# Johnson Electric Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code : 179)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2012

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# HIGHLIGHTS

- For the financial year ended 31st March 2012, total sales amounted to US$2,141 million – an increase of 2% compared to the prior financial year. Excluding the one-time effects of the disposal of a non-core business that occurred during the year and the in-sourcing of a distribution channel in Germany, underlying sales increased by over 5%
- Operating profits before restructuring and asset impairment charges were US$234 million or 11% of sales
- Free cash flow from operations amounted to US$166 million
- Net profit attributable to shareholders increased to a record US$187 million, an increase of 2.7%
- Earnings per share increased by 3.8% to 5.16 US cents
- Full year recommended dividend of HK$0.10 per share, an 11% increase over prior year (HK$0.09 per share)

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The Directors announce that the audited consolidated profit attributable to shareholders for the year ended 31st March 2012 was US$186.7 million, an increase of US$5.0 million from US$181.7 million in the corresponding year ended 31st March 2011.

# FINANCIAL RESULTS

The audited consolidated financial statements for the year ended 31st March 2012 together with comparative figures for the corresponding year ended 31st March 2011 are set out below:

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31st March 2012*

| | Note | **2012 US$'000** | 2011 US$'000 |
|---|---|---|---|
| **Sales** | 2 | **2,140,803** | 2,104,029 |
| **Cost of goods sold** | | **(1,556,337)** | (1,524,370) |
| **Gross profit** | | **584,466** | 579,659 |
| **Other income and gains** | | **18,309** | 14,817 |
| **Selling and administrative expenses** | | **(368,637)** | (358,392) |
| **Restructuring costs and assets impairment** | 3 | **(13,033)** | (411) |
| **Operating profit** | 4 | **221,105** | 235,673 |
| **Finance income** | | **5,794** | 3,566 |
| **Finance costs** | | **(6,858)** | (12,970) |
| **Share of profits of associate** | | **468** | 138 |
| **Profit before income tax** | | **220,509** | 226,407 |
| **Income tax expenses** | 5 | **(31,618)** | (36,046) |
| **Profit for the year** | | **188,891** | 190,361 |
| **Less: profit attributable to non-controlling interests** | | **(2,191)** | (8,633) |
| **Profit attributable to owners** | | **186,700** | 181,728 |
| **Basic earnings per share for profit attributable to the owners during the year (expressed in US Cents per share)** | 7 | **5.16** | 4.97 |
| **Diluted earnings per share for profit attributable to the owners during the year (expressed in US Cents per share)** | 7 | **5.15** | 4.97 |

Details of recommended final dividends of 0.90 US Cents per share (FY2010/11: 0.77 US Cents) equivalent to US$32.3 million (FY2010/11: US$28.3 million) are set out in Note 6.

# CONSOLIDATED BALANCE SHEET

*As of 31st March 2012*

| | Note | **2012 US$'000** | 2011 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **374,668** | 403,985 |
| Investment property | | **53,705** | 44,142 |
| Land use rights | | **4,677** | 9,346 |
| Intangible assets | | **757,783** | 774,688 |
| Investment in associate | | **2,184** | 1,926 |
| Deferred income tax assets | | **37,726** | 35,957 |
| Available-for-sale financial assets | | **6,307** | 1,956 |
| Other financial assets at fair value through profit and loss | | **1,093** | 4,499 |
| Other financial assets | 8 | **8,441** | - |
| Deposits | | **5,859** | 8,113 |
| | | **1,252,443** | 1,284,612 |
| **Current assets** | | | |
| Inventories | | **240,103** | 252,763 |
| Trade and other receivables | 9 | **384,388** | 421,735 |
| Non-current asset held for sale | | **-** | 9,967 |
| Other financial assets at fair value through profit and loss | | **3,359** | 5,148 |
| Other financial assets | 8 | **12,139** | 9,534 |
| Income tax recoverable | | **2,382** | 3,899 |
| Cash and deposits | | **385,117** | 354,715 |
| | | **1,027,488** | 1,057,761 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **364,124** | 414,522 |
| Current income tax liabilities | | **34,267** | 27,932 |
| Other financial liabilities | 8 | **8,535** | 393 |
| Borrowings | 11 | **203,104** | 134,248 |
| Provision obligations and other liabilities | 12 | **30,373** | 16,783 |
| | | **640,403** | 593,878 |
| **Net current assets** | | **387,085** | 463,883 |
| **Total assets less current liabilities** | | **1,639,528** | 1,748,495 |

## CONSOLIDATED BALANCE SHEET

| | Note | **2012 US$'000** | 2011 US$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Other financial liabilities | 8 | **2,056** | - |
| Borrowings | 11 | **2,258** | 179,458 |
| Deferred income tax liabilities | | **78,192** | 78,160 |
| Provision obligations and other liabilities | 12 | **69,541** | 68,585 |
| | | **152,047** | 326,203 |
| **NET ASSETS** | | **1,487,481** | 1,422,292 |
| **Equity** | | | |
| Share capital and share premium | | **36,422** | 69,970 |
| Reserves | | **1,392,826** | 1,263,947 |
| Proposed dividends | 6 | **32,311** | 28,285 |
| | | **1,461,559** | 1,362,202 |
| **Non-controlling interests** | | **25,922** | 60,090 |
| **TOTAL EQUITY** | | **1,487,481** | 1,422,292 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31st March 2012*

| | **2012** **US$'000** | 2011 US$'000 |
|---|---|---|
| **Profit for the year** | **188,891** | 190,361 |
| **Other comprehensive (expenses)/income:** | | |
| Available-for-sale financial assets | | |
| – fair value (losses)/gains, net | **(348)** | 209 |
| – release of reserves upon disposal | **11** | (101) |
| Hedging instruments | | |
| – fair value gains, net | **4,393** | 13,636 |
| – deferred income tax effect on net fair value changes | **372** | (686) |
| – transferred to income statement | **(9,459)** | (6,346) |
| Defined benefit plans | | |
| – actuarial losses, net | **(10,786)** | (5,361) |
| – deferred income tax effect on actuarial losses | **417** | 2,411 |
| Actuarial (losses)/gains of long service payment | **(1,595)** | 317 |
| Gains on revaluation of property, plant and equipment transferred to investment property | **-** | 758 |
| Currency translation of foreign subsidiaries and associate | **5,352** | 102,704 |
| Other comprehensive (expenses)/income for the year, net of tax | **(11,643)** | 107,541 |
| **Total comprehensive income for the year, net of tax** | **177,248** | 297,902 |
| **Total comprehensive income attributable to:** | | |
| Owners | **173,654** | 287,333 |
| Non-controlling interests | | |
| Share of profits for the year | **2,191** | 8,633 |
| Currency translation | **1,403** | 1,936 |
| | **177,248** | 297,902 |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31st March 2012*

| | **2012** **US$'000** | 2011 US$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Earnings before interest, taxes, depreciation and amortisation | 314,318 | 322,465 |
| Other non-cash items and adjustments | (5,244) | (5,417) |
| Change in working capital | (42,424) | (38,981) |
| Cash generated from operations | 266,650 | 278,067 |
| Interest paid | (5,934) | (9,440) |
| Income taxes paid | (27,567) | (27,577) |
| **Net cash generated from operating activities** | **233,149** | 241,050 |
| **Investing activities** | | |
| Purchase of land use rights and property, plant and equipment | (91,252) | (85,560) |
| Proceeds from disposal of investment property, land use rights and property, plant and equipment | 18,356 | 10,582 |
| Interest received | 5,794 | 3,566 |
| | (67,102) | (71,412) |
| Acquisition of non-controlling interests | - | (350) |
| Purchase of intangible assets | - | (3,000) |
| Proceeds from sale of available-for-sale financial assets and other financial assets at fair value through profit and loss | 5,029 | 712 |
| Proceeds from divestiture of a controlling stake in a noncore subsidiary, net of cash divested * | 28,962 | - |
| Decrease in time deposits | 1,925 | 2,002 |
| **Net cash used in investing activities** | **(31,186)** | (72,048) |

** Note: In FY2011/12, the Group received a net cash consideration of US$28.9 million (receipt of US$32.2 million, net of US$3.3 million cash on hand) from the divestiture of a controlling stake in a noncore subsidiary.*

## CONSOLIDATED CASH FLOW STATEMENT

| | **2012** **US$'000** | 2011 US$'000 |
|---|---|---|
| **Financing activities** | | |
| Purchase of shares for cancellation of issued capital | (31,884) | - |
| Purchase of shares held for | | |
| Long-Term Incentive Share Scheme | (2,623) | (10,661) |
| Proceeds from borrowings | 62,585 | 161,475 |
| Repayments of borrowings | (159,438) | (260,502) |
| Dividends paid to owners | (41,902) | (37,862) |
| Dividends paid to non-controlling interests | - | (2,170) |
| Currency swap unwound | - | (35,113) |
| **Net cash used in financing activities** | **(173,262)** | (184,833) |
| **Net increase/(decrease) in cash and cash equivalents** | **28,701** | (15,831) |
| **Cash and cash equivalents at beginning of the year** | **352,790** | 363,133 |
| **Currency translation on cash and cash equivalents** | **3,626** | 5,488 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **385,117** | 352,790 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| **Cash and deposits** | 385,117 | 354,715 |
| **Less: time deposit with maturities over three months** | - | (1,925) |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **385,117** | 352,790 |

# NOTES:

## 1. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of Johnson Electric Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and investment property.

In FY2011/12, the Group adopted the new/revised standards and interpretations of HKFRS which are relevant to its operations. The adoption does not have a material impact on the consolidated financial statements.

## 2. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (as defined in HKFRS). The chief operating decision maker has been identified as the Group's Executive Committee.

The Group had two operating segments - Manufacturing and Trading in prior years. The trading operating segment, which was principally engaged in trading of goods and materials not manufactured by the Group, was wound down in the financial year ended 31st March 2011. Therefore the Group had one single operating segment in the year ended 31st March 2012.

The Group's management assesses the performance of the operating segments based on the measure of operating profit. The measure excludes items which are not directly related to the segment performance including non-operating income/(expenses) such as interest income and expense, rental income, fair value gains/(losses) on investment property and gains/(losses) on disposals of fixed assets and investments.

The reconciliation of the operating profit presented to management to the consolidated income statement is as follows:

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Operating profit presented to management | 202,975 | 223,823 |
| Rental income | 4,232 | 4,265 |
| (Losses)/gains on investments, net | (207) | 832 |
| Gains on disposal of fixed assets | 1,586 | 2,959 |
| Fair value gains on investment property | 12,269 | 7,988 |
| Fair value gains/(losses) on other financial assets/liabilities | 429 | (1,227) |
| Miscellaneous expenses | (179) | (2,967) |
| Operating profit per consolidated income statement | 221,105 | 235,673 |

## 2. SEGMENT INFORMATION *(Cont'd)*

Revenue from external customers is analysed by business units as follows:

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Automotive Products Group ("APG") | 1,272,844 | 1,149,624 |
| Industry Products Group ("IPG") | 753,745 | 796,153 |
| Other businesses | 93,077 | 79,873 |
| Divested business | 21,137 | 78,379 |
| | **2,140,803** | 2,104,029 |

The Powertrain Cooling business (included in APG) is primarily engaged in the manufacture and sale of cooling fan modules for OEM and Tier 1 customers. Revenues for this business unit, comprised 19% of the total revenues of the Group during FY2011/12 (FY2010/11: 17%).

**Revenue by geography**

Revenue from external customers by country for the year ended 31st March 2012 is as follows:

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Hong Kong / People's Republic of China ("HK/PRC") | 581,665 | 636,044 |
| United States of America ("USA") | 422,734 | 392,638 |
| Germany | 356,046 | 343,811 |
| France | 129,450 | 122,987 |
| Italy | 90,470 | 90,001 |
| Others | 560,438 | 518,548 |
| | **2,140,803** | 2,104,029 |

No single external customer contributed more than 10% of the total Group revenue.

**Segment assets**

For FY2011/12, the additions to non-current assets (other than deferred tax assets, available-for-sale financial assets, other financial assets at fair value through profit and loss and other financial assets) were US$89.4 million (FY2010/11: US$93.6 million).

As of 31st March 2012, excluding goodwill held centrally, the total of non-current assets (other than deferred tax assets, available-for-sale financial assets, other financial assets at fair value through profit and loss and other financial assets) located in HK/PRC was US$320.0 million (31st March 2011: US$342.6 million) and the total of these non-current assets located in other countries was US$362.2 million (31st March 2011: US$387.1 million).

## 3. RESTRUCTURING COSTS AND ASSETS IMPAIRMENT

| | 2012 US$'000 | 2011 US$'000 |
|---|---|---|
| Restructuring costs (Note 12) | 11,774 | 411 |
| Impairment of property, plant and equipment (Note 4) | 850 | - |
| Impairment of other assets | 409 | - |
| Total provisions | **13,033** | 411 |

*Note: The restructuring costs primarily consisted of severance payments in relation to initiatives to simplify the European manufacturing, supply chain and legal entity footprint.*

## 4. EXPENSES BY NATURE

Operating profit is stated after crediting and charging the following:

| | 2012 US$'000 | 2011 US$'000 |
|---|---|---|
| Depreciation | | |
| Depreciation of property, plant and equipment | 68,355 | 67,013 |
| Less: amounts capitalised in assets under construction | (384) | (359) |
| | 67,971 | 66,654 |
| Employee compensation | 479,907 | 425,837 |
| Less: amounts capitalised in assets under construction | (2,450) | (2,284) |
| | 477,457 | 423,553 |
| Impairment of property, plant and equipment | | |
| – Relating to restructuring (Note 3) | 850 | - |
| – Included in selling and administrative expenses and cost of goods sold | 1,439 | 4,337 |
| | 2,289 | 4,337 |
| Other items: | | |
| Cost of goods sold* | 1,556,337 | 1,524,370 |
| Auditors' remuneration** | 1,661 | 2,084 |
| Amortisation on land use rights | 390 | 568 |
| Amortisation of intangible assets | 24,555 | 19,567 |
| Net foreign exchange gains | (10,959) | (9,332) |
| Net write back for impairment of trade receivables (Note 9) | (219) | (682) |

*Note:*

* *Cost of goods sold includes materials, direct labour costs (including their social costs) and production overheads.*

*Included in the cost of goods sold was an operating lease payment of US$17.2 million (FY2010/11: US$15.1 million).*

** *Excluded US$0.5 million of contracted fees for work to be performed subsequent to 31st March 2012.*

## 5. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 16.5% (FY2010/11: 16.5%) on the estimated assessable profit for the year. Overseas tax has been provided at the applicable rates on the estimated assessable profit in the respective countries of operations for the year. The overall global effective tax rate for the year ended 31st March 2012 was 14.3% (FY2010/11: 15.9%).

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Current income tax | | |
| Hong Kong profits tax | 11,997 | 11,532 |
| Overseas taxation | 21,345 | 28,313 |
| Under/(over) provisions in prior years | 746 | (1,328) |
| | 34,088 | 38,517 |
| Deferred income tax | (5,932) | (2,471) |
| Impairment of deferred income tax assets | 3,462 | - |
| Total income tax expenses | **31,618** | 36,046 |
| Effective tax rate | 14.3% | 15.9% |

The effective tax rate of the Group of 14.3% differs from the statutory tax rate of Hong Kong of 16.5% as follows:

| | 2012 | 2011 | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|---|---|
| Profit before income tax | | | 220,509 | 226,407 |
| Tax charged at Hong Kong profits tax rate | 16.5% | 16.5% | 36,384 | 37,357 |
| Effect of different tax rates in other countries | | | | |
| – Countries with taxable profit | 2.3% | 1.7% | 5,023 | 3,782 |
| – Countries with loss | (1.8)% | (1.5)% | (3,854) | (3,422) |
| Income, net of expenses not subject to tax | (6.1)% | (5.5)% | (13,413) | (12,399) |
| Over provisions for prior years | (0.1)% | (0.9)% | (289) | (2,064) |
| Tax losses and other timing differences not recognised as an asset and other tax, net of utilisation | 2.0% | 5.6% | 4,305 | 12,792 |
| Impairment of deferred income tax assets | 1.5% | - | 3,462 | - |
| | 14.3% | 15.9% | 31,618 | 36,046 |

## 6. DIVIDENDS

| | 2012 US$'000 | 2011 US$'000 |
|---|---|---|
| Interim, of 0.38 US Cents (3 HK Cents) per share, paid in January (FY2010/11: 0.39 US Cents or 3 HK Cents) | 13,807 | 14,203 |
| Final, proposed, of 0.90 US Cents (7 HK Cents) per share, to be paid in July (FY2010/11: 0.77 US Cents or 6 HK Cents) | 32,311 | 28,285 |
| | 46,118 | 42,488 |

Total dividend per share for the year is 10 HK Cents (FY2010/11: 9 HK Cents).

At a meeting held on 17th May 2012 the directors recommended a final dividend of 0.90 US Cents (7 HK Cents) per share to be paid out in July 2012. The recommended final dividend will be reflected as an appropriation of retained earnings for the year ending 31st March 2013.

## 7. EARNINGS PER SHARE

**Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held for the Long-Term Incentive Share Scheme.

| | 2012 | 2011 |
|---|---|---|
| Profit attributable to owners (thousands US Dollar) | 186,700 | 181,728 |
| Weighted average number of ordinary shares in issue (thousands) | 3,614,874 | 3,659,782 |
| Basic earnings per share (US Cents per share) | **5.16** | 4.97 |
| Basic earnings per share (HK Cents per share) | **40.17** | 38.60 |

## 7. EARNINGS PER SHARE *(Cont'd)*

**Diluted earnings per share**

For the purpose of calculating diluted EPS, the number of ordinary shares is the weighted average number of ordinary shares calculated as per basic EPS, plus the weighted average number of all the dilutive potential ordinary shares.

| | 2012 | 2011 |
|---|---|---|
| Weighted average number of ordinary shares issued and outstanding (thousands) | 3,614,874 | 3,659,782 |
| Adjustments for restricted shares units granted: | | |
| – Long-Term Incentive Share Scheme (Time vesting) | 8,481 | - |
| – Long-Term Incentive Share Scheme (Performance earned) | 1,953 | - |
| Weighted average number of ordinary shares (diluted) (thousands) | 3,625,308 | 3,659,782 |
| Diluted earnings per share (US Cents per share) | **5.15** | 4.97 |
| Diluted earnings per share (HK Cents per share) | **40.05** | 38.60 |

*Note: The basis of calculation of diluted earnings per share has been modified in this financial year.*

## 8. OTHER FINANCIAL ASSETS AND LIABILITIES

| **Group** | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Commodity contracts (Note a) | | | | |
| – copper hedging contracts (cash flow hedge) | 9,494 | 8,059 | 2,767 | - |
| – silver hedging contracts (cash flow hedge) | 579 | - | 73 | - |
| Forward foreign currency exchange contracts (Note b) | | | | |
| – cash flow hedge | 10,449 | 1,263 | 7,718 | 368 |
| – held for trading | - | 212 | 33 | - |
| Others – held for trading (Note c) | 58 | - | - | 25 |
| Total (Note d) | 20,580 | 9,534 | 10,591 | 393 |
| Current portion | **12,139** | 9,534 | **8,535** | 393 |
| Non-current portion | **8,441** | - | **2,056** | - |
| Total | 20,580 | 9,534 | 10,591 | 393 |

## 8. OTHER FINANCIAL ASSETS AND LIABILITIES *(Cont'd)*

The Company did not have any other financial assets and liabilities as of 31st March 2012 (31st March 2011: US$0.1 million current financial liabilities).

*Note:*

(a) Copper and silver hedging contracts

Gains and losses on copper and silver hedging contracts, including gains and losses recognised in the hedging reserve as of 31st March 2012, are recognised in the income statement in the period or periods in which the underlying hedged copper and silver volumes are consumed. As of 31st March 2012, there were outstanding copper hedging contracts of US$127.5 million (31st March 2011: US$65.0 million) with maturities ranging from 1 month to 36 months and silver hedging contracts of US$10.0 million (31st March 2011: nil) with maturities ranging from 1 month to 19 months.

(b) Forward foreign currency exchange contracts

Gains and losses on RMB, Euro, CHF, HUF, PLN, ILS and MXN forward foreign currency exchange contracts designated as hedges, including gains and losses recognised in the hedging reserve as of 31st March 2012, are recognised in the income statement in the period or periods in which the underlying hedged transactions occur. For currency contracts designated as held for trading, fair value gains and losses on the forward contracts are immediately recognised in the income statement. The net fair value gains recognised in the income statement were not material.

As of 31st March 2012, the Group has the following outstanding forward foreign currency exchange contracts:

| | Notional amount (million) | Maturities ranging (months) |
|---|---|---|
| **Cash flow hedge** | | |
| Chinese Renminbi forward purchase contracts | RMB3,440.0 | 1 - 36 |
| Euro forward sales contracts | EUR159.0 | 1 - 24 |
| Swiss Franc forward purchase contracts | CHF61.8 | 1 - 18 |
| Hungarian Forint forward purchase contracts | HUF13,040.0 | 1 - 60 |
| Polish Zloty forward purchase contracts | PLN44.7 | 1 - 24 |
| Israeli New Shekel forward purchase contracts | ILS29.2 | 1 - 17 |
| Mexican Peso forward purchase contracts | MXN55.5 | 3 - 14 |
| **Held for trading** | | |
| Indian Rupee forward purchase contracts | INR83.6 | 2 - 19 |

## 8. OTHER FINANCIAL ASSETS AND LIABILITIES *(Cont'd)*

*Note:*

(c) Others – held for trading

This represents the mark-to-market value for gold hedging contracts, including gains and losses recognised in the income statement as of 31st March 2012 (as of 31st March 2011: the mark-to-market value for a credit default swap matured on 20th March 2012 on a notional amount of US$25.0 million of sovereign debt of China bought by the Group).

(d) The maximum exposure of other financial assets to credit risk at the reporting date is the fair value in the balance sheet.

## 9. TRADE AND OTHER RECEIVABLES

| **Group** | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Trade receivables – gross | 321,731 | 362,856 |
| Less: impairment of trade receivables | (1,910) | (4,090) |
| Trade receivables – net | 319,821 | 358,766 |
| Prepayments and other receivables | 64,567 | 62,969 |
| | **384,388** | 421,735 |

The Company had trade and other receivables of US$0.2 million as of 31st March 2012 (31st March 2011: nil).

All trade and other receivables are repayable within one year. Accordingly, the fair value of the Group's trade and other receivables were approximately equal to the carrying value.

## 9. TRADE AND OTHER RECEIVABLES *(Cont'd)*

**Aging of gross trade receivables**

The Group normally grants credit terms ranging 30 to 90 days to its trade customers. The aging of gross trade receivables based on overdue date was as follows:

| **Group** | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Current | 299,562 | 328,334 |
| 1–60 days | 18,242 | 26,122 |
| 61–90 days | 597 | 2,039 |
| Over 90 days | 3,330 | 6,361 |
| Total | 321,731 | 362,856 |

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The carrying amounts of the Group's trade receivables were denominated in the following currencies:

| **Group** | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| US Dollar | 144,360 | 149,993 |
| Euro | 122,982 | 122,988 |
| RMB | 42,809 | 75,354 |
| Others | 11,580 | 14,521 |
| Total | 321,731 | 362,856 |

## 9. TRADE AND OTHER RECEIVABLES *(Cont'd)*

**Aging of overdue trade receivables but not impaired**

The Group has credit policies in place to review the credit worthiness of all existing and potential customers. Credit terms range between 30 and 90 days. As of 31st March 2012, trade receivables of US$20.3 million (31st March 2011: US$30.4 million) were overdue but not impaired. Management assessed the credit quality of this US$20.3 million by reference to the repayment history and current financial position of the customers. These receivables are related to a number of independent customers for whom there is no recent history of default and no significant change in credit quality. Management believes that no provision for impairment is necessary and these balances are expected to be fully recovered. The aging of these overdue trade receivables but not impaired is as follows:

| **Group** | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| 1-60 days | 18,196 | 25,956 |
| 61-90 days | 577 | 2,003 |
| Over 90 days | 1,486 | 2,476 |
| Total | 20,259 | 30,435 |

**Impairment of trade receivables**

Movements on the impairment of trade receivables were as follows:

| **Group** | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| At beginning of the year | 4,090 | 5,596 |
| Currency translations | (57) | 237 |
| Divestiture of a controlling stake in a noncore subsidiary | (31) | - |
| Receivables written off during the year as uncollectible | (1,873) | (1,061) |
| Impairment of trade receivables | 26 | 1,351 |
| Unused amounts reversed | (245) | (2,033) |
| At end of the year | 1,910 | 4,090 |

The creation and release of impairment of trade receivables have been included in "Net write back for impairment of trade receivables" in the income statement (Note 4).

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

## 10. TRADE AND OTHER PAYABLES

| **Group** | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Trade payables | 195,299 | 244,824 |
| Accrued expenses and sundry payables | 168,825 | 169,698 |
| | **364,124** | 414,522 |

| ***Company*** | 2012<br>US$'000 | *2011*<br>*US$'000* |
|---|---|---|
| *Accrued expenses and sundry payables* | *65* | *269* |
| | ***65*** | *269* |

The fair value of the Group's trade and other payables was approximately equal to the carrying value. The aging analysis of trade payables based on invoice date was as follows:

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| 0-60 days | 150,194 | 177,446 |
| 61-90 days | 26,118 | 44,522 |
| Over 90 days | 18,987 | 22,856 |
| Total | 195,299 | 244,824 |

The carrying amounts of the Group's trade payables are denominated in the following currencies:

| **Group** | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| US Dollar | 76,514 | 97,683 |
| Euro | 35,440 | 51,575 |
| RMB | 35,437 | 45,137 |
| HK Dollar | 35,898 | 40,300 |
| Others | 12,010 | 10,129 |
| Total | 195,299 | 244,824 |

## 11. BORROWINGS

| | Group 2012 US$'000 | Group 2011 US$'000 | *Company 2012 US$'000* | *Company 2011 US$'000* |
|---|---|---|---|---|
| Three-year term loan (due on 26th February 2013) (Note a) | 50,000 | 150,000 | 50,000 | *150,000* |
| Unamortised upfront fees | (165) | (1,089) | (165) | *(1,089)* |
| Carrying value | 49,835 | 148,911 | *49,835* | *148,911* |
| Committed revolving three-year credit line (Note b) | - | 27,700 | - | - |
| Loans based on trade receivables (Note c) | 142,836 | 118,559 | - | - |
| Other borrowings - Non-current | 2,258 | 2,847 | - | - |
| - Current | 10,433 | 15,689 | - | - |
| Total borrowings | 205,362 | 313,706 | *49,835* | *148,911* |
| **Current borrowings** | **203,104** | 134,248 | ***49,835*** | - |
| **Non-current borrowings** | **2,258** | 179,458 | - | *148,911* |

*Note:*

(a) The Company repaid US$100.0 million of the US$150.0 million term loan during the year. The term loan is subject to the usual terms and conditions by a bank group to an industrial credit. As of 31st March 2012, the loan was classified as a current borrowing. On 4th May 2012, the Company gave notice of repayment for the remaining US$50.0 million outstanding term loan on 31st May 2012.

(b) The Group's U.S. subsidiary has a US$35.0 million three year (expires on 14th February 2014) committed revolving line of credit, of which none was outstanding as of 31st March 2012 (31st March 2011: US$27.7 million).

(c) Subsidiary companies have borrowed US$142.8 million in the USA, Europe and Hong Kong as of 31st March 2012 based on trade receivables. The borrowings' covenants are subject to the same terms and conditions as the existing term loan and are guaranteed by the Company. These loans are placed such that the interest expense will match the source of the operating income.

- Unsecured borrowings in the USA of US$55.0 million, with a covenant that trade receivables shall not be pledged to other parties (31st March 2011: US$55.0 million).
- Borrowings in Europe of US$73.4 million (EUR55.0 million) [31st March 2011: US$63.6 million (EUR 45.0 million)], which are secured by trade receivables require an over-collateralisation level of 20% of the amount loaned (US$88.1 million as of 31st March 2012 and US$76.3 million as of 31st March 2011).
- Unsecured borrowings in Hong Kong of US$14.4 million based on trade receivables (31st March 2011: nil).

## 11. BORROWINGS *(Cont'd)*

The maturity of borrowings is as follows:

| | Group | | | | *Company* | |
|---|---|---|---|---|---|---|
| | Bank borrowings | | Other loans | | *Bank borrowings* | |
| | 2012 | 2011 | 2012 | 2011 | *2012* | *2011* |
| | US$'000 | US$'000 | US$'000 | US$'000 | *US$'000* | *US$'000* |
| Within one year | 202,671 | 133,804 | 433 | 444 | *49,835* | - |
| In the second year | - | 148,911 | 446 | 458 | - | *148,911* |
| In the third to fifth year | - | 27,700 | 1,420 | 1,459 | - | - |
| After the fifth year | - | - | 392 | 930 | - | - |
| | 202,671 | 310,415 | 2,691 | 3,291 | *49,835* | *148,911* |

At the balance sheet date, the interest rate charged on outstanding balances ranged from 0.7% to 3.2% per annum (31st March 2011: 0.7% to 6.1% per annum) and the weighted average effective interest rate of the borrowings was approximately 1.2% (31st March 2011: 1.6%).

As of 31st March 2012, borrowings of subsidiary companies amounting to US$152.8 million (31st March 2011: US$161.5 million) were guaranteed by the Company.

The carrying amounts of the borrowings (bank loans and other loans) were denominated in the following currencies:

| | Group | | *Company* | |
|---|---|---|---|---|
| | 2012 | 2011 | *2012* | *2011* |
| | US$'000 | US$'000 | *US$'000* | *US$'000* |
| US Dollar | 129,235 | 231,611 | 49,835 | *148,911* |
| Euro | 76,127 | 66,851 | - | - |
| RMB | - | 15,244 | - | - |
| Total borrowings | 205,362 | 313,706 | *49,835* | *148,911* |

## 12. PROVISION OBLIGATIONS AND OTHER LIABILITIES

| Group | Retirement benefit obligations US$'000 | Other pension costs US$'000 | Finance lease liabilities US$'000 | Restructuring US$'000 | Legal and warranty US$'000 | Long service payment and sundries US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| As of 31st March 2010 | 22,468 | 1,058 | 7,845 | 20,110 | 21,797 | 1,206 | 74,484 |
| Currency translations | 2,081 | 3 | 43 | 763 | 571 | 23 | 3,484 |
| Provisions | 3,435 | 188 | - | 411 | 22,437 | 1,691 | 28,162 |
| Utilised | (7,592) | - | (1,043) | (7,496) | (9,123) | (552) | (25,806) |
| Actuarial losses /(gains) recognised in equity | 5,361 | - | - | - | - | (317) | 5,044 |
| As of 31st March 2011 | 25,753 | 1,249 | 6,845 | 13,788 | 35,682 | 2,051 | 85,368 |
| | | | | | | | |
| Current portion | - | - | 690 | 5,503 | 10,571 | 19 | 16,783 |
| Non-current portion | 25,753 | 1,249 | 6,155 | 8,285 | 25,111 | 2,032 | 68,585 |
| As of 31st March 2011 | 25,753 | 1,249 | 6,845 | 13,788 | 35,682 | 2,051 | 85,368 |
| | | | | | | | |
| As of 31st March 2011 | 25,753 | 1,249 | 6,845 | 13,788 | 35,682 | 2,051 | 85,368 |
| Currency translations | (784) | (8) | (17) | (843) | (209) | (11) | (1,872) |
| Divestiture of a controlling stake in a noncore subsidiary | - | - | - | - | (356) | - | (356) |
| Provisions | 3,446 | 3,742 | 21 | 11,774 * | 8,403 | 553 | 27,939 |
| Utilised | (6,615) | (3,408) | (729) | (4,164) | (8,610) | (20) | (23,546) |
| Actuarial losses recognised in equity | 10,786 | - | - | - | - | 1,595 | 12,381 |
| As of 31st March 2012 | 32,586 | 1,575 | 6,120 | 20,555 | 34,910 | 4,168 | 99,914 |
| | | | | | | | |
| Current portion | - | 348 | 702 | 17,867 | 11,456 | - | **30,373** |
| Non-current portion | 32,586 | 1,227 | 5,418 | 2,688 | 23,454 | 4,168 | **69,541** |
| As of 31st March 2012 | 32,586 | 1,575 | 6,120 | 20,555 | 34,910 | 4,168 | 99,914 |

** Note: Restructuring costs are described in Note 3.*

# 13. COMMITMENTS

## 13.1 Capital commitments

| **Group** | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Capital commitments for property, plant and equipment | | |
| Authorised but not contracted for * | 24,658 | 24,658 |
| Contracted but not yet accrued | 15,783 | 18,403 |
| | 40,441 | 43,061 |

** Note: As of the balance sheet date, capital commitment authorised but not contracted for represents the management's budget for the coming quarter.*

The Company did not have any capital commitments as of 31st March 2012 (31st March 2011: nil).

## 13.2 Operating lease commitments

(i) As of 31st March 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Land and buildings<br>US$'000 | Others<br>US$'000 | Land and buildings<br>US$'000 | Others<br>US$'000 |
| Not later than one year | 16,521 | 1,580 | 14,859 | 1,164 |
| Later than one year and not later than five years | 58,386 | 2,532 | 41,382 | 796 |
| Later than five years | 34,360 | - | 30,173 | 16 |
| | 109,267 | 4,112 | 86,414 | 1,976 |

(ii) As of 31st March 2012, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases on land and buildings as follows:

| | 2012<br>US$'000 | 2011<br>US$'000 |
|---|---|---|
| Not later than one year | 2,963 | 1,850 |
| Later than one year and not later than five years | 1,624 | 45 |
| | 4,587 | 1,895 |

The Company did not have operating lease commitment as of 31st March 2012 (31st March 2011: nil).

# A MESSAGE FROM PATRICK WANG

## TO OUR SHAREHOLDERS,

I am pleased to report that Johnson Electric achieved a second successive year of record profits in what continues to be an unpredictable and tough operating environment for global manufacturing businesses.

Since the onset of the Global Financial Crisis in 2008, management has been focused on streamlining and refocusing the Group's activities to achieve two primary objectives. First, we are committed to maintaining healthy operating margins across our businesses through the combination of ongoing operational efficiency improvements and disciplined pricing. Second, we have reinvigorated our new product development and go-to-market processes with a stream of innovative new products targeted at motion applications that offer the greatest potential for sustained growth and value creation over the longer term.

For the financial year 2011/12, our positive results were partly affected by one-time items related to our strategy to strengthen our operating position in Europe as well as the divestment of a non-core business.

### Highlights of 2011/12 Results

- For the financial year ended 31st March 2012, total sales amounted to US$2,141 million – an increase of 2% compared to the prior financial year. Excluding the one-time effects of the disposal of a non-core business that occurred during the year and the in-sourcing of a distribution channel in Germany, underlying sales increased by over 5%
- Operating profits before restructuring and asset impairment charges were US$234 million or 11% of sales
- Free cash flow from operations amounted to US$166 million
- Net profit attributable to shareholders increased to a record US$187 million, an increase of 2.7%
- Earnings per share increased by 3.8% to 5.16 US cents
- The Group's gearing level remained low with a debt to total capital ratio declining from 18% to 12%. At financial year end, the Group's cash reserves amounted to US$385 million with the majority held in Chinese RMB as a natural hedge to our operating costs in China

### Dividends and Share Repurchases

The Board has recommended increasing the final dividend to 7 HK cents (0.9 US cents) per share, which together with the interim dividend of 3 HK cents (0.38 US cents) per share, represents a total dividend of 10 HK cents (1.28 US cents) per share – an 11% increase in total dividends for the year.

In addition to dividend payments, during the course of the financial year the Company repurchased and cancelled 60.8 million of its ordinary shares at an average price of HK$4.06 per share. We consider such repurchases to be a constructive element in the prudent management of the overall capital structure and in enhancing returns to shareholders over time.

## Sales Performance

The 2% increase in total sales to US$2.1 billion reflected the combination of strong demand from automotive customers offset by lower sales to industrial customers in some market segments and the one-time effects of the divestment of a non-core business and changes to our distribution channels in Germany.

The Automotive Products Group ("APG"), the largest operating division, achieved sales of US$1,273 million – an increase of 11% compared to a year earlier. Each of APG's three major geographic markets reported healthy growth, with the strongest performance being in the Americas. The US auto market is presently experiencing its highest level of new vehicle sales in over four years driven by demand for more fuel-efficient vehicles and pent-up demand for replacements in an overall fleet where the average age of passenger cars has increased to 11 years (compared to an average age of 9 years a decade earlier). Sales to European-based automotive customers also grew despite the severe economic downturn in the region that has resulted in sharply reduced new vehicles sales in many countries. This reflected an excellent sales performance from several APG business units that offer innovative products that improve fuel economy, reduce emissions, or provide distinctive safety and comfort features. Many of our European customers also continued to experience increased exports sales, especially to China and other emerging markets. In Asia, APG delivered another year of positive growth as a result of its strong market positions in China and South Korea. Although the auto market in China has experienced a slowdown in recent months, the demand for foreign joint-venture brands and for luxury vehicles – which comprise the main segments which Johnson Electric serves – has remained comparatively buoyant.

It was a different picture in our Industry Products Group ("IPG") which saw sales decline by 5% to US$754 million. On the one hand, the industrial components business units (comprising motor actuators, solenoids, and switches) achieved a positive sales performance due to their ability to deliver unique technology solutions for specific industrial product applications such as remote disconnect metering and valves for boilers and HVAC systems. On the other hand, business units targeted at more traditional motor applications such as domestic appliances, printers and power tools experienced weaker sales. Depressed housing markets and poor consumer confidence has undoubtedly adversely affected end-customer demand in these market segments, but it is also a reality that these areas have experienced the highest price competition in recent years. Accordingly, management has taken the strategic decision to focus on specific product and customer situations where our technology and solution capabilities are sufficiently differentiated to command reasonable prices. In the short term, this means we are prepared to exit from business that cannot meet our profitability criteria. In the longer term, the IPG business and product portfolio is being redirected towards solving more complex motor and motion-related problems as a basis for more attractive and sustainable financial returns.

## Maintaining Healthy Profitability in the Face of Severe Cost Inflation

A key feature of the past year for industrial manufacturing businesses has been persistently high raw material prices and further steep rises in direct labour rates in China where the largest portion of the Group's manufacturing capacity is located. Adding to these significant challenges was the sharp appreciation of the Swiss Franc which inflated the cost base of another important centre of production for Johnson Electric in Switzerland.

Management has responded to these severe inflationary pressures in a very creditable manner through a combination of initiatives that included operating efficiency gains, redesigned products, selective price increases, and an ongoing effort to reshape and rebalance our global manufacturing footprint to provide a more "natural hedge" against foreign currency volatility. As a result, overall gross profit margins were 27.3% of sales (compared to 27.6% in FY2010/11).

The Group also announced plans to close a production facility and in-source a distribution channel in Germany, with the aim of improving the overall effectiveness of our operations in Europe. Complementing these changes, we opened a new application testing and validation centre in Stuttgart to provide a broader and deeper level of technical support and service to our customers in the region.

Restructuring and asset impairment charges primarily related to rationalising manufacturing facilities, plus the effect of changes to our distribution arrangements in Germany together constituted US$16 million in pre-tax items that reduced reported operating profit and net profit for the year. Excluding these significant nonrecurring items affecting the comparability of our year-on-year results, operating margins were 11.1% of sales (compared to 11.2% in FY2010/11).

## Aligning New Product Development with Growing Industries

We are operating in a world where a number of structural "mega trends" are changing the way people live and this is requiring businesses to adapt their product offerings and capabilities in order to continue to prosper. Among these trends are the critical imperatives to:

- Conserve energy and reduce emissions *("Green")*
- Provide greater functionality, mobility and ease of use to consumers *("Intelligence")*
- Support ageing populations *("Health")*
- Ensure higher levels of security and safety *("Security")*

A considerable part of Johnson Electric's research and new product development effort is focused specifically on designing motors and motion sub-systems that address these fundamental issues and which in turn will underpin long term demand.

Examples of our market leading technology and product innovations in these areas include: a unique range of motor systems that manage the flow of fuel, air and gas in automotive engines; electric relays that can remotely disconnect "smart" electricity meters; insulin delivery devices that integrate a miniature pump and motor; and a high precision shutter system that operates silently inside military-grade infrared cameras. Over the past two years, Johnson Electric has designed and brought to market more than 30 new motion products and we anticipate these types of innovations will increasingly become a key driver of our sales growth and the basis for sustaining our competitive advantage.

## Prospects

I am satisfied with the overall performance of Johnson Electric over the past year and am encouraged by the steps we have taken to adapt and strengthen our business model.

Nonetheless, the near-term prospects for demand are difficult to predict given the significant macro-economic and political uncertainties that exist in most of the key geographies where we operate. With unemployment levels in the Eurozone now at record highs and government-imposed austerity programs causing many businesses and consumers to reduce expenditures, a rapid turnaround in the region's economy seems improbable. On the other hand, the recent sign of a pick-up in US economic activity is clearly a positive development – although it remains to be seen how sustainable this will be through the course of 2012. And in China, the world's largest market for automobiles and for many other industrial and consumer goods, the economy is entering a period of slower growth though still at levels that most other countries would envy.

As noted earlier in this statement, while our business cannot be immune to the state of global economy, Johnson Electric is actively pursuing a strategy that we believe will deliver and sustain healthy results over the medium and longer term. Our new product pipeline is strong. Our global manufacturing platform is unrivalled in our industry with the further addition of a new plant in Mexico to come in late 2012. And our people remain committed to driving for improved efficiency, quality and reliability in every area of our operations.

On behalf of the Board, I would like to sincerely thank all of our customers, employees, suppliers, and shareholders for their continued support.

**Patrick Shui-Chung Wang** *JP*

*Chairman and Chief Executive*

Hong Kong, 17th May 2012

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW – FINANCIAL HIGHLIGHTS

| *US$ million* | FY2011/12 | FY2010/11 |
|---|---|---|
| Sales | 2,140.8 | 2,104.0 |
| Gross profit | 584.4 | 579.7 |
| *Gross margin* | *27.3%* | *27.6%* |
| Profit attributable to shareholders | 186.7 | 181.7 |
| Diluted earnings per share (US Cents) | 5.15 | 4.97 |
| Free cash flow from operations [1] | 166.0 | 169.6 |
| EBITDA excluding nonrecurring items [2] | 330.0 | 322.9 |
| *EBITDA margin* | *15.4%* | *15.3%* |

| *US$ million* | 31st Mar 2012 | 31st Mar 2011 |
|---|---|---|
| Cash | 385.1 | 354.7 |
| Total debt (borrowings) | (205.4) | (313.7) |
| Net cash | 179.7 | 41.0 |
| Total equity | 1,487.5 | 1,422.3 |
| Market capitalisation at balance sheet date [3] | 2,229.5 | 2,134.4 |
| Enterprise value [4] | 2,075.6 | 2,153.4 |
| Enterprise value to EBITDA | 6.3 | 6.7 |

| **Credit Quality - Financial Ratios [5]** | 31st Mar 2012 | 31st Mar 2011 |
|---|---|---|
| Free cash flow from operations to debt | 81% | 54% |
| Total debt to EBITDA | 0.6 | 1.0 |
| Total debt to capital (total equity + debt) | 12% | 18% |

1 *Net cash generated from operating activities plus interest received, less CAPEX net of proceeds from disposal of fixed assets*
2 *Earnings before interest, taxes, depreciation and amortisation ("EBITDA") excluding the impact of insourcing a distribution channel, restructuring and assets impairment*
3 *Market capitalisation is calculated by multiplying the outstanding number of shares with the closing share price (HK$4.83 as of 31st March 2012 and HK$4.56 as of 31st March 2011) converted at the closing exchange rate*
4 *Enterprise value is calculated by adding market capitalisation plus non-controlling interests plus total debt less cash*
5 *Financial ratios utilising EBITDA and free cash flow from operations using the last twelve months' results*

- **All time record results for profit attributable to shareholders and earnings per share.**
- Full year recommended dividend of HK$0.10 per share, an 11% increase over prior year (HK$0.09 per share).
- Sales were up 2% as reported. Sales growth excluding currency gains, divestiture and the impact of insourcing a distribution channel was 3%.
- Gross margin of 27.3% was similar to prior year. Raw material commodity cost and wage inflation was offset by higher volumes, improvements in productivity, cost reductions, introduction of new products and selective price increases.
- 60.8 million shares were repurchased at a total cost of US$31.9 million (including brokerage and cancellation fees) and cancelled in FY2011/12. Also, the Company purchased 5.5 million shares for US$2.6 million, to be utilised for granting shares. See page 49 for further details of share purchases.
- The Group divested a controlling stake in a noncore subsidiary for a cash consideration of US$32.2 million, net of US$3.3 million cash divested. The effect to operating profit was insignificant.

# SALES AND PROFITABILITY

## JOHNSON ELECTRIC'S OPERATING MODEL

Johnson Electric is one of the world's largest providers of motors, solenoids, micro-switches, flexible printed circuits and control systems. The Group has an annual production capacity of over one billion units and manufactures products in more than a dozen countries on four continents.

Operations throughout Johnson Electric (JE) share many common features including advanced technologies, manufacturing processes, supply chain management, brand and distribution channel management along with the business model as a whole. This creates opportunities for revenue growth by leveraging the strength of the Group's core competences and for cost reduction through the sharing of resources.

# SALES REVIEW

| *US$ million* | FY2011/12 | % | FY2010/11 | % | Increase/ (decrease) | % | Sales growth at constant exchange rates % |
|---|---|---|---|---|---|---|---|
| Automotive Products Group ("APG") | 1,272.8 | 59.5% | 1,149.6 | 54.7% | 123.2 | 11% | 8% |
| Industry Products Group ("IPG") | 753.8 | 35.2% | 796.2 | 37.8% | (42.4) | (5%) | (6%) |
| Other businesses * | 93.1 | 4.3% | 79.8 | 3.8% | 13.3 | 17% | 9% |
| Divested business | 21.1 | 1.0% | 78.4 | 3.7% | (57.3) | (73%) | (74%) |
| **Sales, as reported** | **2,140.8** | **100.0%** | **2,104.0** | **100.0%** | **36.8** | **2%** | **(1%)** |
| **Nonrecurring items:** | | | | | | | |
| - Insourcing of a distribution channel | | | | | | | |
| APG | 11.9 | | - | | 11.9 | | |
| IPG | 1.4 | | - | | 1.4 | | |
| - Divested business | (21.1) | | (78.4) | | 57.3 | | |
| **Total nonrecurring items** | **(7.8)** | | **(78.4)** | | **70.6** | **(90%)** | |
| **Sales excluding nonrecurring items** | **2,133.0** | | **2,025.6** | | **107.4** | **5%** | **3%** |

** Note: includes sales of US$1.2 million of Trading business for FY2010/11*

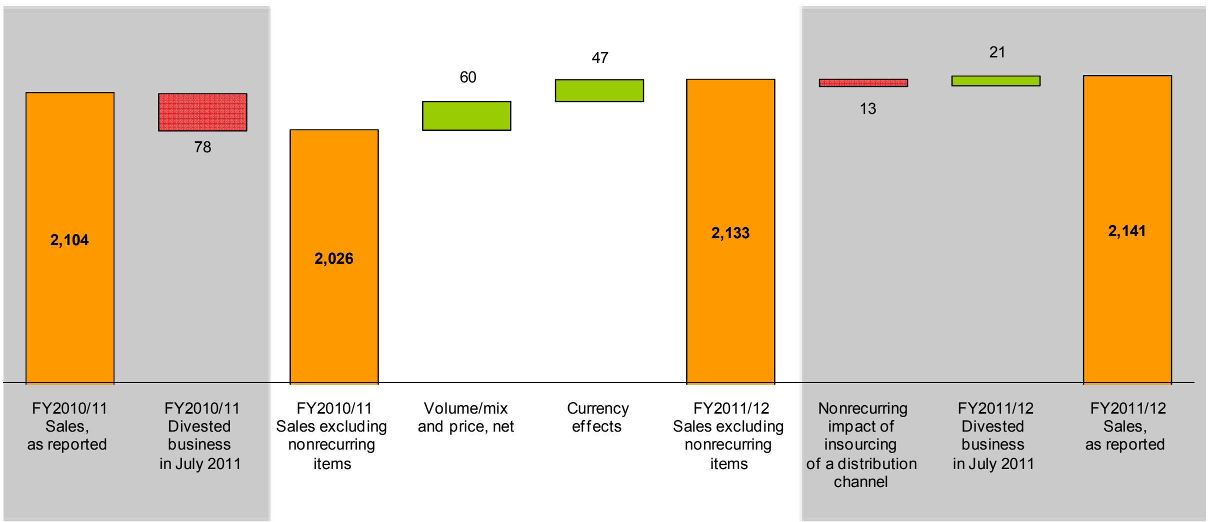
**Sales excluding nonrecurring items, by business**

| *US$ million* | FY2011/12 | % | FY2010/11 | % | Increase/ (decrease) | % | Sales growth at constant exchange rates % |
|---|---|---|---|---|---|---|---|
| Automotive Products Group ("APG") | 1,284.7 | 60.2% | 1,149.6 | 56.8% | 135.1 | 12% | 9% |
| Industry Products Group ("IPG") | 755.2 | 35.4% | 796.2 | 39.3% | (41.0) | (5%) | (6%) |
| Other businesses * | 93.1 | 4.4% | 79.8 | 3.9% | 13.3 | 17% | 9% |
| | 2,133.0 | 100.0% | 2,025.6 | 100.0% | 107.4 | 5% | 3% |

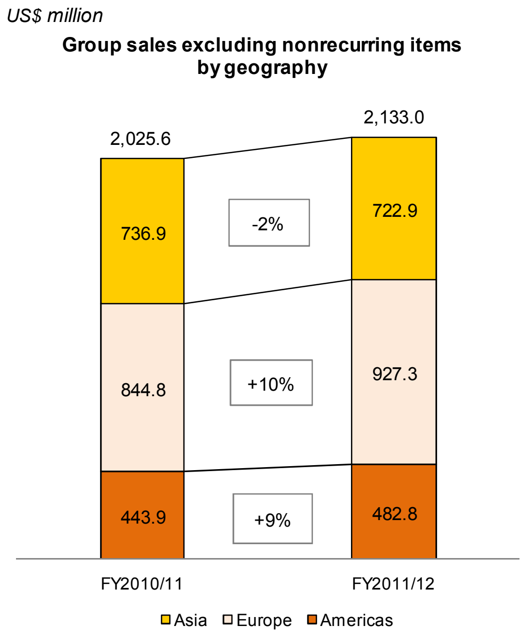
** Note: includes sales of US$1.2 million of Trading business for FY2010/11*

## FY2011/12 SALES VS. FY2010/11

*US$ million*



Group sales in FY2011/12 were US$2,140.8 million, up US$36.8 million from US$2,104.0 million in FY2010/11.




*Excluding currency effects, sales growth for FY2011/12 vs. prior year:*
*Overall 3%, Asia -4%, Europe 6%, Americas 8%*

Nonrecurring items during the year were as follows:

- In FY2011/12, the Group made a strategic decision to insource a distribution channel and entered into an agreement that obliged the Group to repurchase inventory previously sold to the distributor. The Group did not recognise the sale of items with the distributor as of 31st March 2012 that might subsequently be repurchased.

- With the aim of refocusing on its core technologies, the Group divested a controlling stake in a noncore subsidiary.

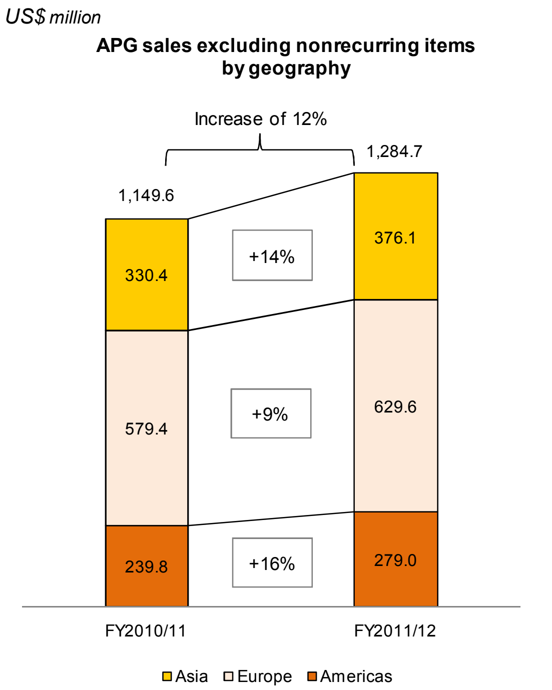
Excluding currency effects and nonrecurring items as explained above, sales grew by 3% compared to prior year.

- Sales in Asia declined overall due to the decline in the IPG business, partially offset by growth in the APG business. Sales in Europe grew across both the APG and IPG businesses. Sales in the Americas grew in the APG business whilst the IPG business remained at a similar level to the prior year.

- To further enhance synergies, the operations of Parlex, our printed circuit board and interconnect solution provider, were integrated into IPG. Sales have been reclassified accordingly.

## AUTOMOTIVE PRODUCTS GROUP

Excluding nonrecurring items, sales in FY2011/12 amounted to US$1,284.7 million, up 12% from US$1,149.6 million in the prior year. When currency effects are also excluded, sales grew by 9% year-on-year. This was the result of being awarded cooling fan and related modules business for new customer platforms, as well as the successful launch of new engine air management products and geared motor drive products for window lifts and sunroofs. In addition, the business experienced strong sales of existing products across Asia and the Americas and benefitted from global demand for European luxury vehicles.




*Excluding currency effects, sales growth for FY2011/12 vs. prior year:*
*Overall 9%, Asia 10%, Europe 5%, Americas 16%*

- We maintained strong growth momentum in China and the rest of Asia, and gained market share. This was driven by the success of our cooling fan products, geared motor drives for window lifts and sunroofs, and actuators for climate control and headlamp adjustment.

- While the European automotive market remained soft, the luxury export segment continued to be robust. In this segment, many customer applications use our products designed to enhance efficiency, comfort and convenience; for example, electronic throttle control, headlamp adjustment and climate control. We have new products to support leading-edge applications, such as electric parking brakes. In addition, we successfully launched a number of new cooling fan products as well as geared motor drive systems for window lifts, power lift gates and seat applications.

- In the Americas, our products for climate control actuation, seat adjustment and sunroof applications were well placed to capture the resurgence of the market. We also increased sales of products for door lock, window lift, washer pump and fuel pump applications, which were partially offset by reductions in sales of solenoids and products for chassis and transmission applications. Furthermore, as in the other regions, we successfully launched new cooling fan products, leveraging our global market position.

- Restructuring our product portfolio had only a modest impact on overall sales but strengthened our focus on products that deliver value above current inflation rates. We continue to invest in the development of cost-effective, high power density products for leading-edge applications that improve safety, increase fuel efficiency and reduce emissions. Additionally, we are expanding our engineering footprint in key geographic markets to leverage the Group's commitment to global innovation tailored to local markets.

## INDUSTRY PRODUCTS GROUP

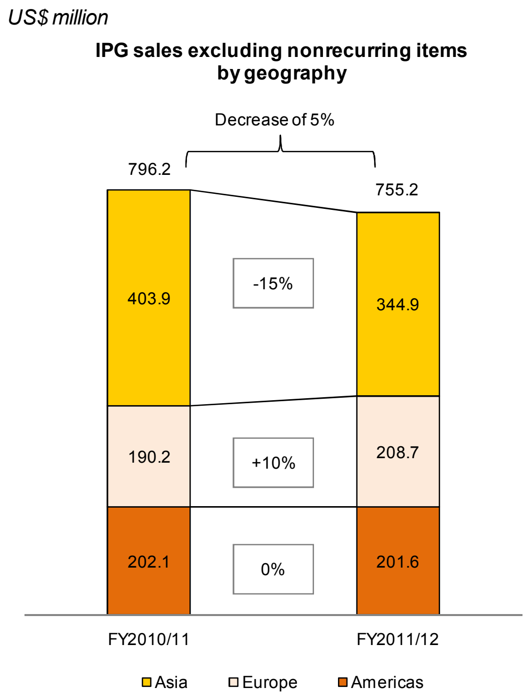
Excluding nonrecurring items, sales in FY2011/12 amounted to US$755.2 million, down 5% from US$796.2 million in the prior year. When currency effects are also excluded, sales declined by 6% year-on-year. In addition to weak market conditions, other significant differences between the two years were the exit from certain low margin markets in FY2011/12 and the effect of prior year restocking of inventory by our customers subsequent to the 2008 and 2009 recession.

- Sales in Asia decreased across all product segments due to the reasons stated above. Also, in FY2010/11, sales in the gaming and entertainment markets benefited from our customers' launch of new gaming systems, which returned to normal volumes in FY2011/12.

- In Europe, sales increased across several product lines; the strongest segments being food and beverages, and power tools. We made several new product and technology launches. Amongst these, we especially benefitted from the launch of new heating, ventilation and air conditioning (HVAC) actuators that help our customers improve system functionality and reduce power consumption. Replenishment of European distribution channels as well as the launch of switch products for the vending segment also increased sales.

- In the Americas, sales declined in the office automation, food and beverage, floor-care, power tools and medical biosensor segments. This was offset by growth in products for remote metering, lawn and garden, and infrastructure, equipment and security market segments.

- We continue to develop leading-edge, energy-efficient products and subsystems that reduce noise and weight and increase power efficiency characteristics. We have the technology and the products to capitalise on the trend to improve efficiency and reduce energy consumption in many different applications and market segments and to satisfy emerging new regulations in this area. For example, among several innovative products already launched by this business is a sophisticated, patented diverter valve for domestic boilers that significantly reduces the energy consumption of the water heating system.




*Excluding currency effects, sales declined for FY2011/12 vs. prior year:*
*Overall -6%, Asia -15%, Europe 8%, Americas 0%*

## OTHER BUSINESSES

Other businesses mainly comprised Saia-Burgess Controls.

- Sales for Controls increased in FY2011/12 as compared to the prior year and were strong in the infrastructure automation, machine industry and brand label segments. Other growth areas included products for human machine interfaces and new energy meters.

## PROFITABILITY REVIEW

| *US$ million* | FY2011/12 | FY2010/11 | Increase/ (decrease) in profit |
|---|---|---|---|
| Sales | 2,140.8 | 2,104.0 | 36.8 |
| Gross profit | 584.4 | 579.7 | 4.7 |
| *Gross margin %* | *27.3%* | *27.6%* | |
| Other income and gains | 18.3 | 14.8 | 3.5 |
| Selling and administrative expenses ("S&A") | (368.6) | (358.4) | (10.2) |
| *S&A %* | *17.2%* | *17.0%* | |
| Restructuring costs and assets impairment | (13.0) | (0.4) | (12.6) |
| Operating profit | 221.1 | 235.7 | (14.6) |
| Finance costs, net | (1.1) | (9.4) | 8.3 |
| Share of profits of associate | 0.5 | 0.1 | 0.4 |
| Profit before income tax | 220.5 | 226.4 | (5.9) |
| Income tax expenses | (31.6) | (36.1) | 4.5 |
| *Effective tax rate* | *14.3%* | *15.9%* | |
| Profit for the year | 188.9 | 190.3 | (1.4) |
| Non-controlling interests | (2.2) | (8.6) | 6.4 |
| Profit attributable to shareholders, as reported | 186.7 | 181.7 | 5.0 |

Nonrecurring items reduced operating profit by US$15.7 million. This comprised US$2.7 million in respect of the insourcing of a distribution channel and US$13.0 million in respect of restructuring and the impairment of assets. Restructuring costs included expenses associated with the Group's initiatives to restructure its global operational footprint and the deployment of assets, as well as to optimise its business model. The majority of the restructuring activities are in Europe, including the planned closure of a factory in Germany.

The table below shows the effect of these nonrecurring items on operating profit:

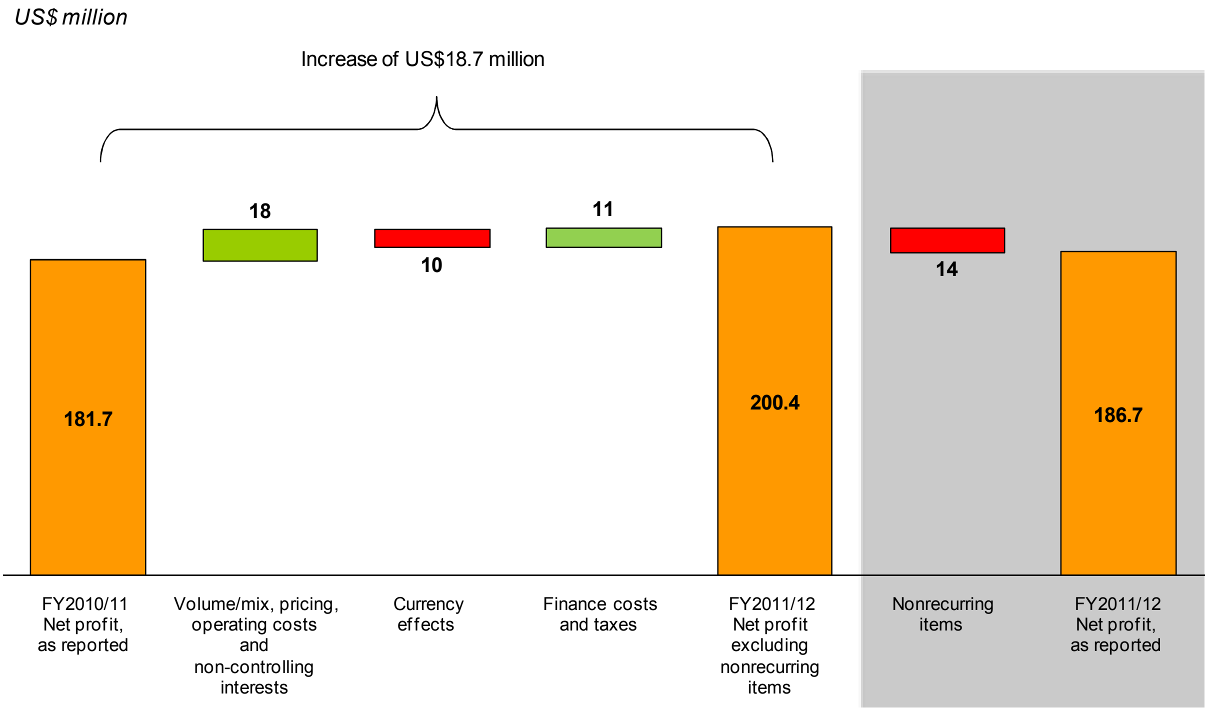
| *US$ million* | FY2011/12 | FY2010/11 | Increase/ (decrease) in profit |
|---|---|---|---|
| **Operating profit, as reported** | **221.1** | **235.7** | **(14.6)** |
| **Nonrecurring items:** | | | |
| Insourcing of a distribution channel | 2.7 | - | 2.7 |
| Restructuring and assets impairment | 13.0 | - | 13.0 |
| Nonrecurring items | 15.7 (a) | - (b) | 15.7 |
| **Operating profit excluding nonrecurring items** | **236.8** | **235.7** | **1.1** |
| ***Operating margin %*** | ***11.1%*** | ***11.2%*** | |

*Notes:*

*(a) The tax effect of nonrecurring items was US$2.0 million. After tax, the effect of nonrecurring items in FY2011/12 was US$13.7 million.*

*(b) Operating profit for FY2010/11 includes nonrecurring items of US$0.4 million. No adjustment has been made for these as they are comparatively insignificant.*

## PROFIT ATTRIBUTABLE TO SHAREHOLDERS




*Note: Numbers do not add across due to the effect of rounding*

Excluding the effect of nonrecurring items, profit attributable to shareholders increased to US$200.4 million for FY2011/12, up US$18.7 million from US$181.7 million in the prior year. As shown in the preceding chart, this increase in profitability arose from:

- **Volume/mix, pricing, operating costs and non-controlling interests:** Higher material costs, labour cost inflation, especially in China, and increases in staff costs adversely affected profitability by approximately 5% of sales (including adverse currency effects discussed in the next sub-section). These were offset by savings from cost reduction actions to improve efficiency and productivity as well as selective price increases, together amounted to approximately 5% of sales. The Group also partially recovered investments in tooling and engineering through customer assistance. Initiatives to improve quality helped reduce claims and compensation provisions.

  The Group also made a prospective change to the estimated remaining useful life of client relationships (purchased intangible assets resulting from the Saia-Burgess and Parlex acquisitions). The estimated remaining useful life was reduced from a range of 15 to 20 years to 10 years. The impact of this change was an increase in amortisation expense (non-cash charge) of US$2.4 million for FY2011/12.

  The net effect of these changes increased profit by approximately US$18 million.

- **Currency effects:** The majority of our engineering, manufacturing and supply chain operations are located in China and Switzerland, therefore the strengthening of the Chinese Renminbi and the Swiss Franc against the US Dollar adversely affected operating costs. The increase in cost was partially offset by a stronger Euro which favourably impacted operating income. The net effect of these currency movements reduced operating profit by approximately US$10 million.

- **Finance costs and taxes:** Interest expense decreased due to the reduction in borrowing levels and the replacement of higher cost debt with tax efficient, lower cost debt. Also, the Group benefitted from increased income from interest bearing deposits, especially in the Chinese Renminbi.

The effective tax rate (ETR) fell to 14.3% as compared to 15.9% for prior year. This was primarily due to increased net income exempt from tax and the utilisation of tax net operating losses in certain jurisdictions.

The overall effect of these changes to finance costs and taxes was to increase profit by approximately US$11 million.

## ANALYSIS OF CASH FLOW

### Free Cash Flow

| *US$ million* | FY2011/12 | FY2010/11 | Change |
|---|---|---|---|
| Operating profit* | 221.4 | 235.7 | (14.3) |
| Depreciation and amortisation | 92.9 | 86.8 | 6.1 |
| EBITDA | **314.3** | **322.5** | **(8.2)** |
| Other non-cash items in profit before taxes | (5.2) | (5.4) | 0.2 |
| Working capital change | (42.4) | (39.0) | (3.4) |
| Interest paid | (6.0) | (9.4) | 3.4 |
| Income taxes paid | (27.6) | (27.6) | - |
| Net cash generated from operating activities | **233.1** | **241.1** | **(8.0)** |
| Capital expenditure | (91.3) | (85.6) | (5.7) |
| Proceeds from disposal of fixed assets | 18.4 | 10.6 | 7.8 |
| Interest received | 5.8 | 3.5 | 2.3 |
| **Free cash flow from operations** | **166.0** | **169.6** | **(3.6)** |

** Note: Includes dividend received from associate of US$0.3 million for FY2011/12*

Cash generation continued to be robust; the Group's free cash flow from operations was US$166.0 million in FY2011/12 as compared to US$169.6 million in FY2010/11. This strong performance was in spite of suppressed EBITDA levels from the divestiture of a controlling stake in a noncore subsidiary in July 2011. This subsidiary had posted stronger performance results in the prior year. Excluding the effects of the divestiture, free cash flow from operations increased slightly.

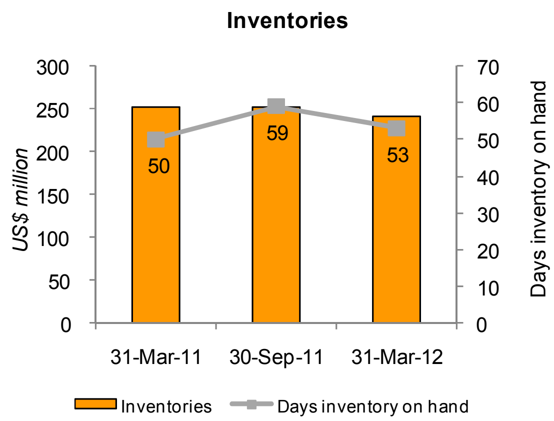
The underlying reasons for changes in key elements of the working capital are explained in the following section:

## Working Capital Change

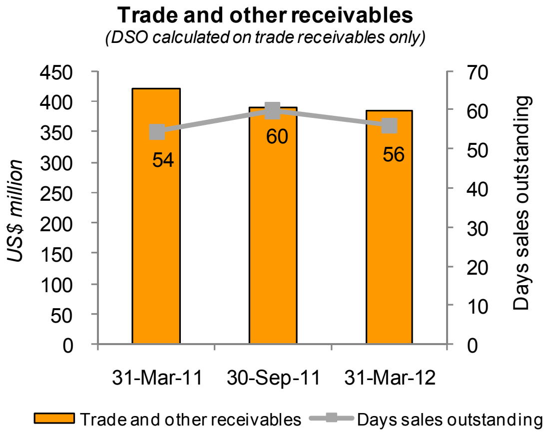
| *US$ million* | Balance sheet as of 31st Mar 2011 | Currency translation | Divestiture of a controlling stake in a noncore subsidiary | Insourcing of a distribution channel | Pension | Hedging | Working capital change per cash flow | Balance sheet as of 31st Mar 2012 |
|---|---|---|---|---|---|---|---|---|
| Inventories | 252.8 | (4.9) | (11.2) | 10.7 | - | - | (7.3) | 240.1 |
| Trade and other receivables | 421.7 | (4.4) | (34.1) | - | - | - | 1.2 | 384.4 |
| Deposits - non-current | 8.1 | - | (2.5) | - | - | - | 0.3 | 5.9 |
| Trade and other payables | (414.5) | 0.6 | 17.5 | (13.3) | - | - | 45.6 | (364.1) |
| Provision obligations and other liabilities * | (85.4) | 1.9 | 0.4 | (1.1) | (12.4) | - | (3.3) | (99.9) |
| Other financial assets/ (liabilities), net * | 9.1 | 0.1 | - | - | - | (5.1) | 5.9 | 10.0 |
| Total working capital per balance sheet | 191.8 | (6.7) | (29.9) | (3.7) | (12.4) | (5.1) | 42.4 | 176.4 |

** Note: Current and non-current*

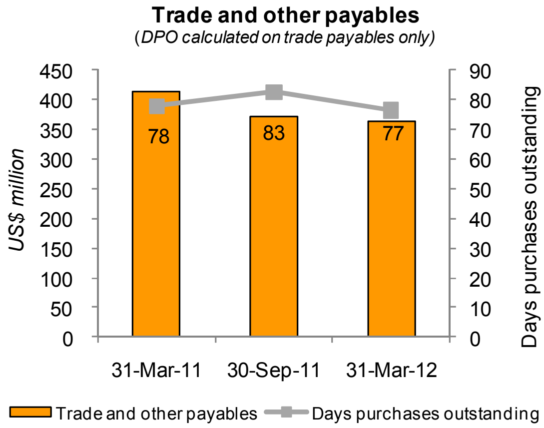
- **Inventories** decreased by US$12.7 million in FY2011/12, from US$252.8 million as of 31st March 2011 to US$240.1 million as of 31st March 2012. Excluding the repurchase of inventory due to the insourcing of a distribution channel, the divestiture of a controlling stake in a noncore subsidiary and currency effects, inventory decreased by US$7.3 million. This was due to reduced supplier lead times as well as lower inventory levels in our IPG because of overall market softness and subdued customer sentiment.
- Days inventory on hand increased from 50 days as of 31st March 2011 to 53 days as of 31st March 2012, due to the creation of safety stock in preparation for the restructuring of our European manufacturing and distribution footprint.



- **Trade and other receivables** decreased by US$37.3 million in FY2011/12, from US$421.7 million as of 31st March 2011 to US$384.4 million as of 31st March 2012. Excluding the divestiture of a controlling stake in a noncore subsidiary and currency effects, trade and other receivables increased by US$1.2 million.
- Days sales outstanding (DSO) increased slightly from 54 days as of 31st March 2011 to 56 days as of 31st March 2012. Our DSO is relatively consistent due to our collection efforts and the tight management of our credit exposure. The Group's receivables are of high quality. Amounts overdue greater than 30 days amounted to approximately 2.7% of gross trade receivables as of 31st March 2012.




- **Trade and other payables** decreased to US$364.1 million as of 31st March 2012, down by US$50.4 million from US$414.5 million as of 31st March 2011. Excluding the divestiture of a controlling stake in a noncore subsidiary, currency effects and the provision for repurchase of inventory due to the insourcing of a distribution channel:
  - Trade payables decreased due to reduced accruals for materials and freight as we reduced supplier lead times as well as a reduction in the volume of purchases for consumption by our IPG.
  - Other payables decreased mainly due to the effect of lower accruals for fixed assets resulting from completion of new plant and capacity enhancements for new products, especially for the APG business. In addition, tax payables decreased due to certain European tax regimes changing from quarterly to monthly payments, and the removal of environmental accruals on the disposal of property and associated risk to a third party.
- Days purchases outstanding decreased slightly from 78 days as of 31st March 2011 to 77 days as of 31st March 2012.



- **Provision obligations and other liabilities** increased by US$14.5 million to US$99.9 million as of 31st March 2012 compared to US$85.4 million as of 31st March 2011. The overall increase is mainly as a result of increase in non-cash actuarial revaluation of pension liabilities. The cash movement from provision obligations and other liabilities was negligible.

- **Other financial assets / (liabilities)** increased by US$0.9 million from a net financial asset of US$9.1 million as of 31st March 2011 to a net financial asset of US$10.0 million as of 31st March 2012. This is explained below:

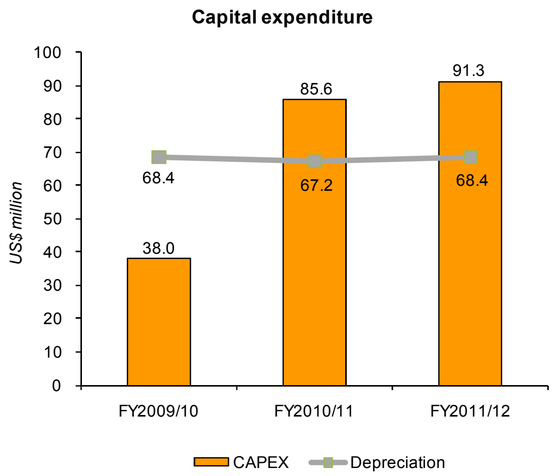
  - A net cash outflow of US$5.9 million was incurred due to settlement of matured financial contracts relating to commodities and currencies. These were offset by mark-to-market valuations for forward contracts entered to hedge copper and silver as well as the Euro and other currencies which had an impact of US$5.1 million.

  - The spot price of copper fell 10% from US$9,408 per metric ton as of 31st March 2011 to US$8,480 per metric ton as of 31st March 2012. The net asset position of the hedge was US$6.7 million as of 31st March 2012 (US$8.1 million as of 31st March 2011). The total amount of outstanding copper hedging contracts as of 31st March 2012 was US$127.5 million with maturity dates ranging from 1 month to 36 months. The fair market value of these contracts was recognised directly in the hedging reserve within equity.

**Interest paid** decreased by US$3.4 million from US$9.4 million for FY2010/11 to US$6.0 million for FY2011/12. This was the result of the reduction in the Group's borrowing levels and the replacement of higher cost debt with tax efficient, lower cost debt.

**Income taxes paid**, net of refunds, remained at US$27.6 million, unchanged from FY2010/11.

**Capital expenditure** amounted to US$91.3 million in FY2011/12, an increase of US$5.7 million from US$85.6 million in the prior year. We continue to invest in capital for long term technology development, manufacturing capacity expansion and productivity improvements.




**Proceeds from disposal of fixed assets** was US$18.4 million in FY2011/12, an increase of US$7.8 million from US$10.6 million in the prior year. The increase was largely due to the disposal of certain noncore real estate assets during the year.

**Interest received** in FY2011/12 was US$5.8 million, an increase of US$2.3 million from US$3.5 million in the prior year, primarily due to an increase in interest rates on deposits, especially in the Chinese Renminbi.

## Other cash flows

| *US$ million* | FY2011/12 | | FY2010/11 | Change |
|---|---|---|---|---|
| **Free cash flow from operations** | **166.0** | | **169.6** | **(3.6)** |
| Other investing activities | 5.1 | | (2.6) | 7.7 |
| Proceeds from divestiture of a controlling stake in a noncore subsidiary, net of cash divested | 28.9 | * | - | 28.9 |
| Purchase of shares for cancellation of issued capital | (31.9) | | - | (31.9) |
| Purchase of shares held for Long-Term Incentive Share Scheme | (2.6) | | (10.7) | 8.1 |
| Currency swap unwound | - | | (35.1) | 35.1 |
| Dividends paid | (41.9) | | (37.9) | (4.0) |
| Other financing activities | - | | (2.1) | 2.1 |
| **Total cash flow, excluding change in borrowings** | **123.6** | | **81.2** | **42.4** |

* *Note: The US$28.9 million proceeds from the divestiture of a controlling stake in a noncore subsidiary comprised cash consideration of US$32.2 million, net of US$3.3 million cash divested. Debt of US$9.6 million owed by the divested subsidiary has been deconsolidated*

The Group generated US$123.6 million cash in FY2011/12, excluding the change in borrowings and currency effects. This represents an increase of US$42.4 million from US$81.2 million in the prior year.

The net movement in cash includes the following:

- **Other investing activities** increased by US$7.7 million. This was because:
  - In FY2011/12, a yield-to-maturity deposit matured realising US$5.1 million.
  - In FY2010/11, we paid US$3.0 million for purchasing technology licenses for the manufacture of a critical component. Furthermore, we paid US$0.4 million to acquire shares of non-controlling stakeholders in a subsidiary. These payments were partially offset by receipts of US$0.8 million from the sale of portfolio investment assets.
- **Proceeds from divestiture** of a controlling stake in a noncore subsidiary, net of cash divested were US$28.9 million in FY2011/12. Following this, the Group ceased to be responsible for the US$9.6 million debt of the divested subsidiary. There were no such activities in the prior year. The net impact of this divestiture was insignificant to profit.

- **Purchase of shares:** 60.8 million shares were repurchased at a total cost of US$31.9 million and cancelled in FY2011/12. These share repurchases are considered a constructive element in the prudent management of the Company's overall capital structure and in enhancing returns to shareholders over time.

  Also, the Company purchased 5.5 million shares for US$2.6 million, to be utilised for granting shares to eligible employees under the Long-Term Incentive Share Scheme.

- **Currency swaps** of Swiss Franc 200.0 million to US$152.6 million were unwound in FY2010/11, requiring a cash outflow of US$35.1 million. There were no such activities in FY2011/12.

- **Dividends** paid by the Company during the year amounted to US$41.9 million (final dividend of US$28.1 million for FY2010/11 and an interim dividend of US$13.8 million for FY2011/12). This was US$4.0 million more than the dividend payments made in the prior year (final dividend of US$23.7 million for FY2009/10 and an interim dividend of US$14.2 million for FY2010/11).

  - The Board has recommended a final dividend of US$32.3 million for FY2011/12, to be paid in July 2012. The total annual dividend per share, including the Directors' recommendation, in HK Cents for FY2011/12 and FY2010/11 is as follows:

| *HK Cents per share* | FY2011/12 | | FY2010/11 |
|---|---|---|---|
| Interim dividend (January) | 3 | | 3 |
| Final dividend (July) | 7 | * | 6 |
| Total annual dividend | 10 | | 9 |

** Directors' recommendation*

- **Other financing activities** in FY2010/11 comprised a cash outlay of US$2.1 million for dividends to non-controlling shareholders in the Group's subsidiaries. There were no such activities in FY2011/12.

## Cash and borrowings

| *US$ million* | FY2011/12 | FY2010/11 | Change |
|---|---|---|---|
| **Total cash flow, excluding change in borrowings** | **123.6** | **81.2** | **42.4** |
| New borrowings | 62.6 [(a)] | 161.5 | (98.9) |
| Repayment of borrowings | (159.4) [(a)] | (260.5) | 101.1 |
| **Cash generated/(used)** | **26.8** | **(17.8)** | **44.6** |
| Exchange gains on cash | 3.6 | 5.5 | (1.9) |
| **Net movement in cash** | **30.4** [(b)] | **(12.3)** | **42.7** |

## Net debt/cash analysis

| *US$ million* | **Cash** | **Borrowings** | **Net cash** [d] |
|---|---|---|---|
| As of 31st March 2011 | 354.7 | 313.7 | 41.0 |
| Divestiture of a controlling stake in a noncore subsidiary | (3.3) [c] | (9.6) [c] | 6.3 |
| Other increase/(decrease) | 33.7 | (98.7) [a] | 132.4 |
| | 30.4 [b] | (108.3) | 138.7 |
| **As of 31st March 2012** | **385.1** | **205.4** | **179.7** |

(a) *The change in borrowings of US$98.7 million represents new borrowings of US$62.6 million, repayment of borrowings of US$159.4 million, amortised upfront fee of US$0.9 million and an unrealised exchange gain of US$2.8 million*

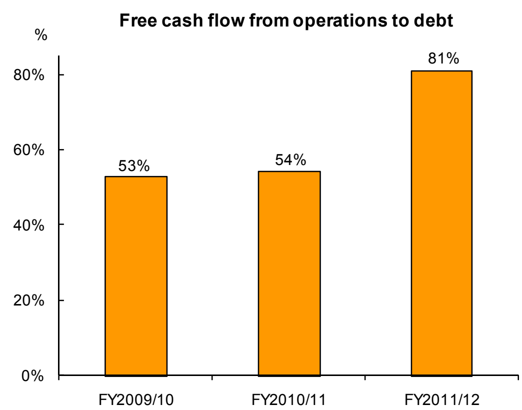
(b) *Net movement in cash of US$30.4 million represents US$33.7 million generated from Operating, Investing and Financing activities during FY2011/12 and a decrease of US$3.3 million on the divestiture of a controlling stake in a noncore subsidiary*

(c) *The US$28.9 million proceeds from the divestiture of a controlling stake in a noncore subsidiary comprised cash consideration of US$32.2 million, net of US$3.3 million cash divested. Debt of US$9.6 million owed by the divested subsidiary has been deconsolidated*

(d) *Net cash is defined as cash minus debt (borrowings)*

Net cash increased to US$179.7 million as of 31st March 2012, up US$138.7 million from US$41.0 million as of 31st March 2011.

- **Borrowings:** Continued cash generation enabled the Group to repay debt of US$96.8 million, net (borrowed US$62.6 million, repaid US$159.4 million). Additionally, as shown in the net debt/cash analysis, US$9.6 million owed by a subsidiary was deconsolidated following the divestiture of the controlling stake in a noncore subsidiary. The following significant activities occurred during the year:
  - Additional borrowings in Europe of US$13.4 million (EUR10.0 million) were secured by trade receivables.
  - Higher cost debt of US$100.0 million was repaid as we continued to reduce debt at the parent company level.
  - There was a reduction of US$17.7 million of revolving credit in the USA.
  - An unsecured short term debt of US$14.4 million was borrowed in Hong Kong based on trade receivables.
  - A short term debt of US$7.9 million (RMB50.0 million) of a subsidiary was repaid.
  - As a result of the change in borrowings, the Group's total debt to capital ratio was 12% as of 31st March 2012, compared to 18% as of 31st March 2011. Free cash flow as a percentage of gross debt increased to 81% as of 31st March 2012, compared to 54% as of 31st March 2011.



- **Cash resources** increased by US$30.4 million (from US$354.7 million as of 31st March 2011 to US$385.1 million as of 31st March 2012). The majority of our cash is kept in the Chinese Renminbi to partially mitigate the effect of the strengthening of the Chinese Renminbi against the US Dollar on the expense of our operations in China.

| *US$ million* | 31st Mar 2012 | 31st Mar 2011 |
|---|---|---|
| RMB | 306.8 | 266.9 |
| US Dollar | 43.6 | 29.3 |
| Euro | 23.0 | 34.1 |
| Japanese Yen | 3.3 | 13.9 |
| Hong Kong Dollar | 2.3 | 2.9 |
| Others | 6.1 | 7.6 |
| Total | 385.1 | 354.7 |

## FINANCIAL MANAGEMENT AND TREASURY POLICY

Financial risk within the Group is managed by the Group's treasury function, based at the corporate headquarters in Hong Kong. Policies are established by senior management and reviewed by the Board of Directors.

### Liquidity

Management believes the combination of cash on hand, available credit lines and expected future operating cash flows to be sufficient to satisfy our cash needs for our current level of operations and our planned operations for the foreseeable future. The Group had approximately US$320 million of available uncommitted and unutilised short term borrowing facilities provided by its principal bankers.

### Foreign exchange / raw material commodity price risk

The Group operates globally and is therefore exposed to foreign exchange and raw material commodity price risk.

- The Group's sales are primarily denominated in the US Dollar, the Euro and the Chinese Renminbi. In FY2011/12, 48% of the Group's sales (49% in FY2010/11) were in US Dollars, 34% in Euros (31% in FY2010/11), 13% in the Chinese Renminbi (14% in FY2010/11) with the rest being in other currencies including the Japanese Yen.

- The major currencies used for raw material purchases, production overhead costs and S&A costs are the US Dollar, the Chinese Renminbi, the Euro, the Hong Kong Dollar, the Swiss Franc, the Hungarian Forint and the Polish Zloty.

- The Group mitigates part of its foreign exchange risk through forward contracts, based on specific cash flow forecasts from operations denominated in that foreign currency (e.g. Euro, Chinese Renminbi, Swiss Franc, Hungarian Forint, Polish Zloty and Israeli New Shekel). The forward contracts mature at various dates.

- The Group is exposed to raw material commodity price risk, mainly due to the fluctuations in steel, copper and silver purchase prices. The price risks due to steel are reduced through fixed price contracts up to 3 months forward with the Group's suppliers, and price risk due to copper and silver is also reduced through hedging through the appropriate financial instruments. The Group also manages copper and silver prices through incorporating appropriate clauses in contracts with certain customers so as to have the flexibility to pass increases in raw material costs onto these customers.

- In order to avoid the potential default by any of its counterparties on its forward contracts and swap agreements, the Group deals with major financial institutions with strong investment grade credit ratings, that the Group anticipates will satisfy their obligations under the contracts.

## RISK MANAGEMENT

The Group identifies and manages its strategic, operational, financial and compliance risks through proactive management oversight and business processes. Existing and emerging risks are analysed and monitored on a quarterly basis by the Group's Risk Management Steering Committee composed of key senior leaders from our Engineering, Operations, Quality, Finance, Corporate Audit Services, Legal and Human Resources departments.

Whenever and wherever possible, risks are transferred or mitigated through robust business practices which are then monitored to ensure their continuing effectiveness. Specific areas of focus include:

- Ensuring the suitability of our operational footprint to respond quickly and cost-effectively to market changes and capacity utilisation.

- Continuously improving our engineering and manufacturing processes including quality standards to be the safe choice for our customers.

- Developing and managing product differentiation through technology, innovation and intellectual property to be the definitive supplier of our customers' solutions.

- Attracting and retaining high-calibre management and other key personnel and building effective networks of employees and partners to safeguard the business success.

- Managing customer relationships, including contract terms and conditions, in accordance with industry standards and Group policy.

- Managing customer credit risk and maintaining a low tolerance for delinquent payments.

- Applying appropriate hedging strategies to manage foreign exchange risks, commodity cost risks and interest rate risks.

- Meeting or exceeding expectations on energy efficiency, environmental responsibility and employee safety.

# INVESTING IN PEOPLE

## Human Resources Management

Human Resources, Environmental, Health and Safety (EHS) and Organisation Learning and Development are corporate-wide functions provided to all company locations via a shared service structure. Key initiatives are equitable and competitive compensation, benefit and incentive structures, a systematic approach to EHS, and a continued commitment to training and development.

Executive management has a noteworthy commitment to these initiatives, which are encouraged and invested in across all of the Group's locations. Such people-centred programs have characterised the history of Johnson Electric, and contribute to differentiating Johnson Electric from its competitors for both business and people.

Total global headcount, including contract employees, stands at approximately 38,000 individuals located in Asia, Americas and Europe.

## Corporate Initiatives

During FY2011/12 the corporate Human Resources function undertook further initiatives to continue and enhance its role as an enabler of a strong global organisation:

- A global leader for Organisation Learning and Development joined the Group and, among other responsibilities, is tasked to foster the process structure and required training associated with the development and introduction of new products.
- Under the guidance of a new leader with considerable experience and expertise, the Global EHS team is being staffed to meet the requirements of an expanding business and is overseeing compliance and certification activities across the Group. The global implementation of an EHS management system is an ongoing effort.
- The Compensation and Benefits group has been strengthened and is an ongoing area of excellence, developing and maintaining progressive compensation and benefit programs worldwide. Activities undertaken during the year include significant changes to the European and American retirement plan structures; moving US health benefits from a pre-existing carrier to Blue Cross; and implementing benefit plan changes in Brazil. Currently, benefit structures are being put in place for a new facility in Mexico.
- Johnson Electric continues to expand its group of inter-country transferees. It is critical to this diverse business to give overseas assignments to the maximum possible number of staff. Direct exposure to business practices at company locations other than the individual's home office enhances cooperation, productivity and ultimately profitability. New senior staff in Hong Kong are bringing professionalism and efficiency to this program.

## Regional Initiatives

FY2011/12 saw continued time and effort invested in attracting, developing and retaining the people. Organisation alignment between the regions and Hong Kong was also a priority.

- **Europe** – The manufacturing model is being optimised; new senior managers joined the business and are bringing good results. Major operational expansion is under way in both Poland and Hungary, with people and EHS structures being put in place.

- **Asia** – Johnson Electric continued to invest in its manufacturing facility in Beihai, Guangxi province, China and headcount at the facilities is now at 2,800.

  A new Recruitment Centre was opened in Shajing, China in early 2012. This facility presents an excellent face to the community and to applicants to the business. It is a showcase for Johnson Electric's ability to provide a "one piece flow" to the hiring experience across all employee groups.

- **Americas –** With a strong leader in place, the Human Resources team in the Americas is building its capability to contribute to business growth by increasing competencies and adding capable staff.

# CORPORATE GOVERNANCE

Johnson Electric is committed to achieving high standards of corporate governance that properly protect and promote the interests of its shareholders and devotes considerable effort to identifying and formalising best practices of corporate governance.

The monitoring and assessment of certain governance matters are allocated to four committees: Audit Committee, Remuneration Committee, Nomination And Corporate Governance Committee and Board Committee which operate under defined terms of reference and are required to report to the full board on a regular basis.

Full details of the Corporate Governance Report are set out in the Annual Report 2012 of the Company.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31st March 2012, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the "Old Code") contained in the former Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which was applicable to the said financial year, except for the following deviations:

### CODE PROVISION A.2.1

Code A.2.1 provides, inter alia, that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Neither the Company's Bye-laws nor The Johnson Electric Holdings Limited Company Act, 1988 (a private act of Bermuda) contains any requirement as to the separation of these roles.

Dr. Patrick Shui-Chung Wang is the Chairman and Chief Executive of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company that Dr. Wang should hold both these offices. The Board believes that it is able effectively to monitor and assess management in a manner that properly protects and promotes the interests of shareholders.

### CODE PROVISION A.4.1 AND A.4.2

Code A.4.1 provides, inter alia, that non-executive directors should be appointed for a specific term, subject to re-election.

Code A.4.2 also provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The independent non-executive directors were appointed for a specific term while the non-executive directors do not have a specific term of appointment. However, under Section 3(e) of The Johnson Electric Holdings Limited Company Act, 1988 and the Company's Bye-law 109(A), one-third of the directors who have served longest on the Board must retire thus becoming eligible for re-election at each annual general meeting. Accordingly, no director has a term of appointment longer than three years. Bye-law 109(A) states that the executive chairman is not subject to retirement by rotation and shall not be counted in determining the number of directors to retire.

In the opinion of the Board, it is important for the stability and beneficial to the growth of the Company that there is, and is seen to be, continuity of leadership in the role of the Chairman of the Company and, in consequence, the Board is of the view that the Chairman should not be subject to retirement by rotation or hold office for a limited term at the present time.

With respect to the recent changes to the Listing Rules on corporate governance, the Board has updated or established various policies and procedures and the committees have updated their terms of reference in compliance with the new Corporate Governance Code (the "New Code"). The Nomination And Corporate Governance Committee ("NACGC") has taken up the new corporate governance function stipulated in the New Code and has included such function in its terms of reference. The NACGC has reviewed the compliance status of the Company with both the Old Code and the New Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from all directors to confirm compliance with the Model Code throughout the year ended 31st March 2012. No incident of non-compliance was noted by the Company in FY2011/12.

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.

## REVIEW OF ANNUAL RESULTS

The Company's annual results for the year ended 31st March 2012 has been reviewed by the Audit Committee.

# PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31st March 2012, the Company repurchased a total of 60,848,000 ordinary shares of HK$0.0125 each of the Company on the Stock Exchange, all of which shares were cancelled. The number of issued shares as of 31st March 2012 was 3,612,940,920 shares. Particulars of the shares repurchased are as follows:

| Month of repurchase | Number of ordinary shares repurchased | Purchase price paid per share Highest HK$ | Lowest HK$ | Aggregate consideration paid HK$ million* |
|---|---|---|---|---|
| August 2011 | 13,234,000 | 4.02 | 3.65 | 50.70 |
| September 2011 | 28,401,500 | 4.39 | 3.89 | 118.59 |
| October 2011 | 13,559,000 | 4.35 | 3.70 | 53.85 |
| December 2011 | 4,945,500 | 4.30 | 4.12 | 20.93 |
| January 2012 | 708,000 | 4.30 | 4.23 | 3.03 |
| | 60,848,000 | | | 247.10 |

** Note: In addition a brokerage and cancellation fee of HK$1.2 million was incurred.*

The Directors consider the repurchases a constructive element in the prudent management of the Company's overall capital structure and in enhancing returns to shareholders over time.

Also, the Company purchased 5,499,500 shares of the Company at a cost of US$2.62 million during the year (i.e. August 2011) in connection with the Long-Term Incentive Share Scheme for eligible employees and Directors. The highest and the lowest purchase price paid per share was HK$3.83 and HK$3.60, respectively.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year. The Company has not redeemed any of its shares during the year.

# FINAL DIVIDEND

The Board has resolved to recommend at the forthcoming Annual General Meeting to be held on 11th July 2012 payment of a final dividend of 7 HK Cents equivalent to 0.90 US Cents per share (2011: 6 HK Cents or 0.77 US Cents) payable on 25th July 2012 to persons who are registered shareholders of the Company on 19th July 2012 making a total distribution of 10 HK Cents equivalent to 1.28 US Cents per share for the year ended 31st March 2012 (2011: 9 HK Cents or 1.16 US Cents).

# CLOSING REGISTER OF SHAREHOLDERS

## FOR ATTENDING ANNUAL GENERAL MEETING

The Register of Shareholders of the Company will be closed from Monday, 9th July 2012 to Wednesday, 11th July 2012, both dates inclusive, during which no transfer of shares will be registered.

In order to qualify for attending and voting at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (not the Registrar in Bermuda) for registration, not later than 4:30 p.m. on Friday, 6th July 2012.

## FOR FINAL DIVIDEND

The Register of Shareholders of the Company will be closed from Tuesday, 17th July 2012 to Thursday, 19th July 2012, both dates inclusive, during which no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (not the Registrar in Bermuda) for registration, not later than 4:30 p.m. on Monday, 16th July 2012.

# PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (*www.johnsonelectric.com*) and HKExnews's website (*www.hkexnews.hk*). The Company's Annual Report 2012 will be despatched to the shareholders and available on the same websites on or about 4th June 2012.

# BOARD OF DIRECTORS

As of the date of this announcement, the Board of Directors of the Company comprises Patrick Shui-Chung Wang, Winnie Wing-Yee Wang, Austin Jesse Wang, being the Executive Directors, and Yik-Chun Koo Wang, Peter Kin-Chung Wang, being the Non-Executive Directors, and Peter Stuart Allenby Edwards, Patrick Blackwell Paul, Michael John Enright and Joseph Chi-Kwong Yam, being the Independent Non-Executive Directors.

On behalf of the Board of Directors

**Patrick Shui-Chung Wang** *JP*

*Chairman and Chief Executive*

Hong Kong, 17th May 2012

*Website: www.johnsonelectric.com*