



北方興業控股有限公司*

NORTHERN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 736)

2004/2005 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the “Directors”) of Northern International Holdings Limited (the “Company”) announces the audited results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2005 together with the audited comparative figures for the previous year as follows:

	Notes	2005 HK\$	2004 HK\$
TURNOVER	3	70,084,060	81,001,038
Cost of sales		(64,855,361)	(70,651,252)
Gross profit		5,228,699	10,349,786
Other revenue	4	2,572,216	2,668,955
Distribution and selling expenses		(6,181,382)	(7,363,214)
Administrative expenses		(17,492,204)	(18,174,067)
Other operating expenses		(1,144,990)	(140,000)
LOSS FROM OPERATING ACTIVITIES	3	(17,017,661)	(12,658,540)
Finance costs		(2,107,764)	(2,133,108)
LOSS BEFORE TAX		(19,125,425)	(14,791,648)
Tax	5	(511,344)	(733,283)
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(19,636,769)	(15,524,931)
LOSS PER SHARE	6		
– Basic		HK0.41 cents	HK0.34 cents
– Diluted		N/A	N/A

Notes:

1. BASIS OF PREPARATION

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$19,636,769 (2004: HK\$15,524,931) during the year, reported net current liabilities of HK\$26,557,653 (2004: HK\$29,107,099) as at 31 March 2005, and reported a net cash outflow from operating activities of HK\$10,771,124 (2004: net of HK\$11,591,258) for the year.

Notwithstanding concerns on its liquidity concerns as at 31 March 2005, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year, after taking into consideration several arrangements made subsequent to the balance sheet date as further detailed below:

- In July 2005, the Company entered into new facility agreements with Mrs. Chong Cheng Man Shan to extend the repayment of credit facility of HK\$8,000,000 from 31 July 2005 to 31 July 2006 and converted the loan of HK\$5,660,000 into a one-year standby facility to 20 July 2006; and
- On 14 July 2005, the Company entered into a conditional agreement with a subscriber for the subscription of 48,000,000 new shares of HK\$0.20 each at a price of HK\$0.26 per share for a total of HK\$12,480,000, before expenses. The subscription is conditional on the granting of a listing of and permission to deal in the new shares by the Listing Committee of the Stock Exchange of Hong Kong Limited.

In the opinion of the directors, in light of the measures and arrangements implemented to date, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient financial resources to satisfy its future working capital and other financing requirements for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve the above and continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties and land and buildings.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The company has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- the snap off blade cutters segment manufactures and sells snap off blade cutters;
- the electronic consumer products segment manufactures and sells electronic consumer products; and
- the corporate and other segment comprises corporate and rental income and expense item.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

a) Business segments

The following tables present revenue, profit and expenditure information for the Group's business segments.

The Group

	Snap off blade cutters		Electronic customer products		Corporate and others		Consolidated	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Segment revenue:								
Sales to external customers	43,117,145	47,642,313	23,640,790	30,229,484	3,326,125	3,129,241	70,084,060	81,001,038
Other revenue and gains	183,075	923,774	1,129,375	673,657	1,235,707	1,050,000	2,548,157	2,647,431
Total	<u>43,300,220</u>	<u>48,566,087</u>	<u>24,770,165</u>	<u>30,903,141</u>	<u>4,561,832</u>	<u>4,179,241</u>	<u>72,632,217</u>	<u>83,648,469</u>
Segment results	<u>(3,129,999)</u>	<u>2,888,822</u>	<u>(9,067,512)</u>	<u>(11,386,540)</u>	<u>(4,844,209)</u>	<u>(4,182,346)</u>	<u>(17,041,720)</u>	<u>(12,680,064)</u>
Interest income							24,059	21,524
Loss from operating activities							(17,017,661)	(12,658,540)
Finance costs							(2,107,764)	(2,133,108)
Loss before tax							(19,125,425)	(14,791,648)
Tax							(511,344)	(733,283)
Net loss from ordinary activities attributable to shareholders							<u>(19,636,769)</u>	<u>(15,524,931)</u>

b) Geographical segments

The Group

	Hong Kong		Mainland China		Europe		North America		East Asia		Others		Consolidated	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Segment revenue:														
Sales to external customers	25,312,246	33,972,767	7,821,107	1,723,538	13,593,866	19,831,606	14,357,419	10,461,465	3,606,375	5,694,548	5,393,047	9,317,114	70,084,060	81,001,038

4. OTHER REVENUE

	2005 HK\$	2004 HK\$
Gain on disposal on investment property	1,093,960	—
Revaluation surplus on investment properties	—	440,000
Revaluation surplus on land and buildings	125,200	6,400
Interest income	24,059	21,524
Sundry income	1,328,997	2,201,031
	<u>2,572,216</u>	<u>2,668,955</u>

5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005 HK\$	2004 HK\$
Current – Hong Kong Charge for the year	12,317	251,000
Current – The PRC Charge for the year	49,600	91,426
	<u>61,917</u>	<u>342,426</u>
Deferred tax	449,427	390,857
	<u>511,344</u>	<u>733,283</u>
Total tax charge for the year	<u>511,344</u>	<u>733,283</u>

6. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$19,636,769 (2004: HK\$15,524,931) and the weighted average of 4,846,403,321 (2004: 4,548,528,197) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 March 2005 and 2004 have not been disclosed as the impact of the potential ordinary shares was anti-dilutive.

7. DEPRECIATION

During the year, depreciation of HK\$3,734,504 (2004: HK\$3,446,202) was charged in respect of the Group's fixed assets.

AUDITORS' REPORT

In their report, the auditors draw attention to the following:

Fundamental Uncertainty Relating To The Going Concern Basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the financial statements, the financial statements of the Group have been prepared on a going concern basis, notwithstanding that the Group sustained a net loss from ordinary activities attributable to shareholders of HK\$19,636,769 during the year, reported net current liabilities of HK\$26,557,653 as at 31 March 2005, and reported a net cash outflow from operating activities of HK\$10,771,124 for the year. Various measures have been initiated by the Group subsequent to the balance sheet date to improve the Group's liquidity position in the immediate foreseeable future.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the measures currently undertaken by the Group as detailed in note 2 to the financial statements and the attainment of profitable and positive cash flow operations by the Group in the longer term. The financial statements do not include any adjustments that may be necessary should the implementation of such measures and the attainment of profitable and positive cash flow operations be unsuccessful. We consider that appropriate disclosures regarding the above fundamental uncertainty have been made in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DIVIDEND

The Directors does not recommend the payment of any final dividend to the shareholders for the year ended 31 March 2005 (2004: Nil).

BUSINESS REVIEW AND PROSPECTS

The Group's turnover was HK\$70.1 million (2004: HK\$81.0 million) in the year ended 31 March 2005, representing a decrease of 13% over the previous year. Gross profit margin deteriorated to 8% (2004: 13%) partly due to sharp increase in prices of raw materials. Net loss of the Group was HK\$19.6 million (2004: HK\$15.5 million) and loss per share was HK0.41 cents (2004: HK0.34 cents).

Consumer electronics business

The performance of the electronics business of the Group was adversely affected by the suddenly increase in oil and metal prices during the year ended 31 March 2005. The strong growth in ODM sales during the year cushioned the fall in OEM sales but was far from being able to offset the impact since the electronics business was still very dependent on OEM. The result of the electronics business was a negative contribution of HK\$9.1 million (2004: HK\$11.4 million).

A rebound in the electronics business has been observed. The turnover of the electronics business increased almost 300% year-on-year in the three months ended 30 June 2005, and is likely to record very high growth in the following three months judging from the orders in book. Newly developed OEM products have been selling well while ODM sales continue to grow. A significant improvement in the electronics business is expected but change in raw material prices remains a major risk factor.

Snap off blade cutter business

Similar to the electronics business, the cutter business was also adversely affected by sudden increase in raw material prices. The annual turnover fell 9% to HK\$43.1 million (2004: HK\$47.6 million) mainly due to decrease in sales volume as a result of necessary upward price adjustment reflecting the increase in material and manufacturing cost. The result of the cutter business turned to a negative contribution of HK\$3.1 million from a positive contribution of HK\$2.9 million in the previous year.

In order to improve the performance of the cutter business, the business segment has planned to boost turnover and improve profit margin by adding new models to the existing product mix. A number of new clients, which are major distributors of tools and stationary, have been secured. A moderate growth in turnover and significant improvement in the result of the cutter business are expected in the coming year.

Geographical segment analysis

The Group's client base is quite well diversified in terms of geographical locations. There was a high concentration in the Hong Kong market since sales were classified according to the location of direct clients. Most of the goods sold to our clients in Hong Kong were in fact exported to other countries.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the current and non-current liabilities of the Group amounted to HK\$66.4 million (2004: HK\$64.5 million) and HK\$22.8 million (2004: HK\$10.7 million) respectively. The amount of net current liabilities narrowed to HK\$26.6 million (2004: HK\$29.1 million) mainly due to rescheduling of about HK\$16.0 million of short-term bank borrowings to long-term bank borrowings during the year. The Group recorded an operating cash outflow of HK\$10.8 million (2004: HK\$11.6 million) and the gearing ratio, defined as the percentage of total borrowings to shareholders' funds, rose to 101% (2004: 81%).

From the management's point of view, the amount of financial resources available to the Group is adequate. The Group may consider disposal of its assets if additional financial resources are required for operation.

INVESTMENT POSITION AND PLANNING

Superior Trump Limited, a wholly owned subsidiary of the Company, entered into a formal agreement with a third party independent of and not connected with the Company or its connected persons (as defined in the Listing Rules) on 26 October 2004 to dispose of all the Group's investment properties situated in Fo Tan Industrial Centre, Shatin, Hong Kong at the consideration of HK\$7,150,000 (the "Disposal") and the transaction was duly completed on 15 December 2004. The Disposal contributed approximately HK\$1.0 million net earnings to the Group in the year ended 31 March 2005.

All of the Group's investment properties were situated in Northern Industrial Complex, Panyu, Guangdong Province, PRC after the Disposal. These investment properties have been rented out for manufacturing, storage and office purposes and have continued to generate a stable stream of income for the Group.

The Group has planned to spend about HK\$2.0 million in upgrading plant and machinery to cope with increasing orders in the coming year. Special budget may be approved if new production equipment is required for efficient completion of new OEM orders or suitable investment opportunities arise. The Group may consider disposal of some investment properties when circumstances require.

The Group did not have any significant investment position in stocks, bonds and other financial derivatives. The Group's exposure to fluctuations in exchange rates was very limited because its assets and liabilities were well matched in terms of denominations.

SHARE CAPITAL AND OPTIONS

During the year ended 31 March 2005, the Company issued 66,150,000 ordinary shares pursuant to the exercise of share options by certain directors of the Company and employees of the Group. At 31 March 2005, the share capital of the Company comprised only 4,869,957,705 ordinary shares of HK\$0.01 each (the "Share(s)").

Consolidation of shares and adjustment to options

On 23 March 2005, the Company announced a proposal on consolidation of 20 issued and un-issued shares of HK\$0.01 each into 1 share of HK\$0.20 (the "New Share(s)") (the "Consolidation") and change in board lot size for trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 50,000 Shares to 5,000 New Shares upon the implementation of the Consolidation.

The Consolidation was approved by the shareholders of the Company and became effective on 5 May 2005 (the "Effective Date"). Accordingly, the Company had 243,497,885.25 issued New Shares and 1,256,502,114.75 un-issued New Shares immediately after the Consolidation.

As at the Effective Date, the Company had outstanding options granted under its share option scheme to subscribe for a total of 19,300,000 Shares at the price of HK\$0.01 per Share. Immediately after the Consolidation, the number of New Shares issuable under each outstanding option granted under the Company's share option scheme has been reduced by 95% and the exercise price per share has been increased from HK\$0.01 to HK\$0.20. Accordingly, after the Consolidation became effective, the Company had outstanding options to subscribe for a total of 965,000 New Shares at the exercise price of HK\$0.20 per New Share.

Termination of an open offer

The Company announced on 28 January 2005 a proposal to raise fund of not less than HK\$94 million through an open offer (the "Open Offer") and the Company intended to use such proceeds for possible investment. As stated in the Company's announcement dated 18 April 2005, the underwriter under the Open Offer purported to terminate the relevant underwriting agreement and failed to take up the underwritten shares, the Open Offer therefore was terminated. The Company is seeking legal advice on the necessary actions to be taken against the relevant underwriter.

Subscription of new shares

The Company entered into a conditional subscription agreement with a subscriber, a third party independent of and not connected with the Company or its connected persons (as defined in the Listing Rules), on 14 July 2005 for the subscription of 48 million shares at a price of HK\$0.26 per New Share under the general mandate granted to the directors of the Company pursuant to the resolutions of the shareholders of the Company passed at its annual general meeting held on 27 August 2004 (the "Subscription"), representing 19.71% of the Company's issued share capital as at 14 July 2005 and about 16.47% of its share capital as enlarged by the subscription.

The Subscription is conditional on the granting of a listing of and permission to deal in the 48 million New Shares by the Listing Committee of the Stock Exchange, an application has been made by the Company to the Stock Exchange for the grant of listing of and permission to deal in the 48 million New Shares on 19 July 2005.

CHARGES ON GROUP'S ASSETS

The Group's properties are all situated in Hong Kong and the Mainland China. At 31 March 2005, all the Group's properties in Hong Kong (2004: 100%) and approximately 61% (2004: 88%) of the Group's properties in the Mainland China were pledged to banks to secure credit facilities for the Group.

CONTINGENT LIABILITIES

The Group's contingent liabilities as at 31 March 2005 were HK\$0.3 million (2004: Nil) in relation to export bills discounted with recourse.

As at 31 March 2005, the Company had provided corporate guarantees to the extent of HK\$55.2 million (2004: HK\$88.1 million) to certain banks in respect of credit facilities granted to its wholly owned subsidiaries.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no acquisition and disposal of subsidiaries and associated companies during the year.

EMPLOYEES

The Group has approximately 1,430 employees. Most of these employees are working in Northern Industrial Complex, the Group's manufacturing plant in Panyu, Guangdong Province, PRC. Employees are remunerated on a performance basis with reference to market practices. Share option scheme and incentive schemes are adopted to encourage personal commitment of employees to achieve the Group's business goals.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, throughout the year ended 31 March 2005, in compliance with the Code of Best Practice as previously set out in Appendix 14 to the Listing Rules prior to 1 January 2005, which remain applicable to disclosure in annual reports in respect of accounting periods commencing before 1 January 2005 under the transitional arrangement.

The Company has received from each of its independent non-executive directors his respective annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and therefore still considers the independent non-executive directors of the Company to be independent.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive directors, namely Messrs. Chan Ping Yim, Chan Shun and Cheng Kwok Hing, Andy (the "Audit Committee"). The primary duties of the Audit Committee are to review the accounting principles and practices adopted by the Group, the financial reporting process and the internal control system of the Group. The annual results of the Group for the year ended 31 March 2005 have been reviewed by the Audit Committee.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information of the annual results of the Group for the year ended 31 March 2005 required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcement in respect of accounting period commencing before 1 July 2004 under the transitional arrangements, will be published on the Stock Exchange's website in due course.

By Order of the Board
Chong Sing Yuen
Chairman

Hong Kong, 22 July 2005

Please also refer to the published version of this announcement in The Standard.