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Dear Limited Partners:

"The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty." - Winston Churchill

Performance Review Year To Date 2005

Steel Partners II, L.P.'s capital depreciated approximately 5.38% for the ten months ended October 31, 2005.

Investors who have been with us from inception (October 1993 - October 2005) have received a total gross return of 1,183 % and a gross compounded annual rate of return of 23 .50%. This has been achieved with very little leverage and minimal taxable income due to our long-term investment horizon, low portfolio turnover, and focus on after tax returns.

Our performance since inception is listed below for your review:[3]

	Gross[1]	**Net**[2]
1993 - 4th Qtr.	6.9%	5.5%
1994	21.3%	17.0%
1995	26.9%	21.5%
1996	16.0%	12.8%
1997	60.0%	48.0%
1998	22.4%	17.9%
1999	48.4%	38.7%
2000	19.1%	15.3%
2001	8.1%	6.4%
2002	12.3%	9.9%
2003	22.1%	17.7%
2004	37.7%	30.2%
2005 - 10 months	-5.38	-5.38

1) Gross Returns are after all expenses but before GP's profit participation.
2) Net Returns are Gross Returns less the GP's 20% profit participation.
3) Audited financial statements are available for each year.

We Eat Our Own Cooking and Practice What We Preach

Steel Partners II, L.P. invests in all layers of the capital structure with a long-term shareholder mentality and prefers to buy a business, or a piece of a business, at an attractive valuation (i.e., a discount to intrinsic value). We strive to be either the largest or one of the largest, stakeholders in a company allowing us to influence its direction. We need a built-in margin of safety to protect our downside and be able to invest with a long-term orientation. **Our first objective has been and always will be - the preservation of our capital.**

Opportunities arise every day regardless of the overall market and we need to capitalize on those opportunities by being agile and flexible. While most investors would like to see a steady increase in the value of the securities they own, we prefer that our investment value does not increase too quickly thereby giving us an opportunity to accumulate a very large position and earn a greater return.

Fortunately, we have capitalized on this opportunity during the past ten months investing a substantial amount of capital. Unfortunately, our results do not reflect the built in gain we believe we will see materialize in the future.

While a market decline may temporarily reduce the value of our overall portfolio and cause us to have negative returns, if we have done our homework correctly, the end result should be above average returns for our partnership over the long-run.

NEW POSITIONS AND COMP ANY UPDATES

Information and annual reports on almost all of the companies below can be obtained by visiting their websites or by contacting the company directly.

Good investment ideas are rare and valuable; therefore, Steel Partners II, L.P. is continuing its policy of only discussing specific investments after Steel Partners II, L.P. owns 5% or more of a company and has filed a Form 13-D with the SEC or the equivalent filing in another jurisdiction. Additionally, we will not discuss our investments in distressed debt until we make a public disclosure.

We continue to maintain a concentrated portfolio. We own over 10% of the outstanding shares in 25 companies (including nine in which we own over 15%) and among these we are the largest shareholder in 17 companies. Additionally, we have approximately 10% of our assets invested in the Steel Partners Japan Strategic Fund.

Steel Partners currently owns 5% or more in:

Angelica Corporation (NYSE: AGL), API Group PLC (API - LN) a U.K. company, Argan Inc. (OTC: AGAX), Bairnco Corporation (NYSE: BZ), BKF Capital Group, Inc. (NYSE: BKF), BNS Co. (OTC: BNSXA), Cherokee International Corporation (NASDAQ: CHRK), Continental Materials Corporation (ASE: CUO), Cosine Communications Inc. (OTC: COSN), Crones Group (NASDAQNM: CRNS), Del Global Technologies Corp. (OTC: DGTC), Delta PLC (DL TA LN) a

U.K. company, EarthLink Network Inc. (NASDAQ: ELNK), ENPRO Industries Inc. (NYSE: NPO), Gateway Industries, Inc. (OTC: OW A Y), GenCorp Inc. (NYSE: GY), IKON Office Solutions Inc (NYSE: IKN), JPS Industries (OTC: JPST), Layne Christensen Co. (NASDAQNM: LA YN), Nashua Corp. (NYSE: NSHA), Nathan's Famous (NASDAQ: NATH), Nettec PLC (NTC - LN) a U.K. company, New Frontier Media Inc. (NASDAQ: NOOF), Novoste Corporation (NASDAQNM: NOVT), P&F Industries, Inc. (NASDAQ: PFIN), Renold PLC (RNO-LN) a U.K. company, Ronson Corporation (OTC:RONC), Rotech Healthcare Inc. (OTC: ROHI), SL Industries, Inc. (Amex: SLI), Strategic Distribution, Inc. (NASDAQ: STRD), Stratos Lightwave Inc. (NASDAQ: STLW), Uniq PLC (UNIQ-LN) a U.K. company, United Industria1 Corporation (NYSE: UIC), and WebFinancial Corporation (NASDAQ: WEFN), WHX Corporation (OTC: WXCP).

NEW POSITIONS

Cosine Communications Inc. (Pink Sheet: COSN.PK) - Cosine is a shell company with approximately $23 million of cash, a $300 million dollar NOL and servicing income of its former telecom business. Jack Howard is a member of the board and is working with the company to attempt to find a profitable business to deploy their cash and tax Joss carry-forward. We own 23% of Cosine.

EarthLink Inc. (Nasdaq: ELNK) (www.earthlink.com) - EarthLink is the second largest internet service provider behind AOL. The Company has a market capitalization of approximately $1.4 billion and has cash and short-term investments of approximately $400 million. EarthLink should generate over $200 million in EBITDA in 2005 and currently has a $550 million stock repurchase plan in place with $192.1 million remaining as of September 30, 2005. EarthLink is trading at 4.6x TEV/EBITDA.

Although the Company's dial-up subscriber base is shrinking, management is doing a decent job of converting them to broadband customers. Earlier this year, the Company formed a joint-venture with SK Corp for next generation mobile phone service in the USA. The service will be called Helio and will launch in 2006. EarthLink contributed cash and its current mobile phone customer base and is obligated to contribute additional capital over the next three years.

Additionally, on October 4, EarthLink was chosen by the city of Philadelphia to develop and implement the nation's largest municipal Wi-Fi network which will offer Wi-Fi service in Philadelphia for $20 per month and $10 per month for low income households. This represents a very good opportunity for EarthLink, to grow its customer base since there is an estimated 600,000 households in the coverage area of 135 square miles; only 10,000 households are current customers. On October 26, the company was chosen by the city of Anaheim to provide similar services. The Company has responded to over 20 RFP's to provide similar services across the U.S., which we see as a large opportunity for future profits.

We believe the Company's customer list, its brand name and innovative software offered to subscribers to block spam, spyware, phisher site scams and pop ups is extremely valuable and that another ISP or broadband provider could be a potential acquirer. We also believe the joint venture with SK and their VOiP initiative has the potential to generate substantial value for shareholders.

Foamex Corporation (Nasdaq:FMXIQ) (www.foamex.com) - In early 2004 we began buying two classes of Foamex subordinated bonds at a discount to face value. Our original analysis (which we now know was incorrect) showed that the Company had 5 business segments (auto, consumer, technical products, carpet cushion, and commodity) all involved in the manufacturing of foam products. These business units were generating approximately $110 million of operating profit and $135 million of EBITDA at the segment level vs. total debt of $650 million at market value. The Company had a $50 million subordinated bond due August 2005 and publicly stated on many occasions that it had secured financing to redeem the bonds at maturity (we mistakenly relied on this statement, which we confirmed on numerous occasions with Foamex's management). Foamex additionally sold an asset for approximately $40 million during Q l 2005, a portion of which was to be used to redeem the maturing bonds.

In May 2005, the Company hired Miller Buckfire, a restructuring firm, to attempt to execute a debt for equity swap and/or raise new capital. We negotiated with Foamex for several months but were unable to agree on the terms of a transaction. During this time, oil and gas prices increased dramatically, which led to a substantial increase in the price of the Company's raw materials. Additionally, Foamex's competitors were attempting to increase their market share by keeping prices down. Unfortunately, Foamex decided not to redeem the bond issue at maturity and instead filed for bankruptcy protection. We are working diligently to recover our investment. If, during chapter 11, the Company can reduce costs, sell assets, and increase prices, we believe we can recover a large portion of our investment.

Lavendon (LVD LN) (www.lavendon.com) - Steel Partners II, L.P. owns 6.99% of Lavendon pk, an equipment rental company headquartered in the UK and listed on the London Stock Exchange. Lavendon operates in the UK, Germany, France, Spain and the Middle East, and focuses on powered access equipment such as aerial equipment.

The industry has grown rapidly during the last five years due to tighter regulation for "working at height" in the European Union, which has resulted in a surplus capacity which in turn pushed down rental rates and Lavendon's profitability. Management has embarked on a restructuring of its operations and has closed depots and reduced capacity.

Lavendon has leading market shares in most of its markets and profitable operations in the UK and the Middle East. We believe we have very little downside since the company generates substantial amounts of free cash and, as capacity is reduced, cash flow will increase as prices increase.

New Valley (Nasdaq:NV AL) (www.newvalley.com) - We have owned 4.9% of New Valley Corporation for several years, with a cost basis of around $4 per share. New Valley has a real estate business and has a substantial amount of cash and useable tax loss carry forwards. On September 28, 2005, Vector Group (NYSE: VGR), which owns about 57% of New Valley made an offer to acquire for stock the balance of the shares that it does not own for about $9/share. In October 2005, the New Valley outside directors hired independent advisors to study this offer; we are also analyzing the transaction.

Renold (RNO-LN) (www.renold.com) - Steel Partners II, L.P. owns 7.12 % of Renold plc, an industrial manufacturing business based in Manchester, UK and listed on the London Stock Exchange. Its main operations are in the UK, USA, Germany and France.

Renold has several businesses: industrial & engineered chain; automotive transmission products; gears & couplings and machine tool & rotor. In its chain businesses, which account for 50% of revenues, Renold has strong market positions in the US and Europe.

A new CEO was appointed in March 2004 and has started to restructure the business. The chain plant at Burton-on-Trent in the UK has been closed and production has been moved to another UK facility. The excess real estate is under contract to be sold for up to £8.65 million. Renold is too diverse and we believe management will divest underperforming businesses and focus on building its position in industrial and engineered chain. Our analysis shows the parts are worth more than the whole.

Uniq plc (UNIQ LN) (www.uniq.com) - Steel Partners II, L.P. has increased its ownership to 12.04% of Uniq plc a food manufacturing business listed on the London Stock Exchange with operations in the UK and continental Europe.

The CEO was replaced and the company changed its strategy for the better. Management is no longer trying to manage the company as a single operation. The three main divisions do not have common products, customers, suppliers or manufacturing facilities and by centralizing too many functions the company has not been able to compete effectively.

We like the new CEO, Geoff Eaton, and have requested that the company make public its financial targets for each division so that we can hold the management accountable.

Uniq's enterprise value is approximately £280 million, including under funded pension obligations, and revenues in the year to March 2005 were £880 million. We calculate the value of the company at least two times current market price. We believe the shareholder base is extremely like minded with two sophisticated investors controlling a further 12.5% of the company.

We will continue to have an active and open dialogue with the board and the management team as we monitor their progress.

<u>COMPANY UPDATES</u>

Baby Phat (Private - BP Holdings LLC) (www.babyphat.com) - BP Clothing, LLC, owns the license to design, manufacture, and sell the Baby Phat women's apparel label. Baby Phat continues to profitably grow. We re-financed the company during the third quarter of 2005 and paid out to the shareholders enough cash to recoup 130% of our original investment. Steel Partners II, L.P. continues to own 33% of Baby Phat Holdings LLC and is looking forward to growing the business in 2006 and beyond.

BKF Capital (NYSE: BKF) (www.bkfcapital.com) - Steel Partners II, L.P. owns 9.5% of BKF a New York based asset management company.

After publicly and privately trying to convince BKF to alter its governance and compensation structures, we felt we were left with no alternative but to nominate an independent slate of directors for the 2005 annual meeting. On June 30, 2005, Ron Labow, Kurt Schacht and I were elected to the board by our fellow shareholders.

Unfortunately, John A. Levin, the firm's founder decided to leave the firm rather than fix it. He has been replaced by John Siciliano, who is the new CEO. Although John and the new board have a lot to do to rebuild the firm, the upside potential is enormous.

IKON Office Solutions Inc. (IKN) (www.ikon.com) - Steel Partners continues to be one of the largest shareholders of IKON with a 9.9% holding. IKON is the world's largest independent channel for office equipment including copiers, scanners and fax machines. Since we last wrote to you, IKON has been busy. In April, IKON announced that it would conduct a review of its billing controls and reserve practices for accounts receivable and would not make a timely 10-Q filing. The price of the shares quickly dropped below $9 and we bought an additional 3.9% of the Company.

Over the summer, the Company sold its money losing French subsidiary, and issued $225 million of senior notes to refinance its convertible debentures and to free up cash to buy back stock.

Operationally, the Company is on target to meet its goal of achieving 6% operating margins, and has substantially reduced headcount over the last few months. We continue to believe the Company is an attractive free cash flow generator and that the Company has the ability to achieve margins greater than 6%. In the meantime, IKON continues to repurchase its shares (a move we support, but hope they implement more quickly).

Layne Christensen Company (NASDAQ: LAYN) (www.layechristensen.com) - Steel Partners II, L.P. owns 11 % of the shares of Layne Christensen, a provider of water well and mineral drilling, geotechnical construction, oil and gas services, and related product. We believed that the sum of the parts was worth more than the whole at the time of our investment and so far we have been correct. As a director of the Company and one of the largest stockholders, I have been working with the Company to find ways to increase its value.

In September 2005, Layne Christensen announced it closed the acquisition of Reynolds, Inc. ("Reynolds"). Founded in the mid-1930s, Reynolds is a major supplier of products and services to the water and wastewater industries. Business lines include design/build water and wastewater treatment plants, water supply wells, Ranney collector wells, water intakes and transmission lines. In addition, Reynolds' Inliner Division is one of the largest providers of cured in place pipe (CIPP) services for sewer line rehabilitation in the United States. Reynolds had combined revenues of approximately $185 million and EBITDA of approximately $18 million for the trailing twelve months ended June 30, 2005. Backlog of future projects for Reynolds today stands at approximately $235 million.

The purchase price for Reynolds totaled $112.2 million comprised of $60 million in cash and 2.2 million shares of Layne Christensen Company common stock. Reynolds will have incentives, which if achieved, could add an additional $15 million to the purchase price over the next three years. In addition, Jeff Reynolds, President/CEO and grandson of the company founder, was named a Senior Vice President of Layne Christensen and was elected to Layne Christensen's board of directors.

The acquisition should solidify Layne's position in the water industry and expand on an already attractive platform for future growth and profitability. The next stop will be to examine the future of Layne's other business segments.

SL Industries, Inc. (Amex:SLI) (www.slindustries.com) - Steel Partners II, L.P. currently owns approximately 25.5% of SL Industries. The Company continues to perform well. In August 2005, we announced that I would step down as CEO and that James C. Taylor had been named President and Chief Executive Officer. Jim formerly served as the company's Chief Operating Officer and Executive Vice President and has earned the CEO position. The Company also announced that I would continue as Chairman (having served as both Chairman and Chief Executive Officer), and that Glen M. Kassan, who had been President, would become Vice Chairman.

We believe that the turnaround at SL demonstrates how Steel Partners is able to build shareholder value, provide positive leadership to its portfolio companies, and then pass the baton so that other people are empowered to succeed and have the opportunity to continue to grow the company.

WHX Corporation (www.whxcorp.com) - WHX is the holding company for Handy and Harman, a $400 million manufacturer of industrial products including metal fasteners, metal and alloy tubing, and brazing and soldering equipment. In addition to this portfolio of businesses, the Company has a net tax operating loss carry forward of approximately $80 million.

WHX filed for bankruptcy in March 2005 since it could not repay its 10.5% Senior Notes, which came due in April 2005. Steel Partners started accumulating WHX Senior Notes in January 2002 at 50% of face value and by March 2005, Steel was the largest bondholder of the Senior Notes. During the bankruptcy process, Josh Schechter of Steel Partners was the Chairman of the Unsecured Creditors Committee and was actively involved in the Company's restructuring. WHX emerged from bankruptcy in July 2005 and Steel Partners became the largest stockholder of WHX owning approximately 50% of the company. Glen Kassan is now the CEO of WHX and Steel Partners has significant representation on the WHX board including the chairman position which is held by me. All of the operating managements of the Handy and Harman businesses remained with their companies and we are excited about the opportunity to own these various businesses in a tax-efficient entity.

<u>CO-INVESTMENT OPPORTUNITIES</u>

<u>Co-Investments Update - Steel Partners Japan Strategic Fund, L.P.</u>

Steel Partners II, L.P., L.P. has approximately 10% of its assets invested in Steel Partners Japan Strategic Fund, L.P.

As previously announced to our investors, Steel Partners, Ltd., acting as co-general partner with Liberty Square Asset Management and Steel Partners Japan K.K., opened the Steel Partners Japan Strategic Fund, L.P. ("SPJSF" or the "Fund") during April 2002.

Steel Partners Japan Strategic Fund's capital appreciated approximately **39.6%** for the twelve months ended December 31, 2004. After fees and 20% incentive allocation to the General Partner, the Limited Partners earned a **29.9%** return on investment.

For the ten months ended October 31, 2005, Steel Partners Japan Strategic Fund capital appreciated by approximately **27.7%**. After fees and 20% incentive allocation to the General Partner, the Limited Partners earned a **21.5%** return on investment.

Investors who have been with Steel Partners Japan Strategic Fund from inception (April 2002 - October 2005) have received a total gross return of **135.0%**.

The Fund's focus on fundamentally sound companies, combined with an active approach to managing those positions should enable the Fund to achieve superior risk-adjusted returns over the long-term.

Numerous value opportunities still exist in the Japanese market and we are confident in our ability to identify new investment candidates and add to existing positions that are still attractively priced.

See Appendix A - New Positions and Company Updates for SPJSF

New Co-Investment Opportunity - Steel Partners China Access Fund, LP

Steel Partners is planning a new co-investment opportunity similar to our investment with Steel Partners Japan Strategic Fund. Our new joint venture is with China Access Partners Limited, a group based in Hong Kong, which is managed by Timothy Rucquoi-Berger and Alain Sepulchre of Mercuri International Partners and V-Nee Yeh of Cheetah Group Holdings Limited, brings important investing experience and relationships in China. Mercuri International Partners is a mergers and acquisitions advisory firm between Europe and Greater China. Cheetah Group Holdings Limited is one of Hong Kong's first SFC-registered hedge fund investment advisory firms (2002).

Together, we will be forming Steel Partners China Access Fund, LP (SPCAF), to launch first quarter 2006.

The SPCAF investment objective is to achieve capital appreciation by acquiring significant or controlling stakes in publicly listed Chinese companies at a discount to their intrinsic or private market value. The fund will target only transparent, profitable companies in easy to understand industries. Acquisitions will be done directly or indirectly in RMB-denominated shares that are registered as "state" or "legal person" shares. We anticipate being able to purchase these shares at substantial discounts to market price.

See Appendix B - Steel Partners China Access Fund

Management and Infrastructure of the Partnership

We have a terrific management team with extensive operational, managerial, financial, legal and practical experience. Together, we manage the affairs of Steel Partners II, L.P. and enjoy every minute of it. In fact, we are having more fun now than ever before.

We are pleased to announce the addition of John J. Quicke and Joonho Um to the Steel Partners' team. John Quicke joined us in September to deepen our bench of people who know how to run businesses. Prior to joining Steel, John worked at Sequa Corporation in various positions, including vice chairman and executive officer. Before joining Sequa in 1987, Mr. Quicke was vice president and controller of Chromalloy American Corporation, a NYSE-listed company which was acquired by Sequa at the end of 1986. Mr. Quicke began his career in 1972 as an accountant with Arthur Andersen & Co. and in 1977 joined Wetterau Incorporated as director of corporate taxes. A graduate of the University of Missouri, he is a certified public accountant and a member of the AI CPA. From 2003 to 2004, he served as a member of the Board of Governors of the Aerospace Industries Association.

Joonho joined us as a consultant in January 2005 and has since joined us full time as a financial/research analyst based in Seoul, Korea. Prior to joining Steel, Joonho worked at Green Fire & Marine Insurance in the asset management and financial planning departments. He also worked at Bank of America Securities, Salomon Brothers Inc., and Primerica Corp. Joonho graduated in 1992 with a BS from Wharton School of the University of Pennsylvania.

We continue to have great partners at Liberty Square Asset Management and Steel Partners Japan K.K.

Third Amended and Restated Partnership Agreement for Steel Partners II, L.P., LP - We received the requisite percentage of limited partner consents to the proposed changes to certain terms of our limited partnership agreement and consequently the Third Amended and Restated Partnership Agreement for Steel Partners II, L.P. became effective July I, 2005. The most important changes are an increase in the investment lock-up period from one year to three years, an increase in the initial minimum subscription from $5 million to $10 million, and the notice period for withdrawals has been increased from 60 days to 90 days. All money invested prior to July 1, 2005, will be grandfathered under the previous terms of the partnership agreement. Any additional contributions, however, will be subject to the new terms.

Fund Administration - We are pleased to announce that we have engaged Spectrum Global Fund Administration, LLC as our fund administrator. Spectrum will provide fund administration for both the onshore and offshore funds. Spectrum will provide monthly performance beginning the month ended January, 2006. We want to thank Trident Trust, our former administrator to the offshore fund, whom we have used for the past four years. Their dedication and hard work is much appreciated and will not be forgotten.

Our Future

We believe the best way to reduce our risk of losing money while enhancing our probability of making money is to combine our knowledge, experiences and contacts, and apply understanding to a particular situation with complete FOCUS.

Steel Partners will not alter its approach to investing; we believe our method is logical, prudent and we understand the risks. We have no intention of investing in a concept we do not fully understand or is outside our circle of competence.

Steel Partners' mission is to work with management to affect catalytic events or, if required, pursue an activist strategy to encourage management to implement such events. These events may include the reduction of corporate overhead, share repurchase programs, the declaration of a special dividend, divestitures of excess or underperforming assets, acquisitions, or an outright sale of the company.

Our network of investors, investment bankers, brokers, attorneys, accountants, mutual funds and other hedge funds are continuing to grow and strengthen.

Our future success will be affected not only by our ability to remain focused and disciplined but also by the type of investors we admit into our partnership. Therefore, we seek out knowledgeable and patient investors who share our values and our long-term investment orientation. By deploying our capital with discipline, we believe we will continue to earn above-average risk-adjusted returns on our investments over a long period of time.

We have invested most of our personal assets in Steel Partners II, L.P., and we intend to do so over the long run. We eat our own cooking and enjoy it!

Steel Partners has never and will never take its success for granted. We are constantly looking for ways to reduce our risk in order to preserve our capital and achieve high risk-adjusted rates of return regardless of the economic environment.

We would like to thank our partners and investors for your continuing support, perspectives and advice. Your guidance and encouragement have been and will continue to be an invaluable resource for Steel Partners.

Respectfully,

Warren Lichtenstein

For additional information on Steel Partners II and our organization, please visit our website at www.steelpartners.com.

<u>Appendix A</u> - Steel Partners Japan Strategic Fund, L.P. - New Positions and Company Updates.

Good investment ideas are rare and valuable; therefore, Steel Partners Japan is continuing its policy of only discussing investments after the Fund owns 5% or more of a company and has filed a significant shareholder report with the Japanese Local Finance Bureau. Steel Partners Japan has a portfolio of approximately 40 investments, of which we own greater than 5% on fifteen companies.

<u>Recent Developments in the Japanese Market for Corporate Control</u>

In May 2005, the Japanese Ministry of Economy, Trade and Industry together with the Ministry of Justice issued its guidelines on takeover defense. The stated purpose of the guidelines is to protect and enhance corporate values and the interests of shareholders as a whole. As such, the guidelines try to balance allowable defensive measures with the need to curb potential management abuses which are not in the interest of shareholders.

Thus far, only a small number of listed firms in Japan have implemented defensive measures, which include shareholder rights plans/poison pills, increases to authorized capital and/or changes in the articles of incorporation. The Japanese Commercial Code revisions for 2006 are expected to clarify these issues. The real test of the propriety of these new takeover defenses will most likely be decided in the Japanese courts. In fact, a couple of precedent cases have already been decided this year, both in favor of shareholders.

Recently, in July 2005, Yumeshin Holdings, a Japanese engineering consultant launched an unsolicited tender offer bid for Japan Engineering Consultants, a construction consulting company. Japan Engineering has an existing takeover defense plan in place, which was challenged in court.

While it appears that takeover defenses such as poison pills may now be available in Japan, we believe that as the courts set precedence, management will be cognizant to take actions, which are in the interest of shareholders. On the whole, we believe that through continued dialogue with our portfolio companies, the impact of these developments upon the Fund's strategy will be minimal.

<u>New Positions</u>

Good investment ideas are valuable; therefore Steel Partners Japan is continuing its policy of only discussing investments after the Fund owns 5% or more of a company and has filed a significant shareholder report with the Japanese Local Finance Bureau.

Since our last update, new filings include the following 3 companies:

Kaneshita Construction (Code 1897)
The Company is a general contractor that constructs buildings and public infrastructure including road paving. The Company also has an industrial waste disposal business. The Company is trying to increase its focus on private construction to offset the decline in public works projects. When the Fund started investing in the Company, it was trading at a discount to cash and investments. The

Company has EBITDA of $8 million on revenues of $175 million. Kaneshita has no debt and holds cash and investments of $140 million, which is equal to 92% of its market capitalization. The Company currently trades at an enterprise value below 2x EBITDA. The Fund owns 6.6% of the shares issued, which makes it the largest shareholder in the company.

Ezaki Glico (Code 2206)
The Company produces and sells confectioneries, dairy products and processed foods. Its confectionery products include chocolate, candies, snacks and cookies. The Company has EBITDA of $142 million on revenues of $2.3 billion. Glico has net cash and investments of $435 million, which is equal to 43% of its market capitalization. The Company currently trades at an enterprise value of 4x EBITDA. The Fund owns 5.5% of the shares issued and controls 5.6% in conjunction with related parties, which makes it among the top three shareholders in the company.

Inaba Denki Sangyo (Code 9934)
The Company is a wholesaler of electric cables and products including its own branded air conditioning piping materials. The Company has been taking positive capital reallocation actions, recently tendering for up to 20% of its shares at ¥3,200/shr and raising its dividends. We decided not to tender the Fund's shares to the Company with the belief that the company is on track to make further gains. Inaba has EBITDA of $77 million on annual revenues of $1.4 billion. The Company has no debt and cash and investments of $243 million, representing 3 8% of its market capitalization. The Company trades at an enterprise value of approximately 5x EBITDA. The Fund currently owns 7 .1 % of the shares issued, which makes it the top shareholder in the company.

Company Updates

From the time of our last update note, we sold our holding in the following previously filed company:

Riken Vitamin (Code 4526)
The Company is a Tokyo based manufacturer of food additives and seasonings. It also produces raw vitamins and processed foods. The Company has an EBITDA of $69 million on annual revenues of $653 million. The Fund previously owned 5.2% of the shares issued at a weighted average purchase price of ¥1,312/shr. With unidentified buyer interest at an attractive price we recently sold our shares through the exchange in one transaction at ¥3, 150/shr. This price included a healthy premium to its last trade and is at a level not seen since over a decade ago.

New Hires

Steel Partners Japan made two analyst hires in its Tokyo office. They will provide additional support to our portfolio managers, monitoring existing investments and helping us to uncover new value opportunities.

Ms. Tomomi Sukagawa joins us from the University of Tokyo where she was a research associate dealing with intellectual property issues. Prior to her position at the University, she was an analyst in the investment banking group at J.P. Morgan Securities Asia, where she focused on

M&A and corporate finance. Tomomi graduated from Keio University with a Bachelor degree from the Faculty of Law. She is a fluent Japanese and English speaker.

Mr. Donglei Yan comes to us from General Electric in Tokyo. He was an M&A associate in the energy group where he was responsible for identification, evaluation and execution of acquisition and joint venture opportunities for GE Energy Asia, with emphasis on Japan and China. Prior to his position with GE, Donglei was an Associate in Merrill Lynch Japan's Investment Banking Division with focus on M&A and corporate finance. Donglei graduated with a B.A. in Management from Hitotsubashi University and has an M.B.A. from The Anderson School at UCLA. He is a fluent Japanese, Chinese and English speaker.

Please join us in welcoming them to the team.

Finally, we would like to inform you that Mr. Hideaki Kaneko, who joined us last year to assist us in developing our relationships with corporate management, decided to tender his resignation due to health concerns. We thank him for his contribution and wish him the best.

We thank all of our investors for their continued support and trust. We welcome your questions, comments and any ideas you wish to share with us.

Appendix B - Steel Partners China Access Fund

Basis for Opportunity

China's transition from a state-planned, state-owned economy to a market economy has progressed since the country started methodical economic reforms in the 1980s. Some of the last vestiges of a socialist era still remain and one of these is the existence of state-owned shares of Chinese listed companies. Approximately 60% of all listed shares are still controlled by the state and have remained "un-tradable" on China's stock exchanges. Until a few years ago, state-owned shares were also not permitted to be sold en bloc to foreigners. However, as China has moved away from direct state control, state-owned shares have become both a burden, making companies opaque and depressing share prices, and an historical anomaly that the government is trying to remove and resolve. Since 1999, China has been attempting to merge "tradable" shares and the ''un-tradable" state-owned shares. This process is still continuing and various administrative steps have been implemented to smooth out the convergence. We believe that eventually, possibly within a few years, the distinction will be eliminated. In the meantime, as the Chinese government attempts to dispose of state-owned shares in various ways, we believe that an opportunity exists to acquire substantial, often controlling stakes in listed companies, at below market prices and at a discount to intrinsic value. Since early 2000, the Chinese government has been keen to dispose of its controlling stakes in all companies except for those considered to be in strategic sectors such as media and publishing, defense, telecommunications and banks. In addition to raising capital from initial public offerings in stock markets around the world, China has been exploring the mergers or acquisitions route for an increasing number of industries and sectors, and has in many cases indicated a preference for foreign investors over domestic investors due to the potential international premium that such investors may add. Most restrictions on foreign investors have now been removed, with clear mergers and acquisitions regulations and regulatory procedures in place for international investors to acquire Chinese companies.

At the same time, many international investors, especially multinational corporations ("MNCs"), have been increasingly eager to increase their presence in China by acquiring Chinese companies through mergers and acquisitions, based upon the premise that this is a much faster and more effective way to expand market share than setting up joint ventures (1980s) or wholly-owned foreigner enterprises (1990s). The main challenges multinational corporations typically face are: (1) selecting the best companies; (2) obtaining effective control; (3) running unfamiliar operations; and (4) having local guidance in the mergers and acquisitions process.

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LP Biographies

- ***Timothy RUCQUOI-BERGER***, who is a principal of the General Partner and a pioneer in China's mergers and acquisitions business. He has direct relevant experience restructuring China's problematic state-owned enterprises in the early 1990s. As an official advisor to Liaoning provincial government (from 1996 to 1999) and Shenyang municipal government (from 1999 to 2001), he focused on restructuring and arranging trade sales, stock market listings or debt financing. Previously the managing director (China) of Asian advisory firm Ajia Partners (from 2001-2003), Mr. Rucquoi-Berger has since 2003 founded a boutique firm Mercuri International Partners, advising on mergers and acquisitions between Europe and Greater China. He holds a BA (honors) in international economic relations (1988) from the State University of New York and is fluent in English, French and Chinese (Mandarin and Cantonese).

- ***Alain SEPULCHRE***, who is a principal of the General Partner and has 15 years' management and business experience with MNCs in Asia Pacific with a specific Greater China focus. As Hong Kong based managing director of Greater China (chemical operations) of the biggest Belgian and French oil and gas companies (which merged to become TotalFinaElf group in 2000) for 10 years (1990-2000), Mr. Sepulchre has strategic and operational expertise with regard to multi national corporations operations and direct investments in this region. Between 2001 and 2002, at TotalFinaElf headquarters in Brussels and Paris, he was in co-charge of a number of chemicals projects in Asia and concluded a series of deals in Korea, Singapore and China. Mr. Sepulchre has bachelor and master degrees in business administration from Brussels Solvay Business School, a post-master degree in Chinese business from the Institute of Asian Studies and Languages in Paris, and is currently a doctoral fellow at the University of South Australia. He is fluent in French (native), English and Mandarin.

- ***V-Nee YEH***, who is a founder and director of Value Partners Limited, a fund management firm specializing in Asia (ex-Japan) equities with a focus on Greater China. Mr. Yeh is also the Chairman of Argyle Street Management, a boutique distressed asset management firm and is a director of Cheetah Korea Value Fund and the Japan High Yield Property Fund Limited. Mr. Yeh is a lawyer by training but has extensive experience in corporate finance, with stints at the Lazard group in London, Hong Kong and New York. He holds a JD from Columbia Law School, New York, and a BA from Williams College, Massachusetts. Mr. Yeh currently sits on the Listing Committee of The Stock Exchange of Hong Kong Limited as well as the Takeovers and Mergers Panel at the Securities and Futures Commission of Hong Kong. He was until last year a member of China's CSRC Listing Committee.