FINANCIAL REVIEW

RESULTS

Profit attributable to shareholders and earnings per share increased 34% to US$81 million and 2.2 US cents respectively.

Operating profit increased 31% to US$94 million. Both the gross margin and EBIT (Earnings before Interest and Tax) margin held up well, notwithstanding the consolidation for the first time of a full six-month result of the lower-margin businesses acquired from Textron Automotive Company and ArvinMeritor Corporation. EBIT margin improved slightly to 19.4%, compared to the corresponding period in 2001. Sequentially, however, this was a significant improvement from the EBIT margin of 15.2% reported for the six-month period to 31st March, 2002.

Profit before taxation increased 38% to US$94 million, reflecting an improvement in the performance of joint ventures. Johnson Electric's share of profits of jointly controlled entities/ associated companies was US$0.3 million, compared to a share of losses of over US$3 million for the same period last year.

Net capital expenditures were maintained at about last year's first-half level of US$20 million. This excludes the assets purchased, amounting to US$14 million, as part of the acquisition of Brushless Technology Motors joint venture by Gate S.p.A., and the re-purchase, amounting to US$5 million, of housing units from employees under the Staff Housing Scheme. Depreciation charges were US$17 million, nearly the same amount as last year.

Taxes on profit increased 62% to US$13 million, compared to US$8 million last year, due mainly to a decrease in deferred tax credits.

CASH FLOW

The Group's main source of liquidity continued to be net cash from operating activities. Net cash provided by operating activities increased 8% to US$70 million, due mainly to a decrease in working capital during the period.

The working capital position continued to be healthy. Based on moving annual total sales, the trade receivables were reduced from 70 to 68 days, due partly to an on-going improvement process. There was only a small improvement in the sales-to-stock - from 7.5 to 7.6 turns, but more significant improvements are expected for future periods, with the recently implemented Supply Chain Management modules of our new enterprise resource planning system now in place. Current ratio remained at a healthy level of 2.4 times.

Net cash used in investing activities decreased to US$28 million, compared to US$43 million for the corresponding period last year, due to reductions in investments in acquisitions and joint ventures. Net cash used in financing activities - essentially dividends paid, was maintained at last half-year's level of US$34 million. Total cash and cash equivalents increased 86% to US$129 million, compared to US$70 million as at 30th September, 2001.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources continue to be strong. As at 30th September, 2002, the Group had no net debt, taking into account its total cash and other investments which increased 86% to US$136 million, compared to US$73 million at last first half year-end. Total debt continued to be low, about US$12 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 dollar of 5 million obtained by a marketing subsidiary in the U.S.A. for short-term trade financing; and long-term loans equivalent to approximately US$2.4 million obtained previously by Gate S.p.A., to take advantage of preferential interest rates at the time (fixed at between 1.5% and 3.7%) 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.

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 2001-2002.

For this half-year period, of the core micromotor sales (not including Johnson Electric Automotive, Inc.), 84% were denominated in US dollar; 11% in Euro; and 5% 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$2.4 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 obtained by Gate S.p.A., equivalent to approximately US$2.4 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, 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 dividends paid should, over the long term, reflect the development of its earnings per share.

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.