

## BUSINESS REVIEW

### OVERVIEW

Trading conditions for the first half of the financial year improved significantly, compared to the weak global sales environment experienced for much of the past year. For the six months ended 30th September 2002, Johnson Electric achieved record half-year sales of US\$483 million, an increase of 30% over the comparable period in 2001.

The period under review includes a full six-month contribution from the businesses acquired from Textron Automotive Company ("Textron") and ArvinMeritor Corporation ("ArvinMeritor") in July 2001 and August 2001, respectively. Excluding the contributions from these acquired businesses, total sales for the first half-year increased 24%, compared to the corresponding period in 2001.

Overall demand for Johnson Electric's products was broad based, with virtually all of our major product applications and geographic regions experiencing strong sales growth. In part, this reflects a pick-up in customer orders from the depressed levels of a year earlier. However, a larger factor contributing to the sales increase was the continuation of the primary underlying drivers of demand for Johnson Electric's products: namely growth through new motor applications and new product introductions and the sustained trend towards outsourcing of component manufacturing by multinational branded goods producers seeking to reduce costs and increase competitiveness.

Geographically, the source of demand for the Group's products is well balanced and all regions achieved very satisfactory growth rates in what remains a challenging and unpredictable global macro economic environment. Overall sales to Europe were US\$171.2 million (35% of total sales) growing by 22% including acquisitions and by 23% excluding acquisitions. Sales to North America were US\$150.6 million (31% of total sales), growing by 30% including acquisitions and by 8% excluding acquisitions. Sales to the Hong Kong/China region (25% of total sales) and Asia Pacific region (9% of total sales) grew by 42% and 37%, respectively.

## DIVISIONAL OPERATING PERFORMANCE

### AUTOMOTIVE MOTORS GROUP

Overall sales achieved by the Automotive Motors Group increased 31% to US\$289 million, accounting for approximately 60% of Johnson Electric's total Group revenue.

Sales of the Automotive Motors Hong Kong business unit, representing the core automotive motor business based in Hong Kong, increased 56% to US\$121 million. Excluding the acquisitions from Textron and ArvinMeritor, sales increased over 27% to US\$82 million, with unit volume up by 26%. This reflected market share gains through new product introductions and additional outsourcing business. Among the strongest performances by individual motor product applications were door locks and fuel pumps, where sales growth rates were 47% and 39%, respectively.

Sales contributions from acquisitions amounted to US\$39 million - almost triple the sales level in 2001, due largely to the inclusion of full six months' sales in this first half financial year for the first time. Sales from the acquired businesses have been the responsibility of our Automotive Motors Hong Kong business unit, and the successful transfer of production to our main manufacturing facility in China was completed by September 2002.

Sales of Johnson Electric Air Flow ("JEAF") and Johnson Electric Geared Automotive ("JEGA"), which together comprised Gate S.p.A. in Europe, were satisfactory - increasing by 25% to US\$113 million with unit volume growth of 22% over the corresponding period in 2001. In July 2002, Gate S.p.A. acquired the remaining 49 percent of shares in Brushless Technology Motors S.r.l. ("BTM") for a consideration of US\$1.3 million, in order to facilitate growth in brushless motors for various applications. Excluding the consolidated sales contribution from BTM in the first half results, the total sales growth of JEAF and JEGA was 17% due partly to the favourable impact of the stronger Euro in the period under review.

In North America, Johnson Electric Automotive Motors' total sales increased by 4% to US\$55 million with unit volume growing at the rate of 13%. This result reflected, as part of the plan to improve its profitability, the shift in product mix away from certain larger, less profitable products and increased emphasis on ABS motors whose production has been relocated to China. The improved cost position associated with the move to China enabled ABS motors to record sales growth of approximately 37% in the period under review.

## COMMERCIAL MOTORS GROUP

Total sales from product application sectors that together form Johnson Electric's Commercial Motors Group amounted to US\$194 million, an increase of 28% over the comparable period in 2001.

Sales to the power tools sector increased 40% to US\$60 million, with unit volume up 37%, driven by the combination of increased outsourcing on the part of our major customers, market share gains and new product introductions. Sales to major applications such as drills, saw systems, gardening tools and screw drivers, increased 24%, 26%, 142% and 48%, respectively.

Sales to the home appliances sector increased 16% to US\$65 million on unit volume growth of 9%. This reflected the higher growth in product applications with larger size motors with typically higher average selling prices. For example, sales of motors for floor care products grew by 21% and motors for blenders grew by 63% over the period.

Sales to business equipment and personal products sectors combined increased 24% to US\$53 million, with unit volume up 36%. In business equipment, sales grew by 38% largely due to an increase of 65% in sales to printer products where the Company was able to achieve further market share gains and introduce new products. In personal products, sales increased by a more modest rate of 9% over the period, with the strongest performances coming from massager applications.

Audio-visual sector sales increased 73% to US\$15 million, with unit volume growth of 117%. Management of this joint venture business formed with Nidec Corporation of Japan in July 2000 is continuing to work intensively on improving market penetration and growing sales from a relatively small base.

## PROSPECTS

Johnson Electric is well positioned to continue to grow. Notwithstanding the relatively uncertain outlook for the global economy, we have been encouraged by the performance of the business over the past six months.

As noted earlier, a significant proportion of our top line revenue growth has stemmed from increased outsourcing and from successful market penetration into new product applications. Sustained growth in demand of this nature offers the prospect of market share gains, improved operating leverage and higher levels of profitability. Furthermore, we anticipate additional benefits from recent initiatives to lower costs through the relocation of selected motor manufacturing activities and acquired businesses to our primary production base in southern China.

More than ever, we believe that Johnson Electric's strong cost position and ability to leverage China's manufacturing and supply chain advantages form the basis for long-term value creation for both customers and shareholders.

Barring unforeseen circumstances, we look forward to achieving record sales and improved profitability for the financial year 2002-03.

## INVESTING IN PEOPLE

The Group employed approximately 30,000 full-time employees, including contract manufacturing labour, as of 30th September 2002. It provides competitive remuneration packages and various types of benefit schemes that are appropriate to the local labour markets.

Incentive schemes composed of annual and long-term incentives are provided to selected managers and senior executives on the basis of performance measured by such metrics as total shareholder return and cash value added, along with various supporting financial and key operating performance indices.

Organizational development occupies the top of the Group's people agenda. JENESIS, Johnson Electric's leadership development programme for emerging, high potential professionals, forms the cornerstone of our learning and growth initiatives. A recent JENESIS development initiative launched in late September boasted twelve countries of origin amongst its participants, which gives an indication of the Group's people diversity.

We continue to drive our global recruitment to seek out high calibre talents to strengthen our bench for growth opportunities. In order to engender behavioural change, we have been rebuilding our key people processes, including recruitment and selection, learning and development, performance management, people calibration and management succession, by integrating them with a set of Johnson Electric leadership competencies.

Johnson University, established in 1998, has six colleges providing a wide range of vocational and technical training programmes. A curriculum review is pending for 2003 to make its offerings more business-relevant.

The Group continues its long-standing commitment to environmental, health and safety and being an active and responsible corporate citizen in all the countries in which it operates.