JOHNSON ELECTRIC

innovating motion

Johnson Electric Holdings Limited

Interim Report 2005

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CORPORATE AND SHAREHOLDER INFORMATION

Johnson Electric Holdings Limited

(Incorporated in Bermuda with limited liability)

CORPORATE INFORMATION

Board of Directors

* Wang Koo Yik Chun
Honorary Chairman
Patrick Wang Shui Chung *JP*
Chairman and Chief Executive
Winnie Wang Wing Yee
Vice-Chairman
\# Peter Stuart Allenby Edwards
\# Patrick Blackwell Paul
\# Arkadi Kuhlmann
Richard Wang Li-Chung
Executive Director
\# Oscar De Paula Bernardes Neto
* Peter Wang Kin Chung
\# Michael John Enright
\# Laura May-Lung Cha

* *Non-Executive Director*
\# *Independent Non-Executive Director*

Company Secretary

Susan Yip Chee Lan

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal Place of Business in Hong Kong

Johnson Building
6-22 Dai Shun Street
Tai Po Industrial Estate, Tai Po
New Territories, Hong Kong
Tel : (852) 2663 6688
Fax : (852) 2897 2054
Website:
http://www.johnsonelectric.com

Auditors

PricewaterhouseCoopers

Registrar and Transfer Offices

Principal:
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton HM11
Bermuda

Hong Kong Branch:
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

American Depositary Receipt (ADR)

Ratio : 1 ADR : 10 Ordinary Shares
Exchange : OTC
Symbol : JELCY
CUSIP : 479087207

Depositary

JPMorgan Chase Bank
JPMorgan Service Center
P.O. Box 43013
Providence, RI 02940-3013
U.S.A.
Tel : Domestic Toll Free:
(800) 990-1135
International:
(781) 575-4328
Fax : (781) 575-4088
Email : adr@jpmorgan.com

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank

LISTING INFORMATION

Share Listing

The Company's shares are listed on The Stock Exchange of Hong Kong Limited and are traded over the counter in the United States in the form of American Depositary Receipt.

Stock Code

The Stock Exchange of Hong Kong Limited : 179
Bloomberg : 179 HK
Reuters : 0179.HK

SHAREHOLDERS' CALENDAR

Register of Shareholders

Close of Register (both days inclusive)
28th – 30th December 2005

Dividend (per share)

Interim Dividend : 4.5 HK cents
Payable on : 5th January 2006

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2005

HIGHLIGHTS

- Turnover up 9% to US$626 million
- Operating profit down 19% to US$62 million
- Decline in operating profitability primarily due to unprecedented increases in raw material prices - particularly copper and steel
- Net profit attributable to shareholders down 24% to US$53 million
- Earnings per share down 24% to 1.44 US cents per share
- Interim dividend of 4.5 HK cents per share (0.58 US cents per share)
- Acquisitions of Saia-Burgess and Parlex Corporation completed

CHAIRMAN'S STATEMENT

OVERVIEW OF FINANCIAL RESULTS

For the six months period ended 30th September 2005, Johnson Electric achieved record sales of US$626 million, an increase of 9% over the comparable period in 2004.

Modest growth was recorded in most business units with the main exceptions being power tools and audio-visual motor application products which experienced weaker sales due to softer demand and sustained pricing pressure. In addition, total sales benefited from the further development of the Group's trading operations which contributed approximately US$32 million in sales during the period.

Profitability, however, was severely affected by quite unprecedented increases in raw material prices – particularly for copper and steel which are two of the primary materials for the Group's micromotor products. Compared to the same period in 2004, average copper and steel prices increased by 27% and 22%, respectively. As a direct consequence, gross profits declined by 11% to US$158 million.

Selling, General and Administrative expenses were maintained at approximately 16% of sales. Operating profits amounted to US$62 million – a decrease of 19% compared to the prior half-year which also included a charge of US$10 million for overseas plant restructuring costs and provisions.

The consolidated profit attributable to shareholders for the first half of the financial year declined by 24% to US$53 million or 1.44 US cents per share.

INTERIM DIVIDEND

The Directors have today declared an interim dividend of 4.5 HK cents, equivalent to 0.58 US cents per share (2004: 4.5 HK cents or 0.58 US cents per share) payable on 5th January 2006 to shareholders registered on 30th December 2005.

RECENT ACQUISITIONS AND BUSINESS IMPROVEMENT INITIATIVES

In the period under review, Johnson Electric announced two acquisitions that are expected to add substantially to the Group's product range, capabilities, and long-term growth potential.

In August 2005, the Group made an offer to acquire Saia-Burgess Electronics Holding AG, a leading supplier of stepper motors, switches, actuators and electronic controllers, for approximately CHF696 million (US$530 million at current exchange rates). The company, which had sales of CHF568 million for the 2004 calendar year, is based in Murten, Switzerland, with production and sales locations in Europe, North America, Africa and Asia. In October 2005, Saia-Burgess also completed the acquisition of CEI Company, Limited which had annual revenues of approximately CHF60 million.

Financial completion of the Saia-Burgess acquisition occurred on 17th November 2005 and a major initiative is presently underway to integrate the two companies in as efficient and effective manner as possible. Already, a number of opportunities for potential cost savings in the areas of components sourcing, supply chain optimization, and overhead reduction have been identified. Over time, there is also considerable revenue synergy potential from new product development opportunities in motion sub-systems and in the provision of higher value-added solutions.

Also in November 2005, Johnson Electric Capital, the Group's direct investment arm, completed the acquisition of Parlex Corporation, a leading global producer of flexible interconnect products. The business has annual revenues of approximately US$100 million and has manufacturing facilities in China, the USA, and the United Kingdom. Johnson Electric expects to be able to assist Parlex in strengthening its manufacturing platform in China, as well as opening-up new business opportunities given the extensive overlap between the customer base of the two companies and the increasing role that electronics and electronic assemblies play in the motor systems that Johnson Electric produces.

In the core micromotors business, the focus remains on driving for continuous improvement in operations and quality, and in developing innovative new products for customers. Further progress has been achieved in transitioning components sourcing to China, streamlining fulfillment processes, and increasing "flow-shipping" to customers globally. Unfortunately, the benefits of many of these initiatives during the period under review have been outweighed by the effects of exceptionally high commodity prices.

PROSPECTS

During the course of November, the Group has completed two significant acquisitions which the Board is confident will generate substantial additions to shareholder value in the future.

Recent weakness in global automotive demand may have a dampening effect on sales in the Automotive Motors Group in the near-term, but current sales projections for the core business point towards a similar or slightly improved rate of growth for the full year compared to that achieved in the first half, excluding the impact of recent acquisitions.

While high materials prices will continue to be challenging, management is confident that the Group's operating cost base is being managed in an aggressive and effective manner.

At the full-year stage, we also expect to be able to provide shareholders with a comprehensive review of the progress and results associated with recent acquisitions that represent important elements in the Group's long-term value creation strategy.

Patrick Wang Shui Chung
Chairman and Chief Executive

Hong Kong, 5th December 2005

CLOSING REGISTER OF SHAREHOLDERS

The Register of Shareholders of the Company will be closed from 28th December 2005 to 30th December 2005 (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, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (not the Registrar in Bermuda), not later than 4:00 p.m. on 23rd December 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW

Total group sales for the half-year ended 30th September 2005 were US$626 million, an increase of 8.7% over US$576 million in the same period last year. This increase reflected the combined impact of the Group's incremental new business gains and the sales contribution of US$32 million from its new trading business.

As reported in the last annual report, the new trading business known as Johnson Electric Trading Limited commenced operations during the last financial year, with a goal to build a sourcing platform in China to supply our global customers with a wide range of motor and motor related electromechancial components and materials that are not currently manufactured by the Group. Excluding the trading business, group sales amounted to US$594 million.

Overall sales to Europe were US$229 million (36.6% of total sales) growing by 7.8%. Sales to the America were US$154 million (24.6% of total sales), a decrease of 2.1%; and sales to Asia were US$243 million (38.8% of total sales), and an increase of 17.8%.

GROSS PROFIT

Gross profit as a percentage of sales decreased from 31.0% to 25.3% due mainly to the continued increases in global steel and copper input prices and the relatively difficult market conditions that constrained increases in end-product selling prices. For the first half of the 2005/06 financial year, the Group's weighted average cost of steel increased by 22% and the average London spot price of copper increased by 27%.

Excluding the margin contribution of US$1.8 million from the trading business, the gross profit as a percentage to sales amounted to 26.4%. Sales of scrap materials were taken into account in the determination of the cost of materials consumed.

OTHER GAINS

Other gains increased from US$1.9 million to US$5.2 million and as a percentage of sales has increased to 0.8% from 0.3%. This improvement was mainly due to the increase of interest income and a gain on the revaluation of investment properties.

SELLING AND ADMINISTRATIVE EXPENSES ("SG&A")

Overall SG&A increased 8.4% to US$102.0 million or 16.3% as a percentage of sales. The increase was partially due to higher claims and provisions for product warranty of US$2.5 million and an increase in freight and shipping costs of US$2 million. The increase also reflected the full impact of additional SG&A in the new trading business and in Nanomotion Ltd., which was acquired in October 2004, amounting to US$4.4 million.

OPERATING PROFIT

Operating profit was US$61.6 million, a decrease of US$14.8 million or 19.4%. Excluding the previous year's restructuring costs/provisions, the decrease was US$24.8 million or 28.7%. The decrease was mainly due to a decrease of US$20.2 million in gross profit, an increase of US$7.9 million in SG&A and partially offset by an increase of US$3.3 million in other gains.

SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES/ ASSOCIATED COMPANIES

The Group's share of profits less losses of jointly controlled entities/associated companies decreased to US$1.6 million from US$2.4 million in the previous year mainly due to the reduced profitability of Ri-Yong, a joint venture based in Shanghai, which experienced weaker market conditions in the China automotive sector.

TAXATION

Taxes on profit increased 10.6% to US$10.3 million, compared to US$9.3 million in the same period in last year.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Net profit attributable to equity holders for the six months ended 30th September 2005 amounted to US$52.9 million compared to US$69.3 million in the same period in the prior financial year. Earnings per share was 1.4 US cents (2004/05: 1.9 US cents).

SEGMENTAL ANALYSIS

AUTOMOTIVE MOTORS GROUP

Overall sales revenue for the Automotive Motors Group was US$319 million for the six-month period ending 30th September 2005, excluding starter motor sales to the lawn care and marine markets which were transferred to the Commercial Motors Group in April 2005. It represented a 5% increase for the same products over the same period of the previous year and accounted for 51% of Johnson Electric's total group sales.

Sales of the Body Instrumentation Business Unit, which manufactures micromotors for doorlock actuators, windshield washer pumps, mirror and headlamp adjusters amounted to US$79 million. This strong sales performance was unchanged over the same period last year due to the fact that the previous year's sales had been influenced by high, new-project ramp-up volumes, which have since normalized.

The Powertrain Management Business Unit recorded a 9% improvement in same period sales to US$31 million from US$29 million. Sales of fuel system and engine management motor products continued to benefit from the increased penetration of electronic throttle control in European vehicles and market share gains at existing customers.

Engine cooling fan sales of the Powertrain Cooling Business Unit increased by 8% to US$131 million due to higher volumes of products launched last year and the increased penetration of electronic speed control units on cooling fan modules.

The Body Climate Business Unit, supplying windowlift, seat adjusting and HVAC motors, saw sales improve 4% from last year to US$54 million. Gains in all product segments offset reductions in brushless HVAC motor sales which continue to affect the product mix of this business unit.

The Chassis Braking Business Unit posted half-year sales of US$24 million, up 10% from the same period of the previous year. Wiper motors, transfer case actuators and electronic parking brake motor products continue to drive improved sales, while motors for anti-lock braking systems declined due to market share losses by our customer in this segment.

COMMERCIAL MOTORS GROUP

Total sales revenue for the Commercial Motors Group increased US$2 million, or 1% to US$275 million compared to the same period in the prior half-year.

The Power Tools Business Unit saw revenues decrease 10% to US$84 million. Sales of starter motors to the lawn care and outboard marine markets decreased 15%. This was due to the rationalization of low volume/spare parts business and inventory build up in North America as the result of a long winter. For traditional power tools sales, sales to AC applications including grinders, drills, sanders and saws remained flat while sales to DC applications including drills, screwdrivers and saws decreased 13.5% as a result of increased competition at the low-end of this market.

Sales of the Home Appliance Business Unit increased 19% to US$101 million with unit volume growth of 6%. The increase reflected a strong performance due to the continuation of introduction of higher value clothes washing and dish washing applications to the American and European markets, and the strong demand for blender and floor care motor products. The growth momentum in this Business Unit is expected to be sustained by new product launches to selected applications and customers.

Sales to the Business Equipment and Personal Products sectors increased 3% to US$52 million, with unit volume down 10%. Increased sales in the health care segment helped to offset the impact of a decrease in unit volumes elsewhere. In business equipment, sales increased by 7% with volumes up 2%. In personal products, sales decreased by a modest rate of 2% over the period as a result of lower volume sales of shaver and hair clipper motors.

Sales to the Audio Visual sector decreased 12% from US$44 million to US$39 million as a result of the Group's strategic decision to focus on higher margin segments in view of the highly competitive nature of the industry.

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$51.6 million, a reduction of 34.0% as compared to the same period last year mainly due to a decrease in profit before tax and a reduction in trade payables.

The working capital position remained healthy. Based on moving annual total sales, the trade receivables were increased from 64 to 69 days. The current ratio remained at a healthy level of 3.3 times. The sales-to-stocks ratio was 7.4 turns, as compared to 8.3 turns in the same period last year.

Net cash used in investing activities increased slightly to US$35.3 million, compared to US$34.6 million for the corresponding period last year. Total cash and cash equivalents decreased 21.4% to US$199.4 million, compared to US$253.7 million as at 30th September 2004.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources continued to be strong. As at 30th September 2005, the Group's total cash and other investments decreased 7.0% to US$218.7 million, compared to US$235.1 million as at 31st March 2005. Total debt decreased to US$15.6 million. Hence, taking into account total cash and cash equivalents, the Group had no net debt at the end of the half-year period under review.

Net capital expenditures decreased to US$21.7 million from US$23.8 million for the corresponding period last year. This excludes the assets re-purchased, amounting to US$0.5 million, of housing units from employees under the Staff Housing Scheme. Depreciation charges were US$21.5 million maintaining at the same level as last year.

The Group's principal committed facilities were long-term loans in Euro totalling US$2.8 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.

At the present time, funding requirements for future capital expenditures are expected to be met by internal cash flows. The recently announced acquisitions of Saia-Burgess Electronics Holding AG and Parlex Corporation will be financed by a combination of internal funds and external borrowings.

On 25th August 2005, the Group arranged a bridging loan facility of CHF700 million with Citibank, N.A. Hong Kong Branch to finance the acquisition of Saia-Burgess Electronics Holding AG.

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 2004/05.

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 Euros for certain sales to Europe; and 12% in Japanese Yen for certain sales to Japan.

HUMAN RESOURCES AND ENVIRONMENT, HEALTH AND SAFETY

The Johnson Electric Group employed approximately 33,000 full-time employees, including contract-manufacturing labour, as of 30th September 2005. 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 selected managers and senior executives on the basis of performance measured by metrics such as cash value added, 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. In June of 2005, the Group launched a program of Senior Management Development Seminars.

The Group maintains a long-standing commitment to environment and health and safety and to being a responsible corporate citizen. Current initiatives include working towards ISO14000 registration of the Group's main manufacturing facility in Shajing, Guangdong Province. The Group's key sites in Europe and North America are already ISO14000 registered.

DISCLOSURE OF INTERESTS

A DIRECTORS

As at 30th September 2005, the interests of each Director and Chief Executive of the Company in the shares of the Company or any of the Company's associated corporations (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	–	2,183,600,640 *(Notes a & b)*
Peter Stuart Allenby Edwards	–	100,000 *(Note c)*
Patrick Blackwell Paul	50,000	–

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 Section B 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 2005, the register maintained by the Company pursuant to section 352 of the SFO recorded no other interests or short positions of the Directors and Chief Executive in any shares of the Company or its associated corporations (within the meaning of Part XV of the SFO).

At no time during the period, the Directors and Chief Executive (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations required to be disclosed pursuant to the SFO.

B SUBSTANTIAL SHAREHOLDERS

As at 30th September 2005, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' 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	2,135,600,640 *(Notes a & b)*	58.13
HSBC International Trustee Limited	Trustee	947,282,000 *(Notes a & c)*	25.78
Ansbacher (Bahamas) Limited	Trustee	887,040,000 *(Note a)*	24.15
HSBC Trustee (Guernsey) Limited [formerly known as Bermuda Trust (Guernsey) Limited]	Trustee	358,972,480 *(Note a)*	9.77
Ceress International Investment Corporation	Trustee	223,014,080 *(Note d)*	6.07
Merriland Overseas Limited	Trustee	211,943,040 *(Note e)*	5.77

NOTES

a. The shares in which Ansbacher (Bahamas) Limited and HSBC Trustee (Guernsey) Limited were interested and 937,588,160 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 HSBC Trustee (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 2005, 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 2005 are as follows:–

Type of grantees	Options held at 01/04/2005	Options granted during the period	Options forfeited during the period	Options held at 30/09/2005	Subscription price per share (HK$)	Date of grant	Exercisable from	Exercisable until
Employees	100,000	–	(100,000)	–	7.90	17/09/2002	01/08/2004	16/09/2012
	100,000	–	(100,000)	–	7.90	17/09/2002	01/08/2005	16/09/2012
	650,000	–	(100,000)	550,000	8.02	17/09/2002	01/08/2004	16/09/2012
	650,000	–	(100,000)	550,000	8.02	17/09/2002	01/08/2005	16/09/2012
	150,000	–	–	150,000	9.40	10/07/2003	01/07/2005	09/07/2013
	150,000	–	–	150,000	9.40	10/07/2003	01/07/2006	09/07/2013
	837,500	–	(312,500)	525,000	9.65	31/07/2003	01/07/2005	30/07/2013
	837,500	–	(312,500)	525,000	9.65	31/07/2003	01/07/2006	30/07/2013
	100,000	–	(100,000)	–	10.70	01/08/2003	01/08/2005	31/07/2013
	100,000	–	(100,000)	–	10.70	01/08/2003	01/08/2006	31/07/2013
	100,000	–	–	100,000	11.95	06/10/2003	01/10/2005	05/10/2013
	100,000	–	–	100,000	11.95	06/10/2003	01/10/2006	05/10/2013
	50,000	–	–	50,000	8.77	07/05/2004	01/05/2006	06/05/2014
	50,000	–	–	50,000	8.77	07/05/2004	01/05/2007	06/05/2014
	100,000	–	–	100,000	7.40	28/12/2004	01/01/2007	27/12/2014
	100,000	–	–	100,000	7.40	28/12/2004	01/01/2008	27/12/2014
	–	50,000	–	50,000	7.10	05/05/2005	01/05/2007	04/05/2015
	–	50,000	–	50,000	7.10	05/05/2005	01/05/2008	04/05/2015
	4,175,000	100,000	(1,225,000)	3,050,000				

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 2005 are as follows:

Year of grant of shares	Number of shares granted	Number of shares purchased	Purchase price (HK$)	Shares to be vested in April				
				2006	2007	2008	2009	2010
2005	2,480,000	1,250,000	7.45	680,000	610,000	520,000	420,000	250,000

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.

CORPORATE GOVERNANCE

Johnson Electric is committed to achieving high standards of corporate governance that properly protect and promote the interests of its shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30th September 2005, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviations:

CODE PROVISION A.2.1

Code A.2.1 provides, inter alia, that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Neither the Company's Bye-Laws nor The Johnson Electric Holdings Limited Company Act, 1988 (a private act of Bermuda) contains any requirement as to the separation of these roles.

Dr. Patrick Wang Shui Chung is the Chairman and Chief Executive of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company at its present stage of development that Dr. Wang should hold both these offices. The Board, which is comprised of a majority of independent non-executive directors, believes that it is able effectively to monitor and assess management in a manner that properly protects and promotes the interests of shareholders.

CODE PROVISION A.4.1 AND A.4.2

Code A.4.1 provides, inter alia, that non-executive directors should be appointed for a specific term, subject to re-election.

Code A.4.2 also provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The independent non-executive directors were appointed for a specific term while the non-executive directors do not have a specific term of appointment. However, under Section 3(e) of The Johnson Electric Holdings Limited Company Act, 1988 and the Company's Bye-Law 109(A), one-third of the directors who have served longest on the board must retire thus becoming eligible for re-election at each Annual General Meeting. Accordingly, no director has a term of appointment longer than three years. Bye-Law 109(A) states that the executive chairman is not subject to retirement by rotation and shall not be counted in determining the number of directors to retire.

In the opinion of the Board, it is important for the stability and beneficial to the growth of the Company that there is, and is seen to be, continuity of leadership in the role of the Chairman of the Company and, in consequence, the Board is of the view that the Chairman should not be subject to retirement by rotation or hold office for a limited term at the present time.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from all directors to confirm compliance with the Model Code throughout the six months ended 30th September 2005. No incident of non-compliance was noted by the Company to date in 2005/06.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code.

AUDIT COMMITTEE

The Audit Committee is comprised of three independent non-executive directors who together have substantial experience in the fields of accounting, business, corporate governance and regulatory affairs. The current members are Mr. Patrick Paul (Chairman), Prof. Michael Enright and Mrs. Laura Cha.

The committee is responsible for monitoring the reporting, accounting, financial and control aspects of the executive management's activities. It has full access to the Group's chief internal auditor to hear directly any concerns of the internal audit department that may have arisen during the course of the department's work.

The committee also monitors the appointment and function of the Group's external auditor.

REMUNERATION COMMITTEE

The Remuneration Committee is comprised of two independent non-executive directors (including the Committee Chairman) and one executive director. The current members are Mr. Arkadi Kuhlmann (Chairman), Mr. Oscar Bernardes and Ms. Winnie Wang.

The committee determines the compensation structure and rewards for the Chief Executive Officer and other executive directors and monitors the policies being applied in remunerating other senior executives in the Group. In addition, it has responsibility for reviewing and making appropriate recommendations to the Board on management development and succession plans for executive directors and senior management levels.

The fundamental policy underlying Johnson Electric's remuneration and incentive schemes is to link total compensation for senior management with the achievement of annual and long-term performance goals. By providing total compensation at competitive industry levels for delivering on-target performance, the Company seeks to attract, motivate and retain key executives essential to its long-term success. Senior management incentive schemes include an equity component that is designed to align the long-term interest of management with those of shareholders.

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

The Nomination and Corporate Governance Committee is comprised of two independent non-executive directors (including the Committee Chairman) and one executive director. The current members are Mr. Peter Edwards (Chairman), Mr. Patrick Paul and Dr. Patrick Wang.

The committee is responsible for the identification and evaluation of candidates for appointment or reappointment as a director, as well as the development and maintenance of the Group's overall corporate governance policies and practices.

BOARD COMMITTEE

The Board Committee is comprised of two executive directors, Dr. Patrick Wang and Ms. Winnie Wang. Its primary function is to undertake and supervise the day to day management and operating affairs of the Group. It exercises leadership and develops and keeps under review strategy and business development initiatives of the Group and supervises their implementation.

REVIEW OF INTERIM RESULTS

The Company's interim report for the six months ended 30th September 2005 has been reviewed by the Audit Committee and the auditors of the Company, PricewaterhouseCoopers.

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.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th September 2005

	Note	Unaudited Six months ended 30th September **2005** **US$'000**	 2004 (Restated) US$'000
Turnover	3	**626,393**	576,364
Cost of sales	8	**(467,933)**	(397,730)
Gross profit		**158,460**	178,634
Other gains, net	5	**5,191**	1,871
Selling and administrative expenses	6 & 8	**(102,013)**	(94,079)
Restructuring costs / provisions	7	**–**	(9,992)
Operating profit		**61,638**	76,434
Finance costs	9	**(38)**	(133)
Share of profits less losses of jointly controlled entities / associated companies		**1,629**	2,355
Profit before taxation		**63,229**	78,656
Taxation	10	**(10,269)**	(9,283)
Profit for the period		**52,960**	69,373
Attributable to:			
Equity holders of the Company		**52,857**	69,275
Minority interest		**103**	98
		52,960	69,373
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share)			
Basic	11	**1.44**	1.89
Diluted	11	**1.44**	N/A
Dividends	12	**73,005**	63,585

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September 2005

	Note	**Unaudited 30th September 2005 US$'000**	Audited 31st March 2005 (Restated) US$'000
ASSETS			
Non-current assets			
Intangible assets	4	**46,522**	43,335
Property, plant and equipment	4	**242,268**	244,115
Investment properties	4	**9,825**	8,356
Leasehold land	4	**26,180**	27,877
Jointly controlled entities		**15,909**	14,921
Associated companies		**32**	3,193
Available-for-sale financial assets		**7,256**	–
Investment securities		**–**	5,818
Investment in finance leases		**156**	426
Deferred tax assets		**28,285**	30,689
		376,433	378,730
Current assets			
Stocks and work in progress		**169,502**	160,771
Trade and other receivables	13	**305,982**	278,028
Other investments		**–**	58,813
Other financial assets at fair value through profit or loss		**45,070**	–
Tax recoverable		**3,534**	9,168
Bank balances and cash		**173,661**	176,321
		697,749	683,101
Current liabilities			
Trade and other payables	14	**186,274**	182,093
Current portion of long term loans	15	**148**	92
Tax payable		**11,709**	4,466
Bank loans and overdrafts		**12,812**	12,878
		210,943	199,529
Net current assets		**486,806**	483,572
Total assets less current liabilities		**863,239**	862,302
Non-current liabilities			
Long term loans	15	**2,665**	3,018
Other provisions		**16,063**	16,649
Deferred tax liabilities		**16,292**	23,268
		35,020	42,935
NET ASSETS		**828,219**	819,367
EQUITY			
Share capital	16	**5,925**	5,925
Reserves		**790,987**	760,524
Proposed dividends		**21,195**	51,810
		818,107	818,259
Minority interests		**10,112**	1,108
TOTAL EQUITY		**828,219**	819,367

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2005

	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$'000	Share option reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Minority interests US$'000	Total US$'000
At 1st April 2005, as previously reported as equity	**5,925**	**77,855**	**15,499**	**7,863**	**38,917**	**(233,885)**	**9,028**	**–**	**–**	**898,648**	**–**	**819,850**
At 1st April 2005, as previously reported as minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,108**	**1,108**
Increase in expenses in respect of leasehold land	–	–	–	–	–	–	–	–	–	(215)	–	(215)
Increase in deferred tax liability	–	–	–	(1,376)	–	–	–	–	–	–	–	(1,376)
Increase in employee expenses	–	–	–	–	–	–	–	891	–	(891)	–	–
At 1st April 2005, as restated	**5,925**	**77,855**	**15,499**	**6,487**	**38,917**	**(233,885)**	**9,028**	**891**	**–**	**897,542**	**1,108**	**819,367**
Opening adjustment for the adoption of HKAS 39	–	–	–	–	–	–	–	–	925	1,851	–	2,776
Opening adjustment for the adoption of HKAS 40	–	–	–	(6,487)	–	–	–	–	–	6,487	–	–
Opening adjustment for the adoption of HKFRS 3	–	–	–	–	–	–	–	–	–	1,864	–	1,864
Fair value losses, net of tax: – available-for-sale financial assets	–	–	–	–	–	–	–	–	(832)	–	–	(832)
Adjustment arising on translation of foreign subsidiaries, associated companies and jointly controlled entities	–	–	–	–	–	–	(4,861)	–	–	–	–	(4,861)
Net income / (expense) recognised directly in equity	–	–	–	(6,487)	–	–	(4,861)	–	93	10,202	–	(1,053)
Profit for the period	–	–	–	–	–	–	–	–	–	52,857	103	52,960
Total recognised income for the period	–	–	–	(6,487)	–	–	(4,861)	–	93	63,059	103	51,907
Employees share option scheme: – value of employee services	–	–	–	–	–	–	–	(146)	–	–	–	(146)
Minority interest – business combinations	–	–	–	–	–	–	–	–	–	–	8,901	8,901
Final dividend paid 04/05	–	–	–	–	–	–	–	–	–	(51,810)	–	(51,810)
	–	–	–	–	–	–	–	(146)	–	(51,810)	8,901	(43,055)
At 30th September 2005	**5,925**	**77,855**	**15,499**	**–**	**38,917**	**(233,885)**	**4,167**	**745**	**93**	**908,791**	**10,112**	**828,219**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2005

	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$'000	Share option reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Minority interests US$'000	Total US$'000
At 1st April 2004, as previously reported as equity	5,925	77,855	15,499	8,223	38,917	(233,885)	998	–	–	820,585	–	734,117
At 1st April 2004, as previously reported as minority interests	–	–	–	–	–	–	–	–	–	–	5	5
Increase in expenses in respect of leasehold land	–	–	–	–	–	–	–	–	–	(340)	–	(340)
Increase in deferred tax liability	–	–	–	(1,439)	–	–	–	–	–	–	–	(1,439)
Increase in employee expenses	–	–	–	–	–	–	–	347	–	(347)	–	–
At 1st April 2004, as restated	5,925	77,855	15,499	6,784	38,917	(233,885)	998	347	–	819,898	5	732,343
Adjustment arising on translation of foreign subsidiaries, associated companies and jointly controlled entities	–	–	–	–	–	–	786	–	–	–	1	787
Net income recognised directly in equity	–	–	–	–	–	–	786	–	–	–	1	787
Profit for the period	–	–	–	–	–	–	–	–	–	69,275	98	69,373
Total recognised income for the period	–	–	–	–	–	–	786	–	–	69,275	99	70,160
Employees share option scheme: – value of employee services	–	–	–	–	–	–	–	269	–	–	–	269
Final dividend paid 03/04	–	–	–	–	–	–	–	–	–	(42,390)	–	(42,390)
	–	–	–	–	–	–	–	269	–	(42,390)	–	(42,121)
At 30th September 2004, as restated	5,925	77,855	15,499	6,784	38,917	(233,885)	1,784	616	–	846,783	104	760,382

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September 2005

	Unaudited Six months ended 30th September	
	2005	2004
	US$'000	US$'000
Net cash generated from operating activities	**51,638**	78,226
Net cash used in investing activities	**(35,266)**	(34,641)
Net cash used in financing activities	**(51,962)**	(36,859)
Net (decrease) / increase in cash and cash equivalents	**(35,590)**	6,726
Cash and cash equivalents as at 1st April	**234,954**	246,929
Cash and cash equivalents as at 30th September	**199,364**	253,655
Analysis of the balances of cash and cash equivalents:		
Other investments	**–**	92,896
Other financial assets at fair value through profit or loss	**25,703**	–
Bank balances and cash	**173,661**	160,759
	199,364	253,655

NOTES TO INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

This unaudited condensed consolidated financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "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.

This condensed consolidated financial information should be read in conjunction with the 2004/05 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st March 2005 except that the Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1st January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31st March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005/06, the Group adopted the new / revised standards of HKFRS below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 12	Scope of HKAS – Int 12 Consolidation – Special Purpose Entities
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31, 33 and HKAS-Ints 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, investment properties, share of net after-tax results of associates and jointly controlled entities and other disclosures.

- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 31, 33 and HKAS-Ints 15 had no material effect on the Group's policies.

2 Changes in accounting policies *(Cont'd)*

(a) ***Effect of adopting new HKFRS*** *(Cont'd)*

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of other financial assets at fair value through profit or loss and available-for-sale financial assets.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the profit and loss account as part of other gains, net. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st March 2005, the provision of share options to employees did not result in an expense in the profit and loss account. Effective 1st April 2005, the Group expenses the cost of share options in the profit and loss account. As a transitional provision, the cost of share options granted after 7th November 2002 which had not yet vested on 1st April 2005 was expensed retrospectively in the profit and loss account of the respective periods.

2 Changes in accounting policies *(Cont'd)*

(a) ***Effect of adopting new HKFRS*** *(Cont'd)*

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st March 2005, goodwill was:

- Amortised on a straight line basis over a period ranging from 5 to 20 years; and

- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1st April 2005;

- Accumulated amortisation as at 31st March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

- From the year ending 31st March 2006 onwards, goodwill will be tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments securities and other investments and also to hedge relationships for the 2004/05 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st April 2005;

- HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st April 2005, including the reclassification of any amount held in revaluation surplus for investment property;

2 Changes in accounting policies *(Cont'd)*

(a) ***Effect of adopting new HKFRS*** *(Cont'd)*

- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st April 2005;

- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st April 2005; and

- HKFRS 3 – prospectively after the adoption date.

(i) The adoption of HKAS 1 resulted in:

	As at 30th September 2005 US$'000	31st March 2005 US$'000
Decrease in property, plant and equipment	**(9,825)**	(8,356)
Increase in investment properties	**9,825**	8,356

(ii) The adoption of HKAS 17 resulted in a decrease in opening reserves at 1st April 2005 by US$215,000:

	As at 30th September 2005 US$'000	31st March 2005 US$'000
Decrease in property, plant and equipment	**(26,545)**	(28,092)
Increase in leasehold land	**26,180**	27,877
Decrease in retained earnings	**(365)**	(215)

	For the year ended 31st March 2005 US$'000	**Six months ended 30th September 2005 US$'000**	Six months ended 30th September 2004 US$'000
Increase in selling and administrative expenses	**123**	**150**	61
Decrease in basic earnings per share (US cents)	**–**	**–**	–
Decrease in diluted earnings per share (US cents)	**–**	**–**	–

2 Changes in accounting policies *(Cont'd)*

(a) Effect of adopting new HKFRS (Cont'd)

(iii) The adoption of HKAS 32 and HKAS 39 resulted in an increase in opening reserves at 1st April 2005 by US$2,776,000 and the details of the adjustments to the condensed consolidated balance sheet at 30th September 2005 and condensed consolidated profit and loss account for the six months ended 30th September 2005 are as follows:

	As at 30th September 2005 US$'000
Increase in trade and other receivables	**93**
Increase in available-for-sale financial assets	**7,256**
Increase in other financial assets through profit or loss	**45,070**
Increase in bank loans and overdrafts	**93**
Increase in retained earnings	**1,851**
Increase in other reserve	**93**

	Six months ended 30th September 2005 US$'000
Decrease in cost of sales	**(794)**
Decrease in selling and administrative expenses	**(110)**
Increase in basic earnings per share (US cents)	**–**
Increase in diluted earnings per share (US cents)	**–**

2 Changes in accounting policies *(Cont'd)*

(a) ***Effect of adopting new HKFRS*** *(Cont'd)*

(iv) The adoption of HKAS 40 resulted in:

	As at 30th September 2005 US$'000
Decrease in investment property revaluation reserve	**(6,487)**
Increase in retained earnings	**6,487**

	Six months ended 30th September 2005 US$'000
Increase in other gains, net	**1,469**
Increase in basic earnings per share (US cents)	**–**
Increase in diluted earnings per share (US cents)	**–**

(v) The adoption of HKFRS 2 resulted in:

	As at	
	30th September 2005 US$'000	31st March 2005 US$'000
Decrease in retained earnings	**(745)**	(891)
Increase in share option reserve	**745**	891

	For the year ended 31st March 2005 US$'000	**Six months ended 30th September**	
		2005 US$'000	2004 US$'000
Increase / (decrease) in selling and administrative expenses	**544**	**(146)**	269
Increase / (decrease) in basic earnings per share (US cents)	**–**	**–**	–
Increase / (decrease) in diluted earnings per share (US cents)	**–**	**–**	N/A

2 Changes in accounting policies *(Cont'd)*

(a) Effect of adopting new HKFRS (Cont'd)

(vi) The adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in:

	As at 1st April 2005 US$'000
Increase in intangible assets	**1,864**
Increase in retained earnings	**1,864**

(vii) The adoption of HKAS-Int 21 resulted in a decrease in opening reserves at 1st April 2005 by US$1,376,000:

	As at 30th September 2005 US$'000	31st March 2005 US$'000
Increase in deferred tax liability	**–**	1,376
Decrease in investment property revaluation reserve	**–**	(1,376)

(b) New accounting policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30th September 2005 are the same as those set out in the 2004/05 annual financial statements except for the following:

(i) Acquisition of subsidiaries, associates and jointly controlled entities

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the profit and loss account.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies *(Cont'd)*

(i) Acquisition of subsidiaries, associates and jointly controlled entities *(Cont'd)*

An investment in an associate or a jointly controlled entity is accounted for using the equity method from the date on which it becomes an associate or a jointly controlled entity. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate or a jointly controlled entity is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair value at the date of acquisition.

(ii) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies (Cont'd)

(ii) Foreign currency translation *(Cont'd)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(iii) Property, plant and equipment

Cost may include transfers from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies (Cont'd)

(iv) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair values are recognized in the profit and loss account.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies *(Cont'd)*

(v) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate / jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(vi) Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, but are tested at least annually for impairment and also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(vii) Investments

From 1st April 2004 to 31st March 2005:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities and other investments.

(a) Investment securities

Investment securities represents unlisted equity shares and are stated at cost less any provision for impairment losses.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies *(Cont'd)*

(vii) Investments *(Cont'd)*

(a) Investment securities *(Cont'd)*

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(b) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

From 1st April 2005 onwards:

The Group classifies its investments in the following categories: other financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Other financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies *(Cont'd)*

(vii) Investments *(Cont'd)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(b)(viii)).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies *(Cont'd)*

(vii) Investments *(Cont'd)*

Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'other financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they are arised. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies *(Cont'd)*

(vii) Investments *(Cont'd)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(viii) Trade and other receivables

Trade and other receivables are recognized initially at fair value less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognized in the profit and loss account.

(ix) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

2 Changes in accounting policies *(Cont'd)*

(b) New accounting policies *(Cont'd)*

(ix) Borrowings *(Cont'd)*

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(x) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(xi) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

3 Segment information

Primary reporting format – geographical segments

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

	Six months ended 30th September 2005			
	Asia	**Europe**	**America**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Turnover	**462,935**	**142,891**	**20,567**	**626,393**
Operating profit / (loss)	**61,862**	**748**	**(972)**	**61,638**
Finance costs				**(38)**
Share of profits less losses of jointly controlled entities / associated companies	**1,629**	**–**	**–**	**1,629**
Profit before taxation				**63,229**
Taxation				**(10,269)**
Profit for the period				**52,960**
Turnover by geographical destinations of customers	**243,086**	**229,384**	**153,923**	**626,393**
Capital expenditure	**20,633**	**1,638**	**–**	**22,271**
Depreciation	**16,298**	**4,522**	**1,270**	**22,090**
Amortisation charge	**410**	**754**	**–**	**1,164**

3 Segment information *(Cont'd)*

Primary reporting format – geographical segments *(Cont'd)*

	Six 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	89,556	1,454	(4,584)	86,426
Restructuring costs / provisions	(2,616)	(418)	(6,958)	(9,992)
Operating profit / (loss)	86,940	1,036	(11,542)	76,434
Finance costs				(133)
Share of profits less losses of jointly controlled entities / associated companies	2,344	11	–	2,355
Profit before taxation				78,656
Taxation				(9,283)
Profit for the period				69,373
Turnover by geographical destinations of customers	206,226	212,852	157,286	576,364
Capital expenditure	28,718	2,775	1,731	33,224
Depreciation	15,099	5,582	1,840	22,521
Amortisation charge	1,210	635	–	1,845

Secondary reporting format – business segments

The Group is principally engaged in the manufacture of motors and trading of motor and motor-related electromechanical components and materials.

The segment results for the six months ended 30th September are as follows:

	Six months ended 30th September			
	Turnover		**Capital expenditure**	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
Manufacturing	**594,441**	576,364	**22,232**	33,224
Trading	**31,952**	–	**39**	–
	626,393	576,364	**22,271**	33,224

4 Capital expenditure

	Goodwill US$'000	Negative goodwill US$'000	Patents US$'000	Development costs US$'000	Total intangible assets US$'000	Property, plant and equipment US$'000	Investment properties US$'000	Leasehold Land US$'000
At 1st April 2005, as previously reported	**41,377**	**(1,864)**	**1,590**	**2,232**	**43,335**	**280,563**	**–**	**–**
Adoption of HKAS 17	–	–	–	–	–	(28,092)	–	27,877
Adoption of HKAS 40	–	–	–	–	–	(8,356)	8,356	–
Adoption of HKFRS 3	–	1,864	–	–	1,864	–	–	–
At 1st April 2005, as restated	**41,377**	**–**	**1,590**	**2,232**	**45,199**	**244,115**	**8,356**	**27,877**
Exchange adjustments	–	–	(105)	(57)	(162)	(1,388)	–	(212)
Acquisition	2,254	–	–	–	2,254	4,982	–	301
Additions	–	–	–	70	70	21,865	–	336
Revaluation surplus	–	–	–	–	–	–	1,469	–
Disposals	–	–	–	–	–	(5,216)	–	(1,797)
Depreciation / amortisation	–	–	(295)	(544)	(839)	(22,090)	–	(325)
At 30th September 2005	**43,631**	**–**	**1,190**	**1,701**	**46,522**	**242,268**	**9,825**	**26,180**
At 1st April 2004	16,918	(2,046)	2,059	3,143	20,074	225,647	8,945	22,019
Exchange adjustments	–	17	2	(12)	7	350	–	(7)
Acquisition	10,579	–	–	–	10,579	8,724	–	–
Additions	–	–	8	–	8	27,876	–	5,340
Disposals	–	–	–	–	–	(3,927)	–	–
Depreciation / amortisation	(956)	104	(260)	(473)	(1,585)	(22,521)	–	(260)
At 30th September 2004	26,541	(1,925)	1,809	2,658	29,083	236,149	8,945	27,092
Exchange adjustments	3	(43)	121	43	124	2,181	–	(7)
Acquisition	15,794	–	–	–	15,794	399	–	–
Additions	–	–	50	12	62	32,500	–	1,269
Revaluation surplus	–	–	–	–	–	–	462	–
Disposals	–	–	–	–	–	(5,269)	(1,051)	(19)
Depreciation / amortisation	(961)	104	(390)	(481)	(1,728)	(21,845)	–	(458)
At 31st March 2005	41,377	(1,864)	1,590	2,232	43,335	244,115	8,356	27,877

5 Other gains, net

	Six months ended 30th September	
	2005	2004
	US$'000	US$'000
Interest income	**3,059**	1,158
Gross earnings from investments in finance leases	**3**	14
Gross rental income from investment properties	**660**	678
Royalty income	**–**	21
Fair value gains on investment properties	**1,469**	–
	5,191	1,871

6 Selling and administrative expenses

	Six months ended 30th September	
	2005	2004
	US$'000	US$'000
Selling expenses	**35,814**	33,599
Administrative expenses	**66,199**	60,480
	102,013	94,079

7 Restructuring costs / provisions

	Six months ended 30th September	
	2005	2004
	US$'000	US$'000
Severance costs	**–**	6,434
Other costs	**–**	3,558
	–	9,992

8 Expenses by nature

Expenses included in cost of sales, selling and administrative expenses are analysed as follows:

	Six months ended 30th September	
	2005	2004
	US$'000	US$'000
Depreciation on property, plant and equipment	**22,090**	22,521
Less: amounts capitalised on assets under construction	**(545)**	(392)
	21,545	22,129
Amortisation of leasehold land, development costs and patents	**1,164**	1,845
Loss on disposal of property, plant and equipment	**1,607**	1,201
Net exchange loss	**1,867**	649
Staff costs	**79,531**	81,719

9 Finance costs

	Six months ended 30th September	
	2005	2004
	US$'000	US$'000
Interest on bank loans and overdrafts	**1**	56
Interest on other loans, not wholly repayable within five years	**21**	37
Other incidental borrowing costs	**16**	40
	38	133

10 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

	Six months ended 30th September	
	2005	2004
	US$'000	US$'000
Current taxation		
Hong Kong profits tax	**4,181**	6,297
Overseas taxation	**11,028**	2,310
	15,209	8,607
Deferred taxation		
Origination and reversal of other temporary differences	**(4,940)**	676
	10,269	9,283

11 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$52,857,000 (2004 restated: US$69,275,000).

The basic earnings per share is based on 3,673,788,920 (2004: 3,673,788,920) shares in issue during the period.

There is no significant impact on the fully diluted earnings per share if all outstanding options are deemed to be issued at no consideration.

12 Dividends

	Six months ended 30th September	
	2005	2004
	US$'000	US$'000
2004/05 Final dividend, paid of 1.41 US cents per share (2003/04: 1.15 US cents)	**51,810**	42,390
2005/06 Interim, proposed on 5th December 2005, of 0.58 US cents per share (2004/05: 0.58 US cents)	**21,195**	21,195
	73,005	63,585

13 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$250,321,000 (31st March 2005: US$230,935,000). The ageing analysis of trade receivables was as follows:

	30th September	31st March
	2005	2005
	US$'000	US$'000
0-60 days	**185,634**	162,647
61-90 days	**37,312**	36,254
Over 90 days	**27,375**	32,034
Total	**250,321**	230,935

14 Trade and other payables

The trade and other payables included trade payables balance of US$126,255,000 (31st March 2005: US$128,255,000). The ageing analysis of trade payables was as follows:

	30th September 2005 US$'000	31st March 2005 US$'000
0 – 60 days	**87,037**	91,124
61 – 90 days	**14,625**	15,888
Over 90 days	**24,593**	21,243
Total	**126,255**	128,255

15 Long term loans

	30th September 2005 US$'000	31st March 2005 US$'000
Other loans, unsecured	**2,813**	3,110
Current portion of long term loans	**(148)**	(92)
	2,665	3,018
Not wholly repayable within five years	**2,813**	3,110
Current portion of long term loans	**(148)**	(92)
	2,665	3,018

Other loans not wholly repayable within five years are repayable by instalments starting from February 2002 until October 2018. Interest is charged on the outstanding balances at 1.5% to 3.2% per annum (31st March 2005: 1.5% to 3.2% per annum).

At 30th September 2005, the Group's long term loans were repayable as follows:

	30th September 2005 US$'000	31st March 2005 US$'000
Within one year	**148**	92
In the second year	**155**	239
In the third to fifth year	**812**	949
After the fifth year	**1,698**	1,830
	2,813	3,110

16 Share capital

	30th September 2005 US$'000	31st March 2005 US$'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

Share options

Share options are granted to directors and to employees. For details relating to the share option scheme, please refer to pages 31 to 33 of the Group's 2005 annual report.

Movements in the number of share options outstanding during the period are as follows:

Held at 01/04/2005	Granted during the period	Forfeited during the period	Held at 31/03/2005	Subscription price per share (HK$)	Date of grant	Exercisable from	Exercisable until
100,000	–	(100,000)	–	7.90	17/09/2002	01/08/2004	16/09/2012
100,000	–	(100,000)	–	7.90	17/09/2002	01/08/2005	16/09/2012
650,000	–	(100,000)	550,000	8.02	17/09/2002	01/08/2004	16/09/2012
650,000	–	(100,000)	550,000	8.02	17/09/2002	01/08/2005	16/09/2012
150,000	–	–	150,000	9.40	10/07/2003	01/07/2005	09/07/2013
150,000	–	–	150,000	9.40	10/07/2003	01/07/2006	09/07/2013
837,500	–	(312,500)	525,000	9.65	31/07/2003	01/07/2005	30/07/2013
837,500	–	(312,500)	525,000	9.65	31/07/2003	01/07/2006	30/07/2013
100,000	–	(100,000)	–	10.70	01/08/2003	01/08/2005	31/07/2013
100,000	–	(100,000)	–	10.70	01/08/2003	01/08/2006	31/07/2013
100,000	–	–	100,000	11.95	06/10/2003	01/10/2005	30/09/2013
100,000	–	–	100,000	11.95	06/10/2003	01/10/2006	30/09/2013
50,000	–	–	50,000	8.77	07/05/2004	01/05/2006	30/04/2014
50,000	–	–	50,000	8.77	07/05/2004	01/05/2007	30/04/2014
100,000	–	–	100,000	7.40	28/12/2004	01/01/2007	31/12/2014
100,000	–	–	100,000	7.40	28/12/2004	01/01/2008	31/12/2014
–	50,000	–	50,000	7.10	05/05/2005	01/05/2007	04/05/2015
–	50,000	–	50,000	7.10	05/05/2005	01/05/2007	04/05/2015
4,175,000	100,000	(1,225,000)	3,050,000				

No share option was exercised during the period (2004: Nil).

16 Share capital *(Cont'd)*

Share options *(Cont'd)*

The fair value of options granted or forfeited, net during the six months ended 30th September 2005 determined using the Binomial valuation model and credited to the profit and loss account was US$146,000 (charge for year ended 31st March 2005: US$544,000). The significant inputs into the model were dividend yield of 1.5%, sub optimal early exercise factor of 1.5, withdrawal rate of 5% post the vesting period, volatility of 40% and the risk-free rate is varied depending on the grant date.

The aggregate fair value of US$745,000 of the above options granted are recognized, together with a corresponding increase in equity, over their vesting period for the relevant directors and senior executives in accordance with the Group's revised accounting policy pursuant to HKFRS 2 "Share-based Payments". Details of the change in the Group's accounting policy in respect of share options granted and the financial impacts are set out in Note 2.

17 Contingent liabilities

(a)

	Group		Company	
	30th September 2005 US$'000	31st March 2005 US$'000	**30th September 2005 US$'000**	31st March 2005 US$'000
Guarantees for credit facilities granted to subsidiaries	**–**	–	**83,328**	37,063
Guarantee for credit facilities granted to companies controlled / held by certain directors of a subsidiary	**–**	8,911	**–**	–
	–	8,911	**83,328**	37,063

(b) The company has given guarantees for a subsidiary in respect of future payment of operating lease rentals amounting US$1,464,000 (31st March 2005: US$1,633,000).

17 Contingent liabilities *(Cont'd)*

(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.

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 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 2004, seven 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 name Johnson Electric Holdings Limited, which has contested 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. Notwithstanding the foregoing, the personal injury claims have not yet been dismissed.

In January 2005, these actions were re-assigned to a new judge who set a trial date of March 2006. Currently, the claims of the four plaintiffs in the first case filed in August 2001 are set to be tried then. It is possible that a few other plaintiffs' claims will be consolidated with these claims for trial.

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 the Company in the newly filed actions. In addition, the Group has asserted claims for indemnity against prior owners. Because discovery is still ongoing, the Group is unable at this time to predict with certainty the ultimate outcome of this litigation.

18 Capital commitments for property, plant and equipment

	30th September 2005		31st March 2005	
	Investments in associated company US$'000	**Property, plant and equipment US$'000**	Investments in associated company US$'000	Property, plant and equipment US$'000
Authorised but not contracted for	**–**	**4,366**	–	3,632
Contracted but not provided for	**–**	**10,445**	5,000	10,313
	–	**14,811**	5,000	13,945

19 Subsequent events

On 18th August 2005 the Company announced its proposal to acquire Parlex Corporation for approximately US$74.6 million including assumption of Parlex's convertible and nonconvertible debt. Under the acquisition agreement, Johnson Electric will acquire all of the issued and outstanding common stock of Parlex for US$6.75 per share in cash or US$44 million. The proposal was approved by Parlex's shareholders on 8th November 2005.

Parlex Corporation is a world leader in the design and manufacture of flexible, interconnect products.

On 26th August 2005, an agreement was entered into with Saia-Burgess Electronics Holding AG ("Saia-Burgess") to make a public tender offer to acquire the entire issued share capital of Saia-Burgess at a consideration of CHF 1,060 net in cash for each Saia-Burgess share. Up to the end of the additional acceptance period on 14th October 2005, acceptances corresponding to 99.3% of the total issued shares were tendered to the Company. Closing of the offer and settlement for payment of the offer price was completed on 17th November 2005.

Saia-Burgess is a leading supplier of stepper motors, switches, actuators, and electronic controllers to customers within the automotive, industrial and infrastructure automation industry.

Patrick Wang Shui Chung
Chairman and Chief Executive

Hong Kong, 5th December 2005

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