FINANCIAL REVIEW

OVERVIEW

The Group reported profit attributable to shareholders of US$150.0 million, or 4.08 US cents per share for the year ended 31st March 2003, compared to profit attributable to shareholders of US$110.8 million or 3.02 US cents per share in 2001/02.

In July 2002, the Group acquired the remaining 49% of shares in Brushless Technology Motors S.r.l. ("BTM") for a consideration of US$0.9 million, in order to facilitate growth in brushless motors for various applications.

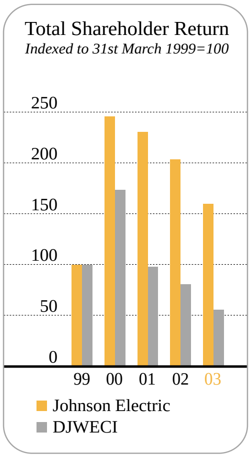
In May 2003, the Group acquired 49% of shares in Nihon Mini Motor ("NMM") from Mitsubishi Materials Corporation for approximately US$12.3 million. NMM is a leading designer of micromotors for multiple audio visual applications, including inter alia, digital cameras, video cameras and projectors. In view of the excellent growth opportunities provided by this acquisition, it is expected to be a positive addition to Johnson Electric's presence in the audio visual sector. With NMM's strong product line-up and customer relationships in the Japanese camera motor market, Johnson Electric will leverage its worldwide sales channels to expand the customer base and grow sales beyond NMM's current annual sales levels of approximately US$45 million.

TOTAL SHAREHOLDER RETURN (TSR)

For the financial year ended 31st March 2003, the Group achieved a TSR of –22%, compared to –31% for the Dow Jones World Electric Component and Equipment Index ("DJWECI"), which is representative benchmark index of global industry peers.

For the prior years 2002, 2001, 2000 and 1999, Johnson Electric's TSR was –12%, –6%, 146%, and 34% respectively, compared to –17%, –44%, 74%, and 0% achieved by DJWECI in US dollar terms.

Over the past five years, the compound annual average TSR of Johnson Electric was 17%, compared to –11% achieved by DJWECI.



FINANCIAL MANAGEMENT AND TREASURY POLICY

The financial risk management of the Group is the responsibility of the Group's treasury function at the corporate center based in Hong Kong, which is controlled by policies approved by senior management.

Foreign Currency

The Group operates globally and is thus exposed to foreign exchange risk.

In relation to the business units based in Hong Kong/China, the major revenue generating currencies continue to be the US dollar, Euro, and Japanese Yen; whereas the major currencies in purchase commitments are the US dollar, Hong Kong dollar, and Japanese Yen. Aside from the US dollar and Hong Kong dollar which is pegged to the US dollar, material open foreign exchange exposures are hedged with currency contracts, including forward and options contracts, with a view to reducing the net exposure to currency fluctuations. Such contracts normally have a duration of less than 3 months. For the year to 31st March 2003, of the micromotor sales from Hong Kong/China, 83% were in US dollar; 11% in Euro for certain sales to Europe; and 6% in Japanese Yen for certain sales to Japan.

Johnson Electric Air Flow ("JEAF") and Johnson Electric Geared Automotive ("JEGA"), having sales of over US$249.0 million representing 26% of the Group's total sales in the year under review, are European-based businesses with revenue and costs essentially in Euro. Hence, their exposure to US dollar is limited to the net position. In the case of Johnson Electric Automotive Motors ("JEAM") based in North America, the revenue and costs are in US dollar.

Surplus Cash and Debt

The Group follows a policy of prudence in managing its cash balance, and maintains a high level of liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business. The surplus cash is held in US dollars, except certain temporary balances which may be held in such non-US currencies as required from time to time pending specific payments.

As at 31st March 2003, the surplus cash (comprising cash and other investments) increased to US$192.9 million, up 50% from US$128.3 million at the previous year-end. The Group is essentially debt-free, except certain loans amounting to US$9.8 million (compared to US$11.5 million a year ago).

As at 31st March 2003, 70% of the surplus cash was held in US dollar (compared to 73% a year ago); and the average duration of the Group's interest-bearing securities and time deposits was reduced to 0.1 month, compared to 0.6 month previously. Hence, the price sensitivity to interest rate movements and the foreign exchange risk of such investments continued to be immaterial.

Capital Structure

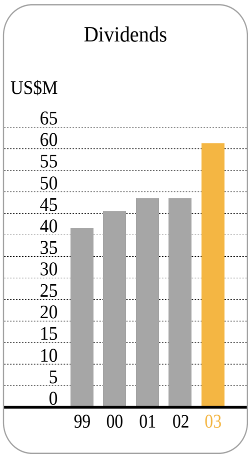
It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure. At this stage, however, with continuing strong cash flows, there are no immediate requirements for significant debt finance.

Total debt remained at a low level of US$9.8 million, compared to US$11.5 million at the last year-end, comprising short-term bank loans and overdrafts of US$2.3 million, and long-term loans and obligations of US$7.5 million. Details of long-term loans remaining outstanding are included in Note 23 to the accounts. Borrowings at fixed interest rates amounted to approximately US$2.5 million.

The Group's borrowings are primarily denominated in US and Hong Kong dollars. Except for the foreign exchange exposure in relation to the loans originally in Italian Lira obtained by Gate S.p.A., a subsidiary based in Europe, equivalent to approximately US$2.5 million, the Group has no significant exposure to foreign exchange fluctuations in relation to borrowings.

Dividend Policy

It is the intention of the Group that dividends paid should, over the long term, provide shareholders with dividend income broadly consistent with underlying trend of earnings growth.



In view of the Group's growth potential, it is also intended to accumulate substantial cash reserves to take advantage of any expansion or acquisition opportunities that may arise from time to time.

At its June 2003 meeting, the Board of Directors recommended a final dividend of 9 HK cents per share (equivalent to 1.15 US cents), which together with the interim dividend of 4 HK cents per share (equivalent to 0.51 US cents), representing a total dividend of 13 HK cents per share (equivalent to 1.66 US cents), or 26% increase over the previous year.

In 2002/03, the dividend payout ratio (including the proposed dividend for the year) was approximately 41% of the profit attributable to shareholders, compared to 44% in 2001/2002.

RESULTS OF OPERATIONS

ANALYSIS OF CONSOLIDATED PROFIT AND LOSS STATEMENT

	Existing business US$M	Acquired business US$M	2003 Total US$M	2002 Total US$M	Increase /(Decrease) US$M	Increase /(Decrease) %
Turnover	931.7	23.6	955.3	773.6	181.7	23.5
Cost of sales	(620.4)	(24.2)	(644.6)	(530.1)	114.5	21.6
Gross margin	311.3	(0.6)	310.7	243.5	67.2	27.6
SG&A	(144.7)	(1.2)	(145.9)	(119.9)	26.0	21.7
Other revenues	11.0	0.0	11.0	9.4	1.6	17.0
EBIT	177.6	(1.8)	175.8	133.0	42.8	32.2
Interest	(0.6)	(0.3)	(0.9)	(0.4)	0.5	125.0
Share of profits less losses of JV/ Associates	(0.7)	0.0	(0.7)	(6.7)	(6.0)	(89.6)
Profit before taxation	176.3	(2.1)	174.2	125.9	48.3	38.4
(Taxation)/Tax credit	(24.9)	0.7	(24.2)	(15.1)	9.1	60.3
Outside interests	0.0	0.0	0.0	0.0	0.0	0.0
Profit after taxation	151.4	(1.4)	150.0	110.8	39.2	35.4
Depreciation & amortisation	37.4	2.0	39.4	34.2	5.2	15.2

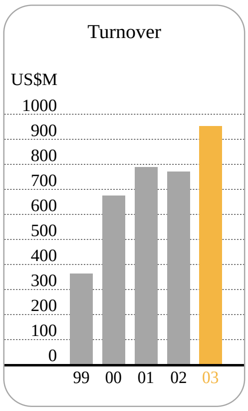
TURNOVER

	2003		2002		Increase	
	US$M	%	US$M	%	US$M	%
AUTOMOTIVE MOTORS GROUP						
Automotive Motors Hong Kong	235	24	188	24	47	25
Johnson Electric Air Flow	200	21	170	22	30	18
Johnson Electric Geared Automotive	49	5	19	3	30	154
Johnson Electric Automotive Motors	122	13	104	13	18	17
Sub-total	606	63	481	62	125	26
COMMERCIAL MOTORS GROUP						
Home appliances	125	13	105	14	20	19
Power Tools	105	11	82	11	23	28
Business equipment/Personal products	90	10	80	10	10	13
Audio-visual products	29	3	26	3	3	11
Sub-total	349	37	293	38	56	19
TOTAL TURNOVER	955	100	774	100	181	23

Note: Certain comparative figures have been reclassified to conform with the current year's presentation.

Total turnover was US$955 million, an increase of 23% over the level in the prior year. Unit volume also grew approximately 25%. Excluding the sales of US$23.6 million from the BTM acquisition during the year, the turnover increased over 20%.

On a divisional basis, Automotive Motors Group ("AMG") increased 26% to US$606 million, representing 63% of total turnover. In addition to the improved demand in the automotive markets generally, AMG achieved gains in market shares, as a result of new product introductions and increasing outsourcing by customers.



Sales of Automotive Motors Hong Kong increased 25% to US$235 million. Excluding prior year's acquisitions from Textron Automotive Company and ArvinMeritor Inc., sales increased 23% to US$168.0 million. This reflected market share gains through new product introductions and additional outsourcing business. Geographically, good double-digit growth was seen in all regions. Sales to Asia Pacific and Hong Kong/China as new markets for Johnson Electric, increased 42% (39% in unit volumes) and 194% (112% in unit volumes) respectively.

Sales of Johnson Electric Air Flow in Europe increased 18% to US$200 million, due partly to the favorable impact of the strength of the Euro during the period; and partly to the new product introductions.

Sales of Johnson Electric Geared Automotive in Europe increased 154% to US$49 million. This includes the sales contribution of US$23.6 million from the BTM acquisition in July 2002. Excluding the acquisition, sales increased 33%.

Sales of Johnson Electric Automotive Motors in North America increased 17% to US$122 million, due to the recovery in the demand for its starter motors for the marine, and lawn and garden markets in the U.S.A. and the increased demand for its anti-lock braking system products. Production for anti-lock braking system products was transferred into China from about the second half of the previous year.

Overall sales of the Commercial Motors Group increased over 19% to a record level of US$349 million, driven by the increasing trends of outsourcing by customers and new product introductions.

Sales to the home appliances sector increased 19% to US$124 million. The top two applications, namely floor care products and blenders, increased 20% (to US$49 million) and 50% (to US$21 million) respectively. Geographically, sales to Hong Kong/China, Asia Pacific and Europe, increased 25%, 23%, and 15% respectively, whereas sales to North America increased only slightly.

Sales to the power tools sector increased 28% to US$105 million, due mostly to market share gains through outsourcing on the part of the major customers. The top two applications, namely drills and gardening tools, accounting for nearly half of the segment sales, increased 19% (to US$33 million) and 77% (to US$18 million) respectively. Geographically, consistent with the trends of outsourcing, nearly the whole of the growth derived from Hong Kong/China, where sales increased 57%. Sales to North America and Europe increased only slightly.

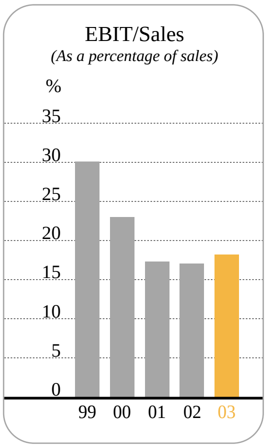
Sales to business equipment and personal products sectors combined, increased 13% to US$90 million.

In business equipment, sales increased over 15%, due mainly to a 27% growth in sales to printer product applications which accounted for 72% of the segment sales. Geographically, sales to Asia Pacific accounting for 61% of the segment sales, increased 47%, partly offset by the sluggish demand in other markets.

In personal products, sales increased 10%, as sales to such major applications as hair dryers, hair clippers, and massagers returned to some double-digit growth rates. Geographically, sales to Hong Kong/China and Europe increased 22% and 16% respectively, partly offset by a decrease of 7% in North America.

Sales to the audio-visual industry increased 11% to US$29 million, as growth for this was substantially constrained by pricing as well as the limited range of product offerings available at the beginning of this new business. However, intensive efforts have been made in new product introductions, and improved performance is expected from the coming year. Further, as part of the action plans to achieve critical mass to improve its marketing position and operating performance in this sector, the Group acquired a 49% stake in Nihon Mini Motor ("NMM") from Mitsubishi Materials Corporation for approximately US$12.3 million in May 2003. With current annual sales of about US$45 million, NMM is expected to provide excellent growth opportunities for the Group, by virtue of its existing product line and strong customer relationships in the Japanese camera motor market. As a result of the acquisition, NMM's sales are also expected to grow beyond the Japanese market through Johnson Electric's own global sales channels.

Earnings Before Interest and Tax ("EBIT")



EBIT was US$175.8 million, an increase of US$42.8 million, or 32.2%. The improvement was due to an increase of US$67.2 million or 27.6% in gross profit and an increase of US$1.6 million in other revenues, partly offset by an increase of US$26.0 million in selling and administrative expenses. As a percentage of sales, EBIT increased from 17.2% to 18.4%. Excluding the BTM acquisition, EBIT margins increased to 19.1%.

Overall EBIT margin expansion was constrained by two temporary factors. Firstly, there were unanticipated airfreight expenses of approximately US$9.4 million (of which a total amount of US$7 million was incurred in the second half year) caused mainly by temporary capacity constraints in relation to production of acquired businesses transferred into China. Secondly, there was the impact of the first-year consolidation of BTM (formerly reported in the share of losses of associated companies), which continued to be a start-up business upon acquisition and only progressed towards profitability recently.

Gross margins increased by one percentage point from 31.5% to 32.5%, despite higher prices of purchased materials and parts during the year.

Other revenues increased US$1.6 million, due mainly to higher scrap sales, partly offset by lower interest income from the surplus cash.

The Group's selling and administrative expenses, as a percentage of sales, improved to 15.3%, compared to 15.5% in the previous year.

Cost of Sales

Overall cost of sales, as a percentage of sales, was reduced from 68.5% to 67.5%, reflecting the results of the transfer of production of acquired businesses to the Group's manufacturing complex in Southern China and generally higher operating leverage, partly offset by an increase in the cost of materials.

After hitting the low a year ago, steel prices rebounded – the Group's weighted average cost of steel increased 19.8%. Copper prices, on the other hand, were relatively stable. The average spot price of London copper in 2002/03 was US$1,579 per tonne, up 4% from approximately US$1,526 in the previous year.

Selling and Administrative Expenses ("SG&A")

Overall SG&A expenses increased 21.7% to US$145.9 million. This reflected partly the Group's continued investment in building a business infrastructure to facilitate and support its long-term growth plans.

SG&A, as a percentage of sales, decreased from 15.5% to less than 15.3%. It is believed that the Group's business infrastructure now in place is very scalable; and that scalability will be a key factor in the margin expansion potential of the Group.

Other Revenues

Other revenues were US$11.0 million, up 17.0%, due to an increase of US$2.2 million in scrap sales, partly offset by a decrease of US$0.8 million in interest income.

Depreciation Expense

Depreciation expense increased 7.8% to US$36.1 million. As a percentage to sales, depreciation expense decreased to 3.8%, compared to over 4.3% one year ago.

Interest Expense

Interest expense remained at a low level of less than US$1.0 million. As the Group continued to be essentially debt-free, interest payments were made only in relation to some short-term trade financing and small balances of temporary overdrafts or bank loans, and certain long-term loans obtained by a subsidiary company to take advantage of preferential interest rates available in Italy for specified purposes such as research and innovation.

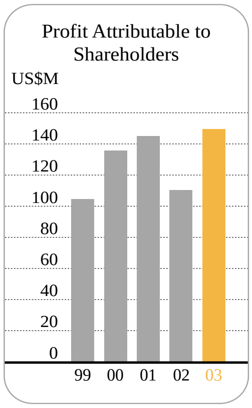
Share of Losses of JV/Associates

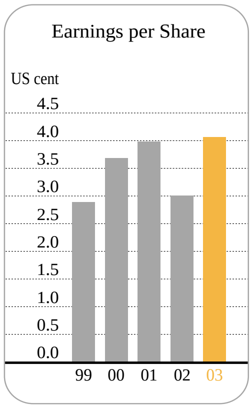
Share of losses of jointly controlled entities/associated companies in the previous year - US$6.7 million - was largely eliminated, down 89.3% to US$0.7 million. The Group is set to achieve a turnaround in both the Nidec Johnson Electric joint venture and the former Brushless Technology Motors joint venture. The share of their losses which was much reduced in the year under review, was nearly wholly offset by the share of profits of the Ri Yong – JEA joint venture in Shanghai, China.

Taxation

Taxes on profits increased 60.3% to US$24.2 million, compared to US$15.1 million, due mainly to an increase in deferred taxation, partly offset by a decrease in overseas taxation.

The Group continued to benefit from certain tax incentives applicable to its operations in China and Thailand.





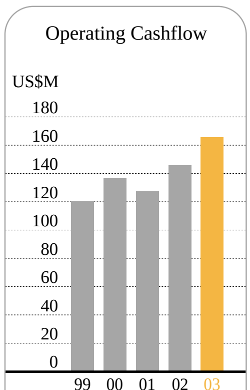
Profit Attributable to Shareholders

Profit attributable to shareholders and earnings per share increased over 35.4% to US$150.0 million and 4.08 US cents respectively.

FINANCIAL CONDITION

Liquidity and Financial Resources

The Group's financial resources and liquidity remained strong, as cash generated from operations reached a record level of US$181.5 million. Net operating cashflow after interest and tax increased to US$165.9 million, compared to US$146.6 million in the previous year. As at 31st March 2003, the Group's total cash and other investments increased 50.3% to US$192.9 million, compared to US$128.3 million one year ago. Total debt was further reduced to US$9.8 million. Hence, the Group had no net debt.



(Previous years' figures have been adjusted to conform with the current year's presentation)

The Group's interest coverage ratio (operating profit and interest expense divided by interest expense) was 200 times, compared to 364 times in 2001/2002.

The Group's principal committed facilities were: (a) a three-year revolving loan in US dollars of 5 million obtained by a marketing subsidiary in the U.S.A. for short-term trade financing; and (b) long-term loans originally in Italian Lira totalling US$2.5 million (of which US$0.3 million being repayable within one year) obtained by Gate S.p.A. to take advantage of preferential interest rates (fixed at between 1.5% and 3.7%) for specified purposes such as research and innovation.

For day-to-day liquidity management and maintaining flexibility in funding, the Group also has access to significant uncommitted short-term borrowing facilities provided by its relationship banks. There are, however, no present needs for borrowings of any material amount.

Funding requirements for capital expenditures are expected to be met by internal cash flows. There are no present plans for material investments or capital assets in the coming years, other than the Group's regular annual capital expenditures required to maintain its growth in sales.

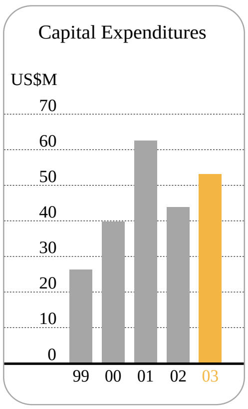
The working capital position of the Group remained healthy. As at 31st March 2003, the current ratio (current assets divided by current liabilities) improved to 3.1 times, from 2.5 times at previous year-end.

The Group's total assets were US$880.7 million and shareholders' funds were US$668.6 million, compared to US$749.2 million and US$556.2 million respectively at the previous year-end.

Assets

Total assets were US$880.7 million, up US$131.5 million or 17.6%, essentially due to increases in current assets.

Non-current assets remained at about previous year's level. An increase of US$13.5 million in properties, plant and equipment, was offset by a decrease of US$5.3 million in investments in finance leases caused by withdrawals from the Group's Staff Home Ownership Scheme; a decrease of US$3.7 million in the share of net assets in associated companies; a decrease of US$2.1 million in investment securities; and a decrease of US$2.9 million in deferred tax assets.

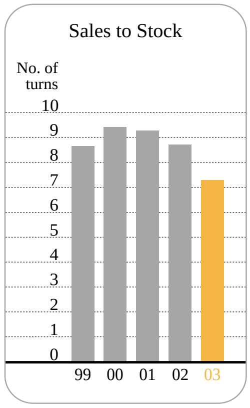


Capital expenditures were US$53.3 million, up 20.9% from US$44.1 million previously, due mainly to a substantially increased production activity during the year. There were re-purchases of housing units from employees under the terms of the Staff Home Ownership Scheme, amounting to US$7.8 million, compared to US$9.6 million in the previous year. Hence, excluding such re-purchases of housing properties, net capital expenditures for the operations were US$45.5 million.

Current assets increased US$131.9 million or 32.1%. All current assets categories posted increases, reflecting the continuing expansion and increased activities of the Group.

Deposits and bank balances, and other investments, representing the Group's surplus cash reserves, amounted to US$192.9 million, up 50.3%, from US$128.3 million one year ago.

Trade and other receivables increased US$19.2 million to US$213.5 million, up 9.9%. Trade debtors increased to US$178.2 million, up 13.5%. The average collection period was improved to 63 days, compared to 72 days previously.



Stocks and work in progress increased to US$130.5 million, up 47.5%. The sales-to-stocks ratio decreased to 7.3 turns, from 8.7 turns in the previous year, due to several special factors. Such factors included certain tight supply situations caused by the substantial reversal of the previous year's demand conditions, increasing transfer of production of acquired businesses into China from North America and Europe; and contingency plans in relation to the Group's first year of implementation of the new enterprise resource planning ("ERP") system. With the supply chain management modules of the ERP in place, intensive efforts are now being made to improve inventory turns in the coming years.

Liabilities

Total liabilities were US$212.1 million, up US$19.1 million or 9.9%, due to an increase of US$9.2 million in trade and other payables; a total increase of US$7.5 million in various provisions; and an increase of US$4.7 million in deferred tax liabilities.

Current liabilities increased US$11.8 million or 7.1%. Trade and other payables increased US$9.2 million or 5.8% to US$167.0 million. Trade creditors increased US$15.0 million or 13.7% over the previous year-end.

Non-current liabilities increased US$7.4 million or 26.0%, due mainly to an increase of US$4.7 million in deferred tax liabilities, and an increase of US$2.5 million in other provisions.

Shareholders' Funds

Shareholders' funds at 31st March 2003 were US$668.6 million, up 20.2%.

Reserves increased US$104.5 million or 20.3%. The retained profit for the year of US$96.8 million (after deduction of a total dividend of US$53.2 million), and an adjustment of US$18.2 million arising on translation of foreign subsidiaries, associated companies and jointly controlled entities, were partly offset by revaluation adjustments totalling US$2.5 million in relation to the Group's investment properties in Hong Kong.

Proposed dividends increased US$8.0 million or 23.3% to US$42.4 million.

There was no change in the share capital.

CASH FLOWS

Our ability to generate cash from operations to grow and expand our business to create shareholder value is one of our fundamental financial strengths.

Net Cash Inflow from Operating Activities

The Group's main source of liquidity continued to be the net cash from operating activities.

Cash generated from operations increased to a record of US$181.5 million, compared to US$165.0 million in 2001/02. After deductions of interest and tax paid, net cash from operating activities increased US$19.3 million to US$165.9 million, up 13.2% from US$146.6 million previously. An increase of US$48.3 million in pre-tax profit, an increase of US$11.7 million in exchange translation differences, and a decrease of US$2.2 million in trade and other receivables, were partially offset by an increase of US$34.6 million in stocks and work in progress, and a decrease of US$14.4 million in trade and other payables .

Investing Activities

Net cash used in investing activities decreased US$14.7 million or 24.8% to US$44.5 million, due mainly to decreases amounting US$21.5 million in cash used in investment in joint ventures and acquisitions, partly offset by an increase of US$10.7 million in purchases of properties, plant and equipment.

Financing Activities

Net cash used in financing increased US$5.8 million to US$53.5 million, due primarily to an increase of US$4.7 million in dividends paid.

Cash And Cash Equivalents

Total cash and cash equivalents as at 31st March 2003 increased US$67.9 million or 55.9% to US$189.4 million, compared to US$121.5 million a year ago. Bank balances and deposits, and other investments totalled US$191.7 million, with short-term bank loans and overdrafts maintained at a low level of US$2.3 million.