Steel Partners, Ltd.
590 Madison Avenue
32nd Floor
New York, New York 10022

Tel (212) 758-3232
Fax (212) 758-5789

September 10, 2007

Dear Limited Partners:

We view the current investment environment through rose colored glasses as we see **the glass is half full, not half empty**. We continue to look for opportunities that have a good risk/reward profile and never forget the number one rule in investing: preservation of capital. We want to take a moment to update all of you during these volatile and interesting times.

Steel Partners II, L.P.'s ("Steel II") capital appreciated approximately 0.05% for the eight months ended August 31, 2007, before the General Partner's profit allocation but after all fees and expenses. After the 20% allocation to the General Partner, the Limited Partners earned a 0.04% return on investment.

Investors who have been with us from inception (October 1993 - August 2007) have received a total gross return of 1543% and a gross compounded annual rate of return of 22.26%. 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.

It takes a great deal of time to identify attractive investment opportunities, to understand why a company is selling for a discount and what strategy needs to be implemented and executed in order to close the value gap. Our performance in the first few months of 2007 suffered because we remained disciplined and refused to buy 80 cent dollars even when others were lured to pay $1.30 for $1.00 worth of value.

Today, there are a remarkable number of opportunities that did not exist two months ago, and we believe the opportunity set will continue to grow. We want to be ready, willing and most importantly **ABLE** buyers. We are open for additional capital because as the environment changes and as valuations come down we plan on investing significantly more capital.

We continue to monitor the "new lows" list on a daily basis, and we are finding opportunities to invest more capital everywhere in the world. We will continue to leverage our global platform to seek out interesting investments and are hopeful that stock and bonds (including distressed debt) will get cheaper so that we can invest more capital in what will hopefully become big money makers for us. We are relieved that the madness in valuations has subsided.

OUR PORTFOLIO – GLOBAL, CONCENTRATED AND TRANSPARENT

Today, our capital is invested internationally, with 72% in the US, 9% in Europe and 19% in Asia. It should also be noted that many of our investments in the United States are companies that are domiciled in the USA but conduct a majority of their business outside of the United States. As our global platform has evolved and matured, we have continued to employ the same, purely bottom up, approach that has enabled us to locate opportunities that meet our strict investment criteria within the United States and abroad. Additionally, the cross pollination that occurs between our geographical locations strengthens our global firm as well as our portfolio companies, such as KT&G, Heng Feng, and Altria.

Our portfolio is currently 133% long and 48% short. We have the highest short exposure in our history through a combination of individual names and indices. Additionally, we are using our debt capacity for the first time in years as we invest more money in existing names in our portfolio and have added new ones. We can see the "for sale" signs popping up all over the place.

Today, our portfolio is concentrated, with 80% of our assets in 1O names. Today, 50% of the top names in our portfolio have been added since the last letter. Since we typically own greater than 5% and file 13Fs quarterly, our portfolio is extremely transparent. We welcome anyone to go to each of the companies' websites for information. We anticipate our investment holding period won't change and will continue to be four to five years.

We believe that the businesses we own today will be worth significantly more three years from now. In fact, if the stock markets around the world closed for three years we would not complain. Most of the companies we own have very little leverage, have net cash, substantial free cash flows, and trade for attractive discounts to what we believe they are worth. These unleveraged balance sheets provide for a tremendous margin of safety and flexibility during difficult and uncertain times. We believe that if we marked everything in our portfolio to our estimate of intrinsic value, we would have an approximate unrealized gain of $1.1 billion, which would earn us an approximate return of 45% on our investment. We strongly believe that there is a very high probability that the share prices of our portfolio companies will reach their true value in the next couple of years.

We believe it is important for all our investors to understand that our returns have been generated with almost no leverage at either the Steel II fund level or the portfolio company level. This is in contrast to a typical private equity firm which uses up to six to eight times leverage at the portfolio company level, and hedge funds who often use two to four times (even up to 20x) leverage. We are very proud of our risk adjusted returns over a long period of time.

PORTFOLIO UPDATE

Steel II currently owns 5% or more in:

Adaptec Inc. (NASDAQ: ADPT), Angelica Corporation (NYSE: AGL), API Group PLC (API - LN) a U.K. company, BNS Co. (OTC: BNSSA), Brink's Company (NYSE:BCO), Conseco Inc. (NYSE: CNO), Continental Materials Corporation (ASE: CUO), Cosine Communications Inc. (OTC:COSN), Del Global Technologies Corp. (OTC: DGTC), Earthlink Network Inc. (NASDAQ:ELNK), ENPRO Industries Inc. (NYSE: NPO), Gateway Industries, Inc. (OTC: GW A Y), GenCorp Inc. (NYSE: GY), IKON Office Solutions Inc (NYSE: IKN), JPS Industries (OTC: JPST), KT&G (KS:033780), Nathan's Famous (NASDAQ: NATH), New Frontier Media Inc. (NASDAQ:NOOF), P&F Industries, Inc. (NASDAQ: PFIN), Photo-MEe International pie (PHTM-LN), Ronson Corporation (OTC:RONC), Rotech Healthcare Inc. (NASDAQ: ROHi), Rowan Companies Inc. (NYSE: RDC), Selectica Inc. (NASDAQ: SLTC), SL Industries, Inc. (Amex: SLI), Uniq PLC (UNIQ-LN) a U.K. company, United Industrial Corporation (NYSE: UIC), WebFinancial Corporation (OTC: WEFN), and WHX Corporation (OTC:WXCP).

SUMMARY OF TOP 10 POSITIONS

Name	Country	Description	% Owned	Board Rep	Enterprise Value	EV / EBITDA 2007	EV / EBITDA 2008
KT&G Corp.*	South Korea	Largest manufacturer and distributor of cigarettes and ginseng in Korea.	4.0%	X	KRW 8,942 Billion	7.9x	6.9x
Rowan Companies Inc.**	US	Provides a range of onshore and off-shore contract drilling services in the United States and internationally. It designs and manufactures drilling rigs, drilling system components and certain electrical components.	6.6%	None	$4,299 Million	5.3x	4.8x
Pride International Inc.**	US	Provides offshore and onshore contract drilling and related services to oil and natural gas companies worldwide. It offers its services through the use of mobile offshore drilling and land-based drilling rigs, and work over rigs.	4%	None	$7,150 Million	6.1x	4.5x
The Brinks Company*	US	Provides security services worldwide.	7.2%	None	$2,826 Million	6.6x	6.0x
WHX Corp.*	US	Holding company investing in and managing a diversified group of industrial companies operating under its two subsidiaries Handy & Harman and Bairnco Corporation.	50.3%	X	$459 Million	8.1x	6.0x
Ensco International Inc.**	US	Operates as an offshore contract drilling company in the United States and inter-nationally. Its offshore drilling opera-tions include exploration, development, and production of oil and natural gas.	2.2%	None	$8,100 Million	5.6x	4.7x
Steel Partners Japan Strategic Fund	Japan	$3.9 billion relationship/active value investment fund in Japan.	n/a	n/a	n/a	n/a	n/a
IKON Office Solutions	US	World's largest independent channel for office equipment, including copiers printers and fax machines.	10.2%	None	$1,821 Million	6.8x	6.0x
Conseco Inc.	US	Engages in the development, marketing, and administration of supplemental health insurance, annuity, individual life insurance, and other insurance products in the US.	4.9%	None	$2,653 Million (mkt cap)	50% Price to Book Value	
United Industrial Corp.	US	Designs, produces and supports aero-space and defense systems - products and services include unmanned aircraft systems, training and simulation sys-tems, test and maintenance equipment, armament systems, logistical and engi-neering services, and other leading-edge solutions.	19.4%	X	$965 Million	11.4x	n/a

*Represents Steel Partners' estimated operating company enterprise value and valuation multiples
** Jeffries estimates
*** Consensus estimates

ASIA

KT&G (KS:033780) (www.ktng.com) - KT&G is the largest manufacturer and distributor of cigarettes and red ginseng in South Korea. Additionally, KT&G owns over 700 million square feet of real estate (much of it is excess, unutilized), 57% of Yungjin Pharmaceutical (KS:003520) 20% of YTN (KS: 040300) and 14% of Celltrion, a South Korean bio pharma company. The Company generates about $1 Billion USD in EBITDA a year and has no debt. KT&G continues to buyback shares and has announced they will increase the dividend again this year. Steel II currently owns 4% of KT&G's shares.

KT&G had a good Q2 in 2007 and increased their projections for 2008E to approximately $1.1 Billion in EBITDA, due to increased export sales to emerging markets and lower costs due to the foreign leaf usage. There has been a worldwide consolidation in the tobacco business and KT&G is a likely target. In the two most recent transactions Altadis and Gallagher both sold for l 4x EBITDA.

Steel Partners Japan Strategic Fund - Steel II has approximately 8% of its assets invested in Steel Partners Japan Strategic Fund, L.P. (SPJSF). For the first seven months of 2007, SPJSF generated a gross USD-class return of 0.8% and -0.4% to limited partners net of all fees, expenses and the incentive allocation. Investors in the Fund from inception (April 2002 - July 2007) have received a total gross return of 197.0% (126.6% net), compared with a 75.1% return on the Nikkei 225 and 80.2% return on the Topix over the same period in US dollar terms.

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 SPJSF in April 2002. Since 2002, we have made a significant amount of progress on building up our knowledge of Japan and its companies. Please see Appendix 1 to see the August Steel Partners Japan letter, which includes the letter I wrote to the CEOs of the companies SPJSF invested in. One lesson we learned - the newspapers are not very accurate - please see the Bull Dog part of the Steel Partners Japan letter.

SPJSF's philosophy is to invest in well capitalized, profitable companies that are market leaders in their respective industries. The Fund is keenly focused on the preservation of its capital and will only invest where it feels it has a significant margin of safety. The Fund's focus on fundamentally sound undervalued companies, combined with an active approach to managing those positions, should enable the Fund to achieve superior risk-adjusted returns over the long-term. SPJSF has taken advantage of recent weakness in the Japanese markets to substantially add across its portfolio, particularly in investments with the most upside. Current market prices of SPJSF portfolio companies reflect a discount to intrinsic value in excess of 40% and the Fund is working with company managements to aggressively close those valuation gaps.

UNITED STATES

Rowan Companies Inc. (NYSE: RDC) (www.rowancompanies.com) - We started buying shares in Rowan in April 2007 and currently own 6.6%. Rowan provides a range of onshore and offshore contract drilling services in the United States and internationally through 21 Jack-up rigs and 26 deep well land rigs. The Company also manufactures drilling rigs, drilling system components and designs, and manufactures variable speed AC motors frequency drive systems and other electrical components for the oil and gas, marine, mining, and dredging industries. Steel II currently owns 6.6% of Rowan's shares.

Rowan operates in an industry with historical volatility and limited visibility, but with the increased demand for energy from China, India and other emerging countries the dynamics of the industry and its participants is rapidly changing. This has led to record price increases for the Company's rigs with longer contract durations and increased demand for the manufactured components such as top drives and drilling

pumps. The drilling business generates significant free cash flow, currently at 50% EBITDA margins and the manufacturing business is expected to report record results in the 3rd quarter of 2007. With net debt of $128 million, EBITDA of $648 million, increased visibility in revenues and backlog demand for rig component parts Rowan is an attractive risk/reward investment that we value at a significant premium to market.

Pride International Inc. (NYSE:PDE) (www.prideinternational.com) - The Company provides offshore and onshore contract drilling and related services to oil and natural gas companies worldwide through a fleet of 4 deepwater drillships, 12 semi-submersible rigs, 28 jackup rigs, 16 tender-assisted, barge and platform rigs. Steel II currently owns 4% of Pride's shares.

Pride has recently completed the sale of its Latin America division, consisting of 272 land-based drilling rigs and other E&P services business for $1 billion and announced an agreement to sell three tender-assist rigs for $213 million. The proceeds from these transactions will be used to fund the expansion of the Company's deepwater fleet (currently 2 drillships under construction) and other strategic purposes, in line with its previously stated goal to focus on the deepwater drilling market. Pride is currently trading at 6.9x 2007 EBITDA with net debt of $66 million and estimated EBITDA of $891 million.

Given the Company's recent asset sales and its intention to focus on deepwater drilling and the Company's vocal proclamation that consolidation is needed in the offshore drilling market, we expect further value enhancing activity from the Company. We like the direction the Company is headed and believe the underlying value in Pride has yet to be realized as it is now more of a pure play offshore drilling company.

Brinks Co. (NYSE:BCO) (www.brinkscompany.com) - Steel II owns approximately 7.2% of Brinks. The Company continues to perform well, and trades at about 6.8x EBITDA. We were recently disappointed when the Board decided not to pursue a break up of the Company, by spinning off one of their businesses. The spin off transaction appears as though it would unlock the value of the Company since the pure play peers of the two different businesses trade at higher multiples than Brinks currently trades. We believe this Company has excellent, well-run businesses, with no net debt or legacy liabilities and that the Board should pursue the spin-off, a large stock buyback financed by a conservative amount of debt, a large dividend, or an outright sale. The largest shareholder has recently received HSR clearance to increase their stake to 15%. They also stated on the most recent earnings conference call that they may pursue a proxy fight at the next annual meeting to put directors on the Board that will maximize shareholder value.

WHX Corporation (OTC: WXCP) (www.whxcorp.com) - As you may recall from prior letters, we own just over 50% of the common stock of WHX, a holding company investing in and managing a diversified group of industrial companies operating under its two subsidiaries Handy & Harman and the newly acquired Bairnco Corporation. In addition, we have invested approximately $140 million in various debt and preferred stock securities to provide additional liquidity and partially finance the acquisition of Bairnco. Since our initial involvement in 2005 when we acquired WHX by converting our debt to equity, WHX has been focused on improving its operations and has made substantial progress by (i) strengthening its management team with key new hires, (ii) divesting non-core assets, (iii) transferring certain operations to low cost manufacturing facilities, (iv) implementing operational excellence and (v) selectively pursuing strategic acquisitions/divestitures. We view WHX as a core investment for Steel II and one that we can build upon over many years.

ENSCO International Inc. (NYSE: ESV) (www.enscous.com) - The Company operates as an offshore contract drilling company in the United States and internationally with a fleet of 43 jackup rigs, an ultra-deepwater semi-submersible rig, and a barge rig. Steel II currently owns 2.3% of ENSCO's shares.

ENSCO is currently trading at 5.8x 2007 EBITDA, with net cash of $80 million and EBITDA of $1,369 million. ENSCO has operations in all major offshore oil and gas producing regions through its fleet of jackup rigs and is currently building a fleet of semi-submersible rigs, one operating in the Gulf of Mexico and four currently in construction, to meet future demand in deepwater drilling activities. Contracts for three of the rigs under construction have been secured and a contract for the remaining rig is expected to be signed in the near future given the demand in the deepwater market. The management team and Board has shown its commitment to increasing shareholder value by putting in place a stock buyback program, purchasing 8.5 million shares for roughly $432 million through the 2nd quarter of 2007 from a $500 million share repurchase program announced in the 1st quarter of 2006.

Then, on August 29, 2007, ENSCO announced a new $500 million share repurchase program. We believe ENSCO is undervalued and we are pleased with management's decision to continue with its share repurchase program.

IKON Office Solutions Inc. (NYSE: IKN) (www.ikon.com) - Steel II, with a 10.2% ownership interest, has been an investor in IKON for over three years and supportive of management's key initiatives, namely, (i) the simplification of the balance sheet through the sale of the majority of its lease portfolios to GE, (ii) substantial SG&A reductions and (iii) divestitures of non-core assets. However, despite improved operating margins and simplification of its balance sheet, IKON has continued to trade below its intrinsic value in part due to its inefficient balance sheet. As such, on June 29, 2007, we submitted a letter to the CEO and the Board of Directors recommending the Company pursue a public recapitalization and self tender for at least $850 million of common stock at $17.50 per share using excess cash and moderate leverage (4.3x EBITDA). We will continue our dialogue with management and are being told that they are exploring strategic alternatives.

Conseco Inc. (NYSE: CNO) (www.conseco.com) - Conseco, Inc. provides insurance products and services to working American families and seniors. The Company provides Medicare supplement, cancer, heart/stroke, and accident policies, as well as annuities and life insurance products. Conseco operates a nationwide network of distributors, operations are conducted through Bankers Life, Colonial Penn, Conseco Insurance Group, and some long term care products that are in run-off. Steel II currently owns 4.9% of Conseco's shares.

Conseco emerged from bankruptcy in 2003, and recently replaced its CEO, which was the catalyst for Steel II taking a position in the Company. We believe that the sum of the parts valuation, net of debt, is substantially higher than the current stock price and expect value to be realized if the Company is successful in reaching a reasonable consolidated after tax return on equity (Company's goal is 11 % by 2009) providing EPS of about $1.80 per share in 2009 while continuing to grow their revenues. If this is achieved we believe the stock should trade at a premium to book value. Additionally, there has been significant insider buying, the Company has a large stock buyback program in place, and there are about $4 billion of NOLs that are usable so the Company will not be a full tax payer for many years.

United Industrial (NYSE: UIC) (www.unitedindustrial.com) - After working closely with the Board and management team for seven plus years and having grown and transformed the Company, we are contemplating our future. Fred Strader, UIC CEO, will be presenting and updating everyone at our annual investor dinner on October 25, 2007. Steel II currently owns 19.4% of UIC's shares.

OTHER COMPANY UPDATES

EarthLink Inc. (NASDAQ: ELNK) (www.earthlink.com) - Steel II owns 6.8% of Earthlink, an internet service provider based in Atlanta. The Company recently hired a new CEO, Rolla Huff, who announced on August 27, 2007 that the Company will implement a major restructuring and return the Company to its core operations. This is a strategy we recommended to the Board in a private letter a couple of months ago. The new strategic plan includes head count reductions, office closings, and reduced expenditures on advertising and marketing. Earthlink has approximately $220 million of net cash and non-core investments and with an enterprise value of about $700 million and expected free cash flow of about $230 million in 2008, the stock is very cheap (32% free cash flow yield). Additionally, with large net operating loss carry forwards the Company will not pay taxes for several years. The Company has a very large stock buyback in place ($270 million) and is buying stock back at a good pace ($25 million worth in Q3 2007 so far). Using a conservative multiple of their free cash flow, we arrive at a value well in excess of the current market price.

MANAGEMENT AND INFRASTRUCTURE OF THE PARTNERSHIP

We have a terrific management team with extensive operational, managerial, financial, legal and practical experience. We continue to grow and strengthen our organization with great people and maintain a local presence in Europe, Asia, and North America.

We are pleased to announce that we have engaged Morgan Stanley Fund Services USA LLC as our fund administrator. Morgan Stanley will provide fund administration for both the Steel II onshore and offshore funds. They will provide monthly performance beginning the month ended September, 2007. We want to thank Spectrum Global Fund Administration, L.L.C., our former administrator. Their dedication and hard work is much appreciated and will not be forgotten.

We continue to have most of our personal net worth invested in Steel II, and the General Partner is the largest single investor in the fund. Steel II has never and will never take its success for granted. We would like to thank our partners and investors for your continuing support, perspectives and advice. Your guidance and encouragement has been and will continue to be an invaluable resource for the firm.

We invest on the basis of value, not popularity. We are focused and energized and will continue to leverage our global platform to seek out interesting investment opportunities throughout the world and in all levels of the capital structure. We look forward to seeing all of you at our annual dinner on October 25, 2007. Until then ... happy hunting.

Respectfully,

Warren Lichtenstein

P.S. - " ... avoid the mistake of those who meet with an extraordinary piece of good fortune and are led on by hope to grasp continually at something further, because they have had an unexpected success ... (It is) an error of judgment to which all are equally liable ... prosperity ... must not make you fancy that fortune will always be with you. Sensible men are prudent enough to treat their gains as precarious."

-Thucydides

The History of the Peloponnesian War - c400BC

APPENDIX 1 - STEEL PARTNERS JAPAN AUGUST 2007 LETTER

STEEL PARTNERS JAPAN STRATEGIC FUND (OFFSHORE), LP
24 FEDERAL STREET
BOSTON, MA 02110

August 27, 2007

Dear Investor,

I. First Half 2007 Year in Review

For the first seven months of 2007, the Steel Partners Japan Strategic Fund ("SPJSF" or the "Fund") generated a gross USD-class return of 0.8% and -0.4% to limited partners net of all fees, expenses and the incentive allocation. For JPY-class, returns were 1.4% and -2.2%, respectively. Investors in the Fund from inception (April 2002 - July 2007) have received a total gross return of 197.0% (126.6% net), compared with a 75.1 % return on the Nikkei 225 and 80.2% return on the Topix over the same period in US dollar terms.

Our philosophy and strategy at SPJSF is to invest in well capitalized, profitable companies that are market leaders in their respective industries. We are keenly focused on the preservation of our capital and will only invest where we feel we have a significant margin of safety. In fact, SPJSF has never lost money over a complete fiscal year and we credit that to our long-term relationship/active value investment approach. Shares of our portfolio companies remain significantly undervalued by the Japanese market and SPJSF seeks to work with the management of these companies to unlock that value for all stakeholders. In each portfolio Company, we engage management in candid and formal discussions regarding its Company's operations and capital structure. Our relationship with management (often spanning many years) allows us to formulate an active value strategy focused not only on promoting operational and financial excellence, but equally important, assessing management mentality and responsiveness. Our position as a Company's significant shareholder lends immeasurable weight to these discussions. We continue to have more ideas than capital and can invest a significant amount of money now in both existing and new names.

Our performance since inception is listed below for your review[1]

	Gross[1]	**Net**[2]
2002 (since April 1st)	1.5%	-0.7%
2003	29.8%	22.3%
2004	39.6%	30.0%
2005	42.0%	33.7%
2006	12.7%	8.4%
2007 - YTD July 31st	0.8%	-0.4%

In line with the Fund's strategy, we take influential stakes in the companies in which we invest. Today, SPJSF is the largest shareholder in the majority of our portfolio companies. We have filed a 5% larger shareholder report on 29 of our 33 portfolio companies representing 96% of the portfolio. Our top

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1) Represents USO-class returns.

2) Gross Returns are before all expenses and GP's profit participation.

3) Net Returns are after all expenses and GP's profit participation.

ten positions represent approximately 77% of the equity value of our portfolio and the top fifteen positions represent 89%.

We are constantly working with the management of these firms in order to further enhance their values. We continue to have private discussions and correspondence with our portfolio companies. We believe that Steel II's continued focus on fundamentally sound companies that trade at a discount to intrinsic value, combined with an active approach to managing those positions will enable SPJSF to continue achieving superior risk-adjusted tax-efficient returns over the long term.

II. Engagement with Bull-Dog Sauce

Many of you read over the last few months about the Fund's tender offer for Bull-Dog Sauce. Unfortunately, many of these reports were partially or mostly inaccurate or intentionally biased against the Fund. Therefore, we are providing a summary of the facts and circumstances surrounding this transaction below for your review. We would like to remind investors that at the onset of SPJSF's TOB, Bull-Dog Sauce represented less than 0.3% of SPJSF's total portfolio market value. We also remind you that ultimately, the Japan Supreme Court did not find us to be an "abusive bidder." Notwithstanding, it is evident there were more things we could have done to better manage the relationship with Bull-Dog management, shareholders and stakeholders before and during the tender offer.

Initially, when we sought to clarify the actions for our tender offer and subsequent legal proceedings with Bull-Dog, we were met with undue criticism by the Japanese media, investment community and government entities at large. SPJSF's vindication from being an "abusive bidder" and the recent groundswell of criticism towards Bull-Dog's actions that have adversely affected its corporate and shareholder value, as well as raised questions about the integrity of the Japanese capital markets for foreign investment, has already begun to register positively across SPJSF's portfolio.

SPJSF invested in Bull-Dog over five years ago; it was one of SPJSF's original investments when the Fund was launched in April 2002. We were attracted to the Company's operational performance, financial stability, market share, and best-in-class sauce products. We believed that the market did not fully recognize Bull-Dog's intrinsic value and potential to become a global brand. We met with management regularly and made numerous recommendations on how to enhance shareholder value. We were pleased to see Bull-Dog accomplish the following:

1. Raise its dividend over l 00%;
2. Increase EPS by over 450%; and
3. Form a public relations department to engage shareholders.

Bull-Dog's achievements served to reaffirm our conviction in the business and its future prospects.

On May 15, 2007, we sent a letter to Bull-Dog's CEO, Shoko Ikeda, informing her of our intention to acquire up to l 00% of the shares outstanding in the Company. In the letter, we reiterated our support for the Company of which SPJSF, and its affiliates, already owned approximately 10% of the outstanding shares. We elected to acquire shares via a tender offer instead of buying in the open market because we believed it was the most efficient means to increase our ownership. Our unconditional offer of ¥1,584 per share was made to all Bull-Dog shareholders and provided them immediate liquidity and an opportunity to sell at a 20% premium to the prior day close market price. Prior to our tender offer, we had communicated to management a lengthy description of SPJSF's active value / relationship approach and corporate value enhancing philosophy. We hoped that management would interpret our tender offer as our firm commitment to work with the Company along these principles (please see Appendix A for a similar version of that letter).

Under the Securities and Exchange Law in Japan, a target company is entitled to ask the offeror as many questions as it deems appropriate in its opinion statement, in order to help shareholders judge whether to accept the tender offer. Bull-Dog management sent us an exhaustive list of questions within ten days of the tender offer filing. Although a disproportionate number of the questions fell outside the scope of what we believed were material determinants of SPJSF's ability to complete the tender offer, we responded to the questions to the best of our abilities. Unfortunately, management chose to look past our five years as a loyal and supportive shareholder, and publicly opposed our tender offer, stating that the price was inadequate based on advice by Nomura Securities (we can't wait to see this analysis) and that it would damage corporate value. The Company would not provide any insight as to what an appropriate price might be or how corporate value would be impaired.

Following the decision not to recommend our tender offer, the Board proposed a stock acquisition rights ("SARs") scheme that required 66.7% approval by shareholders at the annual meeting in June. Under this scheme, shareholders would receive three SARs for each share they owned. Each SAR had an exercise price of ¥1 per SAR and a mandatory repurchase provision that Bull-Dog would issue one share per SAR in consideration of the repurchase of SARs. All shareholders could exercise these rights except SPJSF or instead, Bull-Dog could repurchase SARs and issue one share per SAR except those which SPJSF owned. Bull-Dog may repurchase our SARs at ¥396 per SAR, which would dilute our voting ownership from approximately 10% to less than 3%. We note that the ¥396 per SAR purchase price was based on our offer of ¥1584 per share, a price that the Board had already stated was inadequate and below intrinsic value.

We believe that the scheme, regardless of whether it was approved by a supermajority of shareholders, discriminated against the Fund and violated the shareholder's equity principle under Japanese corporate law. Please remember that the SAR scheme did not apply to a 10% shareholder (much like a U.S. poison pill works), but specifically was applied to the Fund and its related parties, if any. In order to protect our investment in Bull-Dog, on June 13, SPJSF petitioned the Tokyo District Court to issue an injunction preventing the Company from issuing the SARs. In our petition, SPJSF asserted that Bull-Dog was only seeking to implement the measures to stop our tender offer and reduce our ownership, and that the Board had breached its fiduciary duty to all shareholders by intentionally causing significant financial loss to the Company as a whole. In addition to the ¥2.1 billion to be paid to SPJSF, Bull-Dog would incur significant legal and financial advisory fees which turned out to be an additional ¥700 million. For sake of comparison, Bull-Dog's total FYE 2007 operating profit amounted to ¥718 million.

After Bull-Dog disclosed a new business plan to raise corporate value by reducing headcount and closing one of its three factories, which would result in ¥1.3 billion of operating profit by 2010 (we still remain curious as to the timing of this announcement and its conspicuously bullish targets), on June 15, 2007, we raised our tender offer price to ¥1,700 per share. We extended the offer for another month to demonstrate our conviction in Bull-Dog and provide shareholders maximum liquidity. A week later, at Bull-Dog's 2007 annual general meeting, the SARs scheme was approved by supermajority vote.

During the proceedings at the Tokyo District Court, SPJSF submitted substantial documentation, including numerous legal opinions, that refuted anyone's ability to call us a "green mailer," stressed the adverse tax implications of being forced to accept financial consideration for the SARs and asserted our explicit intention to serve as owners and not managers of Bull-Dog. Unfortunately, the Tokyo District Court ruled in favor of Bull-Dog and stated that the principle of shareholder equality can be circumvented by a special resolution at a shareholders' meeting and **<u>if suitable financial compensation is provided</u>**. Furthermore, counter measures against a bidder are permissible unless the decision of the shareholders' meeting that the bidder's acquisition of the company threatens to damage corporate value is obviously

unreasonable. While we respect the District Court's verdict, we believe that shareholder equality was not upheld and that any evidence that indicates SPJSF to have damaged corporate value is groundless. We again note that the compensation to be provided to the fund was based on our tender offer price which the Board and its financial advisor deemed to be too low.

SPJSF immediately appealed to the Tokyo High Court and submitted additional evidence to support our arguments. To our disappointment the Tokyo High Court refused to grant our injunction and characterized SPJSF as an "abusive bidder." This finding was shocking for two reasons. First, "abusive bidder" has no legal definition. Secondly, the Tokyo District Court already found that SPSF was not a green mailer. Its justification for labeling us as "abusive" was that because we wanted to own the Company, but not manage the daily operations, our tender offer was a self-serving transaction. The Tokyo High Court further stated that as an investment fund, SPJSF's future actions would likely jeopardize the Company's well-being. We note that by this logic, an acquirer such as Berkshire Hathaway might be deemed abusive since Warren Buffet allows existing management to run their operating business.

Given the Tokyo High Court's adverse ruling, we appealed our case to the Japanese Supreme Court. The Supreme Court announced its decision on August 7 and while our injunction was denied, we were able to derive a significant measure of vindication in its findings. The Supreme Court did **not** characterize SPJSF as an "abusive bidder" nor affirm the Tokyo High Court's statement that a tender offeror need not receive appropriate financial compensation in the event takeover defenses are activated. The general ruling framework of the Tokyo High Court, which relied upon an "abusive bidder" concept, was clearly not supported by the Supreme Court. As such, in our opinion, the Tokyo High Court's characterization, which erroneously labeled SPJSF as an "abusive bidder", was effectively reversed by the Supreme Court. The Supreme Court found Bull-Dog's SARs scheme to be legal on the grounds that 83.4% of the shareholders approved the SARs scheme and Bull-Dog was financially obligated to compensate SPJSF at an amount equivalent to our initial tender offer price.

Bull-Dog has since announced that it expects a consolidated net loss of ¥1.0 billion for fiscal year end March 2008. This compares to the ¥500 million profit it had projected prior to announcing takeover defenses against SPJSF. The company will write off approximately ¥2.1 billion to be paid to SPJSF and book ¥700 million in legal and brokerage fees as takeover defense expenses. On August 9, SPJSF reduced its tender offer price to ¥425 (to reflect the effective 4:1 split) and the tender period was extended by ten business days after the amendment filing on August 9, namely until August 23, in accordance with Japanese law. The following day, Bull-Dog exchanged the SARs for new shares and distributed ¥2.1 billion in compensation to SPJSF, thereby reducing our stake to less than 3% of the Company. We continue to review our options regarding this investment and have earned a 75% return on our invested capital.

III. Engagement with Tenryu Saw

On May 23rd, we announced a tender offer for Tenryu Saw Manufacturing. We have owned Tenryu shares for five years. Initially, we were attracted to the Company's operational and financial strength. As a result of Steel Partners II, L.P.'s preexisting investment in Bairnco, a holding company that owns a commercial saw manufacturer, we enjoyed considerable insight in the global industry and believed Tenryu was capable of expanding sales internationally. Accordingly, we made an offer to acquire up to 100% of the outstanding shares at a 15% premium to market. At the time of the offer, SPJSF already owned a 9.0% stake in Tenryu and believed that Tenryu would benefit from having a single, supportive investor prepared to offer expertise, capital and global resources to help the Company grow and prosper.

After reviewing SPJSF's response to its submitted questions, Tenryu's Board of Directors announced on June 13, that it did not endorse our TOB. Although we were clear that we supported management and would serve as a stable, long term shareholder of the Company, the Board cited inadequate disclosure for its opposition. Importantly, Tenryu did not refer to SPJSF as "abusive." Tenryu also announced its plans to install an Advance Warning System ("AWS") plan at its upcoming June 28th Annual General Meeting ("AGM"). The AWS plan was ultimately approved by a shareholder vote, but in sharp contrast to Bull-Dog, Tenryu did not retroactively adopt a takeover defense scheme that destroyed corporate value or make the approved AWS applicable to SPJSF's bid. While the Board opposed our tender offer it avoided the self-inflicted scrutiny and financial damage that Bull-Dog incurred, by prudently allowing shareholders their right to decide for themselves whether or not to tender their shares. At the close of SPJSF's TOB, we succeeded in increasing our ownership 2.6% at an attractive discount to intrinsic value. We intend to maintain our investment in Tenryu and actively explore options with management to raise corporate value. In the meantime, we have continued to acquire Tenryu Saw shares though open market purchases.

IV. Conclusions from Bull-Dog and Tenryu Saw

The Japanese media likes to portray the Bull-Dog Sauce and Tenryu Saw scenarios as failures. However, much like our "failed" bid for Myojo Foods, which resulted in an 81% return on our invested capital and produced positive returns for all shareholders of Myojo, SPJSF's total return on our Bull-Dog investment has been approximately 75% or a profit of ¥1.3 billion on an investment of ¥1.7 billion. Unfortunately, Bull-Dog shareholders have watched the value of their investments in the Company decline significantly after the deployment of SARS takeover defense scheme. All the while, we have appreciated the support from our peers in the investment community and many Japanese legal, financial and governance scholars who sympathize with our situation and applaud our actions to defend shareholder rights. Our investors, who have been longstanding champions of SPJSF, have always been an audience to which we endeavor to communicate an accurate account of our circumstances.

While we see no less merit in the strategy we employed for Bull-Dog to increase (and ultimately, defend) our investment, hindsight affords us a refined appreciation of the circumstances. In reviewing our actions, we were remiss not to have redoubled our efforts to convey our sincere support of management and its execution of the Company's current management plan. Even at times when our relationship was most strained with Bull-Dog, we still believed management to be the best operator of the business and a necessary partner to maximize corporate value. Had we spent as much time communicating this with management and employees, as we did contesting the legality of Bull-Dog's SARs scheme, we believe that there would have been a very different outcome at the AGM and to our tender offer. This approach of enhanced communication would have also served us well in engaging the media and investment community at large during the tender offer. We have taken these insights to heart and already incorporated them into our ongoing strategies across the SPJSF portfolio.

In the case of Tenryu Saw, the Company did not prevent us from pursuing a perfectly legal TOB to increase our ownership in the firm. While, we did not purchase as much of the Company as we would have liked, we own more of the Company than we did before the tender offer and consider that to be a success. We are also pleased that the Board of Tenryu did not resort to a wasteful defense that damaged all shareholders.

V. The 2007 Shareholder Meeting Season

Shareholders have become more vocal during AGMs and in the course of M&A transactions (an overview of the Japanese M&A market has been provided in Appendix B). Given that the majority of Japanese companies have a March fiscal year end, Japanese companies observe a very condensed window

in June for AGMs. At the peak, 1,459 Japanese companies (53% of all TSE-listed companies) held their AGM on June 28, 2007. During the 2007 AGM season, there were approximately 85 shareholder motions, nearly double the 47 made in 2006. While the number of shareholder proposals increased by 100%, their success rate was considerably less. Okazaki fund's replacement of Tokyokoki Seizosho's (7719) directors was one of the few successful proposals but the impact to the market was overshadowed by its small (¥6.1 billion) market capitalization. The Pension Fund Association, Japan's largest pension fund with ¥12 trillion in assets, also weighed in on the matter as it announced that it would not reelect corporate directors if the company's return-on-equity was 8% or lower for three consecutive years. It voted against roughly 40% of proposed director appointments this year.

Additionally, proposals for AWS plans were rampant. 211 AWS proposals were voted on and all but one passed. While only 10% of all companies trading on the Tokyo Stock Exchange have installed AWS plans, the popularity of these plans has grown exponentially as global M&A is on the rise and the domestic stock markets have continued to lag their international peers. Of the 1,729 companies in Japan's Topix index, 22% trade at less than book value (Only 1.4% of companies in the Russell 1000 trade below book value).

Seeking shareholder approval has become the latest refinement by Japanese companies to bolster the legal validity of the plans. Of the 223 AWS plans that have been instituted in the last year, only 12 (5%) were installed without shareholder approval. During this period, SPJSF made two shareholder proposals to abolish anti-takeover defenses at Sapporo Holdings (2501) and Aderans (8170). While we were unsuccessful in obtaining a majority vote, shareholders voted 32% and 45%, respectively, against the AWS plans. We are confident that these percentages will increase next year given continued turnover in the shareholder bases, particularly in SPJSF's portfolio. Already Goldman Sachs and Third Avenue Management have emerged as Sapporo's second and third top-shareholders with 5.9% and 6.9%, respectively. In Aderans' case, Dodge & Cox has raised its ownership from 8.0% to 11.4%. In total, thirteen SPJSF portfolio companies adopted AWS plans through a shareholder vote this year and 23 of SPJSF's 29 filed positions employ takeover defense plans. While we believe the AWS is bad from of corporate governance perspective, it will not deter us. Steel Partners II, L.P. has successfully operated for 17 years despite poison pills in the U.S. and has had a very good record of success. We believe we can be equally successful in Japan.

In fiscal 2006, TSE listed firms returned a record ¥ 13 trillion to shareholders through share buybacks and dividend payouts. While this is a notable amount, Japan's 24% dividend payout ratio still falls short of the US (27%) and Europe (46%). During the 2007 AGM season there were twelve dividend proposals compared to no material proposals five years ago. While the absolute number remains small and none were successful, we mark these proposals and the amount of attention they generated as significant progress, not failure. We believe the number will continue to grow, as well as the percentage of votes they receive, as shareholders exercise their rights to realize value from their investments.

Proposals for increased dividends also received a great deal of attention this year. The majority of the proposal came from foreign shareholders such as Brandes Investment (Ono Pharmaceutical - 4528), TCI (J-Power - 9515, Chubu Electric Power - 9502) and Fursa Alternative Strategies (Noritz - 5943). SPJSF submitted dividend proposals for Ezaki Glico, Fukuda Denshi, Denki Kogyo, TTK, Brother Industries and Inaba Denki Sangyo. Based on our financial analyses and meetings with managements, industry professionals and research analysts, we believe that these companies have funds far exceeding their operational requirements and that the companies are overcapitalized. Our proposals reflected a fundamental principle at SPJSF that excess capital should be returned to shareholders.

SPJSF Dividend Proposal Results

Ticker	Company	Planned Dividend	SPJSF Proposal	Final Dividend	Initial/Final % Change
2206	Ezaki Glico	10	30	15	50%
1935	TTK	20	43	30	50%
6448	Brother Industries	15	50	20	33%
6706	Denki Kogyo	32	55	40	25%
9934	Inaba Denki Sangyo	109	244	115	6%
6960	Fukuda Denshi	80	180	80	0%

Prior to our dividend proposal submissions, SPJSF met with each company's management and discussed our views of their respective capital structures. While our proposal did not attain majority support, we were encouraged by management's decision to raise dividends in five out of six companies.

VI. Strategic Review

Reflecting on our engagement with Bull-Dog, the 2007 AGM season and continued interaction with other portfolio companies, we believe that the current activist environment provides SPJSF unprecedented flexibility in executing its strategy. Our three tender offers resulted in three very different outcomes for shareholders and the companies. As we described above, Bull-Dog elected to remain independent by implementing takeover defense measures and damaging its corporate and shareholder value. At the other extreme, Myojo Foods sold out, at a significant premium to our offer, to a strategic buyer. We believe the Myojo Foods transaction will prove to be a winner for all parties. Adopting a more neutral approach, Tenryu Saw allowed shareholders to tender to SPJSF at their discretion. In two of the three cases, SPJSF received outstanding returns on its investments and for Tenryu Saw, where we maintain a significant unrealized profit, we were able to raise our ownership stake in a highly illiquid stock in an efficient manner.

Just as Steel Partners II, L.P. was ultimately successful in taking public companies private, we believe SPJSF will do so as well in a matter of time. We are excited that we have successfully helped to create an activist environment in Japan where suitors are entitled to a certain measure of financial protection.

Early this year, Japan announced its ambitions to become the financial center for greater Asia. The importance of M&A on raising Japanese labor productivity was highlighted in a white paper, "Annual Report on the Japanese Economy and Public Finances," released earlier this month, discussing the current state of the Japanese economy and its public finances. The white paper elaborates that takeover defense measures designed primarily to protect management could impede efforts to boost operational efficiency and labor productivity. We view this as an acknowledgment and at best, an implicit endorsement, that unsolicited tender offers play an essential role in Japan's economic future.

SPJSF maintains complete conviction in its investment discipline and relationship / active value approach. At our core, we are value investors who offer a global network of business relationships and financial expertise to Japanese managements teams to raise corporate value for all stakeholders. Naturally, as with Steel Partners II, we endeavor to add professionals to the Steel Partners Japan, K.K. team who have significant operating experience and demonstrated success in managing business enterprises. These professionals will work closely with the existing team and consultants on each portfolio company.

VII. Company Updates

As SPJSF continues to communicate its relationship / active value investment approach in a greater public capacity, this has helped augment the constant dialogue we maintain with our investors in apprising them of the latest SPJSF portfolio company news. Additionally we would like to highlight SPJSF's involvement in the following corporate activities.

Brother Industries (6448)

Brother Industries is a manufacturer of communications and office equipment. It currently trades at an enterprise value of 4.3x to FYE 3/2008 estimated EBITDA and has net cash and investments of ¥59 billion, which is equal to 16% of its market capitalization. SPJSF owns 10.2% of the shares outstanding and is the largest shareholder in the Company. In March and April SPJSF proposed to Management, value accretive recommendations for the use of Brother's excess cash and financial assets. During these meetings, we stressed that the Company should make further investments in its core businesses and secondary businesses with high growth potential. We reiterated that surplus capital beyond these needs should be returned to shareholders via higher dividends or share repurchases. SPJSF made a proposal for Brother to increase its dividend but was unsuccessful because it was reported that Brother would increase its investment in R&D to ¥130 billion over three years (compared to annual R&D expenses historically ranging from ¥20-28 billion). The share price increased from ¥1,637 to ¥1,852, up 13% in response to the announcement. We believe that our meetings with Brother Management encouraged the Company to review its balance sheet and capital investment opportunities.

Citizen Holdings (7762)

Citizen Holdings produces and sells watches and machine tools. It specializes in the production of wrist watches, information equipment, electronic equipment, and industrial machinery and equipment. It currently trades at an enterprise value of 5.5x to FYE 3/2008 estimated EBITDA and has net cash and investments of ¥110 billion, which is equal to 30% of its market capitalization. The Fund is the largest shareholder, owning 12.4% of the shares. In March, SPJSF sent a letter to Makoto Umehara, Citizen's CEO, thanking him and his management team for keeping an open mind regarding our recommendations which included discontinuations of loss-making product lines, improvements to Citizen's Electronic Devices segment and measures to reduce the Company's overcapitalized balance sheet. We had also discussed Citizen's capital alliance with Miyano Machinery (6162), the Company's corporate governance policy and what steps Management would take to improve operational efficiency under a holding company structure. As reported in the Nikkei earlier this month, Mr. Umehara was very appreciative of SPJSF's support and many of SPJSF's suggestions found their way into Citizen's latest business plan announced on March 23rd. We are very proud of our relationship with Citizen and will continue to work with the Company to unlock value.

VIII. New Positions

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.

Hi-Lex Corporation (7279)

Hi-Lex is engaged in the manufacture and sale of control cables and peripheral equipment. The Company's main products include control cables for vehicles, industrial machinery, housing equipment, ships and others. The Company is also engaged in the design, research, development, manufacturing and

sale of specialized machinery for the production of control cables. It is based in Takarazuka. Hi-Lex booked ¥8 billion of EBITDA on revenues of ¥126 billion in the latest twelve months ended April 30, 2007. The Company has net cash and investments of ¥40 billion, which is equal to 67% of its market capitalization. The Company currently trades at an enterprise value of 2.lx to FYE 10/2007 EBITDA estimates. The Fund owns 6.3% of the shares issued and is the third largest shareholder in the Company.

Unlike its competitors in the automotive cable business, Hi-Lex is not economically connected to any large automotive organization and has no conflicts of interest in selling its products. Its long-standing sourcing relationships with certain automotive manufacturers (Honda, Toyota, Mitsubishi, General Motors) have allowed it to command 65% of Japan's market share and 15% of the global market share for automotive cables. Additionally it is forging a strong relationship with KIA to penetrate the Korean auto market. In June, Hi-Lex announced plans to buyback up to one million shares and spend ¥2.5 billion yen, underscoring its efforts to return profits to shareholders. Management cited SPJSF's investment in the Company as one consideration for the announcement. We applaud Hi-Lex Management in taking swift action to implement this measure as we had just met with them earlier in the month to discuss the benefits of dividend returns and share repurchases.

Nisshinbo Industries (3105)

Nisshinbo Industries is an industrial manufacturer headquartered in Tokyo. It manufacturers cotton fabrics, synthetic textiles and chemical products used in apparel and industrial materials. It also makes automotive anti-lock brakes and traction control systems. Nisshinbo booked ¥27 billion of EBITDA on revenues of ¥313 billion in fiscal year end March 2007. The Company has net cash and investments of ¥130 billion, which is equal to 49% of its market capitalization. The Company currently trades at an enterprise value of 4.0x to FYE 3/2008 EBITDA estimates. The Fund owns 5.0% of the shares issued and is the fourth largest shareholder in the Company. Given the numerous segments in the Company, we believe that there is significant upside were the company to reorganize and concentrate on its more lucrative automotive brakes business. The Company is also the largest shareholder (60%) of New Japan Radio (6911), a ¥27 billion market capital manufacturer of semiconductor integrated circuits and microwave tubes.

IX. Personnel Updates

Akiko Kawaguchi joined Steel Partners Japan, K.K in June as a Director, Legal & Compliance. Ms. Kawaguchi comes to SPJKK from Mitsubishi Corporation where she spent eight years as an in-house counsel. Her experience ranges from transactional work such as domestic and international M&A to compliance work such as drafting the manuals and holding seminars. Ms. Kawaguchi is a graduate of Columbia Law School, the Legal Training and Research Institution and Hitotsubashi University (LL.B.) in Tokyo. Ms. Kawaguchi is admitted in Japan and New York.

Furthermore, we are continuing to expand the research team. We are in the process of adding additional investment professionals in Tokyo and New York. We have also short-listed a handful of experienced, Japan-based business operators who would work in parallel with the investment team and provide operational leverage to portfolio company managements. Additionally, we are supported by the entire teams at both Liberty Square and Steel Partners II, L.P.

X. Conclusion

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.

Yours truly,

Steel Partners Japan Asset Management, L.P.

Appendix A

Letter Describing SPJSF's Active Value/ Relationship Approach

I am writing to you in an effort to try to get to know and understand each other better. As you know, I am the Chairman and CEO of Steel Partners, Ltd., the Manager of Steel Partners II, L.P. and a co-Manager of Steel Partners Japan Strategic Fund (Offshore), L.P. and Steel Partners China Access I, L.P.

Steel Partners was founded in 1990 and today has approximately $7 billion invested in companies in the United States, Asia, and Europe. We manage our capital with a global team of investment professionals and industry operating partners (former CEOs) located throughout the world.

In 2002, we founded Steel Partners Japan Strategic Fund (Offshore), L.P. jointly with Liberty Square Asset Management, L.P. Today, we have over 30 investments in Japan and are the largest shareholder in several world-class companies, including Sapporo Holdings, Nissin Food Products, Citizen Holdings and Aderans.

Over the years, Steel Partners has been referred to as a "hedge fund." We prefer to be called and refer to ourselves as a private investment partnership. More recently, we have been labeled "Activists." In reality, Steel Partners have always been "Relationship/ Active Value Investors." Many so-called "activists" force changes at a company and then sell their entire investment to reap short term gains. That is not Steel Partners' investment style. Steel Partners has always been and will continue to be a long-term investor, typically holding positions in companies from three to five years or longer. In fact, Steel Partners Japan still owns stock in some of the first Japanese companies we invested in back in 2002, including Bull-Dog Sauce, Yushiro Chemical Industry and Chuo Warehouse.

Since our inception, we have repeatedly demonstrated our ability to identify and make long-term investments in undervalued public and private companies and work with management to increase value for all shareholders over the long term.

A key ingredient in our success is the amount of time and focus we spend on each investment and our willingness to develop a professional relationship with the managements and boards of our portfolio companies. We prefer to give a management team time to execute their business plan, work with them if needed, then hold them accountable for any shortfalls or reward them for outstanding performance. Our goal is to be an investor that managements welcome and associate with success, fairness, discipline, empowerment and accountability. In fact, our advice and participation has been welcomed by the management of many companies in the United States, Europe and Asia.

Despite initial hesitation, many of our Japanese portfolio companies now recognize the positive influence Steel Partners Japan has had on their company and their share price. In a recent article by the Financial Times newspaper, the management of Yushiro Chemical acknowledged that having Steel Partners Japan as a large shareholder keeps the company "on its toes" and is quoted as saying: "It is true that shareholder value has increased. We have changed our view of shareholders as stakeholders in a good way."

Even though we are always prepared to exercise our rights and protect the interests of all shareholders, we prefer to act from outside the boardroom by engaging with management informally. We are also willing to serve as a company director where we believe we can add significant value and expertise since it is an extremely time consuming commitment. Steel Partners managers have served on the boards of many public companies, including the 22 on which I have served. In many cases, we have been invited to join these boards in recognition of the experience and guidance we can provide. In a few cases, we have served in senior management roles including CEO and Executive Chairman.

Occasionally, Steel Partners will seek to acquire 100% ownership of a portfolio company if we decide it would be a great long-term opportunity for our partnership to own the entire business rather than just a piece of the business or if it continues trading at a discount to its intrinsic value. Such discounts typically exist if a company consistently misses budgets, plans and milestones, has the wrong capital structuring, is not allocating its capital properly or is underperforming operationally.

In certain instances, we may enter into negotiations with a company to acquire the shares that we don't already own. Or we may commence a tender offer as the most efficient way to increase our holding by taking our offer directly to all shareholders in a fair and transparent manner. In all instances our interest is only in ensuring that the process results in allowing all shareholders to share equally in, and take advantage of, any offer that happens to be in the market. Our portfolio companies should not worry about such a takeover bid if no discount to intrinsic value exists, in which case we are happy to be a passive long-term owner of the business.

A core value at Steel Partners is that all shareholders should be treated equally.

Neither Steel Partners Japan nor any other affiliates of the Steel Partners group has or ever will engage in "greenmail." Greenmail means that a shareholder buys shares and ultimately forces the company to repurchase its shares, but not the shares of other shareholders, at a higher price. We would never accept an offer that wasn't made to all shareholders.

Whenever possible, we share with our portfolio companies the expertise and resources we have gained across many industries and countries. We have helped many companies gain access to capital and to improve their capital structure, capital allocation and cost structure. We have helped them grow by providing access to our global platform which includes managers of leading companies, business consultants and financial and legal advisors.

We have also introduced the concept of Operational Excellence to many of our portfolio companies. Operational Excellence is a broad category of operating skills used at world-class manufacturers such as General Electric and Toyota, which maximize productivity by eliminating waste, improving quality, accelerating the time to market, reducing working capital and improving the company's business processes.

Prime examples of how our Relationship/ Active Value Investor strategy can produce stellar results are our investments in United Industrial Corporation (NYSE: UIC), and SL Industries (NYSE: SLI). In both cases, we commenced election contests as a last resort in order to effect changes in management and corporate governance on behalf of all of the shareholders. Ultimately, we were able to implement improvements in capital structure, cost structure and operational strategy that have been reflected in the current stock prices. Today, UIC is up over 500% from our initial investment price, while SLI is up over 600%. In 2006, UIC was ranked one of the 200 best small companies in the United States by Forbes Magazine. We continue to hold meaningful long-term positions in both companies and I continue to serve as Chairman.

All stakeholders benefited and profited from these gains, including company employees, pension and mutual funds and individual investors. What's more, the workforce at both companies has increased since Steel Partners became involved (by almost 50% at United Industrial), while sales-per-employee, a key measure of productivity, has increased substantially.

The same is true for other investments we have made, regardless of geography. When we have created value in companies in the United States, Asia or Europe, shareholders from those countries have profited and the local economies have often been strengthened.

As Steel Partners has expanded internationally, we have recognized the need to work within the local cultures, customs, rules and regulations to determine how we can add value to our portfolio companies, thereby creating value for all the stakeholders. We have learned that styles, methodologies and philosophies that work in the United States or Europe do not necessarily work in Japan, Korea or China and concluded that to be successful we need to have a strong local presence with smart local partners whose interests and values are fully aligned with ours. That is why we set up our independent joint venture Steel Partners Japan Strategic Fund (Offshore), L.P. in 2002, followed by Steel Partners China Access I, L.P. in 2006. Locally in Japan, Steel Partners Japan Strategic Fund (Offshore), L.P. has worked closely with Steel Partners Japan K.K., which acts as the consultant to Steel Partners Japan Asset Management, LP.

When we launched Steel Partners in 1990, reaching past our local horizons may have meant drinking a whiskey sour with partners in Tulsa, Oklahoma. Today, we are just as happy to share some sake, a sherry, a whiskey, or a beer with our foreign associates across the globe. We continue to expand our knowledge and broaden our horizons and are open to learning new ways to constructively work with the management teams and directors of the companies we invest in.

I would hope that we can get together soon so that we can continue to get to know each other better and our organizations can get better acquainted so that we can continue to work in a congenial, constructive manner for the benefit of all stakeholders and shareholders. I will contact you this week to find out when it will be convenient for you to meet with me.

Respectfully,

Warren Lichtenstein

Appendix B

Japanese M&A Market Overview & Shareholder Involvement

2007 continues to be a vibrant and exciting time for Japanese M&A. Annualized[4] 2007 transaction volume (3,228) and value (¥31 trillion) is estimated to exceed 2006 by 14% and 47% respectively. Of the twenty largest MBOs announced in Japan since 1996, the seven largest have occurred in the last two years and six of the ten largest tender offers were announced during the same period. While the value of Japanese M&A transactions reached ¥21 trillion in 2006, it was still only equal to 3% of GDP compared to 10% in the US and Europe. TOBs are rapidly gaining acceptance as a conventional tool for M&A but company managements still fail to recognize that the Financial Instruments and Exchange Law already provides a robust system of protection and due process for target companies and their shareholders to evaluate the merits of a TOB. Consequently, AWS plans remain popular and companies have begun to refashion cross-share holdings as "business alliances." Bell-weather companies such as Toyota, Nippon Steel, TBS and Oji Paper have significant investments in other publicly-held companies. Some companies are even exploring a synthetic "ESOP", whereby acquired shares are held by a special purpose company and not stripped of their voting privileges. The Japanese courts' recent judgments that upheld Bull-Dog Sauce's takeover defense have further complicated matters.

Regulatory conditions in Japan have also improved. The Japan Fair Trade Commission revised guidelines for anti-monopoly judgments. The new approach emphasizes market concentration, using the Herfindahl-Hirschmann index instead of simple combined company market share tests. We believe that this will encourage companies to re-examine combinations within all industries. In particular, this revision facilitated Nissin Foods' acquisition of Myojo Foods. Additionally, May 1, 2007 marked the eligibility of foreign firms to perform triangular mergers. By allowing a domestic subsidiary to acquire a Japanese company using the foreign parent's stock, we believe a triangular merger will be announced in the near future. Lastly, METI has proposed that MBOs be required to set minimum tender periods of 30 business days instead of 20 days to allow shareholders enough time to evaluate the offer and entertain competing bids should they arise. These measures should help maintain healthy M&A volume in the second half of 2007.

Overall, we believe that 2007 will be most remembered for the growing role shareholders are playing in the M&A marketplace. Unlike last year where shareholder activism was forestalled by M&A Consulting's legal embroilments, this year has been punctuated with shareholder-related events in addition to Bull-Dog Sauce. Other shareholders have continued to challenge situations where they have faced unfair and inappropriate treatment. In doing so, they have helped to raise the public profile of shareholders and their fundamental rights.

The fundamental issue is the lack of separation between management and ownership in Japan. Central to SPJSF's investment philosophy is that there can be a separation of the two and in discussions with our portfolio companies we clarify what roles managers and shareholders play in a public company. When managers make corporate decisions that place their interests before shareholders, they fail to recognize to whom their actions are accountable and with what responsibilities they have been entrusted by shareholders. In Japan, SPJSF's ambition has been widely misunderstood to occupy both roles whereas we have endeavored to engage companies as owners and lend our support to current managements. While this may include leveraging our global relationship and financial expertise, we firmly believe that only through cooperating with management can we maximize the corporate value of a company. As our stakes in companies grow, the success of SPJSF is that much more aligned with the companies'.

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[4]Based on actual data collected by Dealogic from Jan 1-Apr 26, 2007

Among the many transactions where shareholders have taken an active role to effect corporate change, two situations set new precedents in Japan. The first was Osaka Steel's unsuccessful acquisition of Tokyo Kohtetsu in the steel electric furnace industry and the second, KK DaVinci Advisors' counter TOB to TOC Company Management's MBO in the real estate industry.

In October 2006, Osaka Steel (5449) announced it would convert Tokyo Kohtetsu (5448) into a wholly owned subsidiary through a stock swap. Ichigo Asset Management which had an 11% stake in Kohtetsu, challenged the 0.3% premium Osaka Steel offered. Ichigo ran a proxy solicitation seeking support to vote against the merger proposal at Kohtetsu's February EGM. The proposed merger fell short of the two-thirds majority approval required and it was the first time Japanese shareholders rejected a merger deal already approved by the boards of both companies.

In April 2007, TOC Management (8841) announced a ¥1.1 billion MBO for TOC at ¥800 per share (4% premium). This prompted DaVinci (4314), already a 10% TOC shareholder, to make an unsolicited tender offer of ¥1,100, which was increased to ¥1,300. TOC Management refused to endorse DaVinci's tender after its own had failed. Without Management's support, DaVinci's TOB also failed but had successfully alerted other shareholders to the true value of TOC. This was the first known instance where an MBO was challenged with a competing offer and especially significant given that the rival bid came from a current shareholder.

In addition to transactions where shareholders have actively engaged managements, other conventional examples of M&A indicate that the consolidation trend continues in Japan. Consolidation has largely focused on opportunities to enhance deteriorating margins during a slowing top-line growth. Two of the latest situations to exhibit this trend exist in the consumer finance and retail industries. In July, Promise Company (8574) announced that it will acquire smaller rival Sanyo Shinpan Finance (8573) for ¥103 billion to become the largest player in the consumer finance industry. Previously no consolidation had occurred among the key consumer finance players. Earlier this month, Mitsukoshi Limited (2779) and Isetan Company (8238) negotiated a merger that would create the largest department store group in Japan with annual sales of ¥1.5 trillion. The combination would be able to cross-sell to Mitsukoshi's older, wealthier consumers and Isetan's younger, fashion-conscious shoppers. It would also draw upon Isetan's better operational practices to improve efficiency. The companies have announced tentative plans for a spring 2008 merger.

Beyond domestic consolidation, Japanese companies continue to pursue opportunities abroad (e.g., Japan Tobacco's acquisition of UK-based Gallaher). Fast Retailing, owner of the ubiquitous Uniqlo brand, had been engaged in a bidding competition for Barney's New York. It had raised its unsolicited offer to $950 million (from $900 million), but elected, earlier this month, not to increase the offer beyond that amount and ultimately dropped out. On August 21, 2007, Fast Retailing lifted its stake Cabin Company (8164) from 50.2% to 94.2% and will move to buy the rest of the shares. Candy maker Sansei Foods endorsed a ¥14 billion tender offer by Cadbury Schweppes for 67% of Sansei and Fujitsu Limited (6702) announced a ¥67 billion tender offer for France-based GFI Informatique, a technology services company.

We believe that this corporate activity will continue to increase and will create value for the Fund and Japan.