

# BUSINESS REVIEW

## OVERVIEW

Trading conditions improved significantly in contrast to the exceptionally difficult sales environment in the preceding year. For the year ended 31st March 2003, Group sales increased 23.5% to a record of US\$955 million.

Overall demand for Johnson Electric's products was broad based. Robust growth was experienced in virtually all of our major product applications and geographic regions. In part, this reflects a pick-up in customer orders from the depressed levels of a year earlier. However, a larger growth factor was the continuation of the primary underlying drivers of demand for Johnson Electric's products: namely growth through new motor applications and new product introductions; and the sustained trend towards outsourcing of component manufacturing by multinational branded goods producers seeking to reduce costs and increase competitiveness.

Geographically, the demand for the Group's products remains well balanced. Each region reported healthy growth in what remains a comparatively challenging and uncertain global macroeconomic environment. Sales to Europe increased 29% to US\$371 million (representing 39% of total Group sales). Sales to North America increased 13% to US\$299 million (31% of total sales). Sales to the Hong Kong/China region (21% of total sales) and Asia Pacific region (9% of total sales) grew by 25% and 40%, respectively.

## DIVISIONAL SALES PERFORMANCE

We manage our business according to customer-focused business units which are grouped under two main operating divisions: Automotive Motors Group ("AMG") and Commercial Motors Group ("CMG").

### AUTOMOTIVE MOTORS GROUP

AMG sales to the automotive components sector increased 26% to a record level of US\$606 million, accounting for 63% of total sales.

#### Automotive Motors Hong Kong

*Seat adjusters*

*Door locks*

*Fuel pumps*

*Water pumps*

*Flap actuators*

*Head lamp adjusters*

*Electronic throttle controls*

*Mirror adjusters*

*Head lamp washers*

*Air pumps*

*Sensor fans*

Sales of Automotive Motors Hong Kong increased over 25% to US\$235 million, on unit volume growth of 23%. This mainly reflected market share gains through new product introductions and additional outsourcing business.

Robust performances by individual product applications were seen in door locks, seat adjusters, head lamp adjusters, mirror adjusters, electronic throttle controls. Export sales to Europe and North America grew 32% and 16%, respectively.

### **Johnson Electric Air Flow (“JEAF”)**

*Cooling fan modules*

Sales of JEAF in Europe, which supplies engine cooling fan motors and modules to customers worldwide, increased 18% to US\$200 million, with unit volume up 26%, due mainly to the favorable impact of the continued strength of the Euro currency and the increasing electronics content of new products.

The production of cooling fan motors in China was successfully started during the year under review. An initiative has also been undertaken to source components in China for motors made in Europe. Both actions are expected to enhance JEAF’s competitiveness and profitability in the coming years.

### **Johnson Electric Geared Automotive (“JEGA”)**

*Window lifts*

*Pump systems*

*HVAC fans*

*Windshield wipers*

Sales of JEGA in Europe increased 154% to US\$49 million, on unit volume growth of 60%. This includes the sales contribution of US\$24 million from Brushless Technology Motors S.r.l. (“BTM”), which became a wholly-owned subsidiary of Johnson Electric upon the acquisition of the remaining 49% of shares in BTM for a consideration of US\$0.9 million in July 2002. Excluding the sales contribution from BTM, JEGA’s sales increased 33%, as a result of significant gains in the penetration of the window-lift market. With the production of new window-lift motors in China, JEGA is well positioned for future growth.

### **Johnson Electric Automotive Motors (“JEAM”)**

*Anti-lock braking systems (ABS)*

*Starters*

*Wipers*

Sales of JEAM in North America increased 17% to US\$122 million, due to strong demand for ABS motor products and a recovery in the demand for starter motors in the marine, and lawn and garden markets in the U.S.A. Unit volumes increased 60% reflecting, as part of its plan to improve profitability, the shift in product mix away from certain larger, less profitable products.

JEAM’s growth in the coming years is expected to be driven by new product introductions for specific market needs in the U.S.A., including new starter motors and new motors for wiper and transfer case applications. The

completion of the transition of its production of ABS motor products to China will shortly be followed by the transition of the starter and wiper motor products. This is expected to continue to improve JEAM's profitability and competitive position for further growth in the North America region.

### Reorganization of AMG

AMG's business unit structure was re-organized towards the end of the financial year in order to align it more closely to the main automotive systems categories of major automotive customers. Effective April 1, 2003, the five business units of AMG will comprise of: *Body Instruments* (motors for washer pump, door lock, flap actuator, mirror adjuster applications); *Powertrain Management* (motors for fuel pump, electronic throttle control, exhaust gas re-circulation); *Body Climate* (motors for seat adjuster, window lift, HVAC applications); *Powertrain Cooling* (cooling fan motors and modules); and *Chassis Braking* (motors for ABS pumps, wipers, starters).

## COMMERCIAL MOTORS GROUP

CMG's sales increased over 19% to a record level of US\$349 million, accounting for 37% of total sales.

### Home Appliances

<i>Floor care products</i>	<i>Can openers</i>	<i>Electric knives</i>
<i>Blenders</i>	<i>Juice extractors</i>	<i>Slicers</i>
<i>Mixers</i>	<i>Grinders</i>	<i>Coffee makers</i>
<i>Fans</i>	<i>Vacuum sealers</i>	<i>Dish washer actuators</i>

Sales increased 19% to a record level of US\$124 million, on unit volume growth of 10%. This reflected the high growth in product applications with larger size motors with typically higher average selling prices. Growth in sales for floor care products, for example, continued to be robust – up 20% to nearly US\$50 million. Demand is expected to be sustained by the increasing trends of outsourcing by multinational branded floor care products manufacturers and our new motor product introductions.

Our new motors for such small kitchen appliances as blenders, juicers and coffee grinders also contributed to the overall double-digit growth. Sales of motors for blenders, for example, grew more than 50% to over US\$21 million.

### Power Tools

<i>Drills</i>	<i>Screw drivers</i>	<i>Heat guns</i>
<i>Gardening tools</i>	<i>Rotary sanders</i>	<i>Machine actuators</i>
<i>Hand vacuums</i>	<i>Bilge pumps</i>	<i>Ratchet Wrench</i>
<i>Saws systems</i>	<i>Angle grinders</i>	<i>Auto polishers</i>

Sales increased over 28% to US\$105 million, with unit volume up 27%. This was driven by the combination of increasing outsourcing on the part of our major customers, market share gains, and new product introductions.

Sales to two major applications namely drills and gardening tools, accounting for nearly 50% of the segment sales, increased 19% and 77%, respectively.

## Business Equipment and Personal Products

### Business Equipment

<i>Printer products</i>	<i>Joysticks</i>	<i>Shredders</i>
<i>Gear box products</i>	<i>Paper cutters</i>	<i>Projectors</i>
<i>Copiers</i>	<i>Scanners</i>	<i>Bill validators</i>

### Personal Products

<i>Hair dryers</i>	<i>Massagers</i>	<i>Liquid dispensers</i>
<i>Toys</i>	<i>Tooth brushes</i>	<i>Blood pressure pumps</i>
<i>Hair trimmers/Hair curlers</i>	<i>Shavers</i>	<i>Aquarium products</i>

Sales to the business equipment and personal products sectors combined, increased 13% to US\$90 million. In business equipment, sales grew over 15%, on unit volume growth of 34%. This was largely due to an increase of 27% in dollar sales of printer products. In personal products, sales increased 10%, with unit volume up 12%. Demand conditions improved, as most of the major product applications such as hair dryers, hair clippers, and massagers returned to double-digit growth rates.

## Audio-Visual

<i>CD-ROM applications</i>	<i>DVD product applications</i>	<i>Game controllers</i>
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Sales increased by 11% to US\$29 million, with unit volume growth of 40%, reflecting the challenges in penetrating the Japanese market that continue to be experienced by the Nidec Johnson Electric joint venture business.

In May 2003, the Group acquired a 49% stake in Nihon Mini Motor (“NMM”) from Mitsubishi Materials Corporation for approximately US\$12.3 million. The business, which has annual sales of approximately US\$45 million, is expected to provide for excellent growth opportunities in view of NMM’s existing product line and strong customer relationships in the Japanese camera motor market. Johnson Electric will also be seeking to grow sales beyond the Japanese market by leveraging its own global sales channels.

## QUALITY AND RELIABILITY

Johnson Electric’s various Quality and Reliability initiatives continued to deliver excellent results during the year under review.

The complementary efforts of TCM (Total Control Methodology) and Gemba Kaizen activities continued to drive significant improvements in process control effectiveness, sustaining world-class levels of In-process defect rates

in most Business Units. These accomplishments fueled a 41% reduction in customer and field complaints. TCM will be extended to the Group's component manufacturing operations in the coming year and this is expected to improve the quality performance and cost effectiveness of these operations to similar world-class levels.

The second major Quality initiative is our Cost of Quality program. Johnson Electric has been using a comprehensive Quality Cost tracking system to capture internal, external, appraisal and prevention costs for all operations company-wide. This system enables our Business Units to identify and focus on situations where unnecessary costs arise due to scrap or defective products, as well as processes not fully optimized. Quality Cost savings of approximately US\$3 million were achieved compared with the previous financial year's performance – representing a 13% improvement in the overall Cost of Quality.

The third major Quality initiative underway in Johnson Electric is the global integration of our Quality Systems, which will be completed by the end of calendar 2003. As a result of this program, the Quality Systems of Johnson Electric's facilities worldwide will be upgraded and certified to ISO 9000:2000, as well as to the TS-16949 standard for our automotive business. This upgrading will facilitate a comprehensive re-assessment and updating of all our Quality processes and procedures to ensure their effectiveness, and guarantee Johnson Electric's continued commitment to high quality products and customer success.

## INVESTING IN PEOPLE

At the financial year-end, the Group employed approximately 30,000 people in more than a dozen countries worldwide. As *the* growth leader in our industry, we continue to search for talent on a global basis and have made significant progress in building a truly international team of people at all levels in our organization.

Attracting, retaining and developing this diverse pool of talent through professionally managed Human Resources processes is pivotal to the long-term success of Johnson Electric.

### Organizational Learning and Performance

Performance management goes hand in hand with organizational learning. As part of the Group's *Simplify, Standardize and Globalize* (SS&G) initiative, our performance management system was revised and rolled-out globally. One significant new feature of the system is a focus on behavioral (leadership) competencies and personal development.

In response to the strategic needs of our business, we launched the JENESIS program during the year. It is a leadership development program that periodically brings together emerging young managers from across the

Company for a week of experiential learning, team assignments, and interaction with senior Johnson Electric management. An informal “no-holds barred” question and answer session with the Group CEO completes the learning experience.

Johnson University (JU), the Company’s internal training organization established in 1998, continues to conduct vocational and technical training programs under its seven colleges. During the last fiscal year, JU made significant contributions towards our advances in Gemba Kaizen and production processes for our components operations.

### **People Calibration**

Management continuity and effective succession planning is a top corporate priority. Over the course of the year, the Company’s Executive Committee has dedicated a considerable amount of time to “calibrating” the performance profiles of Johnson Electric managers at senior levels across the organization. In supplementing individual performance scorecards and assessments by immediate supervisors, this calibration process seeks to pinpoint the career development needs of our people and also specify potential gaps that need to be filled as the Group continues to grow.

### **Responsible Corporate Citizen**

Through the initiatives of the Human Resources and Environmental Health and Safety functions, Johnson Electric is committed to investing in and supporting the communities in which it conducts business. We work hard to support our people and their interests and, at the same time, reduce the impact of our business activities on the global environment. Procedurally, ISO 14001 and OHSAS 18001 are some of the relevant registrations that we have secured, and continue to maintain, in various sites around the world.

During the first half of 2003, Hong Kong and some communities in Mainland China were significantly impacted by the outbreak of SARS (severe acute respiratory syndrome).

Johnson Electric took early and comprehensive preventative measures in order to safeguard the well being of our employees, customers, and other stakeholders. An Executive Committee-level *Health Committee* has been established for the purpose of directing these interventions. These measures include, but are not limited to, extensive company-wide communications, training on hygiene, cleaning and disinfection, professional food preparation, controls on travel, and the health monitoring of some 25,000 employees in the region. Our success to date has been a SARS-free company – with a heightened awareness of hygiene and health.

Johnson Electric also made a significant donation to help the families of SARS victims in Hong Kong and China.