

BUSINESS REVIEW

OVERVIEW

During the year, Johnson Electric made two strategic acquisitions. In November 2005 Saia-Burgess, a leading supplier of stepper motors, switches, actuators, sensors and electronic controllers to customers within the automotive, industrial, medical, home appliance, and infrastructure automation industries was acquired and, in the same month, Parlex Corporation was also acquired.

The combination of Johnson Electric and Saia-Burgess results in a leading position, globally, in the design and manufacture of micro-motors and stepper motors and a formidable platform from which to leverage competencies in each company. The combination will provide a comprehensive range of electric motors as well as a broader portfolio of electronic and electrical components and sub-systems together with numerous cross-selling and strategic marketing opportunities among customers and across geographic regions.

Parlex is a provider of flexible interconnect solutions to a wide range of end market applications including automotive components, home appliances, telecommunications, computers and business equipment, and medical devices. This addition provides the entire Group access to new capabilities in electronics and electronic assemblies that are an increasingly important factor in electric motor systems and sub-systems.

SALES OVERVIEW

Total Group sales increased by US\$382 million, or 33%, to US\$1,526 million. This overall increase included the sales contribution of US\$227 million and US\$47 million by Saia-Burgess and Parlex respectively for the five months period since being acquired.

The Group's Automotive and Commercial motor divisions, which were the core activities of Johnson Electric for many years, represented approximately 77% of total sales for the year. Overall, sales for the Automotive and Commercial motor divisions for the year increased approximately 3% over the prior year.

On a geographical basis, sales to Asia amounted to US\$511 million (33% of total sales), an increase of 34%. Sales to Europe were US\$619 million (41% of total sales), an increase of 39%, and sales to the Americas were US\$396 million (26% of total sales), an increase of 26%.

BUSINESS UNIT SALES PERFORMANCE

We manage the business of the Group through business segments which are customer-focused and through functional centres of excellence in Engineering, Manufacturing, Supply Chain, Finance and Human Resources. The business is grouped under the Automotive Motors Group and the Commercial Motors Group of the original Johnson Electric core, the Saia-Burgess businesses grouped into its three main divisions which are Automotive, Industry and Controls, and the Johnson Electric Capital group of companies which includes Parlex and other businesses.

AUTOMOTIVE MOTORS GROUP (“AMG”)

AMG is a leading supplier to the automotive industry supplying motors for a broad range of vehicle applications to OEM, Tier 1 and Tier 2 customers worldwide.

For the 2005/06 financial year AMG’s overall sales increased by 5% to US\$643 million, accounting for 42% of total Group revenue.

The division is organized into separately managed business units aligned to specific types of motor applications in the vehicle.

Body Climate

Windowlift regulators

Seat adjusters

HVAC blowers

The Body Climate Business Unit, which supplies windowlift, seat adjusting and HVAC blower motors, improved sales by 5% from last year to US\$114 million. Overall, unit volumes remained relatively strong, but a change in the mix of vehicles negatively impacted planned sales in seat motors. New HVAC product launch delays reduced planned growth in the second half of the year. Continued growth is expected in this business unit with a focus on new project launches in the coming year.

Body Instruments

Doorlock actuators

Windshield washer pumps

Headlamp adjusters

Mirror adjusters

HVAC flap actuators

Headlamp washers

The Body Instruments Business Unit, which supplies micro-motors for doorlock actuators, windshield washer pumps, and adjusters for mirrors and headlamps, achieved sales of US\$152 million, unchanged from the previous year. Volumes remained strong but mix changes resulted in essentially unchanged overall revenue. The coming year will see a strong focus on product pricing, content optimization and cost reduction activities in light of higher commodity prices.

Powertrain Cooling

Cooling fan modules

Cooling fan motors

Electronic speed controllers

The Powertrain Cooling Business Unit recorded cooling fan sales up over prior year sales by 5%, to US\$266 million, due to higher volumes of new products launched last year and the increased penetration of electronic speed control units on cooling fan modules. Significant restructuring activity has been conducted in this business in recent years following the transition of some motor production from overseas operations to our China manufacturing site.

Powertrain Management

Fuel pumps

Electronic throttle controls

Air pumps

The Powertrain Management Business Unit recorded fuel system and engine management products sales up by 15% over the prior year, to US\$63 million. Sales remained strong through the second half of the year. The future focus will be on product design innovation to reduce costs.

Chassis Braking

<i>Anti-lock braking systems pump</i>	<i>Engine starters</i>	<i>Windshield wipers</i>
<i>Transfer case actuators</i>	<i>Electric parking brakes</i>	<i>Rear windshield wipers</i>

The Chassis Braking Business Unit recorded an increase in sales of 9% over the same period of last year, to US\$48 million. Weaker sport utility vehicle sales in North America resulted in lower sales than planned in transfer case actuators and ABS pump motors. Lower sales are anticipated in the coming fiscal year as a result of a change in product mix from ABS and heavy duty wiper motors to new applications in wipers and electric parking brakes.

Shanghai Ri Yong – JEA Gate Electric Co. Ltd. — Joint Venture

A market leader in the supply of radiator cooling fans to the Chinese automotive market, the Shanghai Ri Yong – JEA Gate Electric Co. Ltd. has been, up to the close of the current fiscal year, a joint venture in which Johnson Electric has held a 50% share. In April of 2006, Johnson Electric increased its shareholding in the joint venture to 60% and will be reporting annual results of this entity in future performance reports.

COMMERCIAL MOTORS GROUP (“CMG”)

CMG provides tailored motor solutions to global customers in Home Appliances, Power Tools, Business Equipment and Personal Products, and the Audio-Visual market.

For the full year, CMG’s sales increased by 2% to a record level of US\$532 million, accounting to 35% of total Group sales.

Home Appliances (including Floor and White Goods)

<i>Floor Care Products</i>	<i>White Goods Products</i>	<i>Kitchen Products</i>
<i>Vacuum blower</i>	<i>Dishwasher pumps</i>	<i>Table blenders</i>
<i>Extractor</i>	<i>Dishwasher drain pumps</i>	<i>Hand blenders</i>
<i>Brush rolls</i>	<i>Washing machine</i>	<i>Food processors</i>
	<i>Washing machine drain pumps</i>	<i>Mixers</i>
	<i>Refrigerator fans</i>	<i>Juice extractors</i>
	<i>Dishwasher actuators</i>	<i>Grinders</i>
		<i>Coffee grinders</i>
		<i>Coffee makers</i>
		<i>Vacuum sealers</i>

The Home Appliances Business Unit increased sales by 11% to reach US\$190 million, on flat unit volumes. The progressive gains in market share in the White Goods segment and new “wins” in major Floor Care customer accounts improved the overall product mix and produced significant improvement in average selling prices. The efforts to drive productivity improvements and component cost reductions partially offset the impact from significant raw material price increases. The Business Unit is expecting to sustain its momentum in the target segments by developing better performance motors and rolling out new motion solutions.

Power Tools

Hand Tools	Garden & Outdoor Products	Auto Accessories & Others	Starters
<i>Drills and drivers</i>	<i>Leaf blower</i>	<i>Polishers</i>	<i>Lawn and garden</i>
<i>Saws</i>	<i>Hedge trimmer</i>	<i>Garage door openers</i>	<i>Outboard marine</i>
<i>Sanders</i>	<i>String trimmer</i>	<i>Machine actuator</i>	<i>Recreational vehicle</i>
<i>Grinders</i>	<i>Bilge pump</i>		<i>Winches and pumps</i>
<i>Hand vacuums</i>			

The Power Tools Business Unit sales decreased 10% as a result of strategically rationalizing the product offering, thus improving overall profitability. The newest addition to the portfolio, the Starter line, is poised for growth with an expanded range of new products following the successful transition of the Mexican operations to Johnson City, in China. The outlook for the business unit continues to be strong, utilizing innovation in its new products and capitalizing on the profitable cordless power tool market trend with both the consumer and professional end users.

Business Equipment and Personal Products

Business Equipment	Personal Products	Health Care & Fitness Products	Home Security & Automation
<i>Printer products</i>	<i>Hair dryers</i>	<i>Medical nebulizer</i>	<i>Roller blinds</i>
<i>Gear box products</i>	<i>Toys</i>	<i>Blood pressure pumps</i>	<i>Home lock</i>
<i>Copiers</i>	<i>Hair trimmer</i>	<i>Treadmill</i>	
<i>Joysticks</i>	<i>Hair curlers</i>	<i>Breast pump</i>	
<i>Paper cutters</i>	<i>Massagers</i>		
<i>Scanners</i>	<i>Tooth brushes</i>		
<i>Shredders</i>	<i>Shavers</i>		
<i>Projectors</i>	<i>Liquid dispenser</i>		
<i>Bill validators</i>	<i>Aquarium product</i>		

The Business Equipment and Personal Products Business Unit increased sales by 10% to US\$100 million. The sales growth was fuelled by increased sales in the new Medical and Health Care products segment where sales grew by 72% on a relatively small base, sales to the printer segments where sales increased by 36% fuelled mainly by newer products such as encoder motors and subsystems, and sales of gear box assemblies where sales grew by 18%. The sales to remaining segments were generally flat, due mostly to tough competition based on pricing.

The business unit is poised for growth based on new innovative products such as brushless DC motors and geared motors which were launched in the last quarter of the year. The business unit is also expecting growth as it increases penetration in new market segments such as fitness equipment and home security.

Audio-Visual (including Nihon Mini Motor)

CD-ROM applications

DVD product applications

Game controllers

Digital camera

Digital video camera

Audio-Visual sales for the year have declined from US\$79 million to US\$78 million, a drop of 1%. This decline is the result of the strategic decision to focus on higher margin segments in the industry. New product launches of game controllers and web cam applications with new global customers in North America and Europe position this business unit for increasing success in the next 2-5 years.

SAIA-BURGESS

The sales contribution from Saia-Burgess for the 5 months since the acquisition was US\$227 million. By introducing new products and applications such as curve light actuators and a new generation of HVAC and headlight products, and by expanding its geographic presence through the CEI acquisition in October 2005, Saia-Burgess was able to enter new markets and strengthen its position in existing markets.

The Automotive Division contributed sales of US\$134 million. Amongst other products, Saia-Burgess offers door-locking subsystems with up to four microswitches per subsystem, and the trend of OEM's and vehicle assemblers to move in this direction continued in the year. The acquisition by Saia-Burgess of CEI in North America, the leading North American manufacturer of DC flap actuators in the heating / ventilation / air conditioning market (HVAC), helped solidify the Division's market leadership.

The Industry Division contributed sales of US\$68 million. It strengthened its position for stepper motors in the heating / ventilation / air conditioning market (HVAC), particularly in France, the Netherlands and Italy. It also strengthened its market share in microswitches for both domestic appliances and industry equipment such as power surge protection devices.

The Controls Division contributed sales of US\$25 million. Large projects involving infrastructure automation and more business with OEM customers had a positive influence on the Division's growth, particularly in Europe. This Division has characteristics which are more consistent with the structure and strategy of our Johnson Electric Capital segment and will be managed through that organization in 2006/07.

JOHNSON ELECTRIC CAPITAL

Johnson Electric Capital performs two main functions within the Johnson Electric Group. First, it aims to invest in selected components businesses outside of the core motor and motor systems operations where we believe the Group's distinctive resources and capabilities can bring added value. Second, it functions as a corporate "incubator" for smaller businesses that will benefit from being provided with tailored managerial attention and support to enable them to grow to reach their full potential over time.

Businesses currently under the Johnson Electric Capital umbrella include Parlex Corporation, the recently acquired flexible printed circuits operation, a 54.1% owned engine block castings company located in Sichuan Province, and a 50% owned electrical distribution systems start-up business located in Anhui Province. In the 2006/07 financial year, the Controls Division of Saia-Burgess will also become part of the Johnson Electric Capital portfolio in order to provide this profitable niche player in the European controls market with the appropriate level of support and flexibility to achieve its long-term growth goals.

JOHNSON ELECTRIC TRADING

The financial year 2005/06 was the first full year of trading of Johnson Electric Trading. It was established in 2004/05 to build a sourcing platform in China to supply global customers with a wide range of motor and motor-related electro-mechanical components and specialty materials that are currently not manufactured by the Group.

For the financial year 2005/06, sales increased to US\$66 million, compared to US\$5 million last year. As a sourcing company, Johnson Electric Trading continued to expand selectively its sourcing networks, which now include over 120 "qualified" components suppliers in China. Customer programs in motors and motor systems started during the year under review are expected to start to yield results in the financial year 2006/07. After reaching its critical mass, Johnson Electric Trading is expected to be a meaningful contributor to the Group's growth.

INVESTING IN PEOPLE

At the end of the financial year, Johnson Electric Group has over 40,000 employees and subcontract workers globally.

Talent Management

Johnson Electric launched an organization-wide talent management programme early in the financial year which is internally referred to as "Session C", named after a similar programme in General Electric. The principal objective of Session C is to identify and develop top talent to meet the Company's global requirements for bench strength and a talent pipeline. Consisting of identification, assessment and development phases, Session C is a CEO-led process that is linked to our strategic

planning and business development activities. Emphasis is placed on staff who are considered to be in the top performer and high potential categories or hold a key role in the Company. The CEO leadership talent audit also identifies top Johnson Electric talent whom we refer to as JE Jenex (derived from the word “gene”) or JE Tech Jenex.

Performance Management Process and Leadership

The current focus of our continual improvement programme for the performance management process (PMP) is on the consistency of measurement across business units and our functional organisations. Leadership competencies within the PMP are heavily emphasized, ensuring that we build strength for the future.

Learning Organization

More than two years in the making, the Senior Management Development Seminar (SMDS) was successfully launched in June 2005. An international cast of senior managers spent six days offsite to learn and to network. In addition to the review of Harvard and Ivey business cases, JE-specific cases were also reviewed by the attendees, providing particular relevance to the work. The fact that our Chief Executive plays a key role in the development of the SMDS curriculum reflects the importance of learning and development in Johnson Electric.

We continue to run our flagship *JENESIS*® residential leadership development programme annually as an integral part of our talent development process.

Following a successive run under the Engineering Talent Management initiative, the Foundation Skills for Management programme is being rolled out by Johnson University (JU) generally in China. The JU Master of Science (M.Sc.) degree program continues to produce highly qualified and much needed motor engineers each year.

Responsible Corporate Citizen

The *Safety Is Job One* movement in Johnson City, in Shajing, China has yielded impressive results. In January and February 2006 the Johnson City site reported zero lost time accidents for the 130+ million hours worked in that period, an outstanding accomplishment and an important milestone in the site’s history.