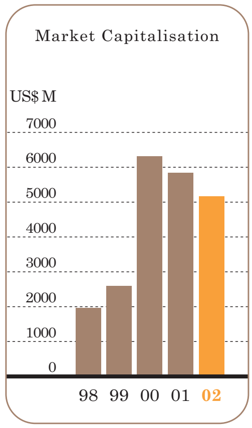
FINANCIAL REVIEW

OVERVIEW



The Group reported profit attributable to shareholders of US$110.8 million, or 3.0 US cents per share for the year ended 31st March 2002, compared to US$145.3 million or 4.0 US cents respectively in 2000/01.

In July 2001, the Group acquired certain manufacturing assets of the electric motor components business of Textron Automotive Company's Kautex Textron division in the U.S. for a consideration of US$12.5 million. After a short sub-contracting with Textron Automotive Co. for about 6 months, the transfer of its manufacturing to the Group's plants in Mexico and China was completed in the year under review.

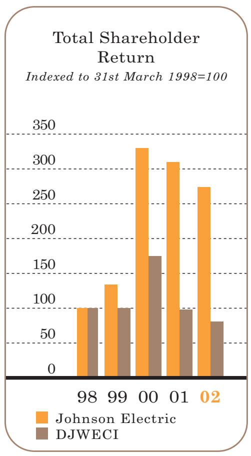
In August 2001, the Group acquired certain selected manufacturing assets of the automotive electric seat motor business of ArvinMeritor's Light Vehicle Systems division for a consideration of US$11.7 million. ArvinMeritor manufactured seat motors in France, Mexico and the U.S. The consolidation of such seat motor production at our plant in China is expected to be completed in mid-2002.

The businesses acquired from Textron and ArvinMeritor during the year have since become the responsibility of Automotive Motors Hong Kong, as their production will mostly be transferred to and consolidated at the Group's manufacturing complex at Shajing in China.

In November 2001, the Group acquired the remaining 49 percent shares of Manufactura de Motores Argentinos S.r.l. ("MMA") and of Gate do Brasil Ltda. ("Gate do Brasil") for a total consideration of US$5.8 million. MMA manufactures cooling fan modules in Argentina for local automotive markets and Gate do Brasil is an assembly plant for cooling fan modules in Brazil to support local automotive manufacturers.

In November 2001, the Group completed the restructuring of Johnson Electric Automotive Motors ("JEAM") in the U.S. in accordance with the plans as announced in our previous annual report, which involved the closure of its plant at Columbus, Mississippi, U.S.A., and the transfer of its production to the Group's manufacturing complex in China.

TOTAL SHAREHOLDER RETURN (TSR)



For the financial year ended 31st March 2002, the Group achieved a total shareholder return of -12%, compared to -17% for Dow Jones World Electric Component and Equipment Index (DJWECI), which is representative benchmark index of global industry peers. For the prior years 2001, 2000 and 1999, the Group's annual TSR was -6%, 146% and 34% respectively, compared to -44%, 74% and 0% achieved by the DJWECI in US dollar terms.

Over the past five years, the compound annual average TSR of Johnson Electric was 41%, compared to -3% achieved by the DJWECI.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The Group's financial risk management is the responsibility of its treasury function at the corporate centre based in Hong Kong, which is controlled by polices approved by the top management.

FOREIGN CURRENCY

The Group operates globally and is thus exposed to foreign exchange risk.

In relation to the core micromotor business based in Hong Kong, the major revenue generating currencies continue to be the US dollar, Euro, and Japanese Yen, whereas the major currencies in purchase commitment currencies 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 option contracts, with a view to reducing the net exposure to currency fluctuations. Such contracts have a duration of less than a year. For the year to 31st March 2002, of the core micromotor sales, 82.0% of the revenue currency was in US dollar; 9.7% in Euro for certain sales to Europe; and 6.7% in Japanese Yen for certain sales to Japan.

In relation to Johnson Electric Automotive, Inc. ("JEAI"), its major division namely Gate S.p.A. ("Gate"), with sales of over US$187.0 million, representing 63.8% of JEAI's sales, is a Europe-based business with both revenue and costs essentially in Euro. Hence the exposure to US dollar is limited to the net position. In the case of JEAM 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 balance, and maintains such a high level of liquidity that the Group is always well placed to take advantage of any growth opportunities for the business. The surplus cash is held in US dollar, except certain temporary balances which may be held in such non-US currencies as required from time to time pending specific payments.

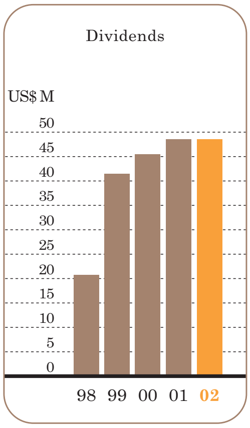
As at 31st March 2002, the surplus cash (comprising cash and other investments) increased to US$128.3 million, up 45.0% from US$88.5 million at the prior year-end. The Group is essentially debt-free, except certain loans amounting to US$11.5 million, compared to US$11.6 million one year ago.

Of the surplus cash, 73% was in US dollar; and the average duration of the Group's interest-bearing securities and time deposits was reduced to 0.6 month, compared to about one 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 Group's policy to maintain an appropriate mix of equity and debt to ensure an efficient capital structure. At this stage, however, with continuing strong cashflow, there are no immediate requirements for debt finance. As noted above, the Group had no net debt as at the end of this financial year under review.

Total debt remained at a low level of US$11.5 million, compared to US$11.6 million at the prior year-end, comprising short-term bank loans and overdrafts of US$4.3 million, and long-term loans of US$7.2 million. Details of long-term loans remaining outstanding are included in Note 23 to the accounts. Borrowings at fixed interest rates amounted to approximately US$2.2 million.



The Group's borrowings were primarily denominated in US and Hong Kong dollars. Except for the foreign exchange exposure in relation to the loans in Italian Lira obtained by Gate, totalling approximately US$2.2 million, the Group has no significant exposure to foreign exchange fluctuations in relation to borrowings.

DIVIDEND POLICY

It is the Group's intention that the dividend paid should, over the long term, provide shareholders with relatively consistent dividend income.

In view of the Group's growth potential, it is also intended to accumulate substantial cash reserves to take advantage of any expansion or acquisition opportunities that may arise from time to time.

At its June 2002 meeting, the Board of Directors recommended a final dividend of 7.3 HK cents (equivalent to 0.94 US cents) per share, which together with the interim dividend of 3.0 HK cents (equivalent to 0.38 US cents) per share, represented a total dividend of 10.3 HK cents (equivalent to 1.32 US cents) per share, same as the prior year.

In 2001/02, the dividend payout ratio (including the proposed dividend for the year), was approximately 44% of the profit attributable to shareholders, compared to 33% in 2000/01.

RESULTS OF OPERATIONS

ANALYSIS OF CONSOLIDATED PROFIT AND LOSS STATEMENT

	Existing business US$M	Acquired business US$M	2002 Total US$M	2001 Total US$M	Increase/(Decrease) US$M	%
Turnover	720.0	53.6	773.6	790.2	(16.6)	(2.1)
Cost of sales	(483.8)	(46.3)	(530.1)	(530.1)	(0.0)	0.0
Gross margin	236.2	7.3	243.5	260.1	(16.6)	(6.4)
SG&A	(116.8)	(3.1)	(119.9)	(106.7)	13.2	12.4
Restructuring provisions	0.0	0.0	0.0	(26.7)	(26.7)	(100.0)
Other revenues	9.4	0.0	9.4	12.2	(2.8)	(23.0)
EBIT	128.8	4.2	133.0	138.9	(5.9)	(4.2)
Interest	(0.4)	0.0	(0.4)	(0.5)	(0.1)	(20.0)
Share of profits less losses of JV/Associates	(6.0)	(0.7)	(6.7)	(2.3)	4.4	191.3
Profit before taxation	122.4	3.5	125.9	136.1	(10.2)	(7.5)
Taxation	(14.0)	(1.1)	(15.1)	9.2	(24.3)	(264.1)
Outside interests	0.0	0.0	0.0	0.0	0.0	0.0
Profit after taxation	108.4	2.4	110.8	145.3	(34.5)	(23.8)
Depreciation & amortisation	33.0	1.1	34.1	35.7	(1.6)	(4.5)

TURNOVER

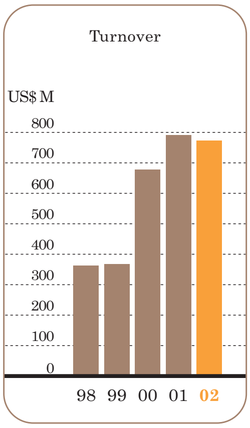
	2002		2001		Increase/(Decrease)	
	US$M	%	US$M	%	US$M	%
AUTOMOTIVE MOTORS GROUP						
Automotive Motors Hong Kong	188	24	143	18	45	32
JEAI	293	38	318	40	(25)	(8)
Sub-total	481	62	461	58	20	4
COMMERCIAL MOTORS GROUP						
Home appliances	105	14	109	14	(4)	(3)
Power tools	82	11	104	13	(22)	(21)
Business equipment/ Personal products	80	10	97	12	(17)	(18)
Audio-visual	26	3	19	3	7	36
Sub-total	293	38	329	42	(36)	(11)
Total turnover	774	100	790	100	(16)	(2)

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

Total turnover was US$774 million, a decrease of 2% compared to the prior year's US$790 million. Unit volume was flat. Excluding the sales of US$54 million from acquisitions during the year, total turnover was US$720 million, down 9%, due to the sharp and sudden economic downturn in our major markets coupled with customer inventory corrections.

On a divisional basis, sales of the Automotive Motors Group increased 4% to a record level of US$481 million, with the acquisitions during the year.

Sales of Automotive Motors Hong Kong, representing the core automotive micromotor business based in Hong Kong, increased 32% to US$188 million, due to the contributions by the acquisitions from Textron and ArvinMeritor.



Excluding these acquisitions, sales decreased 5% to US$136 million, with unit volume down 3%, reflecting the general slowing of the automotive industry. Geographically, European sales suffered a larger decline, down nearly 12% in value, and 7% in unit volumes, whereas sales in North America decreased 1% in value and 4% in unit volumes. Sales to Asia Pacific, however, increased 15%, with unit volume growth of 22%, as our efforts to penetrate into the Japanese and Korean automotive markets started to produce results.

Sales of Gate based in Europe decreased 2% to US$187 million. In Euro terms, sales were flat.

Sales of JEAM based in North America were US$104 million, down 18%, with unit volume down 7%, due to double-digit declines in such major products as starter motors, and motors for wipers and transfer cases. The motor for anti-lock braking systems, currently accounting for 30% of JEAM's total sales, was an exception, as sales to this application, fell only slightly by 2% with unit volume growth of 3%, notwithstanding the interruptions caused by the relocation of its production into China for most of the year. With its new competitive cost base in China and the increasing acceptance of this emergency braking feature in North America, this is expected to be a major growth product application for JEAM in the coming years.

Overall sales of the Commercial Motors Group decreased 11% to US$293 million, due mainly to the general slowing in consumer spending.

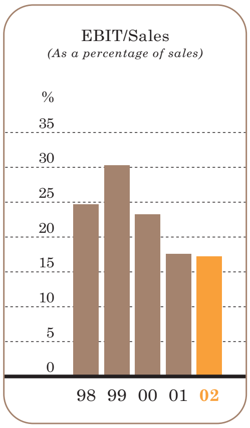
Sales to home appliances sector decreased only modestly by 3% to US$105 million, with unit volume down 12%. Sales to the floor-care product applications continued to grow at a rate nearly 29%, although the increase was more than offset by double-digit declines in sales to such small appliances as mixers, electric fans, and can openers. Geographically, sales to the major markets held up relatively well: sales to North America increased over 4%; and sales to Hong Kong/China were nearly about prior year's levels.

Sales to the power tools industry decreased 21% to US$82 million, with unit volume down 10%, due to downturns in all major markets, coupled with sharp inventory corrections on the part of customers. Sales to our major markets namely Hong Kong/China and North America, were down 10% and 24% respectively. Sales to Europe and Asia Pacific, together accounting for only 20% of this segment sales, reported still larger double-digit declines, but the increasing trend of customer outsourcing in the U.S. and Hong Kong/China regions, is expected to be the major growth driver for our sales within the next few years.

Sales to business equipment and personal products sectors combined, decreased 18% to US$80 million, with unit volume down 13%, following a strong growth of over 25% in the prior year.

Sales to the business equipment sector decreased 18% to US$45 million, with unit volume down less than 10%, due mostly to a double-digit decrease in customer demand for the printer applications. Geographically, sales to Asia Pacific, accounting for nearly half of the segment sales, were supported at about prior year's level by the increasing trend of customer outsourcing. Most declines were seen in our smaller markets namely Europe and North America, together accounting for only 26% of the segment sales.

Sales to personal products sector decreased 18% to US$35 million, with unit volume decline of 16%, due mainly to a decrease of nearly 20% in the sales to hair dryers which continued to account for over 60% of this segment sales. Sales to our major markets namely Hong Kong/China and Asia Pacific, decreased about 26%, whereas sales to North America increased 10% due to more sales for the toys.



Sales to the audio-visual industry increased 36% to US$26 million, with unit volume growth of 48%. We started to supply motors for DVD applications, in addition to such applications as CD-ROM and games controllers. This was part of the international joint venture with Nidec Corporation of Japan, which commenced from July 2000. Sales were not expected to be material in relation to the Group's business until after the year under review, due to the weak customer demand in its target Asia Pacific market.

EARNINGS BEFORE INTEREST AND TAX ("EBIT")

EBIT was US$133.0 million, a decrease of US$5.9 million or 4.2%. Excluding the previous year's provision for JEAI's costs of restructuring which was of a non-recurring nature, the decrease was US$32.6 million, or 19.7%, due to a decrease of US$16.6 million in gross profit; a decrease of US$2.8 million in other revenues; and an increase of US$13.2 million in selling and administrative expenses.

Excluding acquisitions completed during the year, the gross margins held up relatively well, quite close to the previous year's level of nearly 32.9%, despite lower sales and pricing pressures in certain segments. Hence, the Group's decrease in gross margins was attributable to the consolidation of sales from acquired businesses with gross margins of only about 13.6% in the year of acquisition. Significant margin expansion is anticipated for the coming year as most of the production for the new businesses will be transferred to the Group's facilities in China.

The Group started to see more significant contributions to gross margins from the anti-lock braking system ("ABS") motors which production was taken over by the Group's manufacturing facilities in China upon the closure of JEAM's plant in Mississippi as part of its restructuring during the year.

Other revenues decreased by US$2.8 million, due mainly to lower interest income from the surplus cash and lower scrap sales.

The Group's selling and administrative expenses as a percentage of sales, increased to 15.5%, representing an increase of two percentage points over the prior year's level of 13.5%. Most of the increases reflected our continued investment in building a business infrastructure, including people and our new enterprise resource planning system, to facilitate and support Johnson Electric's long-term growth plans. Its scalability is expected to be such that increasing sales volumes will translate quite rapidly into significant margin expansion and shareholder value enhancement in the coming years.

COST OF SALES

Overall cost of sales, as a percentage of sales, increased from 67.1% to 68.5%. This increase was attributable to the higher cost of sales (as high as 86.4%) in the businesses acquired during the year, pending the transfer of their production to Johnson Electric's manufacturing complex in China.

Secondly, the negative impact of pricing pressures on sales generally, were offset by favorable purchase price variations in the purchases of materials.

Cost of Materials. During the year, copper prices continued to be soft and hit the low of US$1,318 per tonne in July 2001. The average spot price of London copper in 2001/02 was US$1,526 per tonne, down nearly 16% from US$1,807 per tonne in the previous year. Our weighted average cost of steel also decreased by about 16%.

SELLING AND ADMINISTRATIVE EXPENSES ("SG&A")

The Group's SG&A increased 12.4% to US$119.9 million, compared to US$106.7 million in the previous year, reflecting our continued investment in building a business infrastructure to facilitate and support Johnson Electric's long-term growth plans. Other increases included SG&A expenses of US$3.1 million attributable to the businesses acquired during the year; an increase of US$1.3 million in foreign exchange loss; and an increase of US$2.8 million in the loss realized on disposal of staff housing properties, plant and equipment.

OTHER REVENUES

Other revenues decreased 23.0% to US$9.4 million, due to a decrease of US$1.1 million in scrap sales, and a decrease of US$1.5 million in interest income and income from finance leases.

INTEREST EXPENSE

Interest expense remained at a low level of US$0.4 million, compared to US$0.5 million in the prior year. As the Group continued to be essentially debt-free, interest payments were made only in relation to some short-term trade financing and small balances of temporary overdrafts or bank loans; and certain long-term loans obtained by Gate to take advantage of preferential interest rates available in Italy for specified purposes such as research and innovation.

SHARE OF LOSSES OF JV/ASSOCIATES

Share of losses of jointly controlled entities/associated companies was US$6.7 million, compared to US$2.3 million in the previous year, comprising mainly of our share of US$2.0 million of losses in the Nidec Johnson Electric joint venture, and of US$4.9 million of the losses in the Brushless Technology Motors ("BTM") joint venture in Italy, partly offset by our share of profits of US$0.9 million of the Ri Yong - JEA joint venture in Shanghai, China. As both the Nidec Johnson Electric and BTM businesses were started in prior years, such initial losses were of a start-up nature.

Actions have been taken to achieve a turnaround in both businesses in 2002/03. In the case of Nidec Johnson Electric, the business is expected to grow beyond its breakeven point during the new financial year. In the case of BTM, new pricing arrangements with the customers started to be effective from 2002/03.

TAXATION

Taxes on profits were US$15.1 million, compared to a net tax credit of US$9.2 million in the prior year, as the Group returned to a more typical level of taxation charge on profits. This was a large swing in taxes as much as US$24.3 million, with a significant impact at the after-tax profit level.

The Group continued to benefit from certain tax incentives applicable to its operations in China and Thailand.

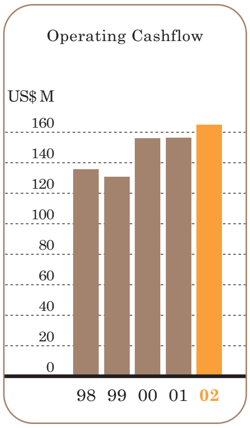
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders and earnings per share decreased 23.8% to US$110.8 million and 3.0 US cents respectively.

FINANCIAL CONDITIONS

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial resources and liquidity remained strong, as our operating cashflow reached a record level of US$165.0 million. As at 31st March 2002, the Group's total cash and other investments amounted to US$128.3 million, compared to US$88.5 million at 2000/01 year-end. Total debt was US$11.5 million, compared to US$11.6 million at the previous year-end. Hence, the Group had no net debt.



The Group's interest coverage ratio (profit before tax and interest expense divided by interest expense) was 364 times, compared to 299 times previously.

The Group's principal committed banking facilities were (a) a three-year revolving loan in US dollars of 5 million obtained by a marketing subsidiary in the U.S.A. for short-term trade financing; and (b) long-term loans in Italian Lira totalling US$2.2 million (of which US$0.2 million being repayable within one year) obtained by Gate, to take advantage of preferential interest rates (fixed at between 1.5% and 3.75% per annum) for specified purposes such as research and innovation.

For day-to-day liquidity and maintaining flexibility in funding, the Group has also 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 capital assets other than the Group's regular annual capital expenditures required to maintain its growth in sales.

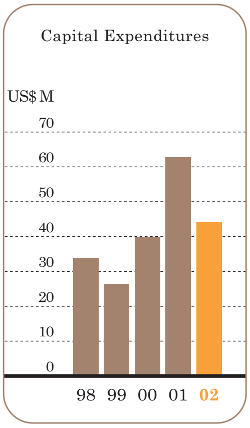
The working capital position of the Group remained healthy. As at 31st March 2002, the current ratio (current assets divided by current liabilities) improved to 2.5 times, from 2.4 times at the previous year-end.

The Group's total assets were US$749.2 million and shareholders' funds were US$556.2 million, compared to US$679.5 million and US$501.5 million respectively at the previous year-end.

ASSETS

Total assets were US$749.2 million, up US$69.7 million or 10.3%, mostly due to an increase in current assets.

Non-current assets increased US$14.5 million, or 4.5% from US$323.6 million at the previous year-end, due mainly to an increase in intangibles comprising goodwill of US$19.3 million generated from acquisitions; and development costs of US$3.3 million; partly offset by a decrease of US$6.7 million in investments in finance leases caused by withdrawals from our Staff Home Ownership Scheme ("the housing scheme").

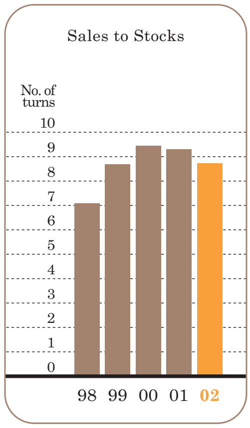


The Group's capital expenditures decreased to US$44.1 million, down 29.8%. In both years, there were re-purchases of housing units from employees under the terms of the housing scheme, amounting to US$9.6 million in 2001/02 and US$9.2 million in 2000/01. Disposals of housing units purchased under the housing scheme (including the re-purchases from employees) were made for US$11.5 million. Capital expenditures for the operations, excluding re-purchases of housing properties, were approximately US$34.5 million.

Current assets increased US$55.2 million, or 15.5%.

Deposits and bank balances, and Other investments, representing the Group's surplus cash reserves, increased to US$128.3 million, up 45.0%.

Trade and other receivables increased to US$194.3 million, up 6.5%. Trade debtors increased slightly to US$157.0 million, up 1.7%. The average collection period was 72 days, compared to 66 days previously, due partly to the longer credit terms which are typical in relation to the businesses acquired during the year. Continuing efforts are being made to improve the collection period.



Stocks and work in progress increased to US$88.5 million, up 4.1%. The sales-to-stocks ratio was 8.7 turns, compared to 9.3 turns, due primarily to the additional finished goods being produced by ArvinMeritor under a related subcontracting, supply and transition agreement and an increase in finished goods to cope with a recovery in customer demand from about the end of the year. Inventory turns in relation to raw materials and work in progress at the manufacturing level, in fact, improved. Raw materials and work in progress together, decreased 12.8% from the previous year-end levels. Significant improvements are expected from next year onwards, as soon as we complete the current implementation of the Supply Chain Management modules of our new enterprise resource planning system at all major operating locations.

LIABILITIES

Total liabilities were US$193.0 million, up US$15.1 million or 8.5%, primarily due to an increase in current liabilities.

Current liabilities increased US$15.9 million, or 10.7%. Trade and other payables increased to US$157.9 million, up 11.4%, as trade payables increased 48.5% to US$109.7 million, reflecting longer credit periods available from the suppliers.

Non-current liabilities remained practically unchanged at about the prior year-end level, as an increase of US$2.0 million in bank loan was offset by a decrease in specific loan obtained by Gate and a decrease in other provisions.

SHAREHOLDERS' FUNDS

Shareholders' funds at 31st March 2002 were US$556.2 million, up 10.9%.

Prior year-end reserves was restated to exclude the deduction of the proposed dividends of US$34.4 million, in accordance with the relevant Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants. Compared to the restated balance of US$461.2 million, reserves as at 31st March 2002 increased US$54.6 million or 11.8%, as the retained profit for the year of US$62.3 million (after deduction of dividends of US$48.5 million paid), was partly offset by an adjustment of US$5.9 million arising on translation of foreign subsidiaries, associated companies and jointly controlled entities.

Proposed dividends were maintained at the previous year's level of US$34.4 million.

There was no change to the share capital.

CASH FLOWS

Our ability to generate cash from operations to grow and expand our business to create shareholder value is one of our fundamental financial strengths.

NET CASH PROVIDED BY OPERATING ACTIVITIES

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

Net cash provided by operating activities increased by 5.4% to a record of US$165.0 million, compared to US$156.5 million in 2000/01. An increase of US$4.9 million in trade and other receivables and a decrease of US$1.1 million in trade and other payables, were partly offset by a decrease in stocks and work in progress.

RETURNS ON INVESTMENTS AND SERVICING ON FINANCE

The net cash outflow increased US$1.1 million, due mainly to an increase of US$0.7 million in dividends paid and a decrease of US$0.7 million in interest received, partly offset by a net increase of US$0.3 million in dividend received and gross earnings from investments in finance leases.

TAXATION

Cash paid decreased US$10.1 million, due to a decrease of US$13.3 million in Hong Kong profit tax paid, partly offset by an increase of US$3.2 million in overseas tax paid.

INVESTING ACTIVITIES

The net cash outflow increased US$19.1 million to US$63.8 million, due mainly to net cash paid of US$30.5 million for acquisitions completed during the year, partly offset by a decrease of US$14.2 million in net additions to fixed assets (purchases less sales).

FINANCING ACTIVITIES

Net cash inflow was less than US$1.0 million, as no material financing activities were undertaken during the year.

CASH AND CASH EQUIVALENTS

Total cash and cash equivalents as at 31st March 2002 increased to US$121.5 million, up 48.5%, from US$81.8 million at the previous year-end. Deposits and bank balances, and other investments, amounted to US$125.8 million, with short-term bank loans and overdrafts maintained at a low level of US$4.3 million.