

CORPORATE GOVERNANCE REPORT

Johnson Electric is committed to achieving high standards of corporate governance that properly protect and promote the interests of its shareholders.

Board of Directors

As at 31st March 2005, Johnson Electric's board consisted of three executive directors and eight non-executive directors (of whom six are independent).

The independent non-executive directors, who represent a majority of the board, are all experienced individuals from a range of industries and geographies. Their mix of professional skills and experience is an important element in the proper functioning of the board and in ensuring a high standard of objective debate and overall input to the decision-making process. The Board has received from each independent non-executive director a written confirmation of their independence and has satisfied itself of such independence up to the approval date of this report in accordance with the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The biographical details of the directors are provided on pages 36 to 38 of this report.

The Board at Work

The board of directors is accountable to shareholders for the activities and performance of the group. It meets in person on a quarterly basis and on other occasions when a board-level decision on a particular matter is required. The Board has reserved for its decision or consideration matters covering corporate strategy, annual and interim results, directors' appointment, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters.

The majority of board meetings are scheduled to last one full day, with directors receiving details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Although the capacity of any board to involve itself in the details of a large international business is limited, Johnson Electric aims to provide its independent non-executive directors with extensive exposure and access to its operations and management. Over the past three years, the number and duration of board meetings have increased and the board agenda is structured to address the broad spectrum of key governance issues on a regular and systematic basis. Forming part of the continuous professional development programme for directors, visits to the company's principal operating facilities have been arranged and professional guest speakers are invited to address the board from time to time.

Major corporate matters that are specifically delegated by the Board to management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Group's General Counsel and Chief Financial Officer also attend all board meetings to advise on corporate governance, risk management, statutory compliance, mergers and acquisitions, and accounting and financial matters.

Under the Company's Bye-Law 109(A), one-third of the directors except the executive chairman, who have served longest on the board, must retire, thus becoming eligible for re-election at each Annual General Meeting. As such, except the executive chairman, no director has a term of appointment longer than three years.

The Company has arranged for appropriate liability insurance to indemnify its directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

Committees

The monitoring and assessment of certain governance matters are allocated to four committees which operate under defined terms of reference and are required to report to the full board on a regular basis. The composition of the committees during 2004/05 and up to the date of this report is set out in the table below.

Directors	Audit Committee	Remuneration Committee	Nomination and Corporate Governance Committee	Board Committee
Executive Director				
Patrick Wang Shui Chung (Chairman and Chief Executive)			M [#]	M
Winnie Wang Wing Yee (Vice-Chairman)		M [#]		M
Independent Non-Executive Directors				
Peter Stuart Allenby Edwards			C [#]	
Patrick Blackwell Paul	C		M [#]	
Arkadi Kuhlmann		C [#]		
Oscar De Paula Bernardes Neto		M [#]		
Michael John Enright	M			
Laura May-Lung Cha*	M*			

C – Chairman

M – Member

Appointed on 7th September 2004

* Appointed on 20th September 2004

Audit Committee

The Audit Committee is comprised of three independent non-executive directors who together have substantial experience in the fields of accounting, business, corporate governance and regulatory affairs.

The committee is responsible for monitoring the reporting, accounting, financial and control aspects of the executive management's activities. It has full access to the Group's chief internal auditor to hear directly any concerns of the internal audit department that may have arisen during the course of the department's work.

The committee also monitors the appointment and function of the Group's external auditor.

Remuneration Committee

The Remuneration Committee was established on 7th September 2004 and is comprised of two independent non-executive directors (including the Committee Chairman) and one executive director.

The committee determines the compensation structure and rewards for the Chief Executive Officer and other executive directors and monitors the policies being applied in remunerating other senior executives in the Group. In addition, it has responsibility for reviewing and making appropriate recommendations to the board on management development and succession plans for executive directors and senior management levels.

The fundamental policy underlying Johnson Electric's remuneration and incentive schemes is to link total compensation for senior management with the achievement of annual and long-term performance goals. By providing total compensation at competitive industry levels for delivering on-target performance, the Company seeks to attract, motivate and retain key executives essential to its long-term success. Senior management incentive schemes include an equity component that is designed to align the long-term interest of management with those of shareholders.

Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee was established on 7th September 2004 and is comprised of two independent non-executive directors (including the Committee Chairman) and one executive director.

The committee is responsible for the identification and evaluation of candidates for appointment or reappointment as a director, as well as the development and maintenance of the Group's overall corporate governance policies and practices.

Board Committee

The Board Committee was established on 11th June 2002 and is comprised of two executive directors. Its primary function is to undertake and supervise the day to day management and operating affairs of the Group. It exercises leadership and develops and keeps under review strategy and business development initiatives of the Group and supervises their implementation.

Board and Committee Attendance

The Board held four regular meetings in 2005 and the average attendance rate was 88%. Details of the attendance of individual directors at board meetings and committee meetings during the 2004/05 financial year are set out in the table below:

Directors	No. of meetings attended / held			
	Full Board	Audit Committee	Remuneration Committee	Nomination and Corporate Governance Committee
Executive Director				
Patrick Wang Shui Chung	4/4	–	–	1/1
Winnie Wang Wing Yee	4/4	–	2/2	–
Richard Wang Li-Chung	4/4	–	–	–
Non-executive Directors				
Wang Koo Yik Chun	2/4	–	–	–
Peter Wang Kin Chung	3/4	–	–	–
Independent Non-Executive Directors				
Peter Stuart Allenby Edwards	4/4	–	–	1/1
Patrick Blackwell Paul	4/4	4/4	–	1/1
Arkadi Kuhlmann	3/4	–	2/2	–
Oscar De Paula Bernardes Neto	4/4	–	2/2	–
Michael John Enright	3/4	4/4	–	–
Laura May-Lung Cha*	2/2	2/2	–	–
Peter John Wrangham [#]	1/1	–	–	–
Average attendance rate	88%	100%	100%	100%
Date of meeting	07/06/2004	03/06/2004	02/12/2004	17/03/2005
	07/09/2004	17/09/2004	17/03/2005	
	03/12/2004	22/11/2004		
	07/03/2005	17/03/2005		

* Appointed on 20th September 2004

[#] Retired and resigned on 8th June 2004

Internal Control and Risk Management

The Board is responsible for ensuring that an adequate system of internal controls is maintained within the Group, and for reviewing its effectiveness through the Audit Committee.

The internal control system, which includes a defined management structure with specified limits of authority, is designed to (a) help the achievement of business objectives, and safeguard the Group's assets; (b) ensure proper maintenance of accounting records; and (c) ensure compliance with relevant legislation and regulations.

The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage, but not to eliminate, risks of failure in achieving the Group's objectives.

The processes to identify and manage key risks to the achievement of the Group's strategic objectives are an integral part of the internal control environment. Such processes include strategic planning, the appointment of senior management, the regular monitoring of performance, control over capital expenditure and investments and the setting of high standards and targets for safety, health and environmental performance.

The management maintains and monitors the system of controls on an ongoing basis.

The Group's internal audit department, under the supervision of the chief internal auditor, independently reviews these controls and evaluates their adequacy, effectiveness and compliance, and reports directly to the Audit Committee on a regular basis.

During 2004/2005, based on the evaluations made by the management, internal auditors and external auditors, the Audit Committee was satisfied that nothing has come to its attention to cause the Audit Committee to believe that the system of internal control is inadequate; and there is an ongoing process to identify, evaluate and manage significant risks faced by the Group.

External Auditor

Johnson Electric's independent external auditor is PricewaterhouseCoopers. The Audit Committee is responsible for considering the appointment of the external auditor and also reviews any non-audit functions performed by the external auditor for the Group. In particular, the Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest.

During the 2004/05 financial year, the services (and associated remuneration) provided by PricewaterhouseCoopers to the Group were as follows:

	2004/05	2003/04
	US\$M	US\$M
Audit	0.77	0.74
Taxation	0.31	0.28
Due diligence, and other advisory services	0.26	0.36

Communications with Shareholders

Johnson Electric uses a number of formal communications channels to account to shareholders for the performance of the Company. These include the Annual Report and Accounts, the Interim Report, periodic company announcements made through the Stock Exchange, as well as through the Annual General Meeting. Copies of relevant corporate and financial information are also made available through the company's website: *www.johnsonelectric.com*.

The Company aims to provide its shareholders and potential investors with high standards of disclosure and financial transparency. In order to provide effective disclosure to investors and potential investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcements as required by the Stock Exchange Listing Rules. The Company supplements and follows up such announcements through periodic presentations, investor road shows, and conference calls with the international investment community. The Company also welcomes comments and questions from shareholders at its Annual General Meeting.

Directors' Securities Transactions

The Group has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Stock Exchange Listing Rules.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code.

Directors' and Auditors' Responsibilities for Accounts

The Directors' responsibilities for the accounts are set out on page 35, and the responsibilities of the external auditors to the shareholders are set out on page 42.

Code of Best Practice

Throughout the accounting period, **the Company was in compliance with the Code of Best Practice** as set out in the Appendix 14 of the Stock Exchange Listing Rules.