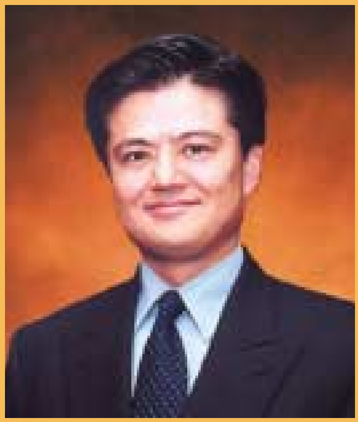
A MESSAGE FROM PATRICK WANG

To Our Shareholders



For the financial year ended 31st March 2001, **JOHNSON ELECTRIC** achieved double-digit sales growth and a further year of increased earnings.

- Total sales rose to US$790 million; an increase of 17% over 2000.
- Net earnings before provision for restructuring costs increased by 20% to US$162 million.
- Net earnings after provision for restructuring costs increased to a record of US$145 million; up 7%.
- Earnings per share increased 7% to 4 US cents per share.
- Taking into account cash reserves, the Group ended the year debt free.

In the year 2001, Johnson Electric continued to make investments in people, technology, new product programmes, and new ventures in order to ensure that the competitive advantage of the Group is maintained for the longer term. As part of this effort, the decision was taken to accelerate the restructuring of our North American motor systems business which will result in the closure of one plant and the relocation of its activities to lower cost locations. While some of these initiatives have resulted in near-term cash outflows, we are highly confident that they form the necessary foundation for preserving and enhancing the value of our shareholders' equity.

DIVIDENDS

Your Board has recommended a final dividend of 0.94 US cents per share, which together with the interim dividend of 0.38 US cents, represents a total dividend of 1.32 US cents – an increase of 7% over 2000.

BUSINESS ENVIRONMENT

Notwithstanding a somewhat tougher operating environment in the second half of the year, Johnson Electric achieved year-on-year sales improvements in each of its core micromotor business segments. Excluding Johnson Electric Automotive, Inc. ("JEAI"), the European and US motor systems business acquired in 1999, overall micromotor sales increased by 11% to US$472 million.

The Group's activities span a number of product applications and geographic markets, each with its own pattern of end-user demand and competitive dynamics. In this regard, sales of Johnson Electric's products do not necessarily mirror the mainstream macro-economic indicators that have recently weakened in North America and, to a lesser extent, in Europe.

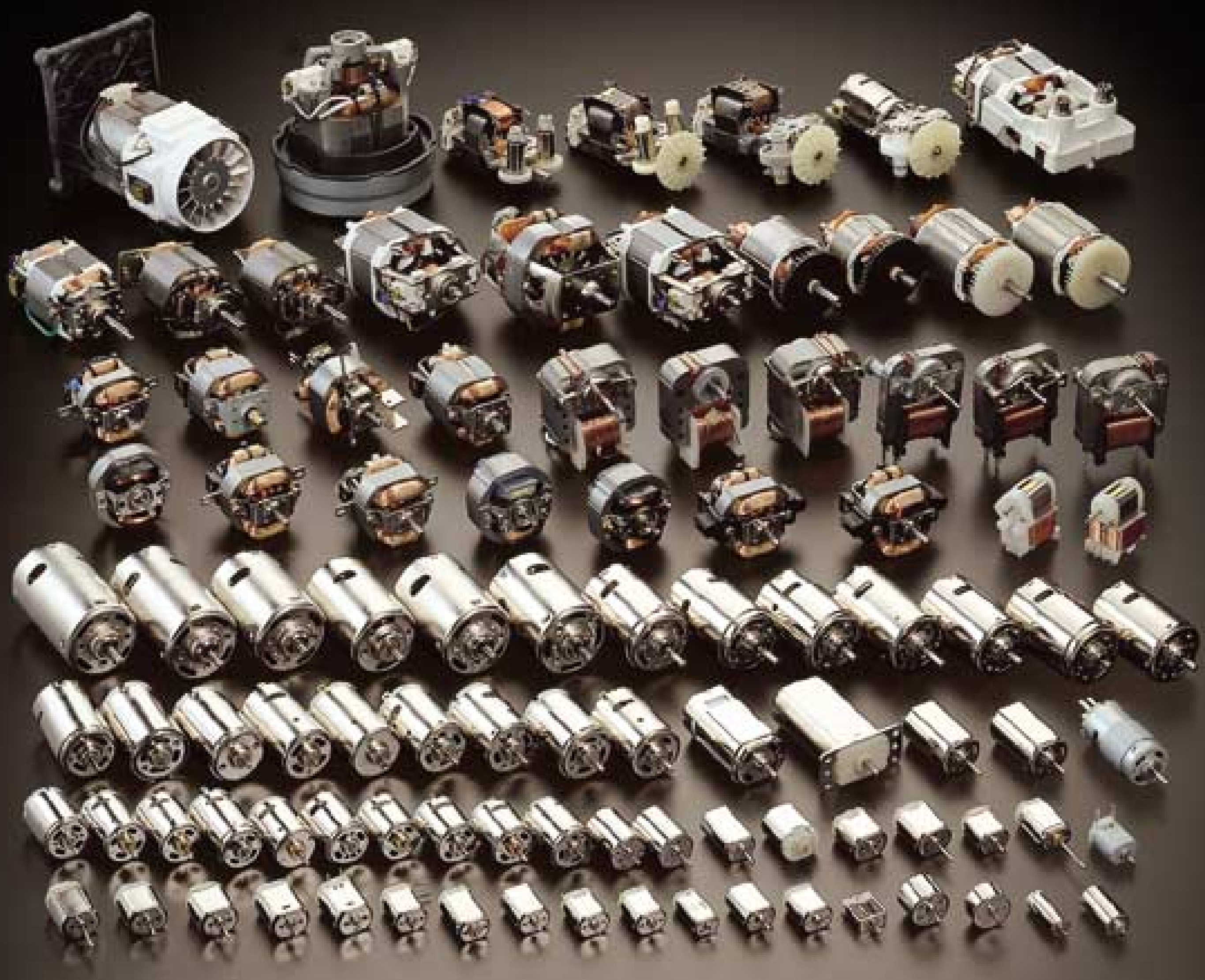
For example, in automotive components – which is Johnson Electric's largest product application segment – sales improved significantly during the second half of the financial year despite a general perception of a depressed global automotive market. Such improvements reflect the Group's very strong competitive position in certain product areas and the fact that the automotive industry operates according to car model cycles that can have a disproportionately positive impact on nominated component suppliers when a new model commences production.

In the power tools and home appliances sectors, on the other hand, the competitive environment worked against the Group in the second half of the year. Both sectors experienced a decline in second-half year-on-year sales, though recorded positive gains for the financial year overall. Again, the sales picture was quite varied across geographies: European sales were much weaker than in North America during the year as a result of competitive price pressures, a weaker Euro, and selected inventory reductions by some customers and distributors.

Business equipment and personal products segments both recorded strong double-digit sales gains. Audio-visual segment revenues grew at a triple-digit rate and included the first sales from Nidec Johnson Electric, a joint venture between Johnson Electric and Nidec Corporation of Japan, which commenced production in July 2000.

Sales of JEAI, which encompasses the two motor systems divisions of Johnson Electric Automotive Motors ("JEAM") in North America and Gate S.p.A. ("Gate") in Europe, grew to US$318 million, an increase of 26% over the previous financial year that included only nine months' contribution from these two businesses. Gate, which is substantially the larger division, performed quite satisfactorily given the market environment and weak Euro during the year. As previously announced, JEAM is undergoing a major restructuring program designed to enhance its competitiveness that will result in the closure of its manufacturing plant in Columbus, Mississippi, and the transfer of production responsibilities to plants in China and Mexico.

JOHNSON ELECTRIC MOTORS



Johnson Electric Motors are used in a variety of consumer and business product applications, including automotive components, power tools, home appliances, business equipment, personal products and audio-visual.

OPERATING PROFITABILITY AND RESTRUCTURING PROVISION

The effects of several one-off factors had an impact on the Group's profitability during the year. Four factors contributed to a decline in margins to below the Group's normal target levels:

- First, the Nidec Johnson Electric joint venture commenced operations during the year, but as expected for a start-up business it will need to build further scale over the coming months in order to achieve its planned profitability levels;
- Second, the Group incurred higher raw material and operating costs. The additional production costs partly reflected investments made in preparation for the relocation of the products currently manufactured in the Columbus plant, and partly in anticipation of new product requirements in existing micromotor segments. Related to this is the fact that until the restructuring of JEAM is completed, the North American motor systems division is not making a material profit contribution;
- Third, as the Group's market position in Europe increased through the acquisition of Gate, so too did its exposure to the Euro. Gate, in fact, achieved improved earnings in Euro terms during 2001, but after translation into US dollars the weakness in the European currency reduced Johnson Electric's reported earnings;
- Fourth, as noted above, the weaker macro-economic environment in several OECD countries has had a mixed impact on Johnson Electric. While some sectors are showing healthy resilience, others are feeling the effects of a more uncertain and cautious appetite for spending on the part of consumers and businesses – and in some instances this has been reflected in price pressure and lower sales volumes for the Group's micromotor products.

Although each of the above factors individually had a relatively modest impact on margins, taken together the effects were clearly significant on this year's overall operating performance.

In addition, the Group incurred a one-time pre-tax provision for restructuring costs amounting to US$27 million to provide for the closure of the Columbus plant. Net provision after deduction of the relevant tax benefits, was US$17 million. Excluding the restructuring provision, the Group's net recurring profits attributable to shareholders amounted to US$162 million.

COMPETITIVE ADVANTAGE AND GROWTH

The current weakness in a number of North American and European manufacturing industries is symptomatic of a more fundamental restructuring in the global manufacturing supply chain. Globalisation, industry consolidation and excess capacity in some sectors are forcing manufacturers of all types to re-think how and where they source components and finished goods.

As we have noted in previous years' annual reports, Johnson Electric is particularly well placed to benefit from the trend of US and European manufacturers outsourcing the production of micromotors and motor systems. The Group has established a unique low cost production and sourcing platform in southern China that now has the scale and capabilities to sustain our competitive advantage as a global leader. "Johnson City", the Group's Shajing manufacturing base and supplier community, is pivotal to Johnson Electric's growth strategy.

The acquisition of JEAI has been an especially important element in Johnson Electric's corporate development. Not only has it broadened and deepened our customer relationships in the automotive components sector, it has also enhanced our understanding of how we can compete and win over the longer term by leveraging our core competencies.

The planned closure of the Columbus plant and relocation of its production activities reflects the reality that Johnson Electric can manufacture and deliver certain products to North American customers at substantially lower costs from China or Mexico than it presently costs from a US-based plant. Similar cost advantages are achievable in other parts of the motor manufacturing value chain from tooling through to sub-assembly activities.

Certain products and processes – advanced engineering design, for example – benefit from being located close to car OEM manufacturing centres. We continue to leverage our China-based production platform to reduce delivered costs for our customers, enabling the Group to increase sales and profits. Achieving growth along those two dimensions is a prerequisite for a dynamic and rewarding environment for our people, as well as for sustained value creation for our shareholders.

OUTLOOK

Looking ahead, the Group's various business units are each executing business plans that emphasize a combination of increasing market share of existing and new customers, as well as new product introductions to penetrate new market segments. While the current economic downturn in North America undoubtedly adds a degree of uncertainty to end-user demand, we are optimistic that Johnson Electric's diverse spread of product applications and geographic markets will deliver healthy sales growth in the 2001/02 financial year.

The prospects for margin improvements in the coming year are also very encouraging. Among other factors, Nidec Johnson Electric should begin to make a contribution to profits and, once the restructuring of JEAM has been completed, we also anticipate a rapid, positive impact on operating margins from North American motor systems sales.

Finally, Johnson Electric continues to explore other options for growing the business through acquisition, joint venture, or strategic alliance. The significant industry restructuring in global automotive components and other manufacturing sectors offers the Group with a number of interesting potential alternatives. However, management is acutely aware of the complexity and risks associated with acquisition-led growth and is determined to ensure that any potential acquisition passes the Group's rigorous screening criteria in terms of strategic fit, integration requirements and price.

On behalf of the Board, I would like to thank all of our employees for their hard work, enthusiasm and commitment over the past year. To our shareholders, customers, business partners and suppliers, I look forward to another year of productive growth.

On behalf of the Board

PATRICK WANG SHUI CHUNG

Chairman & Chief Executive

Hong Kong, 8th June 2001