



JOHNSON ELECTRIC
HOLDINGS LIMITED



Excellence in Micromotors
Since 1959

Interim Report **2001**

Johnson Electric Holdings Limited **2001** Interim Report

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INTERIM REPORT 2001

The Directors are pleased to announce that the unaudited consolidated profit attributable to shareholders for the six months ended 30th September 2001 was US\$60,057,000. Earnings per share were 1.6 US cents.

FINANCIAL RESULTS

The unaudited consolidated profit and loss account for the six months ended 30th September 2001 together with comparative figures for the corresponding period in 2000 is set out below :

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Unaudited	
	Six months ended 30th September 2001	2000
	US\$'000	US\$'000
Turnover	371,523	395,206
Operating profit	71,693	87,223
Finance costs	(245)	(259)
Share of profits less losses of jointly controlled entities/associated companies	(3,373)	116
Profit before taxation	68,075	87,080
Taxation	(8,017)	(6,817)
Profit after taxation	60,058	80,263
Minority interests	(1)	(1)
Profit attributable to shareholders	60,057	80,262
Interim dividend	14,130	14,130
Earnings per share (US cents)	1.6	2.2
Dividend per share (US cents)	0.38	0.38

NOTE

- 1 The calculation of earnings per share is based on the group's profit attributable to shareholders of US\$60,057,000 (2000: US\$80,262,000) and 3,673,788,920 (2000: 3,673,788,920) shares in issue.
- 2 The consolidated results, consolidated cash flow statement and consolidated statement of recognised gains and losses for the group for the six months ended 30th September 2001, and the consolidated balance sheet as at 30th September 2001 of the group, all of which are unaudited and condensed, along with the selected explanatory notes, are set out on pages 11 to 24 of this report.

INTERIM DIVIDEND

As announced by the Board of Directors on 11th December 2001, an interim dividend of 3 HK cents, equivalent to 0.38 US cents per share (2000: 3 HK cents or 0.38 US cents per share) will be paid on 4th January 2002 to the shareholders who are on the Register of Members on 31st December 2001.

CLOSING REGISTER OF MEMBERS

The Register of Members of the company will be closed from 31st December 2001 to 3rd January 2002 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the company's Registrar in Hong Kong, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (not the Registrars in Bermuda), not later than 4:00 p.m. on 28th December 2001.

BUSINESS REVIEW

OVERVIEW

For the six months ended 30th September 2001, Johnson Electric's total sales decreased by 6% to US\$372 million.

This decline resulted from a softening of demand across virtually all of the company's product application segments as the economic slowdown in North America and Europe led many of Johnson Electric's customers to reduce inventory levels and defer orders. The terrorist attacks in the United States on 11th September further compounded an already challenging market environment.

INVESTING FOR THE FUTURE

Johnson Electric has consistently sought to invest in businesses with above average growth prospects and which offer potential for enhancing the Group's competitive position in the field of precision motors. In particular, we continue to pursue opportunities that are arising from the long-term trend of US and European manufacturers to outsource the production of micromotors and motor systems. Central to this strategy is the ability of Johnson Electric to leverage its low cost supply and production platform in southern China.

In July 2001, we acquired certain manufacturing assets of the electric motor components business of Textron Automotive Company's Kautex Textron division for a purchase consideration of US\$12.5 million. Based in Manchester, New Hampshire, U.S.A., the business manufactured fuel pump armatures and cruise control stators for automotive tier-one suppliers and has estimated annual sales of US\$16 million. Under a related transition services agreement, Kautex Textron employees at the Manchester facility are to assist Johnson Electric for several months in the manufacture of stators and armatures while we transfer the production to our plants in Mexico and China. The transfer is expected to be complete in the second half of this year.

In August 2001, we also acquired certain manufacturing assets of the automotive electric seat motor business of ArvinMeritor's Light Vehicle Systems division for a purchase consideration of

US\$11.7 million. ArvinMeritor manufactured seat motors at plants in Esson, France, Queretaro, Mexico, and Gordonsville, Tennessee in the U.S.A. and has estimated annual sales of approximately US\$50 million. Under a related subcontracting, supply and transition agreement, ArvinMeritor acts as a manufacturing subcontractor to Johnson Electric to ensure continuity of motor supply to the customers, while we arrange to consolidate such seat motor production at our manufacturing complex in Shajing, China. The transfer of production to China is expected to be complete by mid-2002.

For the six months ended 30th September 2001, the sales contributions from these two acquisitions amounted to US\$13 million. Their full six months' sales will be included in the Group's results for the second half of the financial year. Excluding the Textron and ArvinMeritor acquisitions, total Group sales amounted to US\$358 million, a decline of 9% over the corresponding period in 2000.

OPERATING PERFORMANCE

Sales Overview

Notwithstanding the broad-based impact of the global economic slowdown, Johnson Electric's sales performance varied across product segments and geographic regions.

Over the first half of the financial year, sales of the Automotive Division were relatively stable. In contrast, some major segments within the Commercial Motors Division, notably Power Tools and Business Equipment/Personal Products, reported larger declines in sales, after hitting record highs in sales in the first half of 2000.

Geographically, the Group experienced sales decreases across all regions. Sales to Europe, North America, and Hong Kong/China decreased by approximately 5%. Sales to Asia Pacific decreased nearly 16%, due mainly to a double-digit decline in sales to the business equipment customers which have their production bases in this region.

Excluding the acquisitions from Textron and ArvinMeritor, sales to North America and Europe decreased 13% and 7% respectively.

Automotive Division

Total sales of the Automotive Division increased by 0.4% to US\$221 million. The Automotive Division comprises Automotive Motors Hong Kong; Gate S.p.A. ("Gate") in Europe; and Johnson Electric Automotive Motors ("JEAM") in North America.

Sales of Automotive Motors Hong Kong, representing the core automotive micromotor business based in Hong Kong, decreased 4% to US\$64 million, with unit volume down slightly by 1%. Slowing demand in relatively mature products was largely offset by continuing robust growth in such new product applications as electronic throttle control and mirror adjusters.

Including the acquisitions from Textron and ArvinMeritor, sales increased 15% to US\$77 million. The sales of these acquisitions have become the responsibility of Automotive Motors Hong Kong, as their production will mostly be transferred to and consolidated at our manufacturing complex in Shajing, China.

Sales of Gate in Europe continued to be stable, up 3% to US\$90 million, with unit volume growth of 14%.

Sales of JEAM in North America decreased 18% to US\$53 million, with unit volume down 15%. This was due partly to a decrease of 20% in the sales of starter motors used in such applications as garden equipment and outboard marine engines in the U.S.A. In addition, for most of the first half of this financial year, JEAM was engaged in a major restructuring programme aimed at enhancing its long-term competitiveness. This involved the closure of its manufacturing facility in Columbus, Mississippi, and the transfer of its production responsibilities to Johnson Electric plants in China and Mexico.

Commercial Motors Division

Sales to the power tools sector decreased 26% to US\$43 million, with unit volume down 13%. This decline was mainly due to sluggish end-user demand conditions and a significant inventory correction by Johnson Electric's customers in the U.S.A. and Europe.

Sales to the home appliances sector declined 4% to US\$56 million, with a decrease of 7% in unit volumes. Sales to floor-care product applications continued to grow at a rate of nearly 30%, although this increase was more than offset by lower sales in small kitchen appliances, including mixers, blenders and can openers. As the proportion of floor-care product applications increases further in the sales mix, we anticipate improved sales performance for the home appliances sector in future.

Sales to the business equipment and personal product sectors decreased 15% to US\$43 million, with unit volume down 10%. With demand substantially below year 2000 levels, sales to printer products declined 17%. In personal products, the Group continued to see healthy growth in certain new product applications, including electric toothbrushes and toys, but this was more than offset by a decline in micromotor sales to hair dryer manufacturers.

Audio-visual sector sales increased 14% to US\$9 million, with unit volume growth of 28%. This business sector is still in a relatively early stage of development following the commencement of a joint venture with Nidec Corporation of Japan in July 2000. Sales are not expected to be material in relation to the Group's total business until after the current financial year.

ENTERPRISE RESOURCE PLANNING ("ERP")

About a year ago, we announced our decision to work with Oracle Greater China, Oracle Corporation, in changing our system to ERP.

Based on the progress of our ERP project to date, we expect implementation of Supply Chain Management and Financial Management to be completed during this financial year as scheduled. Order Management Implementation will commence from March 2002. The project aims to improve our operational efficiencies and responsiveness in the coming years.

INVESTING IN PEOPLE

As of 30th September 2001, the Group employed a total of over 23,000 full-time employees, including contract manufacturing labour. The Group provides competitive remuneration packages and various types of benefit schemes appropriate to the local labour markets.

Organizational development constitutes the core of our human resources initiatives in the coming year. Our performance appraisal system is being modified to focus more on learning and individual development. A set of core leadership competencies has been developed against which we set our standard for behavioural and cultural change.

Johnson University (“JU”) established in 1998, has now six colleges providing a wide range of vocational and technical training programmes. The JU Master of Science (M.Sc.) in engineering degree programme is in its second year and is expected to produce the first batch of graduates in the coming year. We continue to work towards broadening JU’s programme offering as we believe continuous learning by our people holds the key to the Group’s success.

The Group continues to increase its focus on environmental, health and safety issues as it strives to be a responsible corporate citizen in all the countries in which it operates.

PROSPECTS

Looking ahead, most macro-economic indicators suggest that the current depressed global economic environment will extend well into 2002. The Group therefore anticipates that trading conditions will remain challenging in the near term.

For the financial year 2001/02 as a whole, we expect the combination of sales contributions from recent acquisitions and our growth in new product applications to help mitigate the effects of continued weak demand conditions.

We also expect to benefit from management actions and favorable trends on our cost side. First, the closure and relocation of Johnson Electric’s manufacturing facility in Columbus, Mississippi, will provide for a more cost competitive product offering in the North America market. Second, lower commodity prices for copper and steel are enabling us to minimize our raw material costs. Third, management has also instituted a number of cost reduction initiatives designed to ensure that we sustain a compelling value proposition for our customers and at the same time achieve superior levels of profitability.

In this period of unprecedented economic uncertainty, we nonetheless remain confident that the underlying factors that drive our long-term sales growth remain sound. Johnson Electric will continue to build on its unrivalled low-cost manufacturing capabilities in China and expects to make further investments in new product applications and selective new acquisitions in the months and years ahead.

We believe that Johnson Electric is better positioned than ever to exploit growth opportunities that are emerging from the fundamental restructuring of the global manufacturing supply chain now underway. Our balance sheet remains strong, and the Group is essentially debt-free, with a substantial cash reserve. Once our markets begin to recover, Johnson Electric’s shareholders can be confident that the Group’s competitive strengths will be a basis for continued value creation.

FINANCIAL REVIEW

RESULTS

Profit attributable to shareholders and earnings per share decreased 25% to US\$60 million and 1.6 US cents respectively.

Operating profit decreased 18% to US\$72 million. Operating profit of the core business based in Hong Kong decreased 22%, due mainly to decreased sales followed by increased non-variable costs as a percentage of sales. Operating profit of Gate in Europe and JEAM in North America were relatively stable, near last year’s level of US\$21 million for the first half.

EBIT (Earnings before Interest and Tax) margin decreased from 22.1% to 19.3%, reflecting the impact of decreased sales. This, however, was not a significant deviation from the second half last year with an EBIT margin of 19.8%.

Goodwill amortization amounted to US\$0.2 million. With effect from this financial year, we adopted SSAP 30 – Business combinations. Goodwill is being amortised over 20 years. Full details of our policy and the goodwill in relation to the acquisitions made during the period under review is contained in Notes 1 (c) and 14 to the accounts.

Share of losses of jointly controlled entities/associated companies amounted to over US\$3 million, compared to profit of US\$0.1 million for the first half last year. The net losses were primarily due to our share of US\$1.6 million of the losses in the Brushless Technology Motors (“BTM”) joint venture based in Italy, and US\$1.5 million of the losses in the Nidec Johnson Electric joint venture. BTM and the Nidec Johnson Electric joint ventures were started in October 1999 and July 2000 respectively, and such losses were of a start-up nature. Aggressive action is being taken to enable these joint ventures to achieve their planned profitability levels.

Excluding the assets purchased, amounting to US\$7 million, as part of the acquisitions from Textron and ArvinMeritor, net capital expenditures for the first half were US\$26 million, up from US\$22 million last year. Capital expenditures for the whole year are not expected to increase at this rate, as action has been taken to reduce or freeze capital spending as far as possible for the second half. Depreciation charges were US\$17 million, in the same amount as last year.

Taxes on profit were US\$8 million, compared to US\$7 million last year, mainly due to increased overseas taxes.

CASH FLOW

The Group’s main source of liquidity continued to be net cash from operating activities. Despite the decreased sales and profit, net cash provided by operating activities increased US\$10 million to US\$74 million, due mainly to a decrease in working capital during the period. A decrease of US\$19 million in profit before tax was more than offset by a decrease of over US\$12 million in debtors and prepayments; an increase of US\$3 million in trade and other payables and an increase of US\$8 million in exchange translation.

Based on moving annual total sales, the trade receivables increased from 65 to 70 days, due mainly to the longer credit periods taken over in the recent acquisitions completed during the first half. The sales-to-stock ratio decreased from 9.1 to 7.5 turns, due mainly to a temporary need of JEAM to build up inventory in preparation for its transfer of production into China in the second half year. Inventory turns are expected to return to normal levels after such transfer is complete. Current ratio was improved from 2 to 2.4 times.

Net cash outflow from investing activities increased to US\$45 million, compared to US\$11 million for the corresponding period last year, due to the payments made for the acquisitions from Textron and ArvinMeritor, and an additional capital contribution to the Nidec Johnson Electric joint venture. Net cash outflow from returns on investment, servicing of finance and taxes paid were similar to last half year’s levels, whilst net cash flow from financing activities continued to be immaterial. Total cash and cash equivalents increased 29% to US\$70 million, compared to US\$54 million as at 30th September 2000.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources continue to be healthy. As at 30th September 2001, the Group had no net debt, taking into account its total cash and other investments which increased 28% to US\$73 million, compared to US\$57 million at last first half year-end. Total debt continued to be low, about US\$9 million. The total debt-to-equity ratio remained at 2% level.

The Group's principal committed borrowing facilities are a three-year revolving loan in US dollars of 5 million obtained by a marketing subsidiary in the U.S.A. for short-term trade financing and long-term loans in Italian Lira totalling US\$3.4 million obtained previously by Gate S.p.A. to take advantage of preferential interest rates at the time (fixed at between 2% and 7.95%) available for specified purposes such as research and innovation. For day-to-day liquidity management and maintaining flexibility in funding, the Group also has access to significant uncommitted short-term borrowing facilities provided by its relationship banks. There are, however, no present needs for borrowings of any material amount.

Funding requirements for capital expenditures are expected to be met by internal cash flows. There are no present plans for material investments or capital assets in the coming years, other than the Group's regular annual capital expenditures required to maintain its growth in sales.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The financial risk management of the Group is the responsibility of Group's treasury function at the corporate centre based in Hong Kong, which is controlled by policies approved by the top management.

Except as disclosed in this interim report, the current information in relation to foreign currency risk, and cash and debt management, has not changed materially from the information disclosed in the most recently published annual report 2001.

For this half year period, of the core micromotor sales (not including JEAI), 82% were in US dollars; 10% in Euro or German Marks, and 6% in Japanese Yen.

CAPITAL STRUCTURE

It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure over time. At this stage, however, with continuing strong cash flows, there are no immediate requirements for debt finance. As noted above, the Group had no net debt as at the end of this half-year period.

Details of the loans remaining outstanding are described earlier and included in Note 11 to the accounts. Borrowings at fixed interest rates amounted to approximately US\$3.4 million only.

The Group's borrowings are primarily denominated in US and Hong Kong dollars. Except for the foreign exchange exposure in relation to the loans in Italian Lira obtained by Gate S.p.A., totalling approximately US\$3.4 million, the Group has no significant exposure to foreign exchange fluctuations in relation to its borrowings.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Except as disclosed in this interim report in relation to our acquisitions and the payment of US\$5.2 million as our share of paid-up capital in Nidec Johnson Electric, there were no significant investments and material changes in the composition of our Group during the period under review.

DIVIDEND POLICY

It is the intention of the Group that the dividend paid should, over the long term, reflect the development of its earnings per share and provide shareholders with relatively consistent dividend income.

In view of its growth potentials, it is also the intention of the Group to accumulate substantial cash reserves to take advantage of any expansion or acquisition opportunities that may arise from time to time.

GOING CONCERN

On the basis of current financial projections and facilities available, the Group has adequate financial resources to continue its operation for the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

DIRECTORS' INTERESTS

As at 30th September 2001, the interests of the directors in the share capital of the company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance of Hong Kong) notified to the company pursuant to Section 28 of that Ordinance (including interests which they are deemed or taken to have under Section 31 or Part I of the Schedule to that Ordinance) or which are required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein were as follows:

Name	Shares in the company of HK\$0.0125 each	
	Personal Interests	Other Interests
Wang Koo Yik Chun	-	2,190,210,880 ^{*#}
Peter John Wrangham	160,000	-
Peter Stuart Allenby Edwards	-	50,000 ^{**}
Ian Lorne Thompson Conn	10,000	-

* These Shares are held, directly or indirectly, by the trustees of various trusts associated with the Wang family.

Duplications of shareholdings occur among and between the parties shown below under Substantial Shareholders.

** These shares are held under a trust of which Peter Stuart Allenby Edwards is one of the beneficiaries.

Save as disclosed herein, as at 30th September 2001, none of the directors had any interest in the share capital or debt securities of the company or any associated corporation (as so defined) notified to the company pursuant to Section 28 of the Securities (Disclosure of Interests) Ordinance (including interests which they are deemed or taken to have under Section 31 or Part I of the Schedule to that Ordinance) or which will be required, pursuant to Section 29 of that Ordinance, to be entered in the register referred to therein.

No contracts of significance in relation to the company's business to which the company or its subsidiaries was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

Under the terms of the Johnson Electric Holdings Limited share option scheme, which was approved by the shareholders on 11th August 1998, the directors may at their discretion grant full time employees of the company and its subsidiaries, including executive directors, options to subscribe for the company's shares. No such options have yet been granted to any employee.

Under the terms of the Johnson Electric Holdings Limited Long-Term Incentive Share Scheme ("Incentive Share Scheme") which was approved by the shareholders on 26th July 1999, the directors may at their discretion invite full time employees of the company and its subsidiaries, including Directors, to participate in the Incentive Share Scheme, and grant shares to such eligible employees. No such shares have yet been granted to any employee.

Apart from the share option scheme and Incentive Share Scheme mentioned above, there were no other arrangements to which the company or its subsidiaries was a party to enable the directors of the company to acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under Bermudan law in relation to issues of new shares by the company.

SUBSTANTIAL SHAREHOLDERS

As at 30th September 2001, the interests of every person in the share capital of the company as recorded in the register required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance were as follows:-

Name	Shares of HK\$0.0125 each
Bermuda Trust (Guernsey) Limited	358,972,480
Ansbacher (Bahamas) Limited	887,040,000
HSBC International Trustee Limited	951,539,200
HSBC Investment Bank Holdings B.V.	973,961,200
HSBC Holdings B.V.	973,961,240
HSBC Finance (Netherlands)	973,961,240
HSBC Holdings plc	973,961,240
The Capital Group Companies, Inc.	368,447,352

The shares in which Bermuda Trust (Guernsey) Limited and Ansbacher (Bahamas) Limited are interested and 944,198,400 of the shares in which HSBC International Trustee Limited is interested are held, directly or indirectly, by them as the trustees of various trusts associated with the Wang family and are included in the shares in which Ms. Wang Koo Yik Chun is interested as referred to above under Directors' Interests.

The shares in which HSBC International Trustee Limited is interested form part of the shares in which HSBC Investment Bank Holdings B.V. is interested, which form part of the shares in which HSBC Holdings B.V. is interested, which are all the shares in which HSBC Finance (Netherlands) is interested, which are all the shares in which HSBC Holdings plc is interested, all of which are the same shares.

Save as disclosed herein, as at 30th September 2001, according to the register of interests of shares and, so far as the directors are aware, there were no persons who, directly or indirectly, held or were beneficially interested in shares representing 10 per cent. or more of the issued share capital of the company or (save for the company) its subsidiaries and there was no other interest or right recorded in the register required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance.

PURCHASE, SALE OR REDEMPTION OF SHARES

The company has not redeemed any of its shares during the period. Neither the company nor any of its subsidiaries has purchased or sold any of the company's shares during the period.

AUDIT COMMITTEE

The Audit Committee meets regularly with the group's senior management and the external auditors to consider and review the group's financial statements, the nature and scope of audit reviews, and the effectiveness of the system of internal control and compliance. The members of the Audit Committee are Mr. David Wylie Gairns (Chairman of the Committee) and Mr. Ian Lorne Thompson Conn.

CODE OF BEST PRACTICE

Throughout the accounting period, the Company was in compliance with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited except that some of the independent non-executive directors of the Company have no set term of office but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-Laws.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th September 2001

		Unaudited Six months ended 30th September	
	Note	2001 US\$'000	2000 US\$'000
Turnover	2	371,523	395,206
Cost of sales		(248,279)	(259,840)
Gross profit		123,244	135,366
Other revenues		5,166	5,795
Selling and administrative expenses	3	(56,717)	(53,938)
Operating profit	4	71,693	87,223
Finance costs	5	(245)	(259)
Share of profits less losses of jointly controlled entities/associated companies		(3,373)	116
Profit before taxation		68,075	87,080
Taxation	6	(8,017)	(6,817)
Profit after taxation		60,058	80,263
Minority interests		(1)	(1)
Profit attributable to shareholders		60,057	80,262
Dividends	7	48,513	47,750
Earnings per share (US cents)	8	1.6	2.2

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2001

		Unaudited 30th September 2001 US\$'000	31st March 2001 US\$'000
	Note		
ASSETS			
Non-current assets			
Goodwill	14	14,587	-
Properties, plant and equipment		245,342	234,287
Jointly controlled entities		22,714	19,506
Associated companies		5,571	7,361
Investment securities		9,203	11,136
Investments in finance leases		16,034	20,522
Deferred tax assets		34,101	30,752
		347,552	323,564
Current assets			
Stocks and work in progress		99,008	84,967
Trade and other receivables	9	193,889	182,469
Other investments		10,704	11,413
Deposits and bank balances		62,744	77,048
		366,345	355,897
Current liabilities			
Trade and other payables	10	146,774	141,725
Current portion of long term loans	11	588	547
Taxation		5,535	1,333
Bank loans and overdrafts		2,341	5,136
		155,238	148,741
Net current assets		211,107	207,156
Total assets less current liabilities		558,659	530,720
Non-current liabilities			
Long term loans	11	5,826	5,922
Other provisions		12,734	12,321
Deferred tax liabilities		9,968	10,924
Minority interests		3	5
		28,531	29,172
NET ASSETS		530,128	501,548
CAPITAL AND RESERVES			
Share capital	12	5,925	5,925
Reserves	13	510,073	461,240
Proposed dividends	7	14,130	34,383
SHAREHOLDERS' FUNDS		530,128	501,548

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2001

	Unaudited	
	Six months ended 30th September	
	2001	2000
	US\$'000	US\$'000
Net cash inflow from operating activities	73,674	63,752
Net cash outflow from returns on investments and servicing of finance	(32,590)	(31,942)
Total taxation paid	(8,240)	(8,197)
Net cash outflow from investing activities	(44,871)	(11,265)
Net cash (outflow)/inflow from financing	(196)	1,615
(Decrease)/increase in cash and cash equivalents	(12,223)	13,963
Cash and cash equivalents as at 1st April	81,794	39,839
Cash and cash equivalents as at 30th September	69,571	53,802
Analysis of the balances of cash and cash equivalents:		
Other investments	9,168	-
Bank balances and cash	62,744	56,391
Bank loans and overdrafts	(2,341)	(2,589)
	69,571	53,802

CONDENSED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th September 2001

		Unaudited	
		Six months ended 30th September	
	Note	2001	2000
		US\$'000	US\$'000
Exchange differences arising on translation of subsidiaries, associated companies and jointly controlled entities	13	2,906	(4,696)
Profit attributable to shareholders		60,057	80,262
Total recognised gains		62,963	75,566
Goodwill eliminated directly against reserves		-	(4,575)
		62,963	70,991

NOTES TO INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants, (as applicable to condensed interim accounts), and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st March 2001, except as described below. The Group has adopted the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001 :

- (a) **SSAP 9 (revised)** : *Events after the balance sheet date*
- (b) **SSAP 14 (revised)** : *Leases (effective for periods commencing on or after 1st July 2000)*
- (c) **SSAP 26** : *Segment reporting*
- (d) **SSAP 28** : *Provisions, contingent liabilities and contingent assets*
- (e) **SSAP 29** : *Intangible assets*
- (f) **SSAP 30** : *Business combinations*
- (g) **SSAP 31** : *Impairment of assets*
- (h) **SSAP 32** : *Consolidated financial statements and accounting for investments in subsidiaries*

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

(a) **SSAP 9 (revised)** : *Events after the balance sheet date*

In accordance with revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the proposed final dividend amounting to US\$34,383,000 previously recorded as at 31st March 2001 has been restated and shown under shareholders’ funds.

As detailed in Note 13, opening retained earnings at 1st April 2000 have increased by US\$33,620,000 which is the reversal of the provision for the 2000 proposed final dividend previously recorded as a liability as at 31st March 2000 although not declared until after balance sheet date. Opening retained earnings at 1st April 2001 have increased by US\$34,383,000 which is the reversal of the provision for 2001 proposed final dividend previously recorded as a liability as at 31st March 2001 although not declared until after the balance sheet date.

A corresponding decrease in current liabilities by US\$34,383,000 has been reflected in the comparative 31st March 2001 balance sheet.

Changes to headings used in the previously reported 31st March 2001 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) **SSAP 26** : *Segment reporting*

In Note 2 to these interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group’s internal financial reporting the Group has adopted geographical segments as the reporting format. Comparative information has been given.

1 Basis of preparation and accounting policies (cont'd)**(c) SSAP 30 : Business combinations**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company/joint venture at the date of acquisition. Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets".

2 Segment information

The Group is principally engaged in the manufacture of micromotors.

An analysis of the Group's turnover and contribution to operating profit for the period by geographical area by origin is as follows:

	6 months ended 30th September 2001			
	Asia US\$'000	Europe US\$'000	America US\$'000	Total US\$'000
Turnover	215,166	93,734	62,623	371,523
Operating profit	49,535	17,111	5,047	71,693
Finance costs				(245)
Share of profits less losses of jointly controlled entities/ associated companies	(1,122)	(1,589)	(662)	(3,373)
Profit before taxation				68,075
Taxation				(8,017)
Profit after taxation				60,058
Minority interests				(1)
Profit attributable to shareholders				60,057

	6 months ended 30th September 2000			
	Asia US\$'000	Europe US\$'000	America US\$'000	Total US\$'000
Turnover	242,669	87,829	64,708	395,206
Operating profit	65,291	16,681	5,251	87,223
Finance costs				(259)
Share of profits less losses of jointly controlled entities/ associated companies	73	(234)	277	116
Profit before taxation				87,080
Taxation				(6,817)
Profit after taxation				80,263
Minority interests				(1)
Profit attributable to shareholders				80,262

3 Selling and administrative expenses

	6 months ended 30th September	
	2001	2000
	US\$'000	US\$'000
Selling expenses	16,039	17,369
Administrative expenses	40,678	36,569
	56,717	53,938

4 Operating profit

Operating profit is stated after crediting and charging the following:

	6 months ended 30th September	
	2001	2000
	US\$'000	US\$'000
Crediting		
Net realised and unrealised gain on other investments and investment securities	-	1,103
Net exchange gain	307	1,090
Charging		
Depreciation on owned fixed assets	18,367	18,588
Depreciation on leased fixed assets	22	19
Less: amounts capitalised on machinery under construction	(1,019)	(1,418)
	17,370	17,189
Amortisation of goodwill	147	-
Loss on disposal of fixed assets	210	550
Net realised and unrealised loss on other investments and investment securities	497	-

5 Finance costs

	6 months ended 30th September	
	2001	2000
	US\$'000	US\$'000
Interest on bank loans and overdrafts	186	117
Interest on other loans, not wholly repayable within five years	9	83
Interest element of finance leases	-	5
Other incidental borrowing costs	50	54
	245	259

6 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period. Overseas tax has been provided at the applicable rate on the estimated assessable profit for the period.

	6 months ended 30th September	
	2001	2000
	US\$'000	US\$'000
Current taxation		
Hong Kong profits tax	4,791	6,263
Overseas taxation	7,147	6,526
Deferred taxation	11,938	12,789
	(3,921)	(5,972)
	8,017	6,817

7 Dividends

	6 months ended 30th September	
	2001	2000
	US\$'000	US\$'000
2000/01 Final dividend, paid of 0.94 US cents (1999/00 : 3.64 US cents*)	34,383	33,620
2001/02 Interim, proposed on 11th December 2001, of 0.38 US cents (2000/01 : 0.38 US cents)	14,130	14,130
	48,513	47,750

* Before four-for-one share split on 14th August 2000.

8 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of US\$60,057,000 (2000: US\$80,262,000) and 3,673,788,920 (2000: 3,673,788,920) shares in issue.

9 Trade and other receivables

The Group allows an average credit period ranging from 30 to 60 days to its trade customers.

The trade and other receivables included trade receivables balance of US\$143,814,000 (31st March 2001: US\$154,368,000). The ageing analysis of trade receivables was as follows:

	30th September 2001 US\$'000	31st March 2001 US\$'000
0-60 days	108,075	123,273
61-90 days	17,204	16,215
Over 90 days	18,535	14,880
Total	143,814	154,368

10 Trade and other payables

The trade and other payables included trade payables balance of US\$71,818,000 (31st March 2001: US\$73,844,000). The ageing analysis of trade payables was as follows:

	30th September 2001 US\$'000	31st March 2001 US\$'000
0-60 days	35,082	51,355
61-90 days	15,804	12,010
Over 90 days	20,932	10,479
Total	71,818	73,844

11 Long term loans

	30th September 2001 US\$'000	31st March 2001 US\$'000
Loans		
Secured	4,601	4,643
Unsecured	1,813	1,826
	6,414	6,469
Current portion of long term loans	(588)	(547)
	5,826	5,922
Wholly repayable within five years		
Bank loans	3,000	3,000
Not wholly repayable within five years		
Other loans	3,414	3,469
	6,414	6,469
Current portion of long term loans	(588)	(547)
	5,826	5,922

Other loans not wholly repayable within five years are repayable by instalments starting from 1st July 2000 to 31st March 2010. Interest is charged on the outstanding balances at 1.9875% to 7.95% per annum.

At 30th September 2001, the Group's long term bank loans and other borrowings were repayable as follows:

	Bank loans		Other loans	
	30th September 2001 US\$'000	31st March 2001 US\$'000	30th September 2001 US\$'000	31st March 2001 US\$'000
Within one year	-	-	588	547
In the second year	3,000	-	491	763
In the third to fifth year	-	3,000	1,455	1,144
After the fifth year	-	-	880	1,015
	3,000	3,000	3,414	3,469

12 Share capital

	30th September 2001 US\$'000	31st March 2001 US\$'000
Authorised:		
7,040,000,000 ordinary shares of HK\$0.0125 each	11,355	11,355
Issued and fully paid:		
3,673,788,920 ordinary shares of HK\$0.0125 each	5,925	5,925

13 Reserves

	Share premium US\$'000	Investment property revaluation reserve US\$'000	Capital reserve US\$'000	(Goodwill)/ reserve on consolidation US\$'000	Exchange reserve US\$'000	Contributed surplus US\$'000	Retained earnings US\$'000	Total US\$'000
At 31st March 2000								
As previously reported	77,855	13,542	38,917	(226,544)	(20,182)	15,499	480,145	379,232
Effect of adopting SSAP 9 (revised)	-	-	-	-	-	-	33,620	33,620
As restated	77,855	13,542	38,917	(226,544)	(20,182)	15,499	513,765	412,852
Adjustment arising on translation of foreign subsidiaries, associated companies and jointly controlled entities	-	-	-	-	(5,065)	-	-	(5,065)
Revaluation deficit	-	(2,441)	-	-	-	-	-	(2,441)
Goodwill adjustment on previously acquired subsidiaries	-	-	-	(7,341)	-	-	-	(7,341)
Revaluation surplus realised upon disposal	-	(128)	-	-	-	-	128	-
Retained profit for the year	-	-	-	-	-	-	145,368	145,368
Final dividend paid 99/00	-	-	-	-	-	-	(33,620)	(33,620)
Interim dividend paid 00/01	-	-	-	-	-	-	(14,130)	(14,130)
At 31st March 2001	77,855	10,973	38,917	(233,885)	(25,247)	15,499	611,511	495,623
Final dividend proposed	-	-	-	-	-	-	(34,383)	(34,383)
	77,855	10,973	38,917	(233,885)	(25,247)	15,499	577,128	461,240
Company and subsidiaries	77,855	10,973	38,917	(233,885)	(25,247)	15,499	579,365	463,477
Jointly controlled entities	-	-	-	-	-	-	(355)	(355)
Associated companies	-	-	-	-	-	-	(1,882)	(1,882)
At 31st March 2001	77,855	10,973	38,917	(233,885)	(25,247)	15,499	577,128	461,240

13 Reserves (cont'd)

	Share premium US\$'000	Investment property revaluation reserve US\$'000	Capital reserve US\$'000	(Goodwill/ reserve on consolidation US\$'000	Exchange reserve US\$'000	Contributed surplus US\$'000	Retained earnings US\$'000	Total US\$'000
At 31st March 2001								
As previously reported	77,855	10,973	38,917	(233,885)	(25,247)	15,499	577,128	461,240
Effect of adopting SSAP 9 (revised)	-	-	-	-	-	-	34,383	34,383
As restated	77,855	10,973	38,917	(233,885)	(25,247)	15,499	611,511	495,623
Adjustment arising on translation of foreign subsidiaries, associated companies and jointly controlled entities	-	-	-	-	2,906	-	-	2,906
Retained profit for the period	-	-	-	-	-	-	60,057	60,057
Final dividend paid 00/01	-	-	-	-	-	-	(34,383)	(34,383)
At 30th September 2001	77,855	10,973	38,917	(233,885)	(22,341)	15,499	637,185	524,203
Interim dividend proposed 01/02	-	-	-	-	-	-	(14,130)	(14,130)
	77,855	10,973	38,917	(233,885)	(22,341)	15,499	623,055	510,073
Company and subsidiaries	77,855	10,973	38,917	(233,885)	(22,341)	15,499	628,665	515,683
Jointly controlled entities	-	-	-	-	-	-	(2,140)	(2,140)
Associated companies	-	-	-	-	-	-	(3,470)	(3,470)
At 30th September 2001	77,855	10,973	38,917	(233,885)	(22,341)	15,499	623,055	510,073

14 Acquisition

The Group acquired the electric motor components business of Kautex Textron division of Textron Automotive Co. Inc. and certain selected automotive electric seat motor business of ArvinMeritor's Light Vehicle Systems division in June 2001 and August 2001 respectively. The total consideration of US\$25,134,000 was settled in cash. The total fair value of the net identifiable assets of the businesses at the dates of acquisition was US\$10,400,000. The resulting goodwill of US\$14,734,000 is to be amortised on a straight-line basis over 20 years. The acquired businesses contributed revenues of US\$13,037,000 and operating profit of US\$1,437,000 to the Group for the period from acquisitions to 30th September 2001.

The assets and liabilities arising from the acquisition are as follows:

	US\$'000
Properties, plant and equipment	6,900
Other assets less liabilities	3,500
Fair value of net assets	10,400
Total purchase consideration	25,134
Goodwill as at date of acquisition	14,734
Amortisation during the period	(147)
Goodwill as at 30th September 2001	14,587

There were no other significant changes in the composition of the Group during the six months ended 30th September 2001.

15 Contingent liabilities

(a)	30th September 2001 US\$'000	31st March 2001 US\$'000
Bills discounted	2,415	2,527
Guarantees for credit facilities granted to a jointly controlled entity	3,000	3,000
	5,415	5,527

(b) The company has given guarantees for a subsidiary in respect of future payment of operating lease rentals amounting US\$2,811,000 (31st March 2001: US\$2,964,000).

(c) In August 2001, a claim for damages was made against a subsidiary of the Group and several other third party defendants for personal injury and property damage in a lawsuit pertaining to environmental contamination involving the Group's automotive parts manufacturing facility in Columbus, Mississippi, USA. The Group has resisted and will vigorously defend these claims as a result of advice from the Group's legal advisers as to its position with respect to these claims. The directors consider that the litigation is only in its formative stage and are unable at such early stage to predict the ultimate outcome of this litigation.

16 Commitments

CAPITAL COMMITMENTS	30th September 2001 US\$'000	31st March 2001 US\$'000
Capital commitments for properties, plant and equipment		
Authorised but not contracted for	8,455	7,247
Contracted but not provided for	8,587	10,540
	17,042	17,787

PATRICK WANG SHUI CHUNG

Chairman and Chief Executive

Hong Kong, 11th December 2001