Johnson Electric Holdings Limited

Interim Report 2004

Excellence in *motors* since 1959

CONTENTS

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

HIGHLIGHTS

- Turnover up 13.4% to US$576 million
- Operating profit before restructuring charges up 0.5% to US$86.8 million
- Net profit attributable to shareholders down 14.6% to US$69.6 million
- Earnings per share down 14.6% to 1.9 U.S. cents per share
- Interim dividend of 4.5 HK cents per share (0.58 U.S. cents per share)
- Operating performance has improved compared to the second half of the last financial year and is on track to achieve a satisfactory improvement in performance for the full year

CHAIRMAN'S STATEMENT

OVERVIEW OF FINANCIAL RESULTS

For the six months period ended 30th September 2004, Johnson Electric achieved record sales of US$576 million, an increase of 13.4% over the comparable period in 2003. This increase reflected the combined impact of acquiring the remaining 51% of Nihon Mini Motor not already owned by the Group, incremental new business gains, and the strength of the Euro currency against the U.S. dollar. Nihon Mini Motor represented US$29 million of the sales increase during the period.

The consolidated profit attributable to shareholders for the first half of the financial year was US$69.6 million, a decrease of 14.6% over the comparable period in 2003.

The first half profit figure included a charge of approximately US$10 million for overseas plant restructuring costs and provisions. This is consistent with Johnson Electric's previously articulated strategy of relocating certain production activities to lower cost locations – principally to China. In most cases, the near-term cash outflow associated with these transition projects are recovered within two years through profitability and revenue improvements. Excluding the restructuring charges, Johnson Electric's pre-tax operating profit for the first half was US$86.8 million – slightly above the level recorded in the prior year.

In common with many industrial manufacturing businesses, our profit margins have been negatively affected by increased global commodity prices for key raw materials such as steel, copper and plastic. For certain materials and externally sourced components, prices are presently at their highest levels for almost ten years.

Selling and administrative expenses increased on a year-on-year basis due to investments in business infrastructure that occurred in the second half of the previous financial year. No further increases were incurred during the period under review.

BUSINESS IMPROVEMENT AND DEVELOPMENT INITIATIVES

Notwithstanding the decline in year-on-year net profit levels, compared to the second half of the 2003-04 financial year the Group's operating profit before restructuring charges for the first half of 2004-05 increased by 36.7%. This represented an improvement in operating profit margins from 11.7% to 15.1%.

This improvement reflected management action to contain and reduce overheads, as well as better scalability and productivity derived from higher sales volumes and on-going production relocation programs. Commodity prices have stabilized somewhat since the rapid escalation occurring towards the end of calendar 2003. Where possible, the Group has moved to increase prices for its motor products to reflect higher input costs – especially in new product introductions.

In addition to initiatives to improve near-term profitability in the core business operations, the Group is also actively exploring a number of new business opportunities of both an organic and acquisitive nature.

In October 2004, shortly after the period under review, Johnson Electric announced that it had agreed to acquire 51% of Nanomotion Ltd., an Israeli producer of high precision piezo ceramic motors. By combining Nanomotion's proprietary technology with Johnson Electric's market reach and high volume manufacturing strength, the acquisition is expected to open up new market segments for the Group.

INTERIM DIVIDEND

The Directors have today declared an interim dividend of 4.5 HK cents, equivalent to 0.58 U.S. cents per share (2003: 4.5 HK cents or 0.58 U.S. cents per share) payable on 3rd January 2005 to shareholders who are on the Register of Members on 28th December 2004.

PROSPECTS

Johnson Electric remains extremely well positioned relative to its competitors in the global micromotor industry and the strategies that we are pursuing should continue to sustain and strengthen the Group's position in the years ahead.

In the near term, however, high raw material prices and an uncertain macro-economic environment are likely to continue to constrain the Group's financial performance. Recent sales trends have been satisfactory and are presently on track to deliver overall annual revenue growth of approximately 10% - 11%. Subject to further unanticipated volatility in input costs and end-user demand, gross margin levels for the second half are presently expected to be broadly similar to those recorded in the first half.

In summary, despite a challenging operating environment for global manufacturing businesses, we anticipate a satisfactory improvement in full-year performance compared to the previous financial year.

Patrick Wang Shui Chung
Chairman and Chief Executive

Hong Kong, 3rd December 2004

CLOSING REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 28th December 2004 to 30th December 2004 (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, Computershare Hong Kong Investor Services 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 24th December 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW

Total group sales for the half-year ended 30th September 2004 were US$576 million, an increase of 13.4% over the US$508 million recorded in the same period in 2003. This increase reflected the combined impact of acquiring the remaining 51% of Nihon Mini Motor not already owned by the Group, incremental new business gains and the strength of the Euro currency against the U.S. dollar. Nihon Mini Motor represented US$29 million of the sales increase during the period.

Overall sales to Europe were US$213 million (36.9% of total sales) growing by 7.9%. Sales to the Americas were US$157 million (27.3% of total sales), an increase of 4.6%; and sales to the Asia region were US$206 million (35.8% of total sales), an increase of 28.4%.

GROSS MARGINS

Gross margins as a percentage of sales decreased from 31.1% to 29.5% due mainly to the increase in international steel and copper prices, offset partially by recent increases in selling prices mainly in new product introductions.

Compared to the second half of the 2003-04 financial year, gross profit margins improved from 28.6% to 29.5%. This improvement reflects the reduced production overhead costs that were gained by the prior year closure of our Thailand operations and from continued gains in production efficiencies at Johnson Electric's primary manufacturing facilities in China.

OTHER REVENUES

Other revenue increased from US$6.9 million to US$10.3 million and as a percentage of sales has increased to 1.8% from 1.4%. This improvement is mainly due to the increase in the selling price of scrap steel and copper.

SELLING AND ADMINISTRATIVE EXPENSES

Overall SG&A expenses increased 18.9% to US$93.8 million or 16.3% as a percentage of sales. The increase reflects the full impact of our two acquisitions Nihon Mini Motor and Nidec Johnson Electric audio-visual motor joint venture, as well as the continued impact of the higher Euro. Compared to the second half of the 2003-04 financial year, SG&A for the first half of 2004-05 decreased 6.4% from US$100.2 million to US$93.8 million. This reduction as a percentage of sales from 18.5% to 16.3% reflects management's commitment to maximize use of the current infrastructure and eliminate non-value adding activities.

RESTRUCTURING COSTS / PROVISIONS

As stated in the 2003-04 annual report, actions are also being taken to further restructure the manufacturing operations at Matamoros in Mexico. The closure costs incurred during the period under review together with a final provision for Mexico and other restructuring costs amounted to US$10.0 million. No further restructuring costs associated with the Matamoros plant are expected and it is estimated that the full transition of production activities to the Group's China operation will be completed by March 2005.

OPERATING PROFITS

Excluding restructuring costs / provisions, the pre-tax operating profit for the first half was US$86. 8 million as compared to US$86.3 million for the same period last year. After the US$10.0 million restructuring charges, operating profits amounted to US$76.8 million. This shows a significant improvement of US$23.3 million (excluding restructuring costs) compared to the second half of the last financial year.

SHARE OF PROFIT FROM JOINTLY CONTROLLED ENTITIES

The Group's share of profit of jointly controlled companies decreased to US$2.8 million from US$4.2 million in the previous year, largely due to Nihon Mini Motor no longer being accounted for as a jointly controlled company but being fully integrated in the Group's profit.

TAXATION

Taxes on profit increased 9.9% to US$9.7 million, compared to US$8.8 million in the same period in last year due mainly to a lower tax benefit associated with restructuring charges.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Net profit attributable to shareholders for the six months ended 30th September 2004 amounted to US$69.6 million compared to US$81.5 million in the same period in the prior financial year. Earnings per share was 1.9 U.S. cents (2003-04: 2.2 U.S. cents).

SEGMENTAL ANALYSIS

AUTOMOTIVE MOTORS GROUP

Overall sales revenue for the Automotive Motors Group was US$335 million for the six-month period ending 30th September 2004. This represents a 7% increase over the same period of the previous year and accounted for 58% of Johnson Electric's total Group revenue.

Sales of the Hong Kong-based Body Instrumentation Business Unit, which manufactures micro-motors for doorlock actuators, windshield washer pumps, mirror and headlamp adjusters reached US$79 million, representing a growth of 28% over the same period last year with unit volume up 28%. This growth has resulted from gains in new customer applications which were reported previously and which have now entered into full-scale production.

The Powertrain Management Business Unit, also based in Hong Kong, recorded a 14% improvement in same period sales to US$26 million from US$23 million. Unit volume increased by 31% for fuel system and engine management products as the penetration of electronic throttle control in European vehicles continues to grow.

Engine cooling fan sales of the Powertrain Cooling Business Unit increased by 12.4% to US$122 million due in part to the strong Euro with unit volume up 6%. Strong sales volumes in South America and improved market share in Europe offset weaker sales in North American applications for this business unit.

The Body Climate Business Unit sales declined 14% from last year to US$52 million with unit volume down 3%. The drop was due to a forecast planned reduction in brushless motor sales, softness in European sales volume and customer-delayed new product launches, which will now impact sales only in the coming fiscal year.

The North American-based Chassis Braking Business Unit posted half-year sales of US$56 million, down 6% from the same period of the previous year, with unit volume remaining flat. Lower ABS pump motor and transfer case shift actuator sales have been only partially offset by stronger starter motor sales for the lawn and garden industry.

COMMERCIAL MOTORS GROUP

Total sales from product application sectors that together form Johnson Electric's Commercial Motors Group amounted to US$241 million, an increase of US$46 million or 24% over the comparable period last year.

Sales to the Power Tool Business Unit increased 13% to US$62 million, with unit volume up 2%. Sales to AC applications including grinders, drills, sanders and saws increased 33% while sales to DC applications including drills, screwdrivers and saws decreased 1%. The outlook for the remainder of the year is good as retailers have worked through their excess inventories and the building / construction market remains stable.

Sales to the Home Appliances sector increased 20% to US$85 million on unit volume growth of 6%. This reflected the higher growth in ventilation products and the continued strong demand for Johnson Electric's blender motor products and the introduction of new products for the washing machine, dishwasher and refrigerator markets. As a result of new floor care launches, sales recorded double-digit growth.

Sales to Business Equipment and Personal Products sectors remained about flat at US$50 million, with unit volume down 9%. In business equipment, sales fell by 7% largely due to the combination of relatively sluggish end-user demand and lower average selling prices in a competitive environment. In personal products, sales decreased by a modest rate of 2% over the period, with the strongest performances coming from shaver and hair clipper motors.

Audio-visual sector sales with the addition of Nihon Mini Motor increased significantly from US$16 million to US$44 million. The growth was mainly due to the Nihon Mini Motor business in an overall very competitive environment. Sales in the second half of the financial year are expected to be stable as the business unit focuses on higher-end products and introduces new motor products to offset increased price competition.

FINANCIAL POSITION AND LIQUIDITY

CASH FLOW

The Group's main source of liquidity continued to be net cash from operating activities. Net cash provided by operating activities amounted to US$78.2 million, a reduction of 21.0% as compared to the same period last year mainly due to a reduction in trade payables.

The working capital position continued to be healthy. Based on moving annual total sales, the trade receivables were reduced from 67 to 64 days, due to an on-going improvement process. The current ratio remained at a healthy level of 3.1 times.

Net cash used in investing activities increased slightly to US$34.6 million, compared to US$27.0 million for the corresponding period last year mainly due to the Nihon Mini Motor acquisition. Total cash and cash equivalents increased 14.1% to US$248.1 million, compared to US$217.5 million as at 30th September 2003.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources continue to be strong. As at 30th September 2004, the Group's total cash and other investments increased 18.6% to US$253.8 million, compared to US$218.2 million one year ago. Total debt increased to US$8.6 million due mainly to the consolidation of short-term bank loan of Nihon Mini Motor. Hence, taking into account total cash and cash equivalents, the Group had no net debt.

Net capital expenditures increased to US$23.8 million from US$17.8 million for the corresponding period last year. This excludes the assets re-purchased, amounting to US$9.4 million, of housing units from employees under the Staff Housing Scheme. Depreciation charges were US$22.3 million, compared with US$20.7 million last year.

The Group's principal committed facilities were long-term loans in Euro totalling US$3.0 million (of which US$0.1 million being repayable within one year) obtained by Gate S.r.l. to take advantage of preferential interest rates (fixed at between 1.5% and 3.2%) 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.

At the present time, funding requirements for future capital expenditures are expected to be met by internal cash flows.

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 senior 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 recent published annual report for the year 2003-2004.

For this half-year period, of the micromotor sales from Hong Kong / China (not including Johnson Electric Automotive, Inc.), 77% were in US dollars; 11% in Euro for certain sales to Europe; and 12% in Japanese Yen for certain sales to Japan.

HUMAN RESOURCES: INVESTING IN PEOPLE

The Johnson Electric Group employed approximately 33,000 full-time employees, including contract-manufacturing labour, as of 30th September 2004. This increase over last year was due primarily to the inclusion of approximately 1,900 Nihon Mini Motor employees.

The Group provides competitive remuneration packages and various types of benefit schemes that are appropriate to the local labour markets.

The Group operates a number of defined contribution retirement schemes which are available to certain groups of employees in Hong Kong and the USA. Incentive schemes composed of annual and long-term incentives are provided to select managers and senior executives on the basis of performance measured by such metrics as total shareholder return (TSR) and cash value added (CVA), along with various complementary financial and key operating performance measures.

JENESIS, the Group's flagship leadership development programme, has continued to develop future leaders for the Group and operates in both English and Putonghua versions. Top graduates from each session were assigned executive mentors and post-programme business projects. In addition, Johnson University produced its first batch of Master degree graduates in motor engineering during 2004.

The Group maintains a long-standing commitment to environmental, health and safety (EH&S) and to being a responsible corporate citizen. Good progress was achieved in the implementation of the "Safety is Job One" initiative that was launched in the Group's main manufacturing facility in Shajing, Guangdong Province in 2003.

DISCLOSURE OF INTERESTS

A DIRECTORS

As at 30th September 2004, the interests of each director and chief executive of the Company in the shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO were as follows:

	Shares of the Company of HK$0.0125 each	
Name	Personal Interests	Other Interests
Wang Koo Yik Chun	–	2,182,600,640 *(Notes a & b)*
Peter Stuart Allenby Edwards	–	100,000 *(Note c)*

NOTES

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

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

c. 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 2004, the register maintained by the Company pursuant to section 352 of the SFO recorded no other interests or short positions of the Directors in any shares of the Company (within the meaning of Part XV of the SFO).

B SUBSTANTIAL SHAREHOLDERS

As at 30th September 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital:

Name of shareholder	Capacity	Number of shares held	Approximate % of shareholding
Ms. Wang Koo Yik Chun	Beneficiary of family trusts	2,134,600,640 *(Notes a & b)*	58.10
HSBC International Trustee Limited	Trustee	947,282,000 *(Notes a & c)*	25.78
Ansbacher (Bahamas) Limited	Trustee	887,040,000 *(Note a)*	24.14
Bermuda Trust (Guernsey) Limited	Trustee	358,972,480 *(Note a)*	9.77
Capital Group Companies, Inc.	Investment manager	217,814,892	5.93
Ceress International Investment Corporation	Trustee	223,014,080 *(Note d)*	6.07
Merriland Overseas Limited	Trustee	211,943,040 *(Note e)*	5.76

NOTES

a. *The shares in which Ansbacher (Bahamas) Limited and Bermuda Trust (Guernsey) Limited were interested and 936,588,160 of the shares in which HSBC International Trustee Limited was interested were 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 was interested as referred to above under Directors' interests in Section A of Disclosure of Interests.*

b. *The shares in which Ms. Wang Koo Yik Chun was interested as referred to above formed part of the shares referred to in Note a.*

c. *941,500 of the shares in which HSBC International Trustee Limited was interested were held through HSBC Trustee (Hong Kong) Limited.*

d. *The interests of Ceress International Investment Corporation in the Company were duplicated by the interests in the Company held by Bermuda Trust (Guernsey) Limited.*

e. *The interests of Merriland Overseas Limited in the Company were duplicated by the interests in the Company held by HSBC International Trustee Limited.*

Save as disclosed herein, as at 30th September 2004, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in the shares of the Company.

SHARE SCHEME

A SHARE OPTION SCHEME

The Company has on 29th July 2002 adopted a new share option scheme ("the Scheme"). The Directors may at their discretion grant share options to eligible persons to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

Details of the new share options granted under the Scheme as at 30th September 2004 are as follows:–

Type of Grantees	Options held at 01/04/2004	Options granted during the period	Options held at 30/09/2004	Subscription price per share (HK$)	Date of grant	Exercisable from	Exercisable until	*Note*
Employees	100,000	–	100,000	7.90	17/09/2002	01/08/2004	16/09/2012	*(i)*
	100,000	–	100,000	7.90	17/09/2002	01/08/2005	16/09/2012	*(i)*
	750,000	–	750,000	8.02	17/09/2002	01/08/2004	16/09/2012	*(i)*
	750,000	–	750,000	8.02	17/09/2002	01/08/2005	16/09/2012	*(i)*
	150,000	–	150,000	9.40	10/07/2003	01/07/2005	09/07/2013	*(ii)*
	150,000	–	150,000	9.40	10/07/2003	01/07/2006	09/07/2013	*(ii)*
	837,500	–	837,500	9.65	31/07/2003	01/07/2005	30/07/2013	*(iii)*
	837,500	–	837,500	9.65	31/07/2003	01/07/2006	30/07/2013	*(iii)*
	100,000	–	100,000	10.70	01/08/2003	01/08/2005	31/07/2013	*(iv)*
	100,000	–	100,000	10.70	01/08/2003	01/08/2006	31/07/2013	*(iv)*
	100,000	–	100,000	11.95	06/10/2003	01/10/2005	30/09/2013	*(v)*
	100,000	–	100,000	11.95	06/10/2003	01/10/2006	30/09/2013	*(v)*
	–	50,000	50,000	8.77	07/05/2004	01/05/2006	30/04/2014	*(vi)*
	–	50,000	50,000	8.77	07/05/2004	01/05/2007	30/04/2014	*(vi)*
	4,075,000	100,000	4,175,000					

NOTE
The closing market price per share immediately before the date on which the share options were granted were (i) HK$8.10, (ii) HK$10.85, (iii) HK$10.80, (iv) HK$10.60, (v) HK$11.65 and (vi) HK$7.20.

Due to the current volatility of the share markets, the Directors consider it inappropriate to value the options which were granted under the Scheme.

B LONG-TERM INCENTIVE SHARE SCHEME

Under the terms of the 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.

Details of the shares vested in the eligible employees under the Incentive Share Scheme as at 30th September 2004 are as follows:

Year of grant of shares	Number of shares purchased	Purchase price (HK$)	Shares awarded			Shares will be awarded
			2002	2003	2004	2005
2002	288,900	9.00	96,300	96,300	96,300	–
2003	154,917	9.50	–	51,639	51,639	51,639
	443,817		96,300	147,939	147,939	51,639

Apart from the Scheme and the 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.

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 members of Audit Committee are appointed from the Independent Non-executive Directors, with the Chairman having appropriate professional qualifications and experience in financial matters. The members of the Audit Committee are Mr. Patrick Paul (Chairman), Mr. Michael Enright and Mrs. Laura Cha.

During the period, the Audit Committee met 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 Committee reviewed the unaudited interim accounts for 2005 before recommending them to the Board for approval.

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 one of the Independent Non-executive Directors of the Company was not appointed for a specific term but he is 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 2004

		Unaudited Six months ended 30th September	
		2004	2003
	Note	**US$'000**	US$'000
Turnover	2	**576,364**	508,199
Cost of sales		**(406,169)**	(349,911)
Gross profit		**170,195**	158,288
Other revenues		**10,310**	6,873
Selling and administrative expenses	3	**(93,749)**	(78,879)
Restructuring costs / provisions	4	**(9,992)**	–
Operating profit	5	**76,764**	86,282
Finance costs	6	**(133)**	(160)
Share of profits less losses of jointly controlled entities / associated companies		**2,759**	4,234
Profit before taxation		**79,390**	90,356
Taxation	7	**(9,687)**	(8,814)
Profit after taxation		**69,703**	81,542
Minority interests		**(98)**	(1)
Profit attributable to shareholders		**69,605**	81,541
Dividends	8	**63,585**	63,585
Basic earnings per share (US cents)	9	**1.9**	2.2
Fully diluted earnings per share (US cents)	9	**N/A**	2.2

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2004

	Note	**Unaudited 30th September 2004 US$'000**	Audited 31st March 2004 US$'000
ASSETS			
Non-current assets			
Intangibles		**29,083**	20,074
Properties, plant and equipment		**272,588**	256,952
Jointly controlled entities		**18,448**	16,104
Associated companies		**33**	13,163
Investment securities		**8,538**	7,871
Investments in finance leases		**875**	5,599
Deferred tax assets	14	**33,276**	33,731
		362,841	353,494
Current assets			
Stocks and work in progress		**138,676**	116,170
Trade and other receivables	10	**252,869**	229,582
Other investments		**93,077**	117,424
Tax recoverable		**5,996**	5,457
Bank balances and cash		**160,759**	130,908
		651,377	599,541
Current liabilities			
Trade and other payables	11	**198,999**	175,280
Current portion of long term loans	12	**143**	137
Tax payable		**7,552**	3,327
Bank loans and overdrafts – secured		**1,996**	11
– unsecured		**3,604**	–
		212,294	178,755
Net current assets		**439,083**	420,786
Total assets less current liabilities		**801,924**	774,280
Non-current liabilities			
Long term loans	12	**2,873**	2,921
Other provisions		**15,525**	16,144
Deferred tax liabilities	14	**21,304**	21,093
Minority interests		**104**	5
		39,806	40,163
NET ASSETS		**762,118**	734,117
CAPITAL AND RESERVES			
Share capital	13	**5,925**	5,925
Reserves		**734,998**	685,802
Proposed dividends		**21,195**	42,390
SHAREHOLDERS' FUNDS		**762,118**	734,117

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2004

	Unaudited								
	Share capital US$'000	**Share premium US$'000**	**Contributed surplus US$'000**	**Investment property revaluation reserve US$'000**	**Capital reserve US$'000**	**(Goodwill) / reserve on consolidation US$'000**	**Exchange reserve US$'000**	**Retained earnings US$'000**	**Total US$'000**
At 1st April 2004	**5,925**	**77,855**	**15,499**	**8,223**	**38,917**	**(233,885)**	**998**	**820,585**	**734,117**
Adjustment arising on translation of foreign subsidiaries, associated companies and jointly controlled entities	**–**	**–**	**–**	**–**	**–**	**–**	**786**	**–**	**786**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**69,605**	**69,605**
Final dividend paid 03/04	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42,390)**	**(42,390)**
At 30th September 2004	**5,925**	**77,855**	**15,499**	**8,223**	**38,917**	**(233,885)**	**1,784**	**847,800**	**762,118**

	Unaudited								
	Share capital US$'000	Share premium US$'000	Contributed surplus US$'000	Investment property revaluation reserve US$'000	Capital reserve US$'000	(Goodwill) / reserve on consolidation US$'000	Exchange reserve US$'000	Retained earnings US$'000	Total US$'000
At 1st April 2003	5,925	77,855	15,499	6,709	38,917	(233,885)	(12,995)	767,593	665,618
Adjustment arising on translation of foreign subsidiaries, associated companies and jointly controlled entities	–	–	–	–	–	–	6,879	–	6,879
Profit for the period	–	–	–	–	–	–	–	81,541	81,541
Final dividend paid 02/03	–	–	–	–	–	–	–	(42,390)	(42,390)
At 30th September 2003	5,925	77,855	15,499	6,709	38,917	(233,885)	(6,116)	806,744	711,648

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2004

	Unaudited Six months ended 30th September	
	2004	2003
	US$'000	US$'000
Net cash inflow from operating activities	**78,226**	99,046
Net cash used in investing activities	**(34,641)**	(27,008)
Net cash used in financing activities	**(42,459)**	(43,955)
Increase in cash and cash equivalents	**1,126**	28,083
Cash and cash equivalents as at 1st April	**246,929**	189,384
Cash and cash equivalents as at 30th September	**248,055**	217,467
Analysis of the balances of cash and cash equivalents:		
Other investments	**92,896**	93,812
Bank balances and cash	**160,759**	124,215
Bank loans and overdrafts	**(5,600)**	(560)
	248,055	217,467

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 Institute of Certified Public Accountants 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 condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st March 2004.

2 Segment information

The Group is principally engaged in the manufacture of motors.

The Group's business operates in three geographical areas by manufacturing location:

	6 months ended 30th September 2004			
	Asia US$'000	**Europe US$'000**	**America US$'000**	**Total US$'000**
Turnover	**401,981**	**133,351**	**41,032**	**576,364**
Operating profit / (loss) before restructuring costs / provisions	**89,886**	**1,454**	**(4,584)**	**86,756**
Restructuring costs / provisions	**(2,616)**	**(418)**	**(6,958)**	**(9,992)**
Operating profit / (loss)	**87,270**	**1,036**	**(11,542)**	**76,764**
Finance costs				**(133)**
Share of profits less losses of jointly controlled entities / associated companies	**2,748**	**11**	**–**	**2,759**
Profit before taxation				**79,390**
Taxation				**(9,687)**
Profit after taxation				**69,703**
Minority interests				**(98)**
Profit attributable to shareholders				**69,605**
Turnover by geographical destinations of customers	**206,350**	**212,785**	**157,229**	**576,364**

2 Segment information *(continued)*

	6 months ended 30th September 2003			
	Asia	Europe	America	Total
	US$'000	US$'000	US$'000	US$'000
Turnover	309,687	133,278	65,234	508,199
Operating profit	76,651	8,440	1,191	86,282
Finance costs				(160)
Share of profits less losses of jointly controlled entities / associated companies	4,253	(19)	–	4,234
Profit before taxation				90,356
Taxation				(8,814)
Profit after taxation				81,542
Minority interests				(1)
Profit attributable to shareholders				81,541
Turnover by geographical destinations of customers	160,721	197,138	150,340	508,199

3 Selling and administrative expenses

	6 months ended 30th September	
	2004	2003
	US$'000	US$'000
Selling expenses	**33,599**	27,288
Administrative expenses	**60,150**	51,591
	93,749	78,879

4 Restructuring costs / provisions

	6 months ended 30th September	
	2004	2003
	US$'000	US$'000
Severance costs	**6,434**	–
Other costs	**3,558**	–
	9,992	–

Net restructuring costs / provisions is US$9,574,000, after deduction of tax impact of US$418,000.

5 Operating profit

Operating profit is stated after crediting and charging the following:

	6 months ended 30th September	
	2004	2003
	US$'000	US$'000
Crediting		
Net exchange gain	**–**	3,795
Amortisation of negative goodwill	**104**	251
Net realised and unrealised gains on other investments and investment securities	**2,565**	198
Charging		
Depreciation on properties, plant and equipment	**22,720**	20,896
Less: amounts capitalised on assets under construction	**(392)**	(192)
	22,328	20,704
Amortisation of goodwill	**956**	693
Amortisation of development costs and patents	**732**	505
Loss on disposal of properties, plant and equipment	**1,201**	371
Net exchange loss	**649**	–

6 Finance costs

	6 months ended 30th September	
	2004	2003
	US$'000	US$'000
Interest on bank loans and overdrafts	**56**	153
Interest on other loans, not wholly repayable within five years	**37**	7
Other incidental borrowing costs	**40**	–
	133	160

7 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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	
	2004	2003
	US$'000	US$'000
Current taxation		
Hong Kong profits tax	**6,297**	4,789
Overseas taxation	**2,310**	5,007
	8,607	9,796
Deferred taxation	**676**	(1,463)
	9,283	8,333
Share of taxation attributable to jointly controlled entities	**404**	481
	9,687	8,814

8 Dividends

	6 months ended 30th September	
	2004	2003
	US$'000	US$'000
2003/04 Final dividend, paid of 1.15 US cents per share (2002/03: 1.15 US cents)	**42,390**	42,390
2004/05 Interim, proposed on 3rd December 2004, of 0.58 US cents per share (2003/04: 0.58 US cents)	**21,195**	21,195
	63,585	63,585

9 Earnings per share

The calculations of basic and fully diluted earnings per share are based on the Group's profit attributable to shareholders of US$69,605,000 (2003: US$81,541,000).

The basic earnings per share is based on 3,673,788,920 (2003: 3,673,788,920) shares in issue during the period.

No fully diluted earnings per share is calculated for the period ended 30th September 2004 since the exercise prices of the Group's outstanding share options were higher than the average fair value per share of the Group for the six months ended 30th September 2004 and the potential ordinary shares would have no dilutive effect.

The fully diluted earnings per share for the period ended 30th September 2003 was based on 3,674,216,639 ordinary shares which was the weighted average number of ordinary shares in issue during the period plus the weighted average of 427,719 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

10 Trade and other receivables

The Group allows an average credit period ranging from 30 to 90 days to its trade customers.

The trade and other receivables included trade receivables balance of US$214,346,000 (31st March 2004: US$198,817,000). The ageing analysis of trade receivables was as follows:

	30th September 2004 US$'000	31st March 2004 US$'000
0-60 days	**169,201**	144,704
61-90 days	**28,163**	39,857
Over 90 days	**16,982**	14,256
Total	**214,346**	198,817

11 Trade and other payables

The trade and other payables included trade payables balance of US$136,692,000 (31st March 2004: US$118,502,000). The ageing analysis of trade payables was as follows:

	30th September 2004 US$'000	31st March 2004 US$'000
0-60 days	**114,562**	88,740
61-90 days	**13,072**	13,447
Over 90 days	**9,058**	16,315
Total	**136,692**	118,502

12 Long term loans

	30th September 2004 US$'000	31st March 2004 US$'000
Other loans, unsecured	**3,016**	3,058
Current portion of long term loans	**(143)**	(137)
	2,873	2,921
Not wholly repayable within five years	**3,016**	3,058
Current portion of long term loans	**(143)**	(137)
	2,873	2,921

Other loans not wholly repayable within five years are repayable by instalments started from February 2002 to October 2018. Interest is charged on the outstanding balances at 1.5% to 3.2% per annum (31st March 2004: 1.5% to 3.2% per annum).

At 30th September 2004, the Group's long term loans were repayable as follows:

	30th September 2004 US$'000	31st March 2004 US$'000
Within one year	**143**	137
In the second year	**151**	146
In the third to fifth year	**502**	485
After the fifth year	**2,220**	2,290
	3,016	3,058

13 Share capital

	30th September 2004 US$'000	31st March 2004 US$'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

14 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method at the rates of taxation prevailing in the countries in which the Group operates.

	30th September 2004 US$'000	31st March 2004 US$'000
At beginning of period / year	**12,638**	13,802
Exchange adjustments	**10**	1,159
Charged to profit and loss account	**(676)**	(2,323)
At end of period / year	**11,972**	12,638
Accelerated depreciation allowances	**(18,187)**	(19,017)
Tax losses	**28,911**	29,363
Other timing differences	**1,248**	2,292
	11,972	12,638
Represented by		
Deferred tax assets	**33,276**	33,731
Deferred tax liabilities	**(21,304)**	(21,093)
	11,972	12,638

15 Contingent liabilities

(a)

	30th September 2004 US$'000	31st March 2004 US$'000
Bills discounted	**446**	258

(b) The company has given guarantees for a subsidiary in respect of future payment of operating lease rentals amounting US$1,801,000 (31st March 2004: US$1,966,000).

(c) In August 2001, a claim for damages was made in the Lowndes County Circuit Court in Mississippi against a subsidiary of the Group and over ten other third party defendants for personal injury and property damage in a lawsuit pertaining to environmental contamination involving an automotive parts manufacturing facility in Columbus, Mississippi, USA which was purchased in 1999 and closed down in November 2001. No amount of damages was specified in the complaint.

15 Contingent liabilities *(continued)*

On or about 30th December 2002, counsel representing the plaintiffs in the above-described lawsuit filed additional complaints in the Lowndes County Circuit Court on behalf of approximately 1,000 plaintiffs against the same subsidiary of the Group and the same co-defendants named in the above-described case. The new complaints raised allegations similar to the above-described complaint. On or about 9th September 2003, the claims against the subsidiary of the Group were dismissed without prejudice for lack of service of process. During February and March 2004, plaintiffs filed amended complaints in these actions which were answered by the subsidiary of the Group.

In early 2004, five new actions were filed in the Lowndes County Circuit Court on behalf of approximately 100 plaintiffs against similar defendants as in the pending actions. Plaintiffs in the new actions are represented by different counsel but their complaints raise similar allegations. These complaints name the same subsidiary as in the above-described lawsuits and also Johnson Electric Holdings Limited, who intends to contest personal jurisdiction in these actions.

In August 2004, counsel for plaintiffs in all of the actions informed the Special Master assigned to handle pre-trial proceedings of their intention to dismiss plaintiffs' personal injury claims and to proceed with property damage and punitive damages claims on behalf of a subset of plaintiffs who, to date, remain unidentified.

The Group is vigorously defending all actions on behalf of the subsidiary of the Group and has asserted that the Mississippi state court lacks personal jurisdiction over Johnson Electric Holdings Limited in the newly filed actions. In addition, the Group has asserted claims for indemnity against prior owners. Because this litigation is in its formative stages, the Group is unable at this time to predict with certainty the ultimate outcome of this litigation.

16 Capital commitments for properties, plant and equipment

	30th September 2004 US$'000	31st March 2004 US$'000
Authorised but not contracted for	**4,014**	4,876
Contracted but not provided for	**12,104**	10,494
	16,118	15,370

Patrick Wang Shui Chung
Chairman and Chief Executive

Hong Kong, 3rd December 2004