A MESSAGE FROM PATRICK WANG

To Our Shareholders,

Johnson Electric achieved a satisfactory improvement in performance in the 2005 financial year compared to the prior year.

Nonetheless, the economic environment for global component manufacturing companies remained challenging. Several of our end-user industries, most notably in the automotive sector, are continuing to undergo significant restructuring that inevitably impacts suppliers. For the second year in succession, we faced very severe increases in raw material prices that put pressure on our gross margins.

In this operating environment it was important for the Group to continue to drive for improved operational effectiveness and maintain a tight control on overheads. Results of these efforts were encouraging and reflect the hard work and initiative of Johnson Electric people across the entire company.

Summary of 2004/05 Results

- For the financial year ended 31st March 2005, total sales were a record US$1,144 million, up 9% compared to the 2004 financial year
- Operating profits after restructuring charges and provisions were US$154 million, an increase of 20%
- Net earnings attributable to shareholders increased by 22% to US$142 million or US 3.86 cents per share
- Johnson Electric's underlying financial position remains excellent and, taking into account cash reserves of US$222 million, the Group is essentially debt free

Dividends

The Board has recommended a final dividend of 1.41 US cents per share, which together with the interim dividend of 0.58 US cents per share, represents a total dividend of 1.99 US cents per share – an increase of 15% over the 2004 financial year.

Sales Environment

Johnson Electric's sales benefited from the combined effects of acquiring the remaining 51% of Nihon Mini Motor not already owned by the Group, incremental new business gains, the strength of the Euro currency against the U.S. Dollar, and product price increases. Nihon Mini Motor represented US$54 million – just over half – of the sales increase during the year.

The 9% overall growth in sales was slightly below our budget target and reflected the relatively difficult end-market conditions noted earlier. The Group derives almost 60% of its sales from the automotive components industry. While Johnson Electric's own Automotive Motors Group ("AMG") commands a very strong competitive position within its particular market segments, its sales were affected by production cutbacks by OEMs and inventory reductions by systems suppliers – particularly in the North American market during the second-half of the year. AMG's total divisional sales for the year were US$680 million, an increase of 3%.

The Commercial Motors Group ("CMG"), the second of the Group's two main operating divisions, achieved sales of US$464 million – up 19% on the prior year due partly to the acquisition of the remaining 51% of Nihon Mini Motor. The strongest performance in this division came from the Home Appliance business unit which continued to gain market share in floor care and white goods motor applications. Other CMG segments generally have shorter product life-cycles and competition is keen.

Maintaining profitability in the face in sharply higher raw material costs

In last year's report to shareholders, I noted that the rapid escalation in global commodity prices had increased the Group's average cost of both steel and copper by approximately 30%. The same trend regrettably continued for much of the 2005 financial year with the Company's weighted average cost of steel increasing by 29%, and the average London spot price of copper increasing by approximately 47%.

Faced with these quite unprecedented and sustained increases in input prices, management has been aggressively working on various initiatives to control production costs and overheads. Where possible, the Group has also moved to increase prices for its motor products to reflect higher raw material costs – especially in new product introductions.

As a result, operating profit margins before restructuring costs and provisions improved slightly to 14.4%, which we consider to be a satisfactory performance given the operating environment of the past year and the fact that new businesses acquired or established during the course of the year had operating margins lower than the average for the Group. Working capital on the other hand increased, largely due to higher raw material price level during the period, though we would expect this negative impact to be temporary.

The results for the year also included a charge of US$10 million for overseas plant restructuring costs and provisions. This is consistent with the Group's previously articulated strategy of enhancing its economics by relocating certain production activities to lower cost locations – principally to China. In the prior year, similar plant restructuring costs and provisions amounted to US$21 million.

Business Development and Long-Term Growth

Johnson Electric is uniquely positioned in the small motor and motor systems industry with the broadest product offering and, we believe, a manufacturing model that offers global customers the lowest total cost solutions to their motor needs.

The main thrusts in our strategy are to continue to drive for efficiency improvements in our core operations, penetrate new market segments that offer profitable opportunities for growth, and to invest in new businesses and activities that effectively leverage our distinct capabilities and know-how in the China component manufacturing sector.

Over the past year we have successfully implemented a series of innovative "factory-floor"-led improvement processes at our primary manufacturing facility in Shajing that are designed to minimise waste and maximise efficiencies in our business systems. For example, we are rapidly approaching the point where we will have essentially eliminated warehouses and will be "flow shipping" to our customers globally.

We continue to search actively for selective motor-related acquisitions that will diversify our product offering and technology capabilities – and which at the same time meet our strict purchase criteria in terms of strategic fit, managerial resources, and price. In October 2004, for example, the Group announced the acquisition of 51% of Nanomotion Ltd., an Israeli producer of high precision piezo ceramic motors. The combination of Nanomotion's proprietary technology with Johnson Electric's market reach and high volume manufacturing strength is expected to open up new market opportunities for the Group.

Two new businesses recently established under the Johnson Electric umbrella to explore growth opportunities in adjacent areas are also making positive progress:

- *Johnson Electric Trading's* goal is to build a sourcing platform in China to supply our global customers with a wide range of motor and motor-related electromechanical components and materials that are not currently manufactured by the Group. Already the operation has "qualified" more than 60 components suppliers in China and the first shipments of traded components to customers were delivered in early 2005.

- *Johnson Electric Capital's* goal is to invest directly in component manufacturing companies in China and overseas that we believe have the potential to be profitably grown by leveraging the Group's substantial China manufacturing resources and expertise. Two initial investments have been made in private PRC businesses in the electrical distribution systems and engine block castings sectors that each offer attractive value-creation opportunities for the Johnson Electric Group.

Outlook

At present, the overall economic outlook for many of our end-user markets remains relatively uncertain and we expect high raw material prices to continue to constrain the potential for margin expansion in the near-term. However, we are confident that our business units have a pipeline of new products which should drive healthy organic growth especially towards the second-half of the 2005/06 financial year. Supplementing growth in the core business, we also anticipate additional contributions from new business enterprises.

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, 13th June 2005