

A MESSAGE FROM PATRICK WANG

TO OUR SHAREHOLDERS,

Johnson Electric recorded increased sales and earnings in the 2007 financial year in a difficult operating environment. Global component manufacturers like ourselves continue to be heavily impacted by high and volatile raw material prices, rising production costs in mainland China, and soft demand in many important end-customer markets – most notably in the North American and European automotive sectors.

Despite these strong headwinds, the Group continued to make positive progress in integrating and building upon the technology, talent and new customer channels that became part of the business as a result of the acquisitions of Saia-Burgess Electronics and Parlex Corporation.

SUMMARY OF 2006-07 RESULTS

- For the financial year ended 31st March 2007, total sales were US\$2,087 million – an increase of 37% compared to the 2006 financial year
- Operating profit after restructuring charges and provisions was US\$164 million, an increase of 35%
- Net earnings attributable to shareholders increased by 17% to US\$110 million or 2.99 US cents per share
- The Board has recommended a final dividend of 1.09 US cents per share, which together with the interim dividend of 0.58 US cents per share, represents a total dividend of 1.67 US cents per share

SALES PERFORMANCE

The significant increase in sales was primarily due to the inclusion of a full year of sales contributions from Saia-Burgess Electronics and Parlex Corporation which were acquired in November 2005, compared to only five months in the previous year. Excluding the effect of adding those acquisitions and other recently consolidated businesses, including Ri Yong, Group sales grew by an underlying rate of approximately 5%.

The Automotive Products Group (APG), the largest operating division, generated sales of US\$1,051 million – an increase of 35% over the prior year following the combining of Johnson Electric's original automotive motors business units with the automotive actuator, stepper motor, and other auto related products of Saia-Burgess. The division is competing in a market where many of its major OEM customers are experiencing severe financial pressure and overcapacity, although it did benefit from the strength of the Euro currency against the US Dollar during the year. So far, the structural problems facing the automotive industry, along with the nature of many long-term component supply agreements, have constrained the ability of the Group to pass on the full effects of higher raw material prices to our customers.

The Industry Products Group (IPG) recorded sales of US\$722 million – a 20% increase compared to the prior year which was mostly due to the merging of the former Commercial Motors division of Johnson Electric with the Industry division of Saia-Burgess. Progress was made in achieving higher price realisation for selected motor products in this division, though competitive pressures in the more standardised segments of the market continued to be intense.

Other smaller businesses within the Group contributed a combined US\$314 million to total sales. In part this reflected the full year contribution of Parlex Corporation, a flexible printed circuit board business that experienced growth in demand for its products at an annualised rate of approximately 9%, plus a full year contribution from the Controls business of Saia-Burgess. It also reflected strong growth in the Group's Trading business and the consolidation of sales of China Autoparts, Inc., a small but fast growing PRC castings business that became a subsidiary in 2006.

PROFIT IMPROVEMENTS CONSTRAINED BY HIGH INPUT COSTS AND RESTRUCTURING CHARGES

As noted earlier, the profitability of the Group continues to be affected by high and volatile raw material costs – particularly copper, steel, and plastics which together represent the largest portion of the Group's materials purchases. In addition, the company has been bearing the negative financial effects of higher PRC labour rates and the strengthening of the Renminbi currency.

On the positive side, the company continues to make progress in improving its production efficiency through a variety of operational initiatives including in-sourcing the production of selected components and, compared to last year, lower average steel prices also have had a beneficial effect on the business.

Some business units have not been performing at the level expected and management is taking action to address the underlying performance issues. Parlex, for example, despite healthy top-line revenue growth has been behind plan on its restructuring and this has necessitated a strengthening in management controls and processes to ensure that it becomes a profitable contributor to the Group. Similarly, within the acquired Saia-Burgess group of businesses, the Switches operation is requiring focused attention to improve its manufacturing effectiveness and market positioning.

As part of the ongoing process to optimise the global manufacturing footprint of the enlarged business, Johnson Electric incurred total restructuring charges and provisions – including those relating to the shutdown of plants in Dalian, PRC and Cranston, USA – of slightly in excess of US\$12 million, which compared to US\$17 million in the prior year. The payback for these investments will be seen in the coming year.

The combination of the above factors resulted in the Group's operating profit margins being 8%, similar to last year.

TRANSFORMATION TOWARDS ENGINEERED MOTION SYSTEM SOLUTIONS

Twelve months ago, we were in the early stages of integrating two important acquisitions. A year on, I am pleased to report that Saia-Burgess and Parlex are clearly providing us with a set of capabilities and technology that is transforming and strengthening Johnson Electric's long-term prospects.

The Group is evolving from having a leading position in small DC motor products to having what is perhaps the broadest set of engineered motor and motion system *solutions* available in the market today – incorporating DC motors, stepper motors, actuators, solenoids, switches, precision gears, piezo ceramics and flexible printed interconnects. In fact, almost 30% of the combined sales of APG and IPG are already derived from products other than conventional electric motors.

The capability that we now have to develop customised solutions – involving motion sub-systems comprising several of the components that we design and manufacture ourselves – offers significant potential to add greater value to our customers and improve Johnson Electric's own economics over time.

In other respects, too, the business is being transformed. In the past, our operating model was geared to and built around a large-scale, low cost manufacturing platform in China and this remains a key source of advantage for Johnson Electric that we will continue to leverage and invest in. Increasingly though, the new global reach of the Group provides a closer day-to-day interface with the engineering and R&D teams of our key customers in Europe and North America which, in many segments, is an essential element in enabling us to develop innovative and *differentiated* solutions for our customers.

Naturally, this increased product scope and global reach of the enlarged Johnson Electric Group brings with it increased complexity and in consequence it is imperative that we organise and manage our business differently.

In the core operating divisions, management is being more systematic in defining where we wish to compete and in focusing resources on opportunities that offer the best potential for engineered solutions and higher price realisation. At the same time, in the corporate centre, we are strengthening financial planning and monitoring processes to improve the way in which we allocate capital across a more diverse portfolio of business activities. This means that business units not meeting target levels of performance will be subject to intensive scrutiny to determine whether the business can deliver the required returns within a reasonable period of time and whether there continues to be a logical and attractive fit for it within the Group.

OUTLOOK

We are committed to transforming the Johnson Electric Group into a truly global business with market leading operating units producing the world's most innovative motion solutions. We are already a clear market leader in many of our largest market segments, our pipeline of innovative new products is healthy, and our ability to generate strong cash flows remains very sound indeed.

In the short-term, we anticipate aggregate organic revenue growth will remain in the range of 5 to 7 per cent per year. This reflects the impact from having a relatively large proportion of the Group's sales derived from certain segments of the automotive sector which are currently weak as well as our efforts to improve pricing to reflect increases in our cost base and our overall value proposition. We will continue to exit markets where price realisation reflects only the commoditisation of products and where profitability is therefore low. This overall growth also includes continuing success in our Trading business although margins there are, naturally, not comparable to the manufacturing segments.

On the cost side, there are no clear signs at present that the headwinds which have severely dampened Johnson Electric's financial performance in recent years are easing. Raw material prices remain at levels that are substantially above those experienced for much of the past two decades. In addition, operating costs in China continue to rise as a result of the appreciation of the Renminbi currency and upward pressure on wages and employee benefits. To help combat these pressures, we continue to seek new and innovative manufacturing practices by using techniques such as Gemba Kaizen to constantly increase output and improve productivity, and to lower our unit costs.

As a consequence, we currently anticipate that Group profits in 2007–2008 will be similar to this year, reflecting the revenue and cost dynamics referred to earlier and the fact that some of the top line growth will come from segments of the business which have inherently lower margins, such as our Trading business. This anticipated outcome remains contingent on unexpected changes in raw material costs.

Looking two to three years ahead, however, the transformation strategy we are currently pursuing will result in a stronger competitive position in areas where there is the greatest potential for growth, value-add, and improved profitability. With the talented team of people and new technologies that we have assembled over the past years I am confident that we are on a course which will result in a more sustainable and advantaged business over the longer term.

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 Shui-Chung Wang

Chairman and Chief Executive

Hong Kong, 8th June 2007