FINANCIAL REVIEW

OVERVIEW

The Group reported profit attributable to shareholders of US$116.6 million, or 3.17 US cents per share for the year ended 31st March 2004, compared to profit attributable to shareholders of US$149.4 million or 4.07 US cents per share in 2002/03.

Profit attributable to shareholders for the year included pre-tax restructuring costs / provisions of US$21.3 million (US$16.0 million net of tax). Excluding the impact of such costs / provisions, profit attributable to shareholders was US$132.6 million, a decrease of 11.3%.

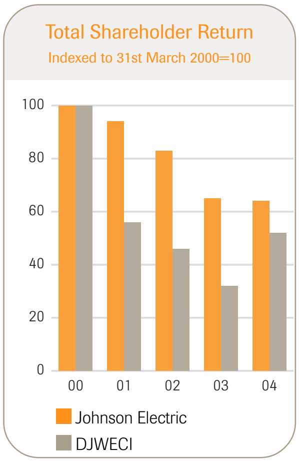
In March 2004, Johnson Electric acquired Nidec Corporation's 50% stake in the Nidec Johnson Electric audio-visual motor joint venture after it was agreed that the timing was now right for one of the joint venture partners to take over the future development of the business. In April 2004, after the financial year end, it was also announced that the Group had agreed to acquire the remaining 51% of the 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.

TOTAL SHAREHOLDER RETURN (TSR)

For the financial year ended 31st March 2004, the Group achieved a TSR of -1%, compared to 62% for the Dow Jones World Electric Component and Equipment Index ("DJWECI"), which is a representative benchmark index of global industry peers.

For the prior years 2003, 2002, 2001 and 2000, Johnson Electric's TSR was -22%, -12%, -6% and 146% respectively, compared to -31%, -17%, -44% and 74% achieved by DJWECI in US dollar terms.

Over the past five years, the compound annual average TSR of Johnson Electric was 10%, compared to -2% achieved by DJWECI.



FINANCIAL MANAGEMENT AND TREASURY POLICY

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

Foreign Currency

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

In relation to the business units based in Hong Kong / China, the major revenue generating currencies continue to be the US dollar, Euro and Japanese Yen; whereas the major currencies in purchase commitments 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 options contracts, with a view to reducing the net exposure to currency fluctuations. Such contracts normally have a duration of less than 3 months. For the year to 31st March 2004, of the micromotor sales from Hong Kong / China, 84% were in US dollars; 12% in Euro for certain sales to Europe; and 4% in Japanese Yen for certain sales to Japan.

The Body Climate and Powertrain Cooling business units, having sales of US$353 million representing 34% of the Group's total sales in the year under review, are mainly European-based businesses with revenue and costs essentially in Euro. Hence, their exposure to the US dollar is limited to the net position. In the case of Chassis Braking 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 a high level of liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business. The surplus cash is held in US dollars, 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 2004, the surplus cash (comprising cash and other investments) increased to US$248.3 million, up 29% from US$192.9 million at the previous year-end. The Group is substantively debt-free, except certain loans amounting to US$3.1 million (compared to US$9.8 million a year ago).

As at 31st March 2004, 71% of the surplus cash was held in US dollars (compared to 70% a year ago); and the average duration of the Group's interest-bearing securities and time deposits was increased to 0.5 month, compared to 0.1 month previously. Hence, the price sensitivity to interest rate movements and the foreign exchange risk of such investments continued to be immaterial.

Capital Structure

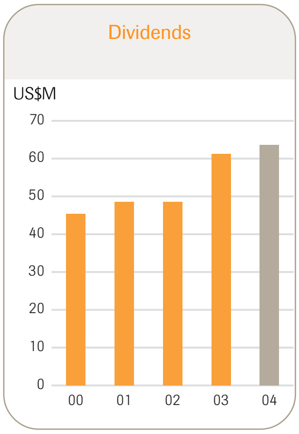
It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure over time. At this stage, however, with continuing strong cash flows, there are no immediate requirements for debt finance.

Total debt remained at a low level of US$3.1 million, compared to US$9.8 million at the last year-end, comprising mainly the long-term loans and obligations of US$3.1 million. Details of long-term loans remaining outstanding are included in Note 24 to the accounts. Borrowings at fixed interest rates amounted to approximately US$3.1 million.

The Group's borrowings are primarily denominated in US and Hong Kong dollars. Except for the foreign exchange exposure in relation to the loans in Euro obtained by Gate S.r.l., a subsidiary based in Europe, equivalent to approximately US$3.1 million, the Group has no significant exposure to foreign exchange fluctuations in relation to borrowings.

Dividend Policy

It is the intention of the Group that the dividend paid should, over the long term, provide shareholders with dividend income broadly consistent with the underlying trend of earnings growth.



At its June 2004 meeting, the Board of Directors recommended a final dividend of 9 HK cents per share (equivalent to 1.15 US cents), which together with the interim dividend of 4.5 HK cents (equivalent to 0.58 US cents), representing a total dividend of 13.5 HK cents per share (equivalent to 1.73 US cents), a 4% increase over the previous year.

In 2003/04, the dividend payout ratio (including the proposed dividend for the year) was approximately 55% of the profit attributable to shareholders, compared to 41% in 2002/03.

RESULTS OF OPERATIONS

ANALYSIS OF CONSOLIDATED PROFIT AND LOSS STATEMENT

	2004				2003			
	Total before restructuring costs / provisions US$M	Restructuring costs / provisions US$M	Total after restructuring costs / provisions US$M	%	(As restated) Total US$M	%	Increase / (Decrease) US$M	%
Turnover	1,050.7	–	1,050.7	100.0	955.3	100.0	95.4	10.0
Cost of sales	(737.2)	–	(737.2)	(70.2)	(644.6)	(67.5)	92.6	14.4
Gross margins	313.5	–	313.5	29.8	310.7	32.5	2.8	0.9
SG&A	(179.1)	–	(179.1)	(17.0)	(145.9)	(15.3)	33.2	22.8
Restructuring costs / provisions	–	(21.3)	(21.3)	(2.0)	–	–	21.3	100.0
Other revenues	15.3	–	15.3	1.5	11.0	1.2	4.3	39.1
EBIT	149.7	(21.3)	128.4	12.2	175.8	18.4	(47.4)	(27.0)
Finance costs	(0.2)	–	(0.2)	–	(0.9)	(0.1)	(0.7)	(77.8)
Share of profits less losses of JV / Associates	6.3	–	6.3	0.6	(0.7)	(0.1)	7.0	1,000.0
Profit before taxation	155.8	(21.3)	134.5	12.8	174.2	18.2	(39.7)	(22.8)
(Taxation) / Tax credit	(23.2)	5.3	(17.9)	(1.7)	(24.8)	(2.6)	(6.9)	(27.8)
Profit after taxation	132.6	(16.0)	116.6	11.1	149.4	15.6	(32.8)	(22.0)
Depreciation & Amortisation	45.9	–	45.9	4.4	39.4	4.1	6.5	16.5

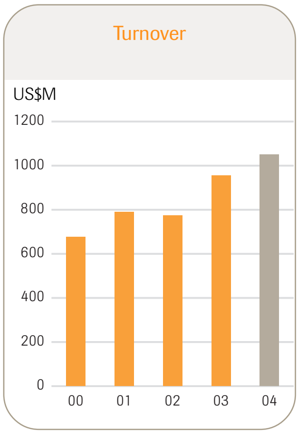
TURNOVER

	2004		2003		Increase / (Decrease)	
	US$M	%	US$M	%	US$M	%
AUTOMOTIVE MOTORS GROUP						
Body Climate	120	11	112	12	8	7
Body Instruments	138	13	127	13	11	9
Chassis Braking	123	12	126	13	(3)	(2)
Powertrain Cooling	233	22	198	21	35	18
Powertrain Management	48	5	43	4	5	12
Sub-Total	662	63	606	63	56	9
COMMERCIAL MOTORS GROUP						
Home Appliances	147	14	125	13	22	18
Power Tools	109	10	105	11	4	4
Business Equipment / Personal Products	97	9	90	10	7	8
Audio-Visual Products	36	4	29	3	7	24
Sub-Total	389	37	349	37	40	12
TOTAL TURNOVER	**1,051**	**100**	**955**	**100**	**96**	**10**

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

Total turnover was US$1,051 million, an increase of 10% over the level in the prior year. Unit volume grew approximately 12%.

On a divisional basis, Automotive Motors Group increased 9% to US$662 million, representing 63% of total turnover. In addition to the effect of the stronger Euro currency, AMG achieved gains in market share, as a result of new product introductions and increasing outsourcing by customers.



Overall sales of the Commercial Motors Group increased over 12% to a record level of US$389 million, driven by the increasing trends of outsourcing by customers and new product introductions.

A discussion on the sales performance of individual business units within the two main operating divisions is provided in the Business Review section on pages 11 to 14 of this report.

Cost of Sales and Gross Margins

Overall cost of sales, as a percentage of sales, increased from 67.5% to 70.2%.

Steel and copper are major raw materials used in the range of small precision motors produced by the Group. As noted in the company's interim report published in December 2003, the increase in global steel and copper prices over the past year has had a significant impact on the Group's cost of goods sold and gross margin.

For the full year, the Group's weighted average cost of steel increased by over 30%, and the average London spot price of copper increased by approximately 29%. While it is not possible to entirely insulate the Group from commodity price movements, intensive efforts are being taken to minimize their impact in the new financial year 2004/05. This includes a policy of increasing product prices depending on material content.

Gross margins decreased from 32.5% to 29.8%, due essentially to increased costs of steel and copper, especially during the second half of the year when we saw unprecedented escalation in global prices of those commodities.

Selling and Administrative Expenses ("SG&A")

Overall SG&A expenses increased 22.8% to US$179.1 million, and as a percentage of sales, increased from 15.3% to 17.0%. The Group's SG&A expenses increased disproportionally to sales growth – partly due to sharply higher international freight and shipping costs and partly due to translation of Euro expenses for US dollar reporting, but for the most part due to the Group's recent investments in people and technology to support Johnson Electric's long-term growth objectives. Improved trading conditions in the second half of the year were not sufficient to offset the impact of higher overhead investments – and hence had a negative impact on the Group's operating margin.

Restructuring Costs / Provisions

On 23rd April, the Group announced that it had 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 Group 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 closure costs incurred during the year, together with a provision to be made for further restructuring costs amounted to US$21.3 million (US$16.0 million net of tax). Included in the provision was a non-cash fixed asset write-off of US$11.8 million.

Other Revenues

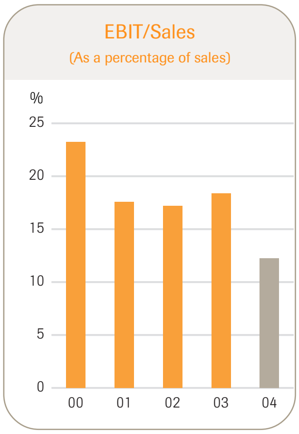
Other revenues were US$15.3 million, up 39.1%, due to an increase of US$4.9 million in scrap sales, partly offset by a decrease of US$0.2 million in interest income.

Depreciation Expense

Depreciation expense increased 19.3% to US$43.1 million. As a percentage to sales, depreciation expense increased to 4.1%, compared to 3.8% one year ago.

Earnings before Interest and Tax ("EBIT")

Excluding the restructuring costs / provisions, EBIT was US$149.7 million, a decrease of US$26.1 million or 14.8%. The decline was mainly due to an increase of US$33.2 million or 22.8% in selling and administrative expenses, partly offset by an increase of US$2.8 million or 0.9% in gross profit and an increase of US$4.3 million in other revenues. The Group's EBIT (before restructuring costs / provisions), as a percentage of sales, decreased from 18.4% to 14.2%.



Finance Costs

Interest expense remained at a low level of US$0.2 million.

Share of Profits of JV / Associates

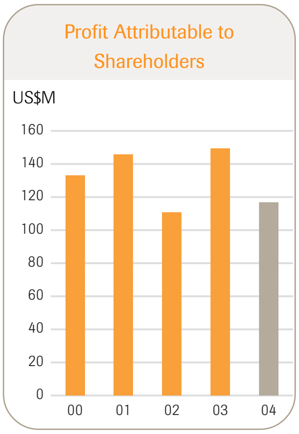
The Group's share of profit of jointly controlled companies increased to US$6.3 million in the current year from a loss of US$0.7 million in the previous year, largely due to the significantly improved profitability of the Group's joint venture in Shanghai known as Shanghai Ri Yong-JEA Gate Electric Co., Ltd., which is a major supplier of cooling fan modules for the automotive market in Mainland China.

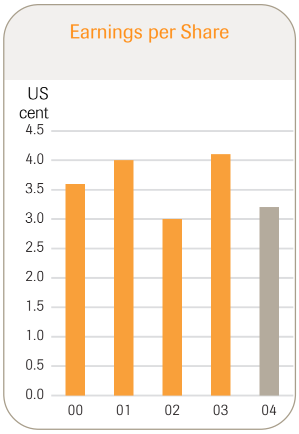
Taxation

Taxes on profits decreased 27.8% to US$17.9 million, compared to US$24.8 million in the previous year. A tax credit of US$5.3 million arose from the provision for restructuring costs.

Profit Attributable to Shareholders

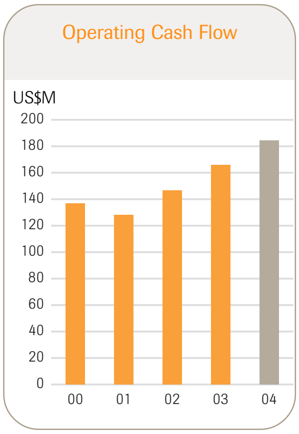
Profit attributable to shareholders and earnings per share decreased 22.0% to US$116.6 million and 3.17 US cents respectively.





FINANCIAL CONDITIONS

Liquidity and Financial Resources



The Group's financial resources and liquidity remained strong, as cash generated from operations reached a record level of US$197.2 million. Net operating cash flow after interest and tax increased to US$184.4 million, compared to US$165.9 million in the previous year. As at 31st March 2004, the Group's total cash and other investments increased 28.7% to US$248.3 million, compared to US$192.9 million one year ago. Total debt was further reduced to US$3.1 million. Hence, the Group had no net debt.

The Group's principal committed facilities were long-term loans in Euro totalling US$3.1 million (of which US$0.1 million being repayable within one year) obtained by Gate S.r.l. to take advantage of preferential interest rates (fixed at between 1.5% and 3.2% per annum) for specified purposes such as research and innovation.

For day-to-day liquidity management and maintaining flexibility in funding, the Group also has 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.

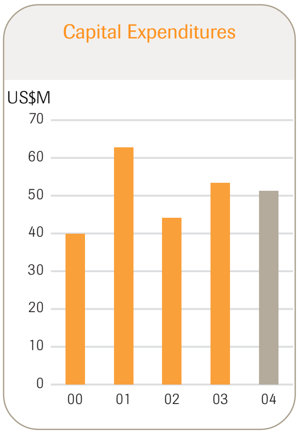
The working capital position of the Group remained healthy. As at 31st March 2004, the current ratio (current assets divided by current liabilities) improved to 3.4 times, from 3.1 times at previous year-end.

The Group's total assets were US$953.0 million and shareholders' funds were US$734.1 million, compared to US$877.9 million and US$665.6 million, respectively, at the previous year-end.

Assets

Total assets were US$953.0 million, up US$75.1 million or 8.6%, essentially due to increases in current assets.

Non-current assets were US$353.5 million, up US$18.6 million or 5.6%. An increase of US$8.5 million in properties, plant and equipment; an increase of US$13.1 million in the share of net assets in associated companies; and an increase of US$4.5 million in deferred tax assets, were partly offset by a decrease of US$2.3 million in intangibles; a decrease of US$2.8 million in share of net assets in jointly controlled entities and a decrease of US$2.9 million in investments in finance leases.



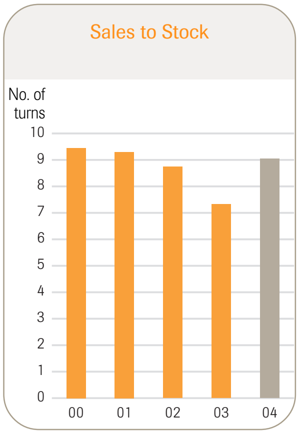
Capital expenditures were US$51.2 million, down 3.9% from US$53.3 million previously, reflecting increased control and restraint on the part of management in capital spending in face of lower-than-expected sales growth during the year. There were re-purchases of housing units from employees under the terms of the Staff Home Ownership Scheme, amounting to US$4.5 million, compared to US$7.8 million in the previous year. Hence, excluding such re-purchases of housing properties, net capital expenditures for the operations were US$46.7 million.

Current assets increased US$56.5 million or 10.4%. An increase of US$16.1 million in trade and other receivables; an increase of US$40.1 million in other investments; and an increase of US$15.3 million in bank balances and cash, were partly offset by a decrease of US$14.4 million in stocks and work in progress; and a decrease of US$0.6 million in tax recoverable.

Deposits and bank balances, and other investments, representing the Group's surplus cash reserves, amounted to US$248.3 million, up 28.7%, from US$192.9 million one year ago.

Trade and other receivables increased to US$229.6 million, up 7.5%. Trade debtors increased to US$198.8 million, up 11.6%. The average collection period increased slightly to 65 days, compared to 63 days previously.

Stocks and work in progress decreased to US$116.2 million, down 11.0%. The sales-to-stocks ratio was improved to 9.0 turns, from 7.3 turns in the previous year. This was achieved as a result mainly of a focus on production efficiencies at the plant levels during the second half year. Systems and initiatives are in place for management to achieve further improvements in inventory turns in the coming years.



Liabilities

Total liabilities were US$218.9 million, an increase of US$6.6 million or 3.1%, due to an increase of US$3.3 million in trade and other payables; an increase of US$1.5 million in tax payable; an increase of US$2.8 million in other provisions; and an increase of US$5.7 million in deferred tax liabilities; partially offset by a decrease of US$4.4 million in long-term loans; and a decrease of US$2.3 million in bank loans and overdrafts.

Current liabilities increased US$2.3 million to US$178.8 million. Trade and other payables increased US$3.3 million or 1.9% to US$175.3 million. Other payables increased US$9.5 million or 20.1%, whereas trade creditors decreased US$6.2 million or 5.0% over the previous year-end. Tax payable increased US$1.5 million to US$3.3 million. The above increases were partially offset by a decrease of US$2.3 million in bank loans and overdrafts.

Non-current liabilities increased US$4.3 million or 11.9%, due mainly to an increase of US$5.7 million in deferred tax liabilities; and an increase of US$2.8 million in other provisions, partially offset by a decrease of US$4.2 million in long-term loans.

Shareholders' funds

Shareholders' funds at 31st March 2004 were US$734.1 million, up 10.3%.

Reserves increased US$68.5 million or 11.1%. This was mainly due to the retained profit for the year of US$53.0 million (after deduction of a total dividend of US$63.6 million), and an adjustment of US$14.0 million arising on translation of foreign subsidiaries, associated companies and jointly controlled entities, and revaluation adjustments totalling US$1.5 million in relation to the Group's investment properties in Hong Kong.

Proposed dividends were maintained at the previous year's level of US$42.4 million.

There was no change in the share capital.

CASH FLOWS

Johnson Electric's ability to generate cash from operations to grow and expand our business to create long-term shareholder value remains one of the Group's fundamental financial strengths.

Net Cash Inflow from Operating Activities

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

Cash generated from operations increased to a record of US$197.2 million, compared to US$181.5 million in 2002/03. After deductions of interest and tax paid, net cash from operating activities increased US$18.5 million to US$184.4 million, up 11.1% from US$165.9 million previously. A decrease of US$39.7 million in pre-tax profit to US$134.5 million, and an increase of US$6.5 million in exchange translation differences, and an increase of US$15.5 million in trade and other receivables, were partially offset by an decrease of US$15.8 million in stocks and work in progress, and an adjustment for non-cash depreciation and provision of US$56.7 million.

Investing Activities

Net cash used in investing activities increased US$14.0 million or 31.5% to US$58.5 million, due mainly to the US$12.6 million increase in cash used in investment in joint ventures and acquisitions, and an increase of US$1.2 million in cash used in purchases of other investments.

Financing Activities

Net cash used in financing increased US$14.8 million to US$68.3 million, due primarily to an increase of US$10.4 million in dividends paid and an increase of US$6.4 million in repayment of bank and other loans.

Cash and Cash Equivalents

Total cash and cash equivalents as at 31st March 2004 increased US$57.5 million or 30.4% to US$246.9 million, compared to US$189.4 million a year ago.