FINANCIAL REVIEW

OVERVIEW

The Group reported profit attributable to shareholders of US$141.6 million, or 3.86 US cents per share for the year ended 31st March 2005, compared to profit attributable to shareholders of US$116.6 million or 3.17 US cents per share in 2003/04.

Profit attributable to shareholders for the year included pre-tax restructuring costs/provisions of US$10.0 million (US$7.1 million net of tax). Excluding the impact of such costs/provisions, profit attributable to shareholders was US$148.7 million, an increase of 12.1%.

In April 2004, the Group acquired the remaining 51% of the equity that it did not already own in Nihon Mini Motor. In October 2004, the Group announced the acquisition of 51% of Nanomotion Ltd., an Israeli producer of high precision piezo ceramic motors. These acquisitions are expected to open up new market opportunities for the Group.

To build a sourcing platform in China to supply global customers with a wide range of motor and motor-related electromechanical components and specialty materials that are not currently manufactured by the Group, Johnson Electric Trading made initial investments in two Hong Kong-based trading businesses in specialty metals and motor-related products during the last quarter of the year under review.

Investing directly in component manufacturing companies in China and overseas, Johnson Electric Capital made two initial investments 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.

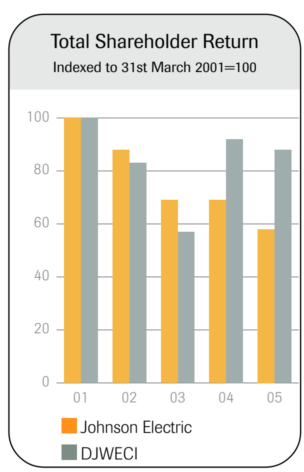
Total considerations for the above acquisitions and investments amounted to US$40.7 million.

TOTAL SHAREHOLDER RETURN (TSR)

For the financial year ended 31st March 2005, the Group achieved a TSR of -16%, compared to -5% for the Dow Jones World Electric Component and Equipment Index ("DJWECI"), which is a representative benchmark index of global industry peers.

For the prior years 2004, 2003, 2002, and 2001, Johnson Electric's TSR was -1%, -22%, -12%, and -6% respectively, compared to 62%, -31%, -17%, and -44% achieved by DJWECI in US dollar terms.

Over the past five years, the compound annual average TSR of Johnson Electric was -12%, compared to -13% 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 centre 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 2005, of the micromotor sales from Hong Kong/China, 82% were in US dollars; 13% in Euro for certain sales to Europe; and 5% in Japanese Yen for certain sales to Japan.

The Body Climate and Powertrain Cooling business units, which together comprise sales of US$363 million representing 32% of the Group's total sales in the year under review, are mainly 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 Chassis Braking 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 balances 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 2005, the surplus cash (comprising cash and other investments) decreased to US$235.1 million, down 5.3% from US$248.3 million at the previous year-end. The Group is substantively debt-free, except for loans amounting to US$16.0 million at the balance sheet date (compared to US$3.1 million a year ago).

As at 31st March 2005, 63% of the surplus cash was held in US dollars (compared to 71% a year ago); and the average duration of the Group's interest-bearing securities and time deposits was increased to 0.6 month, compared to 0.5 month previously. Hence, the price sensitivity to interest rate movements and the foreign exchange risk of such investments continued to be immaterial.

Capital Structure

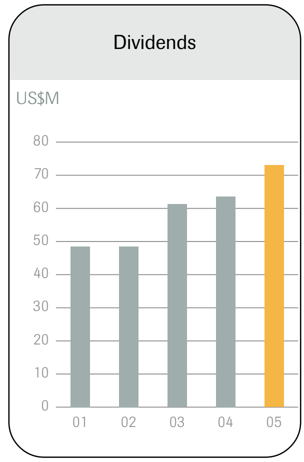
It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure over time. At this stage, however, with continuing strong cash flows, there are no immediate requirements for debt finance.

Total debt remained at a low level of US$16.0 million, compared to US$3.1 million at the last year-end, comprising mainly short-term loans and obligations of US$12.9 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 in Euro obtained by Gate S.r.l., a subsidiary based in Europe, equivalent to approximately US$3.1 million, the Group has no significant exposure to foreign exchange fluctuations in relation to borrowings. Details of long-term loans remaining outstanding are included in Note 24 to the accounts.

Dividend Policy

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



At its June 2005 meeting, the Board of Directors recommended a final dividend of 11 HK cents (equivalent to 1.41 US cents per share), which together with the interim dividend of 4.5 HK cents (equivalent to 0.58 US cents), representing a total dividend of 15.5 HK cents per share (equivalent to 1.99 US cents), a 15% increase over the previous year.

In 2004/05, the dividend payout ratio (including the proposed dividend for the year) was approximately 52% of the profit attributable to shareholders, compared to 55% in 2003/04.

RESULTS OF OPERATIONS

ANALYSIS OF CONSOLIDATED PROFIT AND LOSS STATEMENT

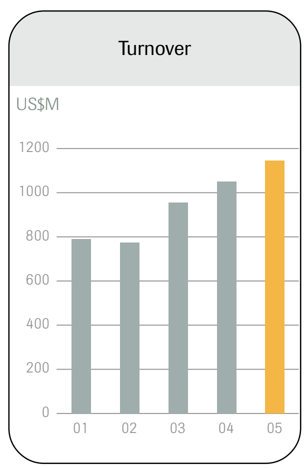
	Existing Business	Acquired/New Business	2005 Total		2004 Total		Increase/ (Decrease)	
	US$M	US$M	US$M	%	US$M	%	US$M	%
Turnover	1,081.7	62.1	1,143.8	100.0	1,050.7	100.0	93.1	8.9
Cost of sales	(761.2)	(50.1)	(811.3)	(70.9)	(737.2)	(70.2)	74.1	10.0
Gross margins	320.5	12.0	332.5	29.1	313.5	29.8	19.0	6.1
SG&A	(175.5)	(12.7)	(188.2)	(16.5)	(179.1)	(17.0)	9.1	5.1
Other revenues	19.9	0.1	20.0	1.7	15.3	1.5	4.7	30.2
EBIT (before restructuring costs)	164.9	(0.6)	164.3	14.4	149.7	14.2	14.6	9.7
Restructuring costs/ provisions	(10.0)	–	(10.0)	(0.9)	(21.3)	(2.0)	(11.3)	(53.1)
EBIT	154.9	(0.6)	154.3	13.5	128.4	12.2	25.9	20.1
Finance costs	(0.2)	(0.1)	(0.3)	–	(0.2)	–	0.1	32.2
Share of profits less losses of JV/Associates	3.2	0.1	3.3	0.3	6.3	0.6	(3.0)	(48.4)
Profit/(loss) before taxation	157.9	(0.6)	157.3	13.8	134.5	12.8	22.8	16.9
Taxation	(15.1)	(0.5)	(15.6)	(1.4)	(17.9)	(1.7)	(2.3)	(13.2)
Profit/(loss) after taxation	142.8	(1.1)	141.7	12.4	116.6	11.1	25.1	21.5
Depreciation & Amortisation	46.5	1.0	47.5	4.2	45.9	4.4	1.6	3.6

TURNOVER

	2005		2004		Increase / (Decrease)	
	US$M	%	US$M	%	US$M	%
AUTOMOTIVE MOTORS GROUP						
Body Climate	109	10	120	11	(11)	(9)
Body Instruments	152	13	138	13	14	10
Powertrain Cooling	254	22	233	22	21	9
Powertrain Management	51	4	48	5	3	6
Chassis Braking	114	10	123	12	(9)	(7)
Sub-Total	680	59	662	63	18	3
COMMERCIAL MOTORS GROUP						
Home Appliances	171	15	147	14	24	16
Power Tools	117	10	109	10	8	7
Business Equipment/Personal Products	91	8	97	9	(6)	(6)
Audio-Visual Products	85	8	36	4	49	136
Sub-Total	464	41	389	37	75	19
TOTAL TURNOVER	**1,144**	**100**	**1,051**	**100**	**93**	**9**

Total turnover was US$1,144 million, an increase of 9% over the level in the prior year. Unit volume grew approximately 8%.

On a divisional basis, Automotive Motors Group increased 3% to US$680 million, representing 59% of total turnover. In addition to the effect of the stronger Euro currency, AMG achieved gains in market share, as a result of new product introductions and increasing outsourcing by customers.



Overall sales of the Commercial Motors Group increased over 19% to a record level of US$464 million, mainly due to the acquisition of the remaining 51% of Nihon Mini Motor, increasing outsourcing by customers and new product introductions.

A discussion on the sales performance of individual business units within the two main operating divisions is provided in the Business Review section on page 9 to 13 of this report.

Cost of Sales and Gross Margins

Gross margins as a percentage of sales decreased from 29.8% for 2003/04 to 29.1% for the current year. The increase in global steel and copper prices continued to have an impact on the Group's cost of goods sold and gross margin. In 2004/05, the Group's weighted average cost of steel increased by 29% and the average London spot price of copper increased by approximately 47%.

Excluding the acquired and new businesses (Nihon Mini Motor, Nanomotion Ltd. and Johnson Electric Trading) that began in the current year, the gross margins would have been 29.6% compared to 29.8% for the same period.

Selling and Administrative Expenses ("SG&A")

Overall SG&A expenses increased 5.1% to US$188.2 million, and as a percentage of sales, decreased from 17.0% to 16.5%. The Company's SG&A expenses increased – partly due to higher international freight and shipping costs and partly due to translation of Euro expenses for US dollar reporting, but for the most part due to the Group's investments in Nihon Mini Motor and Nanomotion Ltd. which added US$12.7 million to SG&A. Excluding this impact, SG&A would have decreased by US$3.6 million to US$175.5 million or 16.2% of sales.

Restructuring Costs/Provisions

Consistent with Johnson Electric's strategy of restructuring those existing and acquired operations whose strategic location and relative cost position do not meet the current needs of the marketplace, the Group completed the closure of its manufacturing operations at Matamoros in Mexico. The closure costs incurred during the year, together with other restructuring costs incurred amounted to US$10.0 million (US$7.1 million net of tax).

Other Revenues

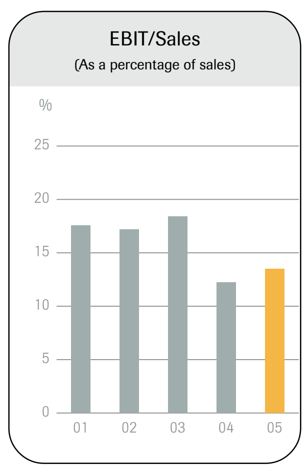
Other revenues were US$20.0 million, up 30.2%, due to an increase of US$4.3 million in scrap sales.

Depreciation Expense

Depreciation expense increased 2.5% to US$44.2 million. As a percentage to sales, depreciation expense decreased to 3.9%, compared to 4.1% in the prior year.

Earnings Before Interest and Tax ("EBIT")

Excluding the restructuring costs/provisions, EBIT was US$164.3 million, an increase of US$14.6 million or 9.7%. The increase was mainly due to an increase of US$19.0 million in gross profit and an increase of US$4.7 million in other revenues, partly offset by an increase of US$9.1 million in selling and administrative expenses. The Group's EBIT (before restructuring costs/provisions), as a percentage of sales, increased from 14.2% to 14.4%.



Finance Costs

Interest expense remained at a low level of US$0.3 million.

Share of Profits of JV/Associated Companies

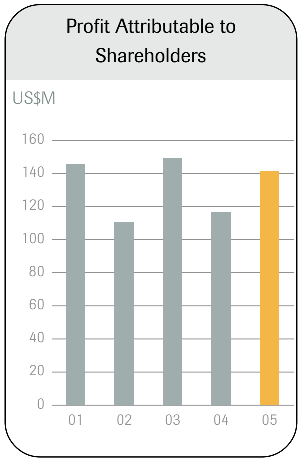
The Group's share of profit of jointly controlled companies decreased to US$3.3 million in the 2004/05 year from US$6.3 million in the previous year, largely due to the reduced profitability of Ri-Yong by US$2.9 million and to the effect of acquiring the remaining 51% of Nihon Mini Motor not owned by the Group.

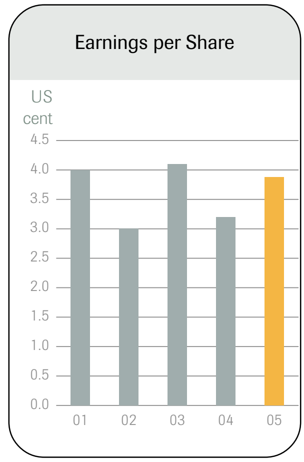
Taxation

Taxes on profits decreased 13.2% to US$15.6 million, compared to US$17.9 million in the previous year.

Profit Attributable to Shareholders

Profit attributable to shareholders and earnings per share increased 21.5% to US$141.7 million and 3.86 US cents, respectively.

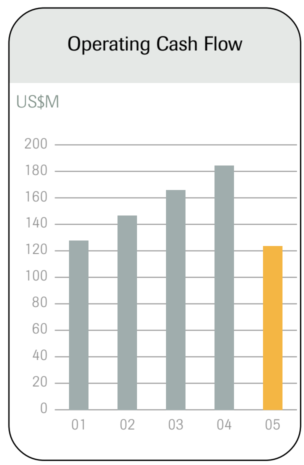




FINANCIAL CONDITION

Liquidity and Financial Resources

The Group's financial resources and liquidity remained strong with US$137.3 million cash generated from operations. Net operating cash flow after interest and tax decreased to US$122.8 million, compared to US$184.4 million in the previous year. As at 31st March 2005, the Group's total cash and other investments decreased 5.3% to US$235.1 million, compared to US$248.3 million one year ago. Total debt increased to US$16.0 million.



The Group's principal committed facilities were short-term bank loans of US$12.9 million and long-term loans in Euro totalling US$3.1 million (of which US$0.1 million being repayable within one year) obtained by Gate S.r.l. to take advantage of preferential interest rates (fixed at between 1.5% and 3.2%) 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 purchases of capital assets other than the Group's regular annual capital expenditures required to maintain its growth in sales.

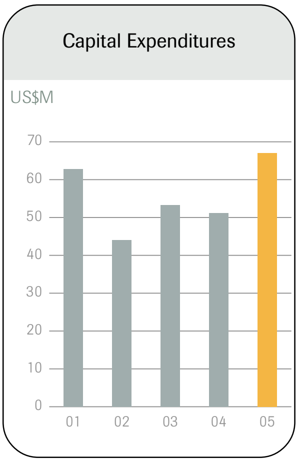
The working capital position of the Group remained healthy. As at 31st March 2005, the current ratio (current assets divided by current liabilities) remained at 3.4 times, which is the same as that at the previous year-end.

The Group's total assets were US$1,062.0 million and shareholders' funds were US$819.9 million, compared to US$953.0 million and US$734.1 million, respectively, at the previous year-end.

Assets

Total assets were US$1,062.0 million, up US$109.0 million or 11.4%, essentially due to increases in current assets.

Non-current assets were US$378.9 million, up US$25.4 million or 7.2%. An increase of US$23.6 million in properties, plant and equipment and an increase of US$23.3 million in intangibles, were partly offset by a decrease of US$10.0 million in the share of net assets in associated companies; a decrease of US$3.0 million in deferred tax assets; a decrease of US$1.2 million in share of net assets in jointly controlled entities; a decrease of US$5.2 million in investments in finance leases; and a decrease of US$2.1 million in investment securities.

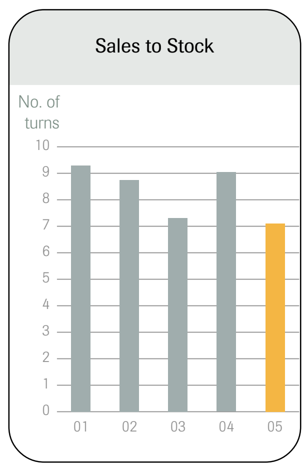


Capital expenditures were US$67.0 million, up 30.7% from US$51.2 million previously. There were re-purchases of housing units from employees under the terms of the Staff Home Ownership Scheme, amounting to US$10.4 million, compared to US$4.5 million in the previous year. Hence, excluding such re-purchases of housing properties, net capital expenditures for the operations were US$56.6 million.

Current assets increased US$83.5 million or 13.9%. An increase of US$48.4 million in trade and other receivables; an increase of US$45.4 million in bank balances and cash; an increase of US$44.6 million in stocks and work in progress; and an increase of US$3.7 million in tax recoverable were partly offset by a decrease of US$58.6 million in other investments.

Deposits and bank balances, and other investments, representing the Group's surplus cash reserves, amounted to US$235.1 million, down 5.3%, from US$248.3 million one year ago.

Trade and other receivables increased to US$278.0 million, up 21.1%. Trade debtors increased to US$230.9 million, up 16.2%. The average collection period increased slightly to 67 days, compared to 65 days previously.



Stocks and work in progress increased to US$160.8 million, up 38.4% mainly due to increases in material prices. The sales-to-stocks ratio was dropped to 7.1 turns, from 9.0 turns in the previous year.

Liabilities

Total liabilities were US$242.2 million, an increase of US$23.3 million or 10.6%, due to an increase of US$12.9 million in bank loans and overdrafts; an increase of US$6.8 million in trade and other payables; an increase of US$1.1 million in minority interests; an increase of US$0.8 million in deferred tax liabilities; an increase of US$1.1 million in tax payable; an increase of US$0.5 million in other provisions; and an increase of US$0.1 million in long term loans.

Current liabilities increased by US$20.8 million to US$199.5 million. Bank loans and overdrafts increased US$12.9 million. Trade and other payables increased US$6.8 million or 3.9% to US$182.1 million. Other payables decreased US$3.0 million or 5.2%, whereas trade creditors increased US$9.8 million or 8.2% over the previous year-end. Tax payable increased US$1.1 million to US$4.5 million.

Non-current liabilities increased US$2.5 million or 6.2%, due mainly to an increase of US$1.1 million in minority interests; an increase of US$0.8 million in deferred tax liabilities; an increase of US$0.5 million in other provisions; and an increase of US$0.1 million in long term loans.

Shareholders' Funds

Shareholders' funds at 31st March 2005 were US$819.9 million, up 11.7%.

Reserves increased US$76.3 million or 11.1%. This was mainly due to the retained profit for the year of US$78.1 million (after deduction of a total dividend of US$63.6 million), and an adjustment of US$8.0 million arising on translation of foreign subsidiaries, associated companies and jointly controlled entities.

Proposed dividends increased US$9.4 million or 22.2% to US$51.8 million.

There was no change in the share capital.

CASH FLOWS

Johnson Electric's ability to generate cash from operations to grow and expand our business to create long-term shareholder value remains one of the Group's fundamental financial strengths.

Net Cash Inflow from Operating Activities

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

Cash generated from operations decreased to US$137.3 million, compared to US$197.2 million in 2003/04. Operating cash flow mainly derived from profit before taxation of US$157.3 million and the adjustments for the increase in working capital and non-cash items. During the year, there was an increase of US$5.4 million in exchange translation differences; an increase of US$24.0 million in trade and other receivables; an increase of US$30.1 million in stocks and work in progress; a decrease of US$13.9 million in trade and other payables; and a decrease in US$3.0 million in share of profit in jointly controlled entities/associated companies. These were partially offset by an adjustment for non-cash depreciation and amortisation of US$47.5 million. After deductions of interest and tax paid, net cash from operating activities decreased US$61.6 million to US$122.8 million, down 33.4% from US$184.4 million previously.

Investing Activities

Net cash used in investing activities increased US$25.4 million or 43.5% to US$83.9 million, due mainly to increase of US$33.2 million in cash used in acquisition through business combinations; an increase of US$12.7 million in cash used in purchase of properties, plant and equipment; an increase of US$4.2 million in cash generated by the sale of investment securities; an increase of US$0.7 million in interest received; an increase of US$5.0 million in dividends received; a decrease of US$8.5 million in cash used in investment in joint ventures and associated companies; and a decrease of US$1.2 million in cash used in the purchase of other investments.

Financing Activities

Net cash used in financing decreased US$4.6 million to US$63.7 million, due primarily to a decrease of US$6.5 million in cash used in repayment of bank and other loans, partially offset by a decrease of US$1.9 million in cash generated from new secured loans.

Cash and Cash Equivalents

Total cash and cash equivalents as at 31st March 2005 decreased US$24.9 million or 10.1% to US$222.1 million, compared to US$246.9 million a year ago.