A MESSAGE FROM PATRICK WANG

To Our Shareholders,

The 2004 financial year was a difficult one for Johnson Electric. We had to deal with a global economic environment for manufacturing businesses that remained sluggish for much of the year and in most instances did not see a consistent upward trend until the second half. We also faced quite unprecedented increases in global commodity prices that put pressure on our input costs and hence profit margins.

On the positive side, despite these challenging market conditions, the Group achieved double digit sales growth and passed the US$1 billion sales mark for the first time in its history. We continued to demonstrate our strong cash generation abilities with an 11% increase in net operating cash flow. And we are taking action to continue to strengthen our long-term competitive position – implementing a number of restructuring initiatives in our overseas manufacturing operations, improving asset productivity, and investing in people and business systems to sustain long term growth.

Nonetheless, the bottom line results were unsatisfactory and profitability levels fell well short of our objectives at the start of the year. We had relatively limited room for manoeuvre in the face of the extraordinarily rapid increase in copper and steel prices during the latter months of the financial year. Management is consequently working hard to drive performance back to more acceptable levels for the current year. The early signs of these efforts are reasonably encouraging – but there remains plenty of work to do.

Summary of 2003/04 Results

- For the financial year ended 31st March 2004, total sales were a record US$1,051 million, up 10% compared to the 2003 financial year

- Excluding plant restructuring charges and provisions, profit attributable to shareholders was US$133 million, a decrease of 11%

- Net earnings after plant restructuring charges and provisions declined 22% to US$117 million or 3.17 US cents per share

- Notwithstanding the decline in net earnings, net operating cash flow increased 11% to a record US$184 million

- Johnson Electric's underlying financial position remains exceptionally strong and, taking into account cash and cash equivalents of US$247 million, the Group is substantively debt free

Dividends

The Board has recommended a final dividend of 1.15 US cents per share, which together with the interim dividend of 0.58 US cents per share, represents a total dividend of 1.73 US cents per share – an increase of 4% over the 2003 financial year.

Operating Environment in 2003/04

Johnson Electric's sales during the first months of the 2003/04 financial year continued to feel the effects of a comparatively weak global economy, with mixed and somewhat hesitant patterns of demand. Trading conditions, however, picked up in the second half as both global industrial output and customer inventories reflected higher end-user confidence levels. The Group derives approximately 40% of its sales from European markets and therefore sales also benefited from a stronger Euro currency compared to the US dollar (though at the same time certain operating expenses denominated in Euros also rose in US dollar terms).

As a result, the Group achieved sales growth of almost 15% in the second half compared to the same period last year – and marking a significant improvement over the 5% increase recorded in the first six months of the financial year.

The Commercial Motors Group ("CMG"), in particular, achieved strong sales growth of over 20% in the second half of the year compared to a flat performance in the first half. The division's total sales for the year amounted to US$389 million, an increase of 12% over the prior year.

All CMG business units achieved positive sales increases, with the strongest performance coming from home appliance applications which continue to gain market share through new product introductions and new customers. Sales to the power tools sector were affected by excess inventories in certain distribution channels in the first half but nonetheless recorded a modest overall improvement compared to the prior year. Business equipment and personal care products achieved satisfactory growth in relatively mature markets where price competition tends to be greater. The audio-visual sector, presently the smallest of CMG's businesses, also continued to expand its motor product line to focus on higher-end products and delivered healthy double-digit increases in sales volume and value. Recent acquisitions of the equity interests not already owned by Johnson Electric in the former Nidec Johnson Electric joint venture and in Nihon Mini Motor have provided the Group with a much larger consolidated sales platform from which to grow in the audio-visual motor sector in the coming years.

The Automotive Motors Group ("AMG"), which contributes approximately 60% of the Group's sales, recorded a 9% increase in total revenue to US$662 million. AMG motor and motor system products are generally less sensitive to short-term economic fluctuations and depend more on the timing and success of our new product programs, customer outsourcing decisions, and on the life-cycle of particular vehicle models. The AMG division consequently experienced a modest improvement in sales growth in the second half of the year compared to the first half.

In Europe, all of AMG's business units achieved double-digit sales growth as a result of both a stronger Euro currency and Johnson Electric's comparatively high market share among several of the top performing car brands in these markets. The performance of AMG in North America, on the other hand, was weaker with a slight decline in year-on-year sales recorded.

Raw Material and Operating Expenditure Increases

Steel and copper are two of the major raw materials used in small precision motors and Johnson Electric inevitably felt the effects of price increases in these commodities, especially during the second half of year when global market prices escalated dramatically. For the year as a whole, the company's weighted average cost of steel increased by over 30%, and the average London spot price of copper increased by approximately 29%. Higher raw material costs were therefore a key factor in the decline in the Group's gross margin from 32.5% to 29.8%.

Selling, General and Administration expenses ("SG&A") also increased disproportionally to sales growth. Part of this increase was due to sharply higher international freight and shipping costs, as well as the translation of Euro-dominated expenses for US dollar reporting. For the most part, however, higher overhead expenses reflected the company's recent investments in people and technology to support the Group's long-term growth objectives. With a business that now exceeds US$1 billion in revenue and continues to expand, management believes that these types of investment are essential in order to maintain the company's growth trajectory.

The Group is now much better positioned to benefit from improved operating leverage as the global recovery continues and sales levels increase. Nevertheless, the imperative to improve operating profitability for the 2004/05 financial year is resulting in an aggressive CEO-led review of SG&A expenses to ensure that these properly reflect the needs of the business today and are scaleable for the rate of growth anticipated in the coming years.

Overseas Plant Restructuring to Improve Long-Term Cost Position

During the year, Johnson Electric accelerated its strategy of restructuring those existing and acquired operations whose strategic location and relative cost position do not meet the current needs of the marketplace. The company completed the closure of its manufacturing plant in Thailand and research and development centre in Germany. Actions are also being taken to further restructure the manufacturing operations at Matamoros in Mexico.

The plant closure and restructuring initiatives essentially involve the relocation of certain production activities to lower cost manufacturing locations – primarily to the company's large scale and vertically integrated manufacturing complex in Guangdong Province, China. In the case of research and development and other technical/sales support functions located in overseas end-markets, the Group is increasingly consolidating these into fewer strategic locations in order to achieve greater operating efficiencies and flexibility. In most cases, the near-term cash outflow associated with these restructuring initiatives is expected to be recovered within two years through profitability and revenue improvements.

Overall Impact on Profitability

The combined effects of higher raw material costs, investments in building a more sustainable operating platform, and restructuring charges reduced profit margins for the Group. Taking into account the US$16 million after tax non-recurring charge for closure costs incurred and provisions for further restructuring expenses, net profit attributable to shareholders decreased by 22% to US$117 million.

Positioning the Business for Continued Growth and Value Creation

Notwithstanding the relatively tough operating conditions of the past twelve months, Johnson Electric remains exceptionally well positioned to maintain its leadership in the small motor and motor systems industry.

As global customers search for the right solutions in terms of quality, price and responsiveness, they are increasingly looking to China to serve their supply chain needs. In China, we are confident that no other company can provide large-scale, globally-oriented, flexible motor solutions comparable to those offered by Johnson Electric.

For us, the challenge is meeting that demand in a manner that makes our customers successful and creates attractive returns for our shareholders over the long term. Our growth strategy is therefore to drive continuous improvements in our operations, to penetrate new market segments that offer above average prospects of profitable growth, and to invest in the right people to sustain high performance levels.

Underlying demand for motor applications across a wide range of end markets remains robust. This fact, combined with the ongoing shift towards outsourcing and lower cost country sourcing for motors, provides the Group with a healthy foundation for organic growth.

Consistent with our previously articulated strategy on corporate development, we aim to supplement our organic growth with selective investments and acquisitions. The key criteria for any such investment is that it must fit logically with Johnson Electric's existing activities or capabilities, that it can be managed effectively, and that it is reasonably priced.

The Group's two most recent acquisitions reflect this prudent approach. In March 2004, Johnson Electric acquired Nidec Corporation's 50% stake in the Nidec Johnson Electric audio-visual motor joint venture after it was agreed that the timing was now right for one of the joint venture partners to take over the future development of the business. In April 2004, after the financial year end, it was also announced that the Group had agreed to acquire the remaining equity that it did not already own in Nihon Mini Motor, a leading motor supplier to the digital camera market. Johnson Electric originally acquired a 49% interest in Nihon Mini Motor from Mitsubishi Materials in April 2003.

In addition to these transactions, we have established two new businesses under the Johnson Electric umbrella that are presently exploring new growth opportunities in adjacent areas that we believe complement our overall strategy and skills in relation to manufacturing and sourcing components in China. Johnson Electric Trading Limited functions as a China sourcing platform for selected motor and motor-related products and components that are not currently manufactured within the Group. Johnson Electric Capital Limited is the Group's vehicle for exploring direct investment opportunities in component businesses that are adjacent to small motors in terms of manufacturing process, distribution channel, or customer profile.

Current Performance and Outlook

The current trading performance of the Group is satisfactory and, taking into account the consolidation of Nihon Mini Motor, we presently anticipate a low double digit percentage increase in sales for the current financial year.

The CMG division is expected to grow at a faster rate than AMG due partly to the timing of new product introductions and partly to recent acquisitions and investments in the audio-visual motor sector.

As noted above, increases in raw material costs, especially towards the end of the 2003/04 financial year, have put pressure on gross margins with current input costs continuing to be above the average for the prior year. While the company cannot be entirely insulated from commodity price movements, intensive efforts are being taken to minimize their impact. This has included a policy of increasing product prices depending on material content. Subject to the traction we gain through these pricing strategies, as well as the effective execution of recently announced restructuring initiatives, we are cautiously optimistic that a modest improvement in gross margins can be achieved in the current financial year.

It should also be noted that several of our overseas restructuring initiatives associated with acquisitions typically extend over a period of time and we anticipate additional charges, of both a cash and non-cash nature, related to this long-term business improvement strategy in the future.

Overall, I am very encouraged by the commitment of our people to delivering disciplined growth and high performance. Over the past five years we have effectively tripled the size of the company and firmly established Johnson Electric as a true global leader in our industry. We have a strong pipeline of new product introductions, clearly defined go-to-market strategies, and an unparalleled model for delivering the motor solutions our customers need. Johnson Electric remains well positioned for long-term cash flow generation and value creation.

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 Wang Shui Chung
Chairman & Chief Executive

Hong Kong, 7th June 2004