

A MESSAGE FROM PATRICK WANG

To Our Shareholders,

I am pleased to report that Johnson Electric achieved record sales and earnings for the financial year ended 31st March 2003:

- Total sales were US\$955 million; up 23.5% compared to the 2002 financial year
- Pre-tax profits were US\$174 million; up 38%
- Net earnings increased 35% to a record US\$150 million
- Earnings per share increased 35% to US4.08 cents
- Dividends per share increased 26% to US1.66 cents
- Johnson Electric's underlying financial position remains exceptionally strong and, taking into account cash reserves of US\$193 million, the Group is essentially debt free

Current trading conditions are generally positive, despite the lack of a clear, sustained upturn in the global economy. Severe Acute Respiratory Syndrome ("SARS"), while clearly a disturbing factor to everyone living in areas that it has affected, has not had a material impact on the business of Johnson Electric up to the present time. The management has effectively implemented a number of stringent preventative and contingency measures to minimize the potential SARS risk to the health of our people and to the operations of our company.

Dividends

The Board has recommended a final dividend of 1.15 US cents per share, which together with the interim dividend of 0.51 US cents per share, represents a total dividend of 1.66 US cents - an increase of 26% over the 2002 financial year.

Operating Environment in 2002/03

Johnson Electric performed strongly in a global economy that experienced high levels of political and economic uncertainty throughout much of 2002 and the first months of 2003. In both North America and Europe, industrial output and business confidence levels were particularly weak in the period preceding the most recent Middle East conflict and have yet to demonstrate obvious signs of recovery.

It is therefore pleasing to report that each of Johnson Electric's main business segments were able to deliver double digit sales growth compared to the prior year.

The Automotive Motors Group, which contributes approximately 63% of the Group's sales, recorded a 26% increase in total revenue to US\$606 million. A combination of newly acquired product lines, new product introductions, market share gains, and a pick-up in customer inventory levels all combined to increase demand for automotive motors and motor systems in each of our major markets.

In order to align the Automotive Motor Group's activities more closely with its customers, a new organization structure was implemented at the end of the financial year. This organization consists of five business units configured according to customer product applications: body instruments; powertrain management (engine management); chassis braking; body climate; and powertrain cooling (engine cooling).

The Commercial Motors Group, which supplies micromotors to non-automotive customers in a number of application segments, achieved year-on-year revenue growth of 19%. All of this Group's business units achieved double digit sales improvements, with particularly strong performances coming from home appliances and power tools which each benefited from new customer wins and new product introductions. Business equipment and personal care products also achieved satisfactory growth in markets experiencing relatively soft end-user demand.

The second-half sales performance of the Commercial Motors Group was weaker when compared to the exceptionally strong first half. This was partly due to normal seasonal patterns of demand for many of the product applications within this business group, but also reflected a disappointing second-half performance from the audio visual motor joint venture with Nidec Corporation of Japan.

In April 2003, after the financial year end, Johnson Electric announced the acquisition of a 49% interest in Nihon Mini Motor, a leading designer of micromotors for multiple audio visual applications, including digital cameras, video cameras and projectors. The acquisition will enable Johnson Electric to participate in a new, fast growing segment of the motor market and will provide the Group with an additional platform of expertise and relationships to strengthen its position in Japan. Johnson Electric also aims to leverage its own worldwide sales channels to expand the customer base and grow sales beyond Nihon Mini Motor's current annual revenue of approximately US\$45 million.

Improved Profitability

Record earnings and improved profitability accompanied the Group's strong sales performance.

Gross margins rose by one percentage point despite the inclusion of a full year's contribution of acquired businesses with lower average margins than the existing business. Higher raw materials prices, particularly cold-rolled steel, acted to constrain gross margins somewhat in the second half of the year.

Operating profits before interest, tax and share of losses from joint venture and associated companies also improved and reflected the Group's enhanced operating leverage on a higher sales base. However, unanticipated airfreight expenses amounting to approximately US\$7 million during the second half of the financial year offset much of the operating profitability gains achieved in the first period.

The additional airfreight costs were primarily the result of a combination of production and sourcing difficulties on two new lines of motors in China replacing production in North America. These problems, when combined with the effects of the dock strike on the west coast of the United States in the autumn of 2002, resulted in the need to airfreight the finished motors to customers in order to meet tight assembly schedules. Temporary capacity constraints on one of the motor lines subsequently prevented the company from building inventories sufficiently quickly to resume normal shipping methods. The issues have now been resolved and we are resuming shipping by sea-freight.

The Group's overall net earnings amounted to US\$150 million with a net margin of 16%. This compared to net earnings of US\$111 million and a net margin of 14% for the prior 2001/02 financial year.

Strategic Development and Growth

To sustain our market position we are also investing heavily in areas that *make our customers successful*. These areas include faster development-to-delivery cycle times, higher product quality and reliability, and more innovative technology solutions. The result is a business model that combines a low cost position with other important benefits that customers value - and hence enables Johnson Electric to differentiate itself as a major force in our industry.

None of these developments happen without the leadership, drive and commitment of the team of people we have assembled within the Johnson Electric Group. Over the last few years, considerable effort has been devoted to establishing professionally managed human resources processes to help attract, retain and develop the highest quality individuals at all levels in the organization. The goal is to build a high performance culture that sustains profitable growth over the long term.

Among the primary sources of competitive advantage for Johnson Electric are our large-scale manufacturing platform in China and certain distinctive capabilities associated with running a highly vertically-integrated operation over many years. This has provided the basis for a low cost position that is essential for market leadership and commercial success in the global component manufacturing sector.

The global market for motor applications is growing and we are committed to maintaining and gaining share through proven organic development strategies, including new product introductions, higher penetration of existing accounts, and the outsourcing of motor production from OEMs seeking to focus on their core business and brands.

Strategies for Acquisitions

The Group will supplement its primary organic growth strategies with selective acquisitions and investments in businesses that complement Johnson Electric's overall corporate strategy. Among the various criteria that the management uses to assess potential acquisitions are:

- *The strategic fit of the business* in terms of its products, market presence, technology, manufacturing processes, and management. In most cases, this means precision motor manufacturing businesses serving markets where Johnson Electric is present or seeks to expand into. Given the vertically-integrated nature of our operations which involve extensive component manufacturing and tooling activities in China, the Group will also consider

selective investments in adjacent areas as long as these represent a logical extension of our manufacturing core competencies.

- *The size and nature of the integration challenge.* In our experience, most of the hard work associated with making acquisitions successful occurs after the transaction is concluded. During the normal course of our business, we review many potential investment opportunities but will only proceed in situations where we have a high degree of confidence that we have the resources and skills necessary to manage the new business effectively in the months and years following financial closure.

Prudence and financial discipline remain the core characteristics underlying the Group's approach to growth through acquisition. Any major new investment of this nature must satisfy the overall objective of maximizing the long-term value of our shareholders' equity.

Current Performance and Outlook

As noted earlier, the current trading performance of Johnson Electric is satisfactory. The global economy, however, has yet to demonstrate any definitive indications of a sustained recovery. For the time being therefore, management will continue to adopt a relatively cautious approach to capital investment and operating expenditure until the timing and strength of an upturn in global demand becomes more apparent.

At the individual business unit level we naturally see greater variation in demand and operating performance - and this variation does not always mirror industry trends. For example, while acknowledging the uncertain outlook for end-user demand in the global automotive sector at the present time, we would also note that the demand cycle for specific motors for specific vehicle models rarely corresponds directly to global production volumes in the industry.

The Group is well positioned across the range of market segments that it serves and our various business units are off to a good start in executing business plans that in aggregate anticipate double-digit annual sales growth. Overall, we are optimistic that Johnson Electric will again achieve excellent progress towards its strategic goals in the year ahead.

On behalf of the Board, I would like to thank all of our customers, shareholders, suppliers, and employees for their continued support.

On behalf of the Board

Patrick Wang Shui Chung

Chairman & Chief Executive

Hong Kong, 5th June 2003