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.