

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 第三季度
業績報告
3rd Quarterly Report

THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 31ST DECEMBER 2005

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 three months and nine months ended 31st December 2005, the Group recorded a turnover of approximately HK\$104,951,000 and HK\$324,787,000 respectively, representing a decrease of approximately 57% by comparing with the results in the corresponding periods 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 net loss attributable to shareholders of approximately HK\$6,417,000 and HK\$10,142,000 for the three months and nine months ended 31st December 2005 respectively, representing respective increase of 2% and 30% over that of the corresponding periods in 2004. This was mainly attributable to additional general and administration expenses (including professional fees incurred for the Group's recent fund raising activities and professional fees related to the non-completed very substantial acquisition as disclosed in the Company's announcement dated 7th December 2005) and net interest expenses totalling approximately HK\$7,694,000 and HK\$11,424,000 recorded by the Group during the three months and nine months ended 31st December 2005. Discounting the effect of these additional general and administration expenses and net interest expenses, the Group recorded a profit of approximately HK\$1,277,000 and HK\$1,282,000 from its principal business activities of steel trading and procurement services for the three months and nine months ended 31st December 2005 respectively, which were mainly due to write-back of overprovided taxation of HK\$4,483,000 in the three months ended 31st December 2005. Discounting the effect of this write-back of overprovided taxation, the Group recorded a net loss of HK\$3,206,000 and HK\$3,201,000 from its principal activities of steel trading and procurement services for the three months and nine months ended 31st December 2005 respectively, versus respective net loss of approximately HK\$6,289,000 and HK\$7,789,000 for the corresponding periods in 2004.

RESULTS

The followings are the unaudited consolidated results of North Asia Strategic Holdings Limited (the "Company" or "North Asia Strategic") and its subsidiaries (collectively "the Group" or "North Asia Strategic Group") for the nine months and three months ended 31st December 2005 together with the comparative unaudited figures for the corresponding periods in 2004:

	Note	For the nine months ended 31st December		For the three months ended 31st December	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2				
— Sales		321,800	746,493	104,686	241,291
— Commission		2,987	4,671	265	2,225
Cost of sales		(322,120)	(727,033)	(106,037)	(234,249)
Gross profit/(loss)		2,667	24,131	(1,086)	9,267
Other revenue		3,475	766	289	90
Selling and distribution expenses		(1,945)	(6,439)	(576)	(1,563)
General and administration expenses		(16,509)	(16,983)	(8,540)	(7,401)
Loss on disposal of a subsidiary company		—	(194)	—	(194)
Operating (loss)/profit		(12,312)	1,281	(9,913)	199
Finance costs		(2,837)	(3,796)	(926)	(1,174)
Loss before taxation		(15,149)	(2,515)	(10,839)	(975)
Taxation	3	5,007	(5,274)	4,422	(5,320)
Loss for the period		(10,142)	(7,789)	(6,417)	(6,295)
Attributable to:					
Equity holders of the Company		(10,142)	(7,789)	(6,417)	(6,289)
Minority interest		—	—	—	(6)
		(10,142)	(7,789)	(6,417)	(6,295)
Loss per share for loss attributable to the equity holders of the Company during the period					
— Basic	4	HK(17.38) cents	HK(48.79) cents	HK(6.70) cents	HK(39.39) 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”) 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 Hong Kong Accounting Standards (“HKAS”) (collectively the “new HKFRSs”) which are effective for accounting periods commencing on or after 1st January 2005.

In the nine months ended 31st December 2005, the Group adopted the new HKFRSs 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 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 an ordinary resolution passed at the special general meeting of the Company held on 14th July 2005, the adoption 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. 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.

3. Taxation

Taxation consisted of:

	For the nine months ended 31st December		For the three months ended 31st December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Mainland China enterprise income tax				
— (Write-back)/provision	(4,178)	1,299	(4,413)	866
— Tax refund	(829)	(508)	(9)	(29)
Write-off of deferred tax assets	—	4,483	—	4,483
	<u>(5,007)</u>	<u>5,274</u>	<u>(4,422)</u>	<u>5,320</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 nine months and three months ended 31st December 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%).

4. Loss per share

The calculations of basic loss per share for the nine months and three months ended 31st December 2005 were based on the unaudited consolidated loss attributable to shareholders of approximately HK\$10,142,000 (2004: HK\$7,789,000) and HK\$6,417,000 (2004: HK\$6,289,000) respectively and on the weighted average number of 58,348,495 (2004: 15,963,954) shares and 95,794,716 (2004: 15,964,075) shares in issue during the nine months and three months ended 31st December 2005 respectively, after taking into consideration of the one hundred-to-one consolidation of shares during the period.

5. Dividends

The Directors do not recommend the payment of an interim dividend for the nine months ended 31st December 2005.

6. Movements in share capital and reserves

For the nine months ended 31st December 2005, movements in share capital and reserves are as follows:

	Unaudited				
	Attributable to equity holders of the Company			Minority interest	Total
	Share capital	Other reserves	Accumulated losses		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance, 1st April 2004	159,638	13,904	(160,897)	—	12,645
Loss for the period	—	—	(7,789)	6	(7,783)
Translation adjustments	—	(67)	—	—	(67)
Change in fair value of a long-term investment	—	548	—	—	548
Realised upon disposal of a long-term investment	—	(548)	—	—	(548)
Realised upon disposal of a subsidiary	—	—	—	(6)	(6)
Issuance of shares upon exercise of warrants	21	—	—	—	21
Balance, 31st December 2004	159,659	13,837	(168,686)	—	4,810
Loss for the period	—	—	(2,654)	—	(2,654)
Translation adjustments	—	(19)	—	—	(19)
Balance, 31st March 2005	159,659	13,818	(171,340)	—	2,137
Loss for the period	—	—	(10,142)	—	(10,142)
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 an open offer	—	(2,186)	—	—	(2,186)
Convertible bonds					
— equity component (Note 7)	—	6,388	—	—	6,388
Deferred share issuance costs	—	(3,241)	—	—	(3,241)
Translation adjustments	—	390	—	—	390
Balance, 31st December 2005	958	24,756	(19,838)	—	5,876

7. 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 8*).

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

	As at 31st December 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	636	—
Liability component at 31st December 2005	14,248	—

The fair value of the liability component of the convertible bonds at 31st December 2005 amounted to HK\$14,248,000.

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.

8. Other reserves

	Contributed surplus HK\$'000	Share premium HK\$'000	Convertible bonds HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Cumulative translation adjustments HK\$'000	Deferred share issuance costs HK\$'000	Total HK\$'000
Balance, 1st April 2004	—	11,099	—	2,700	—	105	—	13,904
Translation adjustments	—	—	—	—	—	(67)	—	(67)
Change in fair value of a long-term investment	—	—	—	—	548	—	—	548
Realised upon disposal of a long-term investment	—	—	—	—	(548)	—	—	(548)
Balance, 31st December 2004	—	11,099	—	2,700	—	38	—	13,837
Translation adjustments	—	—	—	—	—	(19)	—	(19)
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 an open offer	—	(2,186)	—	—	—	—	—	(2,186)
Convertible bonds — equity component (Note 7)	—	—	6,388	—	—	—	—	6,388
Deferred share issuance costs	—	—	—	—	—	—	(3,241)	(3,241)
Translation adjustments	—	—	—	—	—	390	—	390
Balance, 31st December 2005	<u>8,984</u>	<u>9,516</u>	<u>6,388</u>	<u>2,700</u>	<u>—</u>	<u>409</u>	<u>(3,241)</u>	<u>24,756</u>

9. Subsequent event

The Company has convened a special general meeting to be held on 20th February 2006 to approve placement of 7,630,926,793 preference shares for an aggregated consideration of approximately HK\$1,195 million (the "Placement"). Details of the Placement are contained in a circular to shareholders of the Company dated 24th January 2006 (the "Circular").

BUSINESS REVIEW

Financial and Business Performance

For the three months and nine months ended 31st December 2005, the Group recorded a loss attributable to shareholders of approximately HK\$6,417,000 and HK\$10,142,000 respectively, representing respective increase of approximately 2% and 30% over that of the corresponding periods in 2004. This was mainly attributable to additional general and administration expenses (including professional fees incurred for the Group's recent fund raising activities and professional fees related to the non-completed very substantial acquisition as disclosed in the Company's announcement dated 7th December 2005) and net interest expense totalling approximately HK\$7,694,000 and HK\$11,424,000 recorded by the Group during the three months and nine months ended 31st December 2005. Discounting the effect of these additional general and administration expenses and net interest expenses, the Group recorded a profit of approximately HK\$1,277,000 and HK\$1,282,000 from its principal business activities of steel trading and procurement services for the three months and nine months ended 31st December 2005 respectively, which were mainly due to write-back of overprovided taxation of HK\$4,483,000 in the three months ended 31st December 2005 resulting from the divestments of certain subsidiaries. Discounting the effect of this write-back of overprovided taxation, the Group recorded a net loss of HK\$3,206,000 and HK\$3,201,000 from its principal business activities of steel trading and procurement services for the three months and nine months ended 31st December 2005 respectively, versus respective net loss of approximately HK\$6,289,000 and HK\$7,789,000 for the corresponding periods in 2004.

Like the corresponding period in 2004, the Group's turnover of HK\$104,951,000 and HK\$324,787,000 for the three months and nine months ended 31st December 2005 respectively, were all generated from its steel trading activities and procurement services. These turnover figures were both less than that of the corresponding periods in 2004 by approximately 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 nine months ended 31st December 2005, resulting in drop of turnover and a reduction of gross profit margin from approximately 3.2% in the corresponding period in 2004 to approximately 0.8% in the nine months ended 31st December 2005. Under such difficult environment, management had put substantial efforts in resources alignment to steel products and other business opportunities that will 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 and general administration expenses to turnover for the three months and nine months ended 31st December 2005 decreased by 0.26% and 0.6% respectively from that of corresponding periods in last year.

OUTLOOK

The Group's existing steel trading business has been operating in a difficult environment, principally due to the continuous deployment by the PRC government of macro-entrenchment policies to limit excessive investments in several overheated industries including the steel, real estate, aluminium, automobile and cement industries. 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. At 31st December 2005, total accounts payable to Van Shung Chong Hong Limited was approximately HK\$114 million, as compared to the amount of approximately HK\$118.8 million at 31st March 2005. In light of the volatility of the depressed 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 is not optimistic with its growth potential and will continue to manage its operations with a very prudent approach.

As stated in our 2005/06 interim report, the Company successfully raised HK\$30 million from North Asia Strategic Acquisition Corp. and Mr. Moses Tsang Kwok Tai (the "Ajia Parties") in 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. On the funding side, the Ajia Parties have also stated that they intend to bring in financial investors to the Group and will make fund raising a high priority to provide financial resources to the Group to capture sizable investment opportunities and to implement the diversification strategy as discussed above. As mentioned in our Circular, the Company has entered into 21 subscription agreements with 21 institutional and professional investors for the placement of non-redeemable convertible preference shares for a total of HK\$1,195 million before expenses. The placees comprise internationally reputable institutions. A special general meeting will be held on 20th February 2006 to consider and approve the Placement. The Board considers that the introduction of the placees as long-term investors of the Company will enhance the shareholders profile of the Company and the Placement will strengthen the overall capital base and financial capability of the Group to execute its future expansion and diversification plans. As of the date of this report, negotiation with possible investment targets are in progress but the Company has not entered into any definitive agreements for any investments.

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 year. 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 EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2005, the Directors and chief executive of the Company and their respective associates had the following interests and short positions 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")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors:

Long positions in the shares and underlying shares^(a) of the Company

- (a) The underlying shares referred to in note 2 below arise as a result of the conversion rights attaching to the preference shares to be issued by the Company under the Placement, details of which are set out in the Circular. Each preference share shall be automatically converted into ordinary share, credited as fully paid, at the conversion ratio of one preference share for one ordinary share in accordance with the terms of the preference shares as disclosed in the Circular.
- (b) The approximate percentage of shareholdings set out below is based on 95,794,716 ordinary shares in issue as at 31st December 2005, not on the enlarged ordinary shares in issue upon full conversion of the preference shares.

Name of Director	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(b)	Note
Mr. Andrew Yao Cho Fai ("Mr. Yao")	Interest of Controlled Corporation	10,592,098	—	10,592,098	11.06%	1
Mr. Henry Cho Kim ("Mr. Cho")	Interest of Controlled Corporation	—	99,106,003	99,106,003	103.46%	2

Notes:

1. These interests represented:
 - (i) a deemed interest in 1,598,113 shares of the Company owned by Huge Top Industrial Ltd. ("Huge Top"). 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. Mr. Yao owns the entire issued share capital of Perfect Capital and is one of the two directors of Huge Top. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these shares of the Company held by Huge Top;
 - (ii) a deemed interest in 6,336,309 shares of the Company owned by Van Shung Chong (B.V.I.) Limited ("VSC BVI"), a wholly-owned subsidiary of Van Shung Chong Holdings Limited ("VSC"). Huge Top owns approximately 47.05% of the issued share capital of VSC. Mr. Yao is one of the two directors of VSC BVI. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these shares of the Company held by VSC BVI. These shares were the same 6,336,309 shares referred to in note 22 under the section "Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO" below;
 - (iii) a deemed interest in 1,633,676 shares of the Company owned by TN Development Limited ("TN"). VSC BVI owns 54% of the issued share capital of TN and Mr. Yao owns 10% of the issued share capital of TN. Mr. Yao is one of the two directors of TN. Accordingly, Mr. Yao was deemed, under the SFO, to have an interest in these shares of the Company held by TN. These shares were the same 1,633,676 shares referred to in note 22 under the section "Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO" below; and
 - (iv) an interest in 1,024,000 shares of the Company owned by Right Action Offshore Inc. ("Right Action"). Mr. Yao owns the entire issued share capital of Right Action and is also the sole director of that company.
2. These underlying shares were held by Timeless Enterprises Limited ("Timeless"), a company controlled by Mr. Cho through Kenthomas Company Limited. Accordingly, Mr. Cho was taken to be interested in these underlying shares under the SFO by virtue of his interests in Timeless which was interested in 99,106,003 underlying shares. These underlying shares were the same underlying shares referred to in note 18 under section "Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO" below.

Save as disclosed above, as at 31st December 2005, none of the Directors and the chief executive of the Company or their respective associates 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.

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

As at 31st December 2005, so far as is known to the Directors and chief executive of the Company, the following persons (other than the Directors and chief executives of the Company whose interests were disclosed above) had an interest or short position in the shares and underlying shares of the Company which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV 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 in the shares and underlying shares^(c) of the Company

- (c) The underlying shares referred to in the following table (other than those referred to in notes 1 and 4 below) arise as a result of the conversion rights attaching to the preference shares to be issued by the Company under the Placement, details of which are set out in the Circular. Each preference share shall be automatically converted into ordinary share, credited as fully paid, at the conversion ratio of one preference share for one ordinary share in accordance with the terms of the preference shares as disclosed in the Circular. Those underlying shares referred in notes 1 and 4 below arise as a result of the conversion of the convertible bonds, details of which are set out in the circular to shareholders of the Company dated 20th June 2005.
- (d) The approximate percentage of shareholdings set out below is based on 95,794,716 ordinary shares in issue as at 31st December 2005, not on the enlarged ordinary shares in issue upon full conversion of the preference shares and the convertible bonds.

Substantial shareholders (interests related to ordinary shareholders)

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(d)	Note
Mr. Moses Tsang Kwok Tai ("Mr. Tsang")	Beneficial owner	19,693,486	39,386,973	59,080,459	61.68%	1
	Interest of controlled corporation	509,400	—	509,400	0.53%	2
	Interest of a discretionary trust	—	148,659,004	148,659,004	155.18%	3
				<u>208,248,863</u>	<u>217.39%</u>	

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(d)	Note
North Asia Strategic Acquisition Corp. ("NASAC")	Beneficial owner	44,163,474	88,326,947	132,490,421	138.31%	4
North Asia Strategic Advisors ("NASA")	Interest of controlled corporation	44,163,474	88,326,947	132,490,421	138.31%	4 & 5
Ajia Partners Inc. ("API")	Interest of controlled corporation	44,163,474	88,326,947	132,490,421	138.31%	4 to 6

Substantial shareholders (interests related to places under the Placement)

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(d)	Note
The Goldman Sachs Group, Inc. ("Goldman")	Interest of controlled corporation	—	2,477,650,064	2,477,650,064	2586.42%	7
ABN AMRO Asset Management Holding N.V.	Beneficial owner	—	1,238,825,032	1,238,825,032	1293.21%	
United Overseas Bank Limited	Beneficial owner	—	743,295,019	743,295,019	775.92%	
Oikos Asia Fund ("Oikos")	Beneficial owner	—	495,530,013	495,530,013	517.28%	8
Tiger International Management Inc. ("Tiger")	Beneficial owner	—	297,318,008	297,318,008	310.37%	9
Chen Jong-Tai	Interest of controlled corporation	—	297,318,008	297,318,008	310.37%	9
Chen Wu, Feng-Tsai	Interest of controlled corporation	—	297,318,008	297,318,008	310.37%	9

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(d)	Note
Banca Monte Dei Paschi Di Siena Spa	Beneficial owner	—	247,765,006	247,765,006	258.64%	
Grand Loyal (China) Limited ("Grand Loyal")	Nominee	—	247,765,006	247,765,006	258.64%	10
Ho Yiu Wing	Interest of controlled corporation	—	247,765,006	247,765,006	258.64%	10
Grand Partners Group Limited ("Grand Partners")	Nominee	—	247,765,006	247,765,006	258.64%	11
William Doo Wai Hoi	Interest of controlled corporation	—	247,765,006	247,765,006	258.64%	11
Fubon Bank (Hong Kong) Limited	Beneficial owner	—	199,233,717	199,233,717	207.98%	
Chevalier International Holdings Limited ("Chevalier")	Beneficial owner	—	198,212,005	198,212,005	206.91%	12
Chow Yei Ching	Interest of controlled corporation	—	198,212,005	198,212,005	206.91%	12
Miyakawa Michiko	Family interest	—	198,212,005	198,212,005	206.91%	12
Fonditel B, Pension Fund ("Fonditel B")	Beneficial owner	—	99,100,000	99,100,000	103.45%	13
Fonditel C, Pension Fund ("Fonditel C")	Beneficial owner	—	148,660,000	148,660,000	155.19%	13
Telefonica	Interest of controlled corporation	—	247,760,000	247,760,000	258.64%	13

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(d)	Note
Asia Internet Capital Ventures LP ("AICV")	Beneficial owner	—	148,659,004	148,659,004	155.18%	14
Asia Internet Capital Management LLC	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	14
EC.com Inc.	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	14
Smart Channel Investments Inc.	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	14
MKT Holdings (Cayman Islands) LLC	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	14
HSBC International Trustee Limited	Trustee	—	148,659,004	148,659,004	155.18%	14
Gentfull Investment Limited ("Gentfull")	Beneficial owner	—	148,659,004	148,659,004	155.18%	15
Vivien Chen Wai Wai	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	15
Doutdes S.P.A. ("Doutdes")	Beneficial owner	—	148,659,004	148,659,004	155.18%	16
UFI Filters SPA	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	16
GGG SPA	Interest of controlled corporation	—	148,659,004	148,659,004	155.18%	16
G.G.G. S.A.	Beneficial owner	—	99,106,003	99,106,003	103.46%	17
Giorgio Girondi	Interest of controlled corporation	—	247,765,007	247,765,007	258.64%	16 & 17

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings^(d)	Note
Timeless	Beneficial owner	—	99,106,003	99,106,003	103.46%	18
Kenthomas Company Limited	Nominee	—	99,106,003	99,106,003	103.46%	18
Glint Delta II NV (“Glint”)	Nominee	—	78,544,061	78,544,061	81.99%	19
Fentener Van Vlissingen Harold (“Harold”)	Beneficial owner	—	78,544,061	78,544,061	81.99%	19
Rawlco Capital Ltd. (“Rawlco”)	Beneficial owner	—	49,553,001	49,553,001	51.73%	20
Gordon Stanley Rawlinson	Interests of controlled corporation	—	49,553,001	49,553,001	51.73%	20
UBS España, S.A. (“UBS”)	Nominee	—	128,441,377	128,441,377	134.08%	21
Angeles González García	Interest of controlled corporation	—	49,553,001	49,553,001	51.73%	21
Jorge Garcia Gonzalez	Interest of controlled corporation	—	49,553,001	49,553,001	51.73%	21
Sphirantes	Nominee	—	49,553,001	49,553,001	51.73%	21
Cesar Molinas Sanz	Beneficial owner	—	17,343,550	17,343,550	18.10%	21
Kobrither, S.A.	Nominee	—	14,865,900	14,865,900	15.52%	21
Antonio Del Cano Barbón	Interest of controlled corporation	—	14,865,900	14,865,900	15.52%	21
Ricardo Sanz Ferrer	Beneficial owner	—	9,910,600	9,910,600	10.35%	21
Miguel Orúe-Echeverria	Beneficial owner	—	9,910,600	9,910,600	10.35%	21

Other persons (interests related to placees under the Placement)

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(d)	Note
Arcosilo, S.L.	Nominee	—	7,432,950	7,432,950	7.76%	21
Blanca Rueda Sabater	Interest of controlled corporation	—	7,432,950	7,432,950	7.76%	21
Fernando Rueda Sabater	Interest of controlled corporation	—	7,432,950	7,432,950	7.76%	21
Richardo de Ponga Bianco	Beneficial owner	—	5,946,360	5,946,360	6.21%	21

Other persons (interests related to ordinary shareholders)

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(d)	Note
VSC BVI	Beneficial owner	6,336,309	—	6,336,309	6.61%	22
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	22
				<u>7,969,985</u>	<u>8.32%</u>	
VSC	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				<u>7,969,985</u>	<u>8.32%</u>	22 & 23

Name	Capacity	Number of ordinary shares held	Number of underlying shares held	Total	Approximate % of shareholdings ^(d)	Note
Huge Top	Beneficial owner	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				<u>9,568,098</u>	<u>9.99%</u>	22 to 24
Perfect Capital	Interest of controlled corporation	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				<u>9,568,098</u>	<u>9.99%</u>	22 to 24
Ms. Miriam Yao Che Li ("Ms. Yao")	Interest of controlled corporation	1,598,113	—	1,598,113	1.67%	
	Interest of controlled corporation	6,336,309	—	6,336,309	6.61%	
	Interest of controlled corporation	1,633,676	—	1,633,676	1.71%	
				<u>9,568,098</u>	<u>9.99%</u>	22 to 25

Notes:

1. Mr. Tsang was directly interested in 19,693,486 shares and a further 39,386,973 underlying shares which may fall to be issued if the convertible bonds are converted at the initial conversion price of HK\$0.1566.
2. These 509,400 shares were directly held by Oboe Development Trading Limited, which was wholly owned by Mr. Tsang.
3. Mr. Tsang was deemed to be interested in the 148,659,004 underlying shares by virtue of his being a founder of a discretionary trust, the trustee of which was HSBC International Trustee Limited ("HSBC Trustee"). HSBC Trustee, through its controlling interests in Asia Internet Capital Management LLC which acted as the investment manager of AICV, was deemed to be interested in the 148,659,004 underlying shares. These 148,659,004 underlying shares were the same underlying shares referred to in note 18 below.

Mr. Tsang was therefore deemed, under the SFO, to be interested in an aggregate of 208,248,863 shares.

4. NASAC was directly interested in 44,163,474 shares and a further 88,326,947 underlying shares which may fall to be issued if the convertible bonds are converted at an initial conversion price of HK\$0.1566. Accordingly, NASAC was deemed to be interested in a total of 132,490,421 shares.
5. NASA held the single voting participating share of NASAC and was therefore deemed to be interested in 132,490,421 shares.
6. API wholly owned all the shares in NASA, which in turn held the single voting participating share of NASAC. API was therefore deemed to be interested in 132,490,421 shares.
7. These underlying shares were held by Goldman, a company controlled by Goldman Sachs (Asia) Finance Holdings L.L.C.. The Goldman Sachs Group, Inc. was deemed to have interests in these underlying shares through its direct subsidiary, The Goldman Sachs Global Holdings L.L.C., and its indirect subsidiary, The Goldman Sachs & Co., which in turn was the controlling company of The Goldman Sachs (Asia) Finance Holdings L.L.C.. Accordingly, all these parties were deemed, under the SFO, to have an interest in these underlying shares by virtue of their respective corporate interests in Goldman.
8. These underlying shares were held by Oikos, a company controlled by Walkers SPV Limited.
9. These underlying shares were held by Tiger, a company controlled by Mr. Chen Jong Tai and Ms. Chen Wu Feng-Tsai. Accordingly, both were taken to be interested in these underlying shares under the SFO by virtue of their interests in Tiger.
10. These underlying shares were held by Grand Loyal, a company controlled by Mr. Ho Yiu Wing. Accordingly, Mr. Ho was taken to be interested in these underlying shares under the SFO by virtue of his interests in Grand Loyal.
11. These underlying shares were held by Grand Partners, a company controlled by Mr. William Doo Wai Hoi. Accordingly, Mr. Doo was taken to be interested in these underlying shares under the SFO by virtue of his interests in Grand Partners.

12. These underlying shares were held by Chevalier, a company 52.5% controlled by Mr. Chow Yei Ching and Miyakawa Michiko. Accordingly, both were taken to be interested in these underlying shares under the SFO by virtue of their interests in Chevalier.
13. Fonditel B was interested in 99,100,000 underlying shares and Fonditel C was interested in 148,660,000 underlying shares. Each of Fonditel B and Fonditel C was 70% controlled by Telefonica. Accordingly, Telefonica was taken to be interested in an aggregate of 247,760,000 underlying shares, under the SFO, by virtue of its corporate interests in both Fonditel B and Fonditel C.
14. These underlying shares were held by AICV which was managed by Asia Internet Capital Management LLC, a company 99% controlled by EC.com Inc.. HSBC Trustee was deemed to have interests in these underlying shares through its direct wholly-owned subsidiary MKT Holdings (Cayman Islands) LLC and its indirect wholly-owned subsidiary Smart Channel Investments Inc.. Smart Channel Investments Inc. had 48.66% controlling interests in EC.com Inc. Accordingly, all these parties were deemed, under the SFO, to have an interest in these underlying shares by virtue of their respective corporate interests in AICV. These underlying shares were the same underlying shares referred to in note 3 above.
15. These underlying shares were held by Gentfull, a company 100% controlled by Ms. Vivien Chen Wai Wai. Accordingly, Ms. Chen was taken to be interested in these underlying shares under the SFO by virtue of her interests in Gentfull.
16. These underlying shares were held by Doutdes, a company 83.98% controlled by UFI Filters SPA which was in turn controlled by G.G.G. S.A., a company controlled by Mr. Giorgio Girondi. Accordingly, all these parties were taken to be interested in these underlying shares under the SFO by virtue of their corporate interests in Doutdes.
17. These underlying shares were held by G.G.G. S.A., a company 100% controlled by Mr. Giorgio Girondi. Accordingly, Mr. Girondi was taken to be interested in these underlying shares under the SFO by virtue of his interests in G.G.G. S.A..
18. These underlying shares were held by Timeless, a company controlled by Mr. Cho through Kenthomas Company Limited. Accordingly, Mr. Cho was taken to be interested in these underlying shares under the SFO by virtue of his interests in Timeless. These underlying shares were the same underlying shares referred to in notes 2 & 3 of under "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above.
19. These underlying shares were held by Glint, a company 99% controlled by Harold. Accordingly, Harold was taken to be interested in these underlying shares under the SFO by virtue of its corporate interests in Glint.
20. These underlying shares were held by Rawlco, a company controlled by Mr. Gordon Stanley Rawlinson. Accordingly, he was taken to be interested in these underlying shares under the SFO by virtue of his interests in Rawlco.
21. These underlying shares were held by UBS. Of these underlying shares, 49,553,001 underlying shares were held by Sphirantes, a company controlled by Angeles González García and Jorge García Gonzalez; 17,343,500 underlying shares were held by Cersar Molinas Sanz; 14,865,900 underlying shares were held by Kobrither, S.A., a company controlled by Antonio Del Cano Barbón; each of Ramón Suarez Beltrán, Ricardo Sanz Ferrer and Miguel Orúe-Echeverría held 9,910,600 underlying shares; 7,432,950 underlying shares were held by Arcosilo, S.L., a company controlled by Blanca Rueda Sabater and Fernando Rueda Sabater; and 5,946,360 underlying shares were held by Richardo de Ponga Bianco.

22. VSC BVI owned 54% of the share capital of TN and was deemed to be interested in the 1,633,676 shares held by TN. VSC BVI directly owned 6,336,309 shares. VSC BVI was therefore directly and indirectly interested in an aggregate of 7,969,985 shares.
23. VSC owned the entire issued share capital of VSC BVI, VSC was therefore deemed to be interested in an aggregate of 7,969,985 shares.
24. Perfect Capital owned approximately 42.86% of the issued share capital of Huge Top. Huge Top was beneficially interested in approximately 47.05% of the issued share capital of VSC and Perfect Capital and Huge Top were therefore deemed to be interested in the 1,633,676 shares held by TN and the 6,336,309 shares held by VSC BVI. Huge Top also directly owned 1,598,113 shares. Huge Top was therefore directly and indirectly interested in an aggregate of 9,568,098 shares, and Perfect Capital was indirectly interested in the same aggregate interests.
25. Ms. Yao is one of the two directors for TN and Huge Top while the remaining director of these two companies is Mr. Yao who is the brother of Ms. Yao. Ms. Yao was therefore through Huge Top indirectly interested in an aggregate of 9,568,098 shares.
26. As at 16th January 2006, KKR Group Investments II LLC ("KKR") was taken to be interested in 89,080,460 underlying shares of the Company under the Placement. KKR is a company controlled by Messrs. George Rosenberg Roberts and Henry Roberts Kravis. Accordingly, both were taken to be interested in these underlying shares under the SFO by virtue of their interests in KKR.

Save as disclosed above, 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 the interests of which were disclosed above) 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 31st December 2005.

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 nine months ended 31st December 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	Lapsed/ cancelled during the period	End of period
					'000	'000	'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 Fu Hay Ching	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					16,750	(16,750)	0
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					38,000	(38,000)	0
Total number of options					54,750	(54,750)	0

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.

As at 31st December 2005, no options have been granted by the Company pursuant to the New Scheme.

COMPETING INTERESTS

Mr. Yao is an executive Director and also the chairman and chief executive officer of VSC. According to the 2005/06 interim report of VSC, Huye Top held 173,424,000 shares (approximately 47.05%) in VSC as at 30th September 2005 and Mr. Yao is one of the two directors of Huye Top. Mr. Yao directly held approximately 11.91% and indirectly held approximately 42.86% of the issued share capital of Huye Top. Mr. Yao also has personal interests in 1,614,000 shares (approximately 0.44%) in VSC as at 30th September 2005. 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. 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 nine months ended 31st December 2005.

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 Tam King Ching, Mr. Philip Ma King Huen and Mr. Edgar Kwan Chi Ping. 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 three months and nine months ended 31st December 2005 of the Company now reported on have been reviewed by the audit committee.

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

Hong Kong, 14th February 2006

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