

# BUSINESS REVIEW

## OVERVIEW

The business environment for the 2004/05 financial year was demanding as a result of increasing raw material prices and mixed end-user demand – particularly in the second half when a number of Johnson Electric’s customers in the automotive sector reduced production and inventory levels.

Total Group sales increased by US\$93 million, or 9%, to US\$1,144 million. This overall increase included the impact of acquiring the remaining 51% of Nihon Mini Motor not already owned by the Group, as well as the acquisition of 51% of Nanomotion Ltd. Together these two acquisitions contributed approximately US\$56 million of the total sales increase during the period under review.

On a geographical basis sales to Asia amounted to US\$383 million (33% of total sales), an increase of 21%. Sales to Europe were US\$446 million (39% of total sales) growing by over 5%, and sales to the Americas were US\$315 million (28% of total sales), an increase of 1%.

## DIVISIONAL SALES PERFORMANCE

We manage our business according to customer-focused business units which are grouped under two main operating divisions: Automotive Motors Group and Commercial Motors Group.

### AUTOMOTIVE MOTORS GROUP (“AMG”)

AMG is a leading supplier to the automotive industry supplying motors for a broad range of vehicle applications to OEM, Tier 1 and Tier 2 customers worldwide.

For the 2004/05 financial year, AMG’s overall sales increased by 3% to US\$680 million, accounting for 59% of total Group revenue. The division is organized into separately managed business units aligned to specific types of motor applications in the vehicle.

#### Body Climate

*Windowlift regulators*

*Seat adjusters*

*HVAC blowers*

Body Climate Business Unit sales decreased 9% over the previous year to US\$109 million due to market softness and product mix changes. Unit volumes were down 3% due to European market slowness and higher-priced brushless motor sales volumes reduced as a result of a significant program loss. Customer new project launch delays also resulted in a shortfall in volumes which are now planned for the coming fiscal year.

### Body Instruments

<i>Doorlock actuators</i>	<i>Windshield washer pumps</i>	<i>Headlamp adjusters</i>
<i>Mirror adjusters</i>	<i>HVAC flap actuators</i>	<i>Headlamp washers</i>

Sales of the Body Instruments Business Unit increased by 10% to US\$152 million on unit volumes which were up by 12%. Full year volumes of new project launches, made late in 2003/04, offset market softness, while exchange rate gains were substantially offset by competitive pricing pressure.

### Powertrain Cooling

<i>Cooling fan modules</i>	<i>Cooling fan motors</i>	<i>Electronic speed controllers</i>
----------------------------	---------------------------	-------------------------------------

Sales of the Powertrain Cooling Business Unit increased by 9% to US\$254 million year over year due, in part, to the strengthening Euro. Unit volumes were slightly higher year over year despite weaker overall European vehicle sales. Successful new program launches provided for stable unit sales despite generally unfavorable market conditions. Strong South American unit volumes were largely offset by weaker North American unit volumes in this product segment.

### Powertrain Management

<i>Fuel pumps</i>	<i>Electronic throttle controls</i>	<i>Air pumps</i>
-------------------	-------------------------------------	------------------

The Powertrain Management Business Unit sales increased by 6% over last year to US\$51 million for these fuel system and engine management products. Unit volumes increased by 14% year over year with Euro gains more than offset by competitive price pressures in the fuel pump armature segment. New product launches were delayed as a result of both customer delays and technical set-backs. These projects will now launch in the coming fiscal year.

### Chassis Braking

<i>Anti-lock braking systems pumps</i>	<i>Engine starters</i>	<i>Windshield wipers</i>
<i>Transfer case actuators</i>	<i>Electric parking brakes</i>	<i>Rear windshield wipers</i>

The Chassis Braking Business Unit sales declined 7% year over year to US\$114 million. Stronger starter motor sales for the lawn and garden industry were offset by reductions in ABS pump motor volumes resulting from softer North American vehicle sales and the ending of certain customer programs. Increases in transfer case actuator sales were offset by the phase out of cruise control starters. New front and rear windshield wiper project launches set a strong pace for future growth toward the end of the fiscal year. Production relocation to China of starter motors was substantially completed in the fiscal year, resulting in end of production in Mexico.

## Shanghai Ri Yong – JEA Gate Electric Co. Ltd. – Joint Venture

*Cooling fan modules*

*HVAC blowers*

Sales of the 50% owned Shanghai Ri Yong – JEA Gate Electric Co. Ltd. joint venture decreased 20% with unit volumes down 9% reflecting the recent slowdown in passenger vehicle production in China and increasing component pricing pressures as vehicle manufacturers in China continue to compete for market share by reducing prices.

## COMMERCIAL MOTORS GROUP (“CMG”)

CMG provides tailored motor solutions to global customers in Home Appliances, Power Tools, Business Equipment and Personal Products and the Audio-Visual markets.

For the full year CMG’s sales increased over 19% to a record level of US\$464 million, accounting for 41% of total Group sales.

### Home Appliances

*Floor care products*

*Can openers*

*Electric knives*

*Blenders*

*Juice extractors*

*Slicers*

*Mixers*

*Grinders*

*Coffee makers*

*Fans*

*Vacuum sealers*

*Dish washer actuators*

Sales increased 16% to a record level of US\$171 million, on unit volume growth of 4%. New customer “wins” in White Goods and Floor Care validate our strategy and execution on differentiated motion innovations. We have demonstrated overall strong performance with the leading global companies in their respective industry segments including kitchen appliances, vacuum cleaners, ventilation fans and washing white goods.

### Power Tools

*Hand tools*

*Rotary sanders*

*Machines actuators*

*Gardening tools*

*Bilge pumps*

*Ratchet wrench*

*Hand vacuums*

*Angle grinders*

*Auto polishers*

*Saws systems*

*Heat guns*

Sales increased over 7% to US\$117 million, with unit volume down 4%. A concerted effort in profitable growth segments ensured that financial targets were achieved. The overall market for power tools is expected to be strong with continued consumer preferences towards cordless technologies with increasing features and functions. The Business Unit is well positioned to capitalize on this growth market with proprietary innovations and strong ties to the leading global power tool manufacturers.

## Business Equipment and Personal Products

### Business Equipment

<i>Printer products</i>	<i>Joysticks</i>	<i>Shredders</i>
<i>Gear box products</i>	<i>Paper cutters</i>	<i>Projectors</i>
<i>Copiers</i>	<i>Scanners</i>	<i>Bill validators</i>

### Personal Products

<i>Hair dryers</i>	<i>Massagers</i>	<i>Liquid dispenser</i>
<i>Toys</i>	<i>Tooth brushes</i>	<i>Blood pressure pumps</i>
<i>Hair trimmer/Hair curlers</i>	<i>Shavers</i>	<i>Aquarium products</i>

Sales to the Business Equipment and Personal Products sectors combined, decreased 6% to US\$91 million. Unit volumes decreased by 16%. Continued market pressure in printer applications was partly off-set with innovative encoder and gear-motor product launches. A number of new technology solutions for new customers are expected to contribute to sales in the coming year.

## Audio-Visual and Nihon Mini Motor

<i>CD-ROM applications</i>	<i>DVD product applications</i>	<i>Game controllers</i>
----------------------------	---------------------------------	-------------------------

Sales increased by 136% to US\$85 million (US\$54 million was contributed by Nihon Mini Motor), with unit volume growth of 44%. The acquisition of remaining 51% of Nihon Mini Motor strengthens Johnson Electric's higher-end motion solutions capability – and reduces the business unit's exposure to the commodity-end of the audio visual motor market. New technical solutions in new segments such as stepper motors and television focus are on track to ensure profitable growth.

## HUMAN RESOURCES: INVESTING IN PEOPLE

At financial year-end, Johnson Electric Group employed approximately 32,000 people globally.

### Engineering Talent Management

A central element in Johnson Electric's strategy is the development of an engineering talent pool that is among the finest in our industry. During the year, we embarked on a major initiative in "Johnson City" in southern China to strengthen this major source of advantage for the Group by improving our ability to attract, retain and develop top quality engineers.

Under the direction of the Executive Committee, this initiative has involved extensive employee opinion surveys, streamlining of engineering organizational structures and job titles, compensation benchmarking, re-designing career ladders, and creating new learning and development programs to complement the existing training program.

## Performance Management Process and Leadership

The Group's employee performance management process ("PMP") is the key tool for evaluating and improving the caliber of our people on a continuing basis. It seeks to identify both top performers and underperformers across the organization and helps determine the training needs and career paths of these individuals. Increasing emphasis is being placed on leadership competency development as means to ensure that Johnson Electric builds a strong and broad bench of managerial talent.

## Learning Organization

The Group's specially-tailored program for developing younger managers – known as the "JENESIS" program – continued to serve as an integral part of our people development function.

Building on the success of JENESIS, we have also designed a new Senior Management Development Seminar ("SMDS") that will commence in June 2005. SMDS focuses on senior Johnson Electric managers up to General Manager level and aims to provide an opportunity to tackle relevant business problems and share learnings with peers from various parts of the Johnson Electric organization across the world.

New management programs are being developed and rolled out by Johnson University (JU) to support the Engineering Talent Management initiative. The JU Master of Science (M.Sc.) degree program continues to produce much needed motor engineers each year.

## Responsible Corporate Citizen

The *Safety Is Job One* program in Johnson City, in Shajing, China continues to gather momentum. All business units now come under this program and the Group's overall track record in environmental, health and safety continues to be excellent. In the recent Chairman's Awards, the respected "Leadership Award" category was won by an acknowledged champion of the safety movement.

Externally, Johnson Electric employees have also been active and enthusiastic supporters of a number of worthwhile community and charitable causes. In November 2004, for example, six Johnson Electric teams participated in Hong Kong's annual "Trailwalker" event that involves walking 100 kilometers across eight country parks and around 20 hills in the New Territories of Hong Kong in under 48 hours. Through individual sponsorship, the teams were able to contribute a significant sum to support various Oxfam-administered poverty alleviation and emergency assistance projects in Africa and Asia, including Hong Kong and mainland China.

The Group provides charitable donations and support to local communities where it operates in China and makes an annual contribution to The Community Chest of Hong Kong.