Johnson Electric Holdings Limited

Interim Report 2003

Excellence in *motors* since 1959

CONTENTS

INTERIM REPORT 2003

The Directors are pleased to announce that the unaudited consolidated profit attributable to shareholders for the six months ended 30th September 2003 was US$81,541,000, an increase of 1% over the corresponding period in 2002.

FINANCIAL RESULTS

The unaudited consolidated profit and loss account for the six months ended 30th September 2003 together with comparative figures for the corresponding period in 2002 is set out below:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Unaudited Six months ended 30th September	
	2003	2002 As restated
	US$'000	US$'000
Turnover	**508,199**	482,769
Operating profit	**86,282**	93,648
Finance costs	**(160)**	(269)
Share of profits less losses of jointly controlled entities/associated companies	**4,234**	297
Profit before taxation	**90,356**	93,676
Taxation	**(8,814)**	(13,238)
Profit after taxation	**81,542**	80,438
Minority interests	**(1)**	(1)
Profit attributable to shareholders	**81,541**	80,437
Interim dividend	**21,195**	18,840
Basic earnings per share (US cents)	**2.2**	2.2
Fully diluted earnings per share (US cents)	**2.2**	2.2
Dividend per share (US cents)	**0.58**	0.51

NOTES

1 The calculations of basic and fully diluted earnings per share are based on the Group's profit attributable to shareholders of US$81,541,000 (2002 as restated: US$80,437,000).

The basic earnings per share is based on 3,673,788,920 (2002: 3,673,788,920) shares in issue during the period.

The fully diluted earnings per share is based on 3,674,216,639 (2002: 3,673,904,805) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 427,719 (2002: 115,885) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

2 The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th September 2003, and the consolidated balance sheet as at 30th September 2003 of the Group, all of which are unaudited and condensed, along with the selected explanatory notes, are set out on pages 12 to 24 of this report.

INTERIM DIVIDEND

As announced by the Board of Directors on 8th December 2003, an interim dividend of 4.5 HK cents, equivalent to 0.58 US cents per share (2002: 4 HK cents or 0.51 US cents per share) will be paid on 5th January 2004 to the shareholders who are on the Register of Members on 30th December 2003.

CLOSING REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 30th December 2003 to 2nd January 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 29th December 2003.

BUSINESS REVIEW

OVERVIEW

For the six months period ended 30th September 2003, Johnson Electric achieved record half-year sales of US$508 million, an increase of 5% over the comparable period in 2002.

Overall demand for Johnson Electric's products varied across product segments and geographic regions in what was a challenging and unpredictable global macro-economic environment. Overall sales to Europe were US$197 million (39% of total sales) growing by 16%. Sales to North America were US$150 million (30% of total sales), a decline of 1%; and sales to the Asia Pacific region were US$161 million (31% of total sales), essentially unchanged compared with prior year sales for the same period.

DIVISIONAL OPERATING PERFORMANCE

AUTOMOTIVE MOTORS GROUP

Overall sales revenue for the Automotive Motors Group was US$313 million for the six-month period ending 30th September 2003. This represents an 8% increase over the same period of the previous year, accounting for approximately 62% of Johnson Electric's total Group revenue.

Sales of the Hong Kong based Body Instruments Business Unit, which manufactures motors for door lock actuators, windshield washer pumps, mirror and headlamp adjusters reached US$62 million. This was essentially unchanged compared with prior year sales for the same period. Despite gains in customer applications, reduced global vehicle sales resulted in lower unit volumes.

The Powertrain Management Business Unit, also based in Hong Kong, recorded a 7% improvement to US$23 million for the fuel system and engine management products. The increased penetration of electronic throttle control in European vehicles offset the reductions in North American fuel pump application sales resulting from the lower vehicle sales in this region.

Cooling fan modules sales of the Powertrain Cooling Business Unit increased by 17% to US$108 million due partly to the strong Euro. Stronger sales from certain vehicle models compensated for a generally weak European automotive market. The relocation to China of motor manufacturing for this application continues to improve the competitiveness of Johnson Electric's product offering in this segment.

Body Climate Business Unit sales also benefited from the strong Euro with sales of US$60 million increasing 20% from last year. Strong sales of brushless HVAC motors contributed to the sales growth.

The North American based Chassis Braking Business Unit posted half-year sales of US$59 million, down 2% from the same period of the previous year. Lower ABS pump motor sales resulted from reduced vehicle sales in North America and from production volume lost at a customer's light truck facility, which was damaged in a storm. The reduction in ABS volume was partially offset by stronger starter motor sales for the lawn and garden equipment industry.

COMMERCIAL MOTORS GROUP

Total sales from product application sectors that together form Johnson Electric's Commercial Motors Group amounted to US$195 million, an increase of US$1 million over the comparable period in 2002.

Sales to the Power Tools sector declined 8% to US$55 million, with unit volume down 15%. A slower than expected first half was due to weaker demand, especially in the first quarter, largely as a result of excess customer inventories in certain distribution channels. Sales to major applications such as drills, saw systems, and screw drivers, decreased 14%, 41% and 29%, respectively, partially offset by increases in rotary sanders and gardening tools of 29% and 20%, respectively.

Sales to the Home Appliances sector increased 10% to US$71 million on unit volume growth of 8%. 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 washing machine, dishwasher and the refrigerator markets.

Sales to Business Equipment and Personal Products sectors remained flat at US$53 million, with unit volume up 9%. In business equipment, sales fell by 5% largely due to the combination of relatively sluggish end-user demand and lower average selling prices in a competitive environment. In personal products, sales increased by a modest rate of 5% over the period, with the strongest performances coming from shaver and hair clipper motors.

Audio-visual sector sales increased 5% to US$16 million, with unit volume growth of 22%. The moderate growth was mainly due to lower sales in the first quarter as a result of increased price competition. Sales in the second half of the financial year are expected to improve as the business unit focuses on higher-end products and introduces new motor products.

PROSPECTS

Looking ahead, we are seeing improvements in most macro-economic indicators and are becoming more optimistic regarding an improved sales performance for the second half of the financial year. Sales for the months of October and November 2003 were approximately 10% above the comparable period in 2002.

Johnson Electric continues to be well placed to grow as global economic activity begins to recover. The Group has a strong pipeline of new product introductions and will continue to benefit from the long-term trends of increased outsourcing of motor production and the restructuring of global manufacturing supply chains towards greater use of low cost country sourcing of components.

INVESTING IN PEOPLE

The Group employed approximately 32,000 full-time employees, including contract-manufacturing labour, as of 30th September 2003. It 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, Thailand, 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 shareholders return (TSR) and cash value added (CVA), along with various supporting financial and key operating performance indices. Effective this current year, we have extended our annual incentive scheme one further level down the organization.

Organizational development continues to occupy the top of the Group's people agenda. We have successfully transferred JENESIS (Johnson Electric's leadership development program for emerging, high potential professionals) to Mainland China. The recent session held in the PRC was conducted both in English and Putonghua.

We have re-engineered our recruitment and selection process to be more efficient and effective, thus making our talent selection more timely and reliable. We have also increased our internet sourcing channels worldwide to increase our accessibility to those high calibre people who are interested in participating in our growth. Operationally, our learning and growth initiatives are aligned with our business initiatives so we can expect strong performance from our people.

We are in the final stages of launching a new Management College curriculum under Johnson University while the latter continues to offer a wide range of vocational and technical training programs under its other five colleges.

The Group reaffirms its commitment to environmental, health and safety and being a responsible corporate citizen by launching the Safety is Job One Initiative.

FINANCIAL REVIEW

RESULTS

For the six months period ended 30th September 2003, profit attributable to shareholders and earnings per share were US$82 million and 2.2 US cents per share, respectively – an increase of 1% over the same period in 2002.

Gross margin as a percentage of sales decreased from 32.6% to 31.1% due mainly to the increase in international steel and copper prices, offset partially by gains from production efficiencies at Johnson Electric's primary manufacturing facilities in Mainland China.

Operating profits decreased US$7 million, essentially due to an increase in Selling and Administrative expenses. While this increase in overhead costs was not matched by sales during the six-month period under review, the Group has invested in strengthening its business infrastructure in order to facilitate and support Johnson Electric's long-term growth plans. Management is confident that this investment will generate very positive returns through improved operating leverage as the global recovery continues and the Group's sales growth improves.

Johnson Electric's share of profits from jointly controlled entities and associated companies improved significantly to US$4 million from a breakeven position in the corresponding period in 2002 and a loss of over US$3 million for the same period in 2001.

In April 2003, the Group acquired a 49% interest in Nihon Mini Motor Company Limited, a leading Japan-based producer of micro-motors for a range of audio-visual applications, including digital cameras, video cameras and projectors. The acquisition has enabled Johnson Electric to participate in a new, fast growing segment of the motor market and is providing the Group with an additional platform of expertise and customer relationships to strengthen its overall position in Japan. The Nihon Mini Motor business is making a positive financial contribution to the Group.

Net capital expenditures decreased to US$18 million from US$20 million for the corresponding period in 2002. This excludes the assets re-purchased, amounting to US$1 million, of housing units from employees under the Staff Housing Scheme. Depreciation charges were US$21 million, compared with US$17 million last year.

Taxes on profit decreased 33% to US$9 million, compared to US$13 million in the same period in 2002 due mainly to decreased overseas taxes.

CASH FLOW

The Group's main source of liquidity continued to be net cash from operating activities. Net cash provided by operating activities increased 41% to US$99 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 68 to 67 days, due partly to on-going improvement process initiatives. Current ratio remained at a healthy level of 3 times.

Net cash used in investing activities decreased slightly to US$27 million, compared to US$28 million for the corresponding period last year. Net cash used in financing activities, primarily dividends paid, increased to US$44 million compared to US$34 million in 2002. Total cash and cash equivalents increased 68% to US$217 million, compared to US$129 million as at 30th September 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources continue to be strong. As at 30th September 2003, the Group had no net debt, taking into account its total cash and other investments, which increased 61% to US$218 million, compared to US$136 million at the first half of last year. Total debt continued to be low, about US$7 million. The total debt-to-equity ratio stood at around the 1% 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 USA for short-term trade financing; and long-term loans equivalent to approximately US$1.1 million obtained previously by Gate S.r.l., to take advantage of preferential interest rates at the time (fixed at 1.5% p.a.). 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 2002-03.

For this half-year period, of the core motor sales (not including Johnson Electric Automotive, Inc.), 84% were denominated in US dollar; 12% in Euro; and 2% in Japanese Yen and 2% in other currencies.

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 financing. 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$1.1 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.r.l., equivalent to approximately US$1.1 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.

DISCLOSURE OF INTERESTS

A DIRECTORS

As at 30th September 2003, 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:

(1) Shares of the Company of HK$0.0125 each

Name	Personal Interests	Other Interests	
Wang Koo Yik Chun	–	2,190,210,880	*(Notes a & b)*
Peter Stuart Allenby Edwards	–	100,000	*(Note c)*
Peter John Wrangham	160,000	–	
Ian Lorne Thompson Conn	70,000	–	

(2) Ms. Wang Koo Yik Chun had other interests of unlisted derivatives to 3,116,340 shares of the Company of HK$0.0125 each.

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 2003, 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 2003, 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	2,142,210,880 *(Notes a & b)*	58.31
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	336,005,852	9.15
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 944,198,400 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 2003, 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 share options granted under the Scheme as at 30th September 2003 are as follows:

Type of Grantees	Options held at 01/04/2003	Options granted during the period	Options held at 30/09/2003	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)*
	1,700,000	2,175,000	3,875,000					

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 and (iv) HK$10.60.

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 2003 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) and Mr. Ian Conn.

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 2004 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 some of the Independent Non-executive Directors of the Company were not appointed for a specific term 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 2003

	Note	Unaudited Six months ended 30th September **2003** **US$'000**	 2002 As restated US$'000
Turnover	2	**508,199**	482,769
Cost of sales		**(349,911)**	(325,208)
Gross profit		**158,288**	157,561
Other revenues		**6,873**	4,937
Selling and administrative expenses	3	**(78,879)**	(68,850)
Operating profit	4	**86,282**	93,648
Finance costs	5	**(160)**	(269)
Share of profits less losses of jointly controlled entities/associated companies		**4,234**	297
Profit before taxation		**90,356**	93,676
Taxation	6	**(8,814)**	(13,238)
Profit after taxation		**81,542**	80,438
Minority interests		**(1)**	(1)
Profit attributable to shareholders		**81,541**	80,437
Dividends	7	**63,585**	53,223
Basic earnings per share (US cents)	8	**2.2**	2.2
Fully diluted earnings per share (US cents)	8	**2.2**	2.2

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2003

	Note	**Unaudited 30th September 2003 US$'000**	Audited 31st March 2003 As restated US$'000
ASSETS			
Non-current assets			
Intangibles		**21,592**	22,421
Properties, plant and equipment		**247,460**	248,501
Jointly controlled entities		**22,287**	18,882
Associated companies		**13,835**	40
Investment securities		**7,063**	7,336
Investments in finance leases		**7,124**	8,538
Deferred tax assets	13	**29,406**	29,188
		348,767	334,906
Current assets			
Stocks and work in progress		**141,740**	130,541
Trade and other receivables	9	**232,923**	213,536
Other investments		**93,992**	77,312
Tax recoverable		**5,685**	6,060
Bank balances and cash		**124,215**	115,578
		598,555	543,027
Current liabilities			
Trade and other payables	10	**189,578**	167,049
Current portion of long term loans	11	**64**	345
Current portion of other provisions		**5,384**	4,948
Taxation		**5,853**	1,769
Bank loans and overdrafts		**560**	2,325
		201,439	176,436
Net current assets		**397,116**	366,591
Total assets less current liabilities		**745,883**	701,497
Non-current liabilities			
Long term loans	11	**6,000**	7,136
Other provisions		**14,569**	13,353
Deferred tax liabilities	13	**13,661**	15,386
Minority interests		**5**	4
		34,235	35,879
NET ASSETS		**711,648**	665,618
CAPITAL AND RESERVES			
Share capital	12	**5,925**	5,925
Reserves		**684,528**	617,303
Proposed dividends		**21,195**	42,390
SHAREHOLDERS' FUNDS		**711,648**	665,618

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2003

	Unaudited	
	Six months ended 30th September	
	2003	2002
	US$'000	US$'000
Net cash inflow from operating activities	**99,046**	70,071
Net cash used in investing activities	**(27,008)**	(27,871)
Net cash used in financing activities	**(43,955)**	(34,502)
Increase in cash and cash equivalents	**28,083**	7,698
Cash and cash equivalents as at 1st April	**189,384**	121,458
Cash and cash equivalents as at 30th September	**217,467**	129,156
Analysis of the balances of cash and cash equivalents:		
Other investments	**93,812**	46,203
Bank balances and cash	**124,215**	87,128
Bank loans and overdrafts	**(560)**	(4,175)
	217,467	129,156

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2003

Unaudited

	Share capital	Share premium	Investment property revaluation reserve	Capital reserve	(Goodwill)/ reserve on consolidation	Exchange reserve	Contributed surplus	Retained earnings	Total
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
At 1st April 2003									
As previously reported	**5,925**	**77,855**	**6,709**	**38,917**	**(233,885)**	**(12,995)**	**15,499**	**770,623**	**668,648**
Effect of adopting SSAP 12 (revised) (Note 1)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,030)**	**(3,030)**
As restated	**5,925**	**77,855**	**6,709**	**38,917**	**(233,885)**	**(12,995)**	**15,499**	**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**	**6,709**	**38,917**	**(233,885)**	**(6,116)**	**15,499**	**806,744**	**711,648**

Unaudited

	Share capital	Share premium	Investment property revaluation reserve	Capital reserve	(Goodwill)/ reserve on consolidation	Exchange reserve	Contributed surplus	Retained earnings	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1st April 2002									
As previously reported	5,925	77,855	9,184	38,917	(233,885)	(31,157)	15,499	673,830	556,168
Effect of adopting SSAP 12 (revised) (Note 1)	–	–	–	–	–	–	–	(2,426)	(2,426)
As restated	5,925	77,855	9,184	38,917	(233,885)	(31,157)	15,499	671,404	553,742
Adjustment arising on translation of foreign subsidiaries, associated companies and jointly controlled entities	–	–	–	–	–	10,069	–	–	10,069
Revaluation surplus realised upon disposal	–	–	(34)	–	–	–	–	–	(34)
Profit for the period	–	–	–	–	–	–	–	80,437	80,437
Final dividend paid 01/02	–	–	–	–	–	–	–	(34,383)	(34,383)
At 30th September 2002	5,925	77,855	9,150	38,917	(233,885)	(21,088)	15,499	717,458	609,831

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 ("HKSA"), (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 2003, except that the Group has adopted SSAP 12 (revised) "Income Taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2003.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

In accordance with the revised SSAP 12, a balance sheet liability method is adopted whereby deferred taxation is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively and the comparatives presented have been restated to conform to the changed policy. As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained earnings at 1st April 2002 and 2003 have been reduced by US$2,426,000 and US$3,030,000, respectively. The profit for the six months ended 30th September 2002 has been reduced by US$231,000.

2 Segment information

The Group is principally engaged in the manufacture of motors.

An analysis of the Group's turnover and results for the period by geographical area by origin is as follows:

	6 months ended 30th September 2003			
	Asia US$'000	**Europe US$'000**	**America US$'000**	**Total US$'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**

	6 months ended 30th September 2002, as restated			
	Asia US$'000	Europe US$'000	America US$'000	Total US$'000
Turnover	294,963	114,847	72,959	482,769
Operating profit	75,336	16,438	1,874	93,648
Finance costs				(269)
Share of profits less losses of jointly controlled entities/ associated companies	481	(184)	–	297
Profit before taxation				93,676
Taxation				(13,238)
Profit after taxation				80,438
Minority interests				(1)
Profit attributable to shareholders				80,437

3 Selling and administrative expenses

	6 months ended 30th September	
	2003	2002
	US$'000	US$'000
Selling expenses	**27,288**	24,469
Administrative expenses	**51,591**	44,381
	78,879	68,850

4 Operating profit

Operating profit is stated after crediting and charging the following:

	6 months ended 30th September	
	2003	2002
	US$'000	US$'000
Crediting		
Net exchange gain	**3,795**	–
Amortisation of negative goodwill	**251**	156
Net realised and unrealised gains on other investments and investment securities	**198**	–
Charging		
Depreciation on properties, plant and equipment	**20,896**	17,871
Less: amounts capitalised on machinery under construction	**(192)**	(715)
	20,704	17,156
Amortisation of goodwill	**693**	518
Amortisation of development costs and patents	**505**	441
Loss on disposal of properties, plant and equipment	**371**	846
Net realised and unrealised loss on other investments and investment securities	**–**	844
Net exchange loss	**–**	1,652

5 Finance costs

	6 months ended 30th September 2003 US$'000	2002 US$'000
Interest on bank loans and overdrafts	**153**	144
Interest on other loans, not wholly repayable within five years	**7**	27
Other incidental borrowing costs	**–**	98
	160	269

6 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Overseas tax has been provided at the applicable rate on the estimated assessable profit for the period.

	6 months ended 30th September 2003 US$'000	2002 As restated US$'000
Current taxation		
Hong Kong profits tax	**4,789**	5,988
Overseas taxation	**5,007**	7,312
	9,796	13,300
Deferred taxation	**(1,463)**	(147)
	8,333	13,153
Share of taxation attributable to jointly controlled entities	**481**	85
	8,814	13,238

7 Dividends

	6 months ended 30th September 2003 US$'000	2002 US$'000
2002/03 Final dividend, paid of 1.15 US cents per share (2001/02: 0.94 US cents)	**42,390**	34,383
2003/04 Interim, proposed on 8th December 2003, of 0.58 US cents per share (2002/03: 0.51 US cents)	**21,195**	18,840
	63,585	53,223

8 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$81,541,000 (2002 as restated: US$80,437,000).

The basic earnings per share is based on 3,673,788,920 (2002: 3,673,788,920) shares in issue during the period.

The fully diluted earnings per share is based on 3,674,216,639 (2002: 3,673,904,805) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 427,719 (2002: 115,885) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

9 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$195,025,000 (31st March 2003: US$178,170,000). The ageing analysis of trade receivables was as follows:

	30th September 2003 US$'000	31st March 2003 US$'000
0-60 days	**140,594**	130,019
61-90 days	**28,448**	24,009
Over 90 days	**25,983**	24,142
Total	**195,025**	178,170

10 Trade and other payables

The trade and other payables included trade payables balance of US$139,097,000 (31st March 2003: US$124,717,000). The ageing analysis of trade payables was as follows:

	30th September 2003 US$'000	31st March 2003 US$'000
0-60 days	**93,314**	94,219
61-90 days	**22,920**	13,821
Over 90 days	**22,863**	16,677
Total	**139,097**	124,717

11 Long term loans

	30th September 2003 US$'000	31st March 2003 US$'000
Loans		
Secured	**5,000**	6,477
Unsecured	**1,064**	1,004
	6,064	7,481
Current portion of long term loans	**(64)**	(345)
	6,000	7,136
Wholly repayable within five years		
Bank loans	**5,000**	5,000
Not wholly repayable within five years		
Other loans	**1,064**	2,481
	6,064	7,481
Current portion of long term loans	**(64)**	(345)
	6,000	7,136

Other loans not wholly repayable within five years are repayable by instalments started from December 2000 to January 2011. Interest is charged on the outstanding balances at 1.5% per annum (31st March 2003: 1.5% to 3.7% per annum).

At 30th September 2003, the Group's long term bank loans and other borrowings were repayable as follows:

	Bank loans		Other loans	
	30th September 2003 US$'000	31st March 2003 US$'000	**30th September 2003 US$'000**	31st March 2003 US$'000
Within one year	**–**	–	**64**	345
In the second year	**–**	5,000	**133**	336
In the third to fifth year	**5,000**	–	**287**	1,325
After the fifth year	**–**	–	**580**	475
	5,000	5,000	**1,064**	2,481

12 Share capital

	30th September 2003 US$'000	31st March 2003 US$'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 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 2003 US$'000	31st March 2003 As restated US$'000
At beginning of period/year	**(13,802)**	(22,030)
Exchange adjustments	**(480)**	(1,051)
Acquisition through business combinations	**–**	(6,557)
(Credited)/charged to profit and loss account	**(1,463)**	15,836
At end of period/year	**(15,745)**	(13,802)
Provided in accounts		
Accelerated depreciation allowances	**12,471**	13,598
Other timing differences	**(28,216)**	(27,400)
	(15,745)	(13,802)
Represented by:		
Deferred tax assets	**(29,406)**	(29,188)
Deferred tax liabilities	**13,661**	15,386
	(15,745)	(13,802)

14 Contingent liabilities

(a)

	30th September 2003 US$'000	31st March 2003 US$'000
Bills discounted	**440**	1,554
Guarantees for credit facilities granted to an associated company	**–**	–
	440	1,554

(b) The Company has given guarantees for a subsidiary in respect of future payment of operating lease rentals amounting US$2,130,000 (31st March 2003: US$2,291,000).

(c) In August 2001, a claim for damages was made 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. The defendants removed the case from the Lowndes County Circuit Court in Mississippi to the United States District Court for the Northern District of Mississippi, Eastern Division (the "District Court"). The plaintiffs filed a motion to remand the case. On 26th August 2002, the District Court remanded the case to the Lowndes County Circuit Court. Since remand, the parties have been engaged in merits discovery.

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 raise allegation 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.

The Group is vigorously defending these actions and has asserted claims for indemnity against prior owners. Because this litigation is in its formative stages, however, the Group is unable at this time to predict with certainty the ultimate outcome of this litigation.

15 Commitments

CAPITAL COMMITMENTS

	30th September 2003 US$'000	31st March 2003 US$'000
Capital commitments for properties, plant and equipment		
Authorised but not contracted for	**3,349**	3,847
Contracted but not provided for	**11,877**	8,248
	15,226	12,095

PATRICK WANG SHUI CHUNG
Chairman and Chief Executive

Hong Kong, 8th December 2003