FINANCIAL REVIEW

OVERVIEW

Total turnover for the year was US$1,526 million, an increase of 33% over last year. This increase is primarily due to the sales contributions of Saia-Burgess and Parlex for the five months period since they were acquired in November 2005.

The Group reported profit attributable to shareholders of US$94.0 million, or 2.56 US cents per share for the year ended 31st March 2006, compared to the restated profit attributable to shareholders of US$141.2 million or 3.84 US cents per share in 2004/05. Profit attributable to shareholders for the year was reduced by pre-tax restructuring costs / provisions of US$17.2 million (US$10.0 million for the prior year) and amortisation of intangible assets of US$7.8 million (US$3.3 million for the prior year).

In November 2005, Johnson Electric made two strategic acquisitions: Saia-Burgess and Parlex. Saia-Burgess is 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 and Parlex is a provider of flexible interconnect solutions to a wide range of end market applications for global customers. The total consideration for these two acquisitions amounted to US$599.0 million and their addition has resulted in a significant change to the revenues, assets, working capital, and borrowings of the Group compared to a year ago.

The Johnson Electric Group now has a significant investment in intangible assets. The total amount attributable to intangible assets at the end of the year is US$631.6 million, including US$265.0 million of intangible assets such as Patents, Technology, Brands, Development Costs and Customer Relationships, and US$366.6 million of Goodwill.

The Group had borrowings of US$708.1 million at the year-end offset in part by cash balances of $238.5 million. The bridge financing put in place to support the acquisitions of Saia-Burgess in November 2005 was replaced by a syndicated loan agreement for US$530.0 million which was signed on 31 March 2006. The cash flow remained strong with a total of US$159.3 million net cash generated from operating activities in the year.

RESULTS OF OPERATIONS

Analysis of Consolidated Profit and Loss Statement

	2006					2005 (As restated)			
	"AMG" / "CMG" Businesses	Saia-Burgess	Others	Total		"AMG" / "CMG" Businesses	Others	Total	
	US$M	US$M	US$M	US$M	%	US$M	US$M	US$M	%
Turnover	1,175.5	226.6	124.2	1,526.3	100.0	1,138.3	5.5	1,143.8	100.0
Cost of sales	(867.2)	(171.3)	(110.7)	(1,149.2)	(75.3)	(790.6)	(5.0)	(795.6)	(69.6)
Gross margins	308.3	55.3	13.5	377.1	24.7	347.7	0.5	348.2	30.4
SG&A	(193.1)	(43.5)	(14.9)	(251.5)	(16.5)	(185.4)	(3.2)	(188.6)	(16.5)
Other gains	13.1	–	–	13.1	0.9	4.3	–	4.3	0.4
EBIT (before restructuring costs)	128.3	11.8	(1.4)	138.7	9.1	166.6	(2.7)	163.9	14.3
Restructuring costs / provisions	(8.3)	(7.8)	(1.1)	(17.2)	(1.1)	(10.0)	–	(10.0)	(0.9)
EBIT	120.0	4.0	(2.5)	121.5	8.0	156.6	(2.7)	153.9	13.4
Finance costs	(3.7)	(2.8)	(1.1)	(7.6)	(0.5)	(0.3)	–	(0.3)	–
Share of profits less losses of JV / Associates	1.7	0.1	0.6	2.4	0.1	2.8	–	2.8	0.2
Profit / (loss) before taxation	118.0	1.3	(3.0)	116.3	7.6	159.1	(2.7)	156.4	13.6
Taxation	(19.2)	(2.3)	(0.4)	(21.9)	(1.4)	(15.2)	–	(15.2)	(1.3)
Profit / (loss) after taxation	98.8	(1.0)	(3.4)	94.4	6.2	143.9	(2.7)	141.2	12.3

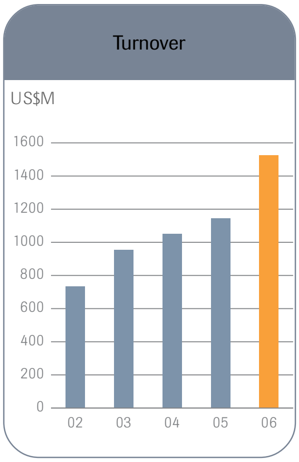
Group Turnover

	2006		2005		Increase / (decrease)	
	US$M	%	US$M	%	US$M	%
AUTOMOTIVE MOTORS GROUP (AMG)						
Body Climate	114	8	109	10	5	5
Body Instruments	152	10	152	13	–	–
Powertrain Cooling	266	17	254	22	12	5
Powertrain Management	63	4	55	5	8	15
Chassis Braking	48	3	44	4	4	9
Sub-Total	**643**	**42**	**614**	**54**	**29**	**5**
COMMERCIAL MOTORS GROUP (CMG)						
Home Appliances (including Floor & White Goods)	190	12	171	15	19	11
Power Tools	164	11	183	16	(19)	(10)
Business Equipment / Personal Products	100	7	91	8	9	10
Audio-Visual	78	5	79	7	(1)	(1)
Sub-Total	**532**	**35**	**524**	**46**	**8**	**2**
TOTAL AMG and CMG	1,175	77	1,138	100	37	3
SAIA-BURGESS						
Automotive	134	9	–	–	134	n/a
Industry	68	4	–	–	68	n/a
Controls	25	2	–	–	25	n/a
Sub-Total	**227**	**15**	**–**	**–**	**227**	**n/a**
OTHERS	124	8	6	–	118	n/a
TOTAL TURNOVER	**1,526**	**100**	**1,144**	**100**	**382**	**33**

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

The sales for the Automotive and Commercial Motors Divisions (AMG and CMG), which represent 77% of the total sales, increased by approximately 3% over the prior year. The Saia-Burgess business units added $227 million of new revenue to the Group in the five months since acquisition.

A discussion on the sales performance of individual business units is provided in the Business Review section on page 9 to 15 of this report.



Cost of Sales and Gross Margins

The profitability of the Group has been affected by the significant increase in the costs of raw material components used for motor manufacturing – particularly copper and steel which together represent the largest portion of the Group's material purchases. These adverse impacts have been partially offset by the benefits gained from restructuring in prior periods and through an ongoing drive for productivity.

The Group's gross margins as a percentage of sales decreased from 30.4% for 2004/05 to 24.7% for the current year. Sales of scrap material were taken into account in the determination of the cost of material consumed.

Saia-Burgess' gross margins for the five months period since acquisition was US$55.3 million, representing 24.4% as a percentage of sales in that business.

With the actions taken and being taken to hedge copper, to purchase steel in an effective manner, to continue process and productivity improvements, to address customer pricing issues, and to integrate the recent acquisitions, the Group aims to achieve some improvement in gross margins in the coming year. This forecast is based on current market conditions and is subject to unforeseen circumstances.

Selling and Administrative Expenses ("SG&A")

SG&A increased 33.4% to US$251.5 million, but as a percentage of sales remained at 16.5%. The increase reflects the impact of the additional SG&A for Saia-Burgess and Parlex which amounted to an additional US$50.4 million for the five months period since acquisition.

Under the new accounting standards, acquirers are required to record separately the intangible assets of the acquired businesses at the date of acquisition, and to amortise them. The acquisitions of Saia-Burgess and Parlex and their consolidations into Johnson Electric will therefore result in the amortisation of their intangibles assets over periods ranging from 5 years to 25 years depending on the nature of the intangible asset. The amortisation for the five months period is US$6.2 million.

Restructuring Costs / Provisions

The Group recorded restructuring costs and provisions in the year which totaled US$17.2 million.

Restructuring initiatives in Saia-Burgess and Parlex following their acquisition, which are designed to improve the long-term economic performance of these businesses and the expanded Johnson Electric Group, resulted in costs and provisions which amounted to US$8.9 million.

There were also restructuring costs and provisions in other segments of the business which relate to initiatives in Spain, the US, the UK, and China. These amounted to US$8.3 million.

Other Gains

Other gains increased from US$4.3 million to US$13.1 million. This improvement was mainly due to the increase of interest income of US$3.2 million and gain on the revaluation of investment properties of US$5.7 million.

Depreciation Expense

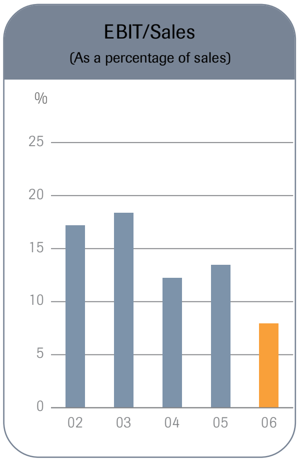
Depreciation expense increased 25.5% to US$54.4 million mainly due to the acquisition of Saia-Burgess and Parlex.

Earnings Before Interest and Tax ("EBIT")

Excluding the restructuring costs and provisions, EBIT was US$138.7 million, a decrease of US$25.2 million or 15.4%. The Group's "EBIT (before restructuring costs and provisions)" decreased from 14.3% as a percentage of sales in the prior year to 9.1% this year.

Finance Costs

Interest expense for the year amounted to US$7.6 million. The increase is mainly due to the finance costs incurred on the US$520.7 million bridge loan to fund the Saia-Burgess acquisition.



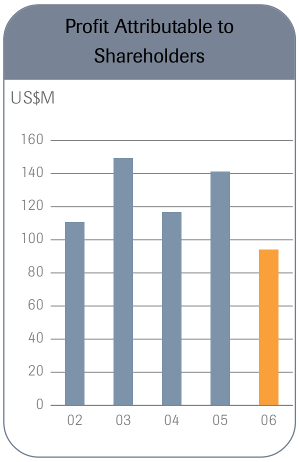
Share of Profits less Losses of Jointly Controlled Entities / Associates

The Group's share of profit of jointly controlled companies and associates decreased to US$2.4 million in the 2005/06 year from US$2.8 million in the previous year.

Income Tax Expenses

Taxes on profits increased 44.1% to US$21.9 million, compared to US$15.2 million in the previous year due mainly to the decrease in deferred income tax and the increase of overseas taxation in relation to the Group's operations in Europe and North America.

The effective tax rate for the year was 18.8%, compared to 9.7% a year ago.



Profit After Tax

Profit after taxation decreased 33.1% to US$94.4 million.

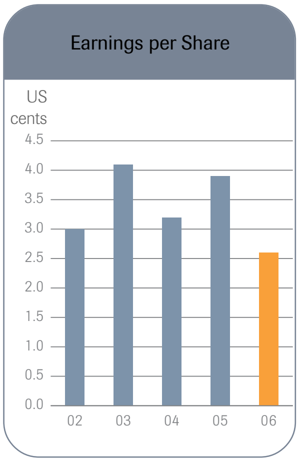
Profit Attributable to Shareholders

Profit attributable to shareholders and earnings per share decreased 33.4% to US$94.0 million and 2.56 US cents, respectively.

FINANCIAL CONDITION

Assets

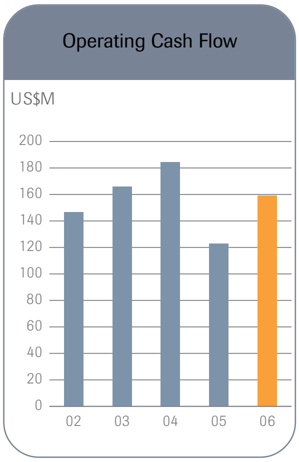
Total assets were US$2,014.0 million, up US$952.2 million or 89.7%, due mainly to the inclusion of assets of the acquired companies at the balance sheet date.



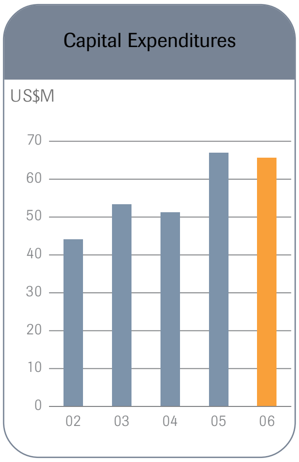
Intangible assets at year-end amounted to US$631.6 million. This is an increase of US$588.3 million from the previous year-end mainly due to the acquisitions of Saia-Burgess and Parlex. Of the US$631.6 million at year-end, $366.6 million represents Goodwill which is subject to an annual impairment test and $265.0 million is related to other intangible assets such as Patents, Technology, Brands, Development Costs and Client Relationships.

Goodwill is subject to an annual impairment test, and other intangible assets are subject to annual amortisation over the expected useful lives of the assets. The Goodwill impairment test applied as at 31st March, 2006 showed that there is no impairment, and US$6.2 million of amortisation was recorded for the acquired intangibles for the five months period since acquisition.

Capital investments totaled US$209.1 million in the year. Excluding the acquisitions, capital expenditures (excluding re-purchase of housing units from employees under the terms of the Staff Home Ownership Scheme) were US$46.5 million, down 17.8% from US$56.6 million previously. Capital expenditures within the acquired companies were US$18.2 million for the five months period to 31st March 2006.



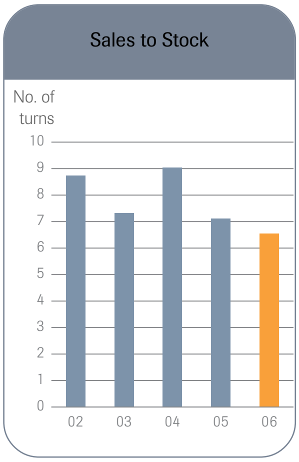
Current assets were US$904.5 million, up US$221.4 million from last year. Included at year-end were current assets from the acquisitions amounting to US$249.5 million: stocks and work in progress US$79.2 million; trade and other receivables US$143.5 million; bank balances and cash US$25.8 million; tax recoverable US$0.3 million; and derivative financial instruments US$0.7 million.



Deposits and bank balances and other financial assets at fair value through profit or loss (described as other investment at the prior year-end) amounted to US$241.2 million, up 2.6%, from US$235.1 million one year ago.

Trade and other receivables increased by 50.4% to US$418.2 million. Trade receivables increased by 58.9% to US$366.9 million and 75.7% of the year-end trade receivable were aged less than 60 days. The Group has reviewed its credit and collections policies and controls in light of the difficult market conditions in the automotive sectors it serves. At year-end there were provisions of US$8.6 million against receivables compared to US$2.5 million a year ago.

Stocks and work in progress increased by 45.2% to US$233.4 million. The sales-to-stock ratio decreased to 6.5 turns from 7.1 turns in the previous year. Excluding the acquisitions, sales-to-stock ratio was 8.1 turns. Efforts to optimise stock holdings continued during the year, with the supply chain management organisation working closely with suppliers.



Liabilities

Total liabilities were US$1,158.2 million, up US$915.8 million from last year of US$242.5 million, due mainly to the inclusion of US$397.3 million of liabilities of the acquired companies and of US$520.7 million for the bridge loan which was used for the purposes of funding the acquisitions.

Non-current liabilities were US$654.2 million, up US$611.2 million from last year due mainly to the inclusion of US$520.7 million for the bridge loan. Non-current liabilities of the acquired companies amounted to US$96.0 million, comprised mainly of US$26.1 million of long term provisions and US$69.9 million of deferred income tax liabilities.

Current liabilities were US$504.1 million, up US$304.5 million from last year of US$199.5 million. Current liabilities of the acquired companies at year-end amounted to US$301.4 million, comprising trade and other payables of US$119.0 million, current income tax liabilities of US$9.8 million and borrowings of US$172.6 million.

Trade and other payables increased to US$287.7 million, up 60.5% from last year of US$179.2 million.

Current income tax liabilities increased by US$13.9 million to US$18.3 million.

Current borrowings increased from US$13.0 million to US$184.9 million due mainly to the inclusion of US$172.6 million from the acquired companies.

Other provisions were US$12.5 million, up US$9.6 million from last year of US$2.9 million. These provisions mainly represented restructuring costs recorded in the accounts but for which cash outflows will occur after the balance sheet date.

Shareholders' Funds

Shareholders' funds at 31st March 2006 were US$845.5 million, up 3.3% from last year of US$818.3 million.

Reserves increased US$41.4 million or 6.1%. This was mainly due to the retained profit for the year of US$94.0 million; dividend paid and final dividend proposed of US$61.2 million; a loss of US$7.4 million arising on translation of foreign subsidiaries, associated companies and jointly controlled entities; the fair value gain of US$5.5 million for the hedging instrument; US$4.7 million actuarial gains of defined benefit plan and US$4.6 million of opening adjustments for the adoption of new HKFRS.

Share capital decreased by US$2.4 million to US$81.4 million due to the purchase of treasury shares during the year.

TOTAL SHAREHOLDER RETURN (TSR)

For the financial year ended 31st March 2006 the Group provided a Total Shareholder Return of 3%, compared to 33% for the Dow Jones World Electric Component and Equipment Index ("DJWECI"), which is a representative benchmark index of global industry peers.

Over the past five years, the compound annual average TSR of Johnson Electric was -10% compared to 3% achieved by DJWECI.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The management of financial risk in the Group is the responsibility of the Group's treasury function at the corporate centre based in Hong Kong. Policies are established by senior management.

Foreign Currency

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

For the Automotive Motors Group (AMG) and the Commercial Motors Group (CMG) business units the major revenue generating currencies continue to be the US dollars, the Euro and the Japanese Yen. For the year to 31st March 2006, of the sales from these business units, 60% were in US dollars; 32% in Euro; and 8% in Japanese Yen. The major currencies used for purchases of materials and services are the US dollars, the Euro, the Hong Kong dollars and the Japanese Yen. Aside from the US dollars and Hong Kong dollars (which is pegged to the US dollars), 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 four months.

The revenues and costs for Saia-Burgess and Parlex are denominated mainly in Euro and US dollars respectively and no material currency exposure is present in these businesses.

Cash and Borrowings

As at 31st March 2006, bank balances and cash (comprising cash and other financial assets at fair value through profit or loss) increased to US$241.2 million, up US$6.1 million from US$235.1 million at the previous year-end.

As at 31st March 2006, 73% of these cash balances was held in US dollars (compared to 63% a year ago); and the average duration of the Group's interest-bearing securities and time deposits was increased to 0.7 month, compared to 0.6 month previously. Hence, the price sensitivity to interest rate movements and the foreign exchange risk of such investments continued to be immaterial.

At the balance sheet date, total borrowings amounted to US$708.1 million, an increase of US$692.1 million from US$16.0 million at the previous year-end. At 31st March 2006, the Group had an outstanding bridge loan in the amount of US$520.7 million. This had been taken out in November 2005 for the purpose of funding the purchase of shares in Saia-Burgess. At 31st March 2006, the Company also had in place a facility agreement with a syndicate of banks for a five-year loan facility of up to US$530.0 million for the express purpose of refinancing the bridge loan. This facility was drawn down on 6th April 2006 to refinance in full the bridge loan. The five-year loan is repayable in full on the Final Maturity Date, 31st March 2011.

The Group's borrowings are mainly denominated in US dollars and Swiss Francs. The bridge loan which is denominated in Swiss Francs is represented by the Group's investment in Saia-Burgess and the Group therefore has no significant exposure to foreign exchange fluctuations in relation to borrowings. Details of borrowings which remain outstanding are included in Note 23 to the accounts.

Liquidity and Financial Leverage

The Group's financial resources and liquidity remained healthy throughout the year. Net borrowings (total borrowings net of cash and other financial assets at fair value through profit or loss) at 31st March 2006 was US$466.9 million and the Group gearing ratio (calculated on the total borrowings net of cash and other financial assets at fair value through profit or loss to the shareholders) was 55.2%.

The Group interest coverage ratio (profit before tax and interest expense divided by interest expense) is 16 times, compared to 508 times for prior year. Interest expense of US$7.6 million was incurred on the loans for the acquisition of the Saia-Burgess and on the loans to fund the Group's operational requirements.

For day-to-day liquidity management and to maintain flexibility in funding, the Group also has access to significant unutilised short-term borrowing facilities provided by its relationship banks not less than US$200 million.

Funding requirements for capital expenditures are expected to be met by internal cash flows and there are currently no plans to make any significant change in the rate of capital expenditures compared to recent years.

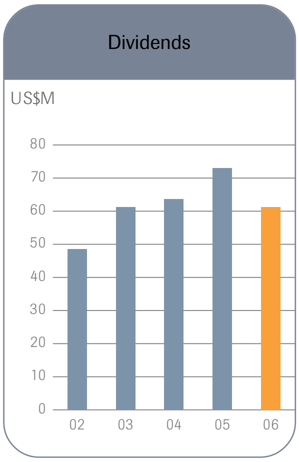
Capital Structure

It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure over time.

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 2006 meeting, the Board of Directors recommended a final dividend of 8.5 HK cents (equivalent to 1.09 US cents per share), which together with the interim dividend of 4.5 HK cents (equivalent to 0.58 US cents), represents a total dividend of 13 HK cents per share (equivalent to 1.67 US cents).



In 2005/06, the dividend payout ratio (including the proposed dividend for the year) was approximately 65% of the profit attributable to shareholders, compared to 52% in 2004/05.

CASH FLOWS

The Group's ability to generate cash from operations continues to be one of the Group's fundamental strengths.

Cash generated from operations increased from US$137.3 million in 2004/05 to US$185.1 million this year. This increase of US$47.8 million is due mainly to continued emphasis on working capital management.

Investing Activities

Net cash used in investing activities increased US$408.1 million to US$550.6 million, due mainly to an increase of US$559.2 million in cash used in the acquisitions of subsidiaries.

Financing Activities

The Group received proceeds from borrowings of US$549.2 million during the year to support the acquisitions of Saia-Burgess and Parlex.

Cash and Cash Equivalents

Total cash and cash equivalents as at 31st March 2006 increased US$62.2 million or 35% to US$238.5 million, compared to US$176.3 million a year ago.