

# GROUP AND BUSINESS UNIT SALES REVIEW

## OVERVIEW

For the financial year 2006/07, total Group sales increased by US\$561 million, or 37%, to US\$2,087 million. This overall increase included the full-year sales contributions of US\$580 million and US\$123 million by Saia-Burgess and Parlex, respectively. Last year, the Group's results included only five months of sales from these entities. These businesses, together with the consolidation of Shanghai Ri Yong and China Autoparts, Inc. following an increase in shareholdings that converted these former joint venture and associated businesses into majority held subsidiaries, contributed an overall US\$497 million more than in 2005/06. Excluding the effects of these acquired and recently consolidated businesses, the Group's underlying sales grew by 5.1%.

On a geographic basis, sales to Europe were US\$896 million (43% of total sales), an increase of 45%; sales to Asia for the year amounted to US\$686 million (33% of total sales), an increase of 34%; sales to the Americas were US\$505 million (24% of total sales), an increase of 28%.

Following the acquisition of Saia-Burgess Electronics and Parlex Corporation in November 2005, the Group has reorganized parts of its business structure to align more closely with its end-customer markets and to facilitate increased revenue and cost synergies.

The Group's activities are now organized into three primary divisional groupings: Automotive Products Group; Industry Products Group; Johnson Electric Capital and Johnson Electric Trading.

SALES ANALYSIS	2007		2006		Increase / (decrease)	
	US\$M	%	US\$M	%	US\$M	%
<b>AUTOMOTIVE PRODUCTS GROUP (“APG”)</b>	<b>1,051</b>	<b>50</b>	<b>777</b>	<b>51</b>	<b>274</b>	<b>35</b>
– MOTORS	718	34	643	42	75	12
<i>Body Climate</i>	99	5	86	6	13	16
<i>Body Instruments</i>	159	7	152	10	7	5
<i>Powertrain Cooling</i>	351	17	294	19	57	19
<i>Powertrain Management</i>	71	3	63	4	8	12
<i>Chassis Braking</i>	38	2	48	3	(10)	(22)
– ACTUATION SYSTEMS	333	16	134	9	199	149
<b>INDUSTRY PRODUCTS GROUP (“IPG”)</b>	<b>722</b>	<b>35</b>	<b>600</b>	<b>39</b>	<b>122</b>	<b>20</b>
– MOTORS	540	26	532	35	8	2
<i>Home Appliances</i>	193	9	190	12	3	2
<i>Power Tools</i>	160	8	164	11	(4)	(2)
<i>Business Equipment/Personal Products</i>	120	6	100	7	20	20
<i>Audio-Visual</i>	67	3	78	5	(11)	(15)
– ACTUATION SYSTEMS	182	9	68	4	114	168
<b>Johnson Electric Capital</b>	<b>217</b>	<b>10</b>	<b>83</b>	<b>6</b>	<b>134</b>	<b>161</b>
<b>Johnson Electric Trading</b>	<b>97</b>	<b>5</b>	<b>66</b>	<b>4</b>	<b>31</b>	<b>47</b>
<b>TOTAL TURNOVER</b>	<b>2,087</b>	<b>100</b>	<b>1,526</b>	<b>100</b>	<b>561</b>	<b>37</b>

Note: Certain comparative figures have been reclassified to conform with the current year's presentation.

- Johnson Electric Capital consists of three operations: Parlex, Saia-Burgess Controls and China Autoparts, Inc.

## AUTOMOTIVE PRODUCTS GROUP (“APG”)

APG is the combination of what were previously Johnson Electric's "AMG" business and Saia-Burgess's automotive business. Sales revenue for APG this year was US\$1,051 million, accounting for 50% of the Johnson Electric Group's consolidated revenues. APG Sales are analysed in two groupings: Motors and Actuation Systems.

### MOTORS

APG is a leading supplier of electric motors to the automotive industry, providing motors which are used in a broad range of vehicle applications at OEM, Tier 1 and Tier 2 customers worldwide.

For the 2006/07 financial year overall sales increased by 12% to US\$718 million, accounting for 34% of total Group revenue.

The division is subdivided into business units which are aligned to specific types of motor application in a vehicle.

## Body Climate

*Window lift regulators*

*Seat adjusters*

The Body Climate business unit, whose two main products are window lift and power seat adjustment motors, achieved sales of US\$99 million, an increase of 16% from last year.

In spite of North America SUV sales slowing down and adversely affecting seat motors, sales for the BU in North America showed a moderate increase, mainly due to strong sales growth in the power lift gate application.

Through continued growth in window lift motor sales in Europe, and to new Asian customers, we will spread our global reach in this product application.

For power seat motors as well, the BU will supplement its current sales to the North America market by expanding its geographic reach and increasing its European and Asian customer base.

## Body Instruments

*Door lock actuators*

*Windshield washer pumps*

*Headlamp adjusters*

*Mirror adjusters*

*HVAC flap actuators*

*Headlamp washers*

The Body Instruments business unit, which includes micro-motors for door lock and flap actuators, windshield washer pumps and adjusters for mirrors and headlamps, achieved sales of US\$159 million. Body Instruments was able to grow revenues by 5%, this in the face of a tough pricing environment, by maintaining market share in steadily growing core markets, notably doorlock, washer pump and climate control. The coming year will see continued focus on cost reduction activities, product innovation and the capture of synergies with other business units.

## Powertrain Cooling

*Cooling fan modules*

*Cooling fan motors*

*Electronic speed controllers*

*HVAC blowers*

The Powertrain Cooling business unit achieved sales of US\$351 million, an increase of 19% over last year, driven mainly by the first full year consolidation of Shanghai Ri Yong's sales of US\$50 million. Excluding this impact the underlying growth of this unit was 2%, with increased volume from new products launched last year, mainly in the USA, and the addition of electronic speed control units on cooling fan modules. Significant restructuring activity has been conducted in this business in recent years including the transition of some motor production to our China manufacturing site.

## Powertrain Management

*Fuel pumps*

*Electronic throttle controls*

*Air pumps*

The Powertrain Management business unit achieved fuel system and engine management product sales of US\$71 million. The 12% growth in the Powertrain Management sector was achieved in a relatively strong market environment in which fuel efficiency and lower emissions are becoming increasingly important. Ongoing design innovation to improve product performance is the principal focus going forward.

### Chassis Braking

*Anti-lock braking systems pump*

*Engine starters*

*Windshield wipers*

*Transfer case actuators*

*Electric parking brakes*

*Rear windshield wipers*

The Chassis Braking application recorded sales of US\$38 million, a decrease of 22% from last year. Weaker sports utility vehicle sales in North America resulted in lower sales than expected in transfer case actuators and ABS motors. Concentration in the next few years will be on developing the Asian market and on satisfying the growing demand for transmission based products. In Europe, our electric parking brake capabilities have created a foothold for Chassis Braking there.

### ACTUATION SYSTEMS

*Actuators*

*Switches*

*Solenoids*

*Sensors*

This business unit consists of the former Saia-Burgess Automotive Division businesses. This segment achieved sales of US\$333 million, accounting for 16% of total Group revenue. Last year, sales for the five month period following the acquisition of Saia-Burgess amounted to US\$134 million.

The business unit continues to benefit from an increasing demand for comfort and safety in vehicles and from its technology leadership in this field which, in future, will be enhanced further by integration with our competencies in permanent DC motors. This combination will open up significant new development opportunities in the market of automotive actuation systems.

### INDUSTRY PRODUCTS GROUP (“IPG”)

Total sales revenue for IPG was US\$722 million, accounting for 35% of the Group’s consolidated revenues. IPG sales are analysed in two groupings: Motors and Actuation Systems.

### MOTORS

The IPG motor business provides tailored motor solutions to global customers in Home Appliances, Power Tools, Business Equipment and Personal Products, and the Audio-Visual market.

For the full year, IPG’s motor sales increased by 2% to a record level of US\$540 million, amounting to 26% of total Group sales.

### Home Appliances (including Floor and White Goods)

#### **Home Comfort Products**

*Vacuum blower*

*Extractor*

*Brush rolls*

*Hand Dryer*

#### **White Goods Products**

*Dishwasher pumps*

*Dishwasher drain pumps*

*Washing machine*

*Washing machine drain pumps*

*Refrigerator fans*

*Dishwasher actuators*

#### **Food & Beverage Preparation Products**

*Coffee Grinder Assembly*

*Beverage Pumps*

*Food processors*

*Table Blenders*

*Stick Blender*

*Hand Mixer*

The Home Appliances business unit achieved sales of US\$193 million, an increase of 2% over last year. Success in the Beverage Preparation and White Goods segments and a significant number of new product launches, such as power brush rolls, pumps for water filtration, soap dispensing, coffee machines and hand dryer blowers, contributed to strong sales growth but losses in the already mature Food Preparation segment reduced the overall result. This business unit has a number of new product developments in the pipeline for bathroom and other pump applications and now has significant momentum.

### Power Tools

<b>Hand Tools</b>	<b>Garden &amp; Outdoor Products</b>	<b>Auto Accessories &amp; Others</b>	<b>Starters</b>
<i>Drills and Drivers</i>	<i>Leaf blower</i>	<i>Polishers</i>	<i>Lawn and Garden</i>
<i>Saws</i>	<i>Hedge Trimmer</i>	<i>Garage Door openers</i>	<i>Outboard Marine</i>
<i>Sanders</i>	<i>String Trimmer</i>	<i>Machine Actuator</i>	<i>Recreational Vehicle</i>
<i>Grinders</i>	<i>Bilge pump</i>		<i>Winches and pumps</i>
<i>Hand vacuums</i>			

The Power Tools business unit recorded sales of US\$160 million, a decrease of 2% from last year. The decline was primarily a result of a softening US power tool market in the back half of the year and a significant full year decline in the gas engine market that directly impacted starter sales.

Looking forward, we expect the US market to be relatively soft as the US continues to experience lacklustre housing starts. In contrast, demand in other markets is expected to be reasonably strong. Next year's focus will be on a number of new products including the patented line of "high performance compact motors".

### Business Equipment and Personal Products

<b>Business Equipment</b>	<b>Personal Products</b>	<b>Health Care &amp; Fitness Products</b>	<b>Home Security &amp; Automation</b>
<i>Printer products</i>	<i>Hair dryers</i>	<i>Medical Nebulizer</i>	<i>Roller blinds</i>
<i>Gear box products</i>	<i>Toys</i>	<i>Blood pressure pumps</i>	<i>Home lock</i>
<i>Copiers</i>	<i>Hair trimmer</i>	<i>Treadmill</i>	
<i>Joysticks</i>	<i>Hair curlers</i>	<i>Breast pump</i>	
<i>Paper cutters</i>	<i>Massagers</i>		
<i>Scanners</i>	<i>Tooth brushes</i>		
<i>Shredders</i>	<i>Shavers</i>		
<i>Projectors</i>	<i>Liquid dispenser</i>		
<i>Bill validators</i>	<i>Aquarium product</i>		

The Business Equipment and Personal Products business unit achieved sales of US\$120 million, an increase of 20%. The growth was fuelled largely by increased sales in the new Medical and Health Care products segment, in the printer segment, and in gear box assemblies. Sales grew by 39% in the Medical and Healthcare segment, by 38% in the printer segment because of newer products such as encoder motors and subsystems, and by 46% in gear box assemblies. Sales in the remaining segments were generally flat due mostly to tough competition based on pricing.

The business unit is poised for growth based on new innovative products such as brushless DC motors and geared motors which were launched in the last quarter of the year. The business unit is also expecting growth as it increases penetration in new market segments such as fitness equipment and home security.

### Audio-Visual (including Nihon Mini Motor)

*CD-ROM applications*

*DVD product applications*

*Game controllers*

*Digital camera*

*Digital video camera*

Audio Visual business unit recorded sales of US\$67 million, a decrease of 15% from last year. This decline is the result of the strategic decision to exit commoditized products in light of stiff price competition and to focus on higher margin segments in the industry. With the exception of digital cameras, sales were down across all major segments, including game controllers, projectors, IT and audio equipment. New product launches of game controllers and web cam applications with new global customers in North America and Europe position this business unit for increasing success in the next 2-5 years.

### ACTUATION SYSTEMS

*Actuators*

*Switches*

*Solenoids*

*Sensors*

This unit is comprised mainly of former Saia-Burgess businesses. This segment achieved sales of US\$182 million for full year, accounting for 9% of total Group revenue. In the 5 months of last year sales amounted to \$68 million. The Actuator and Switch units are working closely with other business units to cross sell and develop value added Industrial systems. The primary focus is on higher value subsystems in key markets such as Medical, Security, HVAC and Circuit Breakers. What was formerly a regional business under Saia-Burgess is now being expanded to capture global market opportunities.

### OTHER BUSINESSES

#### Johnson Electric Capital

Johnson Electric Capital performs two main functions within the Johnson Electric Group. First, it aims to invest in component manufacturing and technology businesses adjacent to the core motion systems operations where we believe the Group's distinctive competencies can bring added value. Second, it functions as a corporate "incubator" for smaller businesses that will benefit from receiving individual and close management oversight to enable them to reach their full potential.

Businesses currently under the Johnson Electric Capital umbrella include Parlex Corporation, Saia-Burgess Controls, and China Autoparts, Inc. During the year, the Group divested its 50% interest in an electrical distribution systems business in the PRC.

Parlex, a flexible printed circuit board and interconnect solutions company, achieved sales of US\$123 million and revenues grew at an annualized rate of approximately 9% . These revenues are for the full twelve month period, compared to having only five months post-acquisition sales included in revenue last year. Parlex did not perform at the level expected and management is taking action to correct the underlying performance issues. Restructuring activities have taken longer than planned which has necessitated a strengthening of management controls and processes to ensure that Parlex becomes a profitable contributor to the Group as soon as possible.

Saia-Burgess Controls, a successful niche player in the European programmable controls industry, achieved sales of US\$65 million. The financial year 2006/07 was similarly the first full year of contribution to the Group since the acquisition of its parent company, Saia-Burgess Electronics Holdings.

China Autoparts, Inc., which is the parent company of a leading producer of high quality iron casting parts for the automotive sector in China, achieved sales revenue of US\$29 million. Over the past two years, Johnson Electric Capital has increased its equity ownership interest in this rapidly growing private enterprise in a series of transactions and now owns 55.3% of the company.

### **Johnson Electric Trading**

The financial year 2006/07 was the second full year of operations of Johnson Electric Trading. The business was established to build a sourcing platform in China to supply global customers with a wide range of motor and motor-related electro-mechanical components and sub-systems materials that are currently not manufactured by the Group.

Johnson Electric Trading achieved sales of US\$97 million for the financial year, an increase of 47% over the prior year. The business continued to expand selectively its sourcing networks and now has over 120 “qualified” components and subsystems suppliers in China. Customer programs in motors and motor systems started to yield results in the year under review and Johnson Electric Trading is on track to be a meaningful contributor to the Group’s growth in the foreseeable future.

## **INVESTING IN PEOPLE**

At the end of the financial year, Johnson Electric Group has over 40,000 employees and subcontract workers globally.

### **Talent management**

The principal objective of Johnson Electric’s organization-wide talent management programme, internally referred to as “Session C”, is to identify and develop top leadership talent to meet the Company’s global requirements for bench strength and a talent pipeline. Consisting of identification, assessment and development phases, Session C is a *CEO-led* process that is linked to our strategic planning and business development activities. With two annual cycles already completed, Session C was a key process used in integrating our acquisition of Saia-Burgess in late 2006. Individual development plans for Johnson Electric talent are implemented and monitored and in-depth interviews are conducted to truly understand the dynamics of our talent and how they would like to be developed. Management succession plans are also products of the Session C process.

### **Performance Management Process and Leadership**

The performance management process (PMP) provides high quality input into our Session C talent management programme. Leadership competencies within the PMP are heavily emphasized, ensuring that we build strength for the future. We continue to work hard on ensuring consistency of measurement across business units and functional organisations.

### **Learning Organization**

The third annual Senior Management Development Seminar (SMDS) is being kicked off in July 2007 to an international cast of senior managers who spend six days offsite to learn and to network. JE-specific cases now complement Harvard and Ivey business cases, thus providing particular relevance to the work. We continue to run our flagship *JENESIS*® residential leadership development programme annually as an integral part of our talent development process.

Our Chief Executive plays a very visible role in these JE proprietary development programmes reflects the importance of learning and development in Johnson Electric.

A new Core Management Programme has been “market-tested” and is being rolled out by Johnson University (JU). The JU Master of Science (M.Sc.) degree program continues to produce highly qualified and much needed motor engineers each year.

### **Responsible Corporate Citizen**

We continue to receive new ISO14001 registrations in Johnson City, in Shajing, China while most of our sites globally are already ISO registered. The success achieved by the *Safety Is Job One* movement maintains Johnson City’s world class status in safety.