

CORPORATE GOVERNANCE

Johnson Electric is committed to achieving high standards of corporate governance that properly protect and promote the interests of its shareholders. In effect this means ensuring that the company's corporate governance practices not only comply with existing regulations, but go well beyond them to reflect the broader requirements of being a good corporate citizen and a constantly evolving external business environment.

Board of Directors

As at 31st March 2004, Johnson Electric's board consisted of three executive directors and eight non-executive directors (of whom six are independent).

The independent non-executive directors are all experienced individuals from a range of industries and geographies. Their mix of skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process.

The biographical details of the directors are provided on pages 34 to 36 of this report.

The Board at Work

The board of directors is accountable to shareholders for the activities and performance of the group. It meets in person on a quarterly basis and on other occasions when a board-level decision on a particular matter is required. The majority of board meetings are scheduled to last one full day, with directors receiving details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Although the capacity of any board to involve itself in the details of a large international business is limited, Johnson Electric aims to provide its independent non-executive directors with extensive exposure and access to its operations and management. Over the past two years, the number and duration of board meetings have increased and the board agenda is structured to address the broad spectrum of key governance issues on a regular and systematic basis. These issues include corporate strategy, financial reporting and control, risk management, and succession planning.

Board Committees

The monitoring and assessment of certain governance matters are allocated to committees which operate under defined terms of reference and are required to report to the full board on a regular basis.

The *Audit Committee* is responsible for monitoring reporting, accounting, financial and control aspects of the executive management's activities. It also monitors the appointment and function of the group's external auditor. The Audit Committee presently comprises two independent non-executive directors (to be increased to three independent non-executive directors by end September 2004).

Two additional committees are being established. The *Remuneration Committee*, which 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. The *Nomination Committee*, which 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. Management and third parties are co-opted to such committees as required.

Internal Control and Risk Management

The board is responsible for the effectiveness of the group's system of internal controls. The internal control systems are designed to meet the group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable but not absolute assurance against misstatement or loss.

The processes to identify and manage the key risks to the achievement of the group's strategic objectives are an integral part of the internal control environment. Such processes, which are reviewed and improved as necessary, include strategic planning, the appointment of senior management, the regular monitoring of performance, control over capital expenditure and investments and the setting of high standards and targets for safety, health and environmental performance.

External Auditor

Johnson Electric's independent external auditor is PricewaterhouseCoopers. The Audit Committee is responsible for considering the appointment of the external auditor and also reviews any non-audit functions performed by the external auditor for the group. In particular, the Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest.

During the 2003 / 04 financial year, the services (and associated remuneration) provided by PricewaterhouseCoopers to the group were as follows:

	2003 / 04	2002 / 03
	US\$M	US\$M
Audit	0.54	0.43
Taxation, due diligence, and other advisory services	0.64	0.42

Communications with Shareholders

Johnson Electric uses a number of formal communications channels to account to shareholders for the performance of the company. These include the Annual Report and Accounts, the Interim Report, periodic company announcements made through The Stock Exchange of Hong Kong, as well as through the Annual General Meeting. Copies of relevant corporate and financial information are also made available through the company's website: www.johnsonelectric.com.

The company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by Stock Exchange Listing Rules. The company supplements and follows up such announcements through periodic presentations, investor road shows, and conference calls with the international investment community. The company also welcomes comments and questions from shareholders at its Annual General Meeting.