from its steel trading activities and procurement services. This turnover figure was less than that of the corresponding period in 2004 by 57% and there were two major reasons for the decrease. Firstly, the PRC Central Government continues to deploy a package of macro-entrenchment policies to limit the excessive investments in several overheated industries including the steel, real estate development sector, aluminium, automobile and cement industries, which in turn hampers the growth in demands for steel usage. Secondly, the PRC Ministry of Finance and the State Administration of Taxation abolished the export tax rebate of steel semi-finished materials on 1st April 2005 and adjusted the export tax rebate of 20 steel products from 13% to 11%. This

has restrained the export of interrelated steel products and intensified the domestic competition. Since supply exceeds demand in both PRC and international markets for some popular steel products, the steel price dropped in the six months ended 30th September 2005, resulting in drop of turnover and a reduction of gross profit margin from approximately 2.9% in the corresponding period in 2004 to approximately 1.7% in the six months ended 30th September 2005. Under such difficult environment, management had put substantial efforts in resources alignment to steel products that yield a higher return, resulting in some unnecessary administrative costs being eliminated and they had imposed strict control over spending in selling expenses. This could be evidenced from the fact that, the ratio of selling and distribution expenses to turnover decreased from 0.96% in corresponding period in 2004 to 0.62% in the six months ended 30th September 2005.

Financial Resources, Liquidity and Charges on Assets

As at 30th September 2005, the Group's aggregate short-term bank borrowings, which were short-term working capital bank loans, were approximately HK\$22,057,000 (At 31st March 2005: HK\$24,360,000). Interest rates on these short-term working capital bank loans ranged from 5.48% to 6.02% per annum (At 31st March 2005: 5.48% to 5.64% per annum). As at 30th September 2005, the gearing ratio (short-term bank borrowings divided by shareholders' equity) was approximately 1.4 times (At 31st March 2005: 11.4 times). As at 30th September 2005, the Group had aggregate banking facilities of approximately HK\$28,057,000 (At 31st March 2005: HK\$88,125,000) from several banks for overdrafts, loans, standby letter of credit and trade financing. Unused facilities as at the same date amounted to approximately HK\$6,000,000 (At 31st March 2005: HK\$63,765,000). These facilities were secured by (a) corporate guarantees provided by the Company, (b) the Group's inventories held under trust receipts bank loan arrangement and (c) the Group's pledged cash of approximately HK\$16,138,000 (At 31st March 2005: HK\$16,080,000).

Foreign Currency Exposure

The North Asia Strategic Group's businesses were primarily transacted in Hong Kong dollars, United States ("US") dollar and Renminbi ("RMB"). The North Asia Strategic Group's cash and bank deposits, including pledged bank deposit, were mainly denominated in Hong Kong dollar, US dollar and RMB. The foreign currency exposure of the North Asia Strategic Group is mainly driven by its business operations. The sales receipts are predominately collected in RMB and US dollar. On the other hand, the steel products purchases are mainly denominated in US dollar. The North Asia Strategic Group will monitor closely the exchange rate between US dollar and RMB and will make necessary hedging arrangements to mitigate the risk arising from foreign currency fluctuation.

Employee Information

As at 30th September 2005, the North Asia Strategic Group employed 38 (2004: 57) staffs. Total staff costs including contribution to retirement benefit schemes incurred during the six months ended 30th September 2005 amounted to approximately HK\$1,900,000 (2004: HK\$4,402,000).

CONTINGENT LIABILITIES

As at 30th September 2005, the Group provided guarantees of approximately HK\$30,225,000 to banks in respect of the banking facilities granted to its subsidiaries (As at 31st March 2005: HK\$88,725,000).

COMMITMENTS

(a) Capital commitments

There was no material change in capital commitments since 31st March 2005.

(b) Investment commitments

As stated above, Ace Level Investments Limited, a wholly-owned subsidiary of the Company entered into a Sale and Purchase Agreement dated 26th August 2005 to acquire a 70% equity interest in the issued share capital of Best Quality Limited from its sole beneficial owner for a total cash consideration of HK\$509.6 million. The Vendor and the Group have mutually agreed to extend the completion date to a date on or before 30th November 2005.

(c) Operating lease commitments

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

	As at 30th September 2005 HK\$'000 (Unaudited)	As at 31st March 2005 HK\$'000 (Audited)
Within one year	1,405	705
In the second to fifth years inclusive	1,520	322
	<u>2,925</u>	<u>1,027</u>

OUTLOOK

As mentioned in our first quarterly report dated 12th August 2005, the Company successfully raised HK\$30 million from North Asia Strategic Acquisition Corp. and Mr. Tsang Moses Kwok Tai ("the Ajia Parties") on 8th August 2005 through the issuance of convertible bonds and new shares to these investors. The Ajia Parties have stated that they intend 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 stated above is a first step to implement the strategies of the Ajia Parties for the Company to diversify from the narrow focus of the existing cyclical steel trading business. In view of the profitable track record and the prospects of the Target Group, the Board considers that the Acquisition will enhance the Group's overall business performance and strengthen its revenue base and cash position. Negotiation with other possible investment targets are in progress but the Company has not entered into any definitive agreements for any investments.

Currently, 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 of the Acquisition. On the financing front, the existing steel trading business segment and procurement business segment ("the Existing Business Division") continue to rely significantly on Van Shung Chong Hong Limited. As at 30th September 2005, total accounts payable to Van Shung Chong Hong Limited was approximately HK\$124.5 million, as compared to the amount of approximately HK\$118.8 million at 31st March 2005. In light of the volatility of the steel prices and the austerity program implemented with respect to the PRC steel market coupled with an increasing interest rate trend, it is expected that the Existing Business Division will continue to experience a much harsher financing environment going forward. As such, the management of Existing Business Division will continue to manage its operations with a very prudent approach.

As mentioned in our announcement dated 22nd September 2005, the Company has also entered into 8 subscription agreements with 8 institutional investors for the placement of non-redeemable convertible preference shares (the "Placement") for a total of HK\$845.8 million before expenses. Discussions with other investors are still ongoing, which may lead to the issue of further non-redeemable convertible preference shares. This Placement aims to raise financial resources for the Group to capture sizeable investment opportunities and implement the diversification strategy as discussed above. The Board considers that the introduction of the placees as long-term investors of the Company by way of the Placement will also enhance the shareholders profile of the Company. The Board also believes that the Placement and the acquisition plan, if materialised, will help to strengthen the overall capital base and financial capability of the Group.

On behalf of the Board, I would like to express my sincere gratitude to our worldwide suppliers and customers for their trusts and support in our business throughout the years. I also wish to take this opportunity to express my sincere appreciation to our shareholders for their confidence in North Asia Strategic, as well as our staff for their dedication and continuous commitment to excellence.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required 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 taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in the Shares and underlying shares of the Company

Name	Capacity/ Nature of interest	Attributable interest to the Director	Number of Shares and approximate % of shareholding <i>(Note 1)</i>	
Mr. Andrew Cho Fai Yao ("Mr. Yao")	— Corporate interest held by TN Development <i>(Note 2)</i>	deemed interest (indirectly)	1,633,676	(1.71%)
	— Corporate interest held by Huge Top <i>(Note 3)</i>	more than one-third (indirectly)	1,598,113	(1.67%)
	— Corporate interest held by VSC BVI <i>(Note 4)</i>	through Huge Top (indirectly)	6,336,309	(6.61%)
	— Corporate interest held by Right Action <i>(Note 5)</i>	100% (directly)	1,024,000	(1.07%)
			<u>10,592,098</u>	<u>(11.06%)</u>

Notes:

1. These shares are the ordinary shares ("Shares") of HK\$0.01 each in the issued share capital of the Company.
2. As at 30th September 2005, TN Development Limited ("TN Development") owns 1,633,676 Shares. Van Shung Chong (B.V.I.) Limited ("VSC BVI") owns 54% of the issued share capital of TN Development and Mr. Yao owns 10% of the issued share capital of TN Development. Mr. Yao is one of the two directors of TN Development. These interests of the aforesaid Director in the securities of the Company were corporate interests.
3. As at 30th September 2005, Huge Top Industrial Ltd. ("Huge Top") owns 1,598,113 Shares. Mr. 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. Yao owns the entire issued share capital of Perfect Capital and is one of the two directors of Huge Top. These interests of the aforesaid Director in the securities of the Company were corporate interests.
4. As at 30th September 2005, VSC BVI owns 6,336,309 Shares and Huge Top owns approximately 47.05% of the issued share capital of Van Shung Chong Holdings Limited ("VSC"). VSC BVI is a wholly-owned subsidiary of VSC. Mr. 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.
5. As at 30th September 2005, Right Action Offshore Inc. ("Right Action") owns 1,024,000 Shares. Mr. 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.

The Company had adopted the Model Code since 31st March 2004 as the required standard against which Directors must measure their conduct regarding transactions in securities of the Company according to Rule 5.46 of the GEM Listing Rules. After having made specific enquiry of all Directors, they confirmed that they had complied with the required standard of dealings set out in the Model Code during the six months ended 30 September 2005.

Save as disclosed above, as at 30th September 2005, none of the Directors and the chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required 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 taken or deemed to have under provisions of SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; and (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange as referred in Rules 5.46 to 5.67 of the GEM Listing Rules.

PERSONS WHO HAVE INTERESTS OR SHORT POSITIONS WHICH ARE DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

As at 30th September 2005, so far as is known to the Directors the following persons (other than the Directors and chief executives of the Company the interests of which were disclosed above) had an interest or short position in the Shares and underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group together with particulars of any options in respect of such capital:

Long positions

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

Name	Nature of interest	Number of Shares and approximate % of shareholding		Notes
Other shareholders				
VSC BVI	— directly	6,336,309	(6.61%)	
	— indirect deemed interest through TN Development	1,633,676	(1.71%)	
		<u>7,969,985</u>	<u>(8.32%)</u>	6
VSC	— indirect deemed interest through VSC BVI	6,336,309	(6.61%)	
	— indirect deemed interest through TN Development	1,633,676	(1.71%)	
		<u>7,969,985</u>	<u>(8.32%)</u>	6 & 7
Huge Top	— directly	1,598,113	(1.67%)	
	— indirect deemed interest through VSC BVI	6,336,309	(6.61%)	
	— indirect deemed interest through TN Development	1,633,676	(1.71%)	
		<u>9,568,098</u>	<u>(9.99%)</u>	6, 7 & 8
Perfect Capital	— indirect deemed interest through Huge Top	1,598,113	(1.67%)	
	— indirect deemed interest through VSC BVI	6,336,309	(6.61%)	
	— indirect deemed interest through TN Development	1,633,676	(1.71%)	
		<u>9,568,098</u>	<u>(9.99%)</u>	6, 7 & 8
Ms. Miriam Che Li Yao ("Ms. Yao")	— indirect deemed interest through Huge Top	1,598,113	(1.67%)	
	— indirect deemed interest through VSC BVI	6,336,309	(6.61%)	
	— indirect deemed interest through TN Development	1,633,676	(1.71%)	
		<u>9,568,098</u>	<u>(9.99%)</u>	6, 7, 8 & 9

Notes:

1. Mr. Tsang is directly interested in 19,693,486 Shares and further 39,386,973 Shares which may fall to be issued if the Convertible Bonds (as defined in the Company's circular dated 20th June 2005) 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. Mr. Tsang is directly interested in 59,080,459 Shares. In addition, 509,400 Shares are 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. NASAC is directly interested in 44,163,474 Shares and further 88,326,947 Shares which may fall to be issued if the Convertible Bonds are converted at an initial conversion price of HK\$0.1566. Accordingly, NASAC is indirectly interested in a total of 132,490,421 Shares.
4. NASA holds the single voting participating share of NASAC and is therefore deemed to be interested in 132,490,421 Shares.
5. 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 Development and is deemed to be interested in the 1,633,676 Shares held by TN Development as at 30th September 2005. VSC BVI directly owns 6,336,309 Shares as at 30th September 2005. VSC BVI is therefore directly and indirectly interested in an aggregate of 7,969,985 Shares.
7. VSC owns 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 30th September 2005. Huge Top is beneficially interested in approximately 47.05% of the issued share capital of VSC as at 30th September 2005 and Perfect Capital and Huge Top are therefore deemed to be interested in the 1,633,676 Shares held by TN Development and the 6,336,309 Shares held by VSC BVI as at 30th September 2005. 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 30th September 2005, Ms. Yao is one of the two directors for TN Development and Huge Top while the remaining director of these two companies is Mr. Yao who is the brother of Ms. Yao. Ms. Yao is therefore through Huge Top indirectly interested in an aggregate of 9,568,098 Shares.

Save as disclosed above, as at 30th September 2005, the Directors were not aware of any other person (other than the Directors and chief executives of the Company the interests of which were disclosed above) who had an interest or short position in the Shares and underlying shares of the Company which were disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which a Director is taken or deemed to have under such provisions of the SFO) and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group together with particulars of any options in respect of such capital.

SHARE OPTION SCHEME

Under the terms of the Company's share option scheme approved by the shareholders on 13th April 2000 (the "Old Scheme"), the Board may at their discretion, invite any full-time employees of the Company or any of the companies of the Group, including any executive Directors, to take up options to subscribe for Shares. The Old Scheme became effective upon the listing of the Shares on 20th April 2000 and was terminated on 10th June 2002. A new share option scheme has been adopted by the Company since 10th June 2002 (the "New Scheme") to replace the Old Scheme to comply with the current statutory requirements.

Details of movement in the share options to subscribe for Shares granted to and held by certain Directors and employees during the six months ended 30th September 2005 under the Old Scheme were as follows:

Name	Date of grant	Exercise price per Share	Vesting period	Exercise period	Number of options		
					Beginning of period '000	Lapsed/ cancelled during the period '000	End of period '000
Directors:—							
Mr. Yao	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	5,000	(5,000)	0
Mr. Desmond Hay Ching Fu	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	250	(250)	0
	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	11,500	(11,500)	0
Sub-total					<u>16,750</u>	<u>(16,750)</u>	<u>0</u>
Employees:—							
In aggregate	3rd July 2000	HK\$0.360	3rd July 2000 to 30th September 2001	1st October 2001 to 12th April 2010	12,100	(12,100)	0
In aggregate	7th November 2000	HK\$0.485	7th November 2000 to 7th November 2001	8th November 2001 to 12th April 2010	25,900	(25,900)	0
Sub-total					<u>38,000</u>	<u>(38,000)</u>	<u>0</u>
Total number of options					<u>54,750</u>	<u>(54,750)</u>	<u>0</u>

During the period, no options under the Old Scheme were granted while 2,000,000 options granted under the Old Scheme were lapsed owing to the resignation of an employee. Upon termination of the Old Scheme on 10th June 2002, no further options were granted thereunder. However, the provisions of the Old Scheme remained in force and all options granted prior to such termination continued to be valid and exercisable in accordance therewith until the 52,750,000 outstanding options were cancelled by the shareholders of the Company at its special general meeting held on 14th July 2005.

Up to the date of this report, no options have been granted by the Company pursuant to the New Scheme.

COMPETING INTERESTS

Mr. Yao is an executive Director of the Company and also the chairman of the board of directors of VSC (listed on the main board of the Stock Exchange). VSC is also engaged in steel trading business.

Mr. Yao's interests in VSC

As at 30th September 2005, the interests and short positions of Mr. Yao in the shares, underlying shares or debentures of VSC or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Stock Exchange, were as follows:

Nature of interest	Attributable interest to Mr. Yao	Number of shares (Note 1)	Approximate percentage
— Corporate interest held by Huge Top (Note 2)	deemed interest (indirectly)	173,424,000	47.05%
— Personal interest	100% (directly)	1,614,000	0.44%

Notes:

- These shares are the ordinary shares of HK\$0.10 each in the issued share capital of VSC.
- As at 30th September 2005, Huge Top holds 173,424,000 shares of VSC. Mr. Yao is one of the two directors of Huge Top. Mr. Yao directly holds approximately 11.91% and indirectly through Perfect Capital owns approximately 42.86% of the issued shares of Huge Top and is entitled to exercise more than one-third of the voting power at general meetings of Huge Top. Mr. Yao owns the entire issued share capital of Perfect Capital.

The Directors believe that there is a risk that such businesses may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Yao in the steel industry will complement the development of the Group's business.

Save as disclosed above, none of the Directors or the management shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September 2005.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES

In the opinion of the Directors, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules throughout the period under review, save for the followings:-

Code Provision A.4.1

Under this code provision, non-executive directors should be appointed for a specific term, subject to re-election.


The independent non-executive Directors were not appointed for a specific term while they were subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's bye-laws.

In compliance with code provision A.4.1, the independent non-executive Directors had signed letters of appointment with the Company in October 2005 to confirm the term of their appointments to be for three years commencing on 1st November 2005.

Code Provision A.4.2

Under this code provision, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the bye-law 87(1) of the Company's bye-laws, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.



To ensure full compliance with code provision A.4.2, the Directors will propose amendments to the Company's bye-laws for approval by the shareholders of the Company at its next annual general meeting.

Code Provision C.3.3

Under this code provision, the terms of reference of the audit committee should include at least those duties as set out therein.

The existing terms of reference of the audit committee which were approved by the Board on 9th June 2000 were based upon the guidelines recommended by the Hong Kong Society of Accountants (now known as the Hong Kong Institute of Certified Public Accountants).

To ensure full compliance with code provision C.3.3, the Board approved the revised terms of reference of the Audit Committee on 14th November 2005.

Code Provision E.1.2

Under this code provision, the chairman of the Board should arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting.

Owing to other engagements, the chairman and other members of the audit committee were not available to attend the annual general meeting of the Company held on 14th July 2005 while the remuneration committee of the Company was established on 30th September 2005.

Code Provision E.2.1

Under this code provision, the chairman of a shareholders' meeting and/or directors who, individually or collectively, hold(s) proxies in respect of shares representing 5% or more of the total voting rights at the meeting shall demand a poll in certain circumstances where, on a show of hands, the meeting votes in the opposite manner to that instructed in those proxies.

Currently, there is not any provision in the Company's bye-laws which has the same effect as code provision E.2.1.

To ensure full compliance with code provision E.2.1, the Directors will propose amendments to the Company's bye-laws for approval by the shareholders of the Company at its next annual general meeting.

AUDIT COMMITTEE

The Company has established an audit committee since 13th April 2000. The duties of the audit committee include reviewing the Company's annual reports and quarterly 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. Kenny King Ching Tam, Mr. Philip King Huen Ma and Mr. Edgar Chi Ping Kwan. The chairman of the audit committee has appropriate professional qualifications and accounting expertise as required under Rule 5.08 of the GEM Listing Rules. These unaudited accounts for the six months ended 30th September 2005 of the Company now reported on have been reviewed by the audit committee and the Company's auditors.

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

Hong Kong, 14th November 2005

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

