# Johnson Electric Holdings Limited

*(Incorporated in Bermuda with limited liability)*
**(Stock code: 179)**

**INTERIM RESULTS ANNOUNCEMENT**
**FOR THE PERIOD ENDED 30TH SEPTEMBER 2007**

## HIGHLIGHTS

- Turnover up 4% to US$1,094 million
- EBITDA up 18% to US$160 million
- Operating profit up 26% to US$116 million
- Net profit attributable to shareholders up 23% to US$80 million
- Earnings per share up 23% to 2.17 US cents per share
- Interim dividend of 4.5 HK cents per share (0.58 US cents per share)
- Cash generated from operations up 71% to US$140.3 million
- Net gearing (net debt to total equity) reduced to 34%

The Directors announce that the unaudited consolidated profit attributable to shareholders for the six months ended 30th September 2007 was US$79,792,000, an increase of 23% over the corresponding period in 2006.

## FINANCIAL RESULTS

The unaudited condensed consolidated profit and loss account for the six months ended 30th September 2007 together with comparative figures for the corresponding period in 2006 is set out below:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Note | **2007** **US$'000** | 2006 US$'000 |
|---|---|---|---|
| Sales | 2 | **1,094,176** | 1,052,324 |
| Cost of goods sold | | **(810,180)** | (774,446) |
| Gross profit | | **283,996** | 277,878 |
| Other income and gains | | **12,720** | 1,634 |
| Selling and administrative expenses | | **(178,150)** | (182,629) |
| Restructuring provisions | | **(2,703)** | (5,082) |
| Operating profit | 3 | **115,863** | 91,801 |
| Finance costs, net | | **(9,764)** | (10,730) |
| Share of profits of jointly controlled entities / associated companies | | **51** | 169 |
| Profit before income tax | | **106,150** | 81,240 |
| Income tax expenses | 4 | **(21,000)** | (15,030) |
| Profit for the period | | **85,150** | 66,210 |
| Attributable to: | | | |
| Equity holders of the Company | | **79,792** | 64,746 |
| Minority interest | | **5,358** | 1,464 |
| | | **85,150** | 66,210 |
| Interim dividend | 5 | **21,195** | 21,195 |
| Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US cents per share) | | | |
| Basic | 6 | **2.17** | 1.76 |
| Diluted | 6 | **2.17** | 1.76 |

**CONDENSED CONSOLIDATED BALANCE SHEET**
As at 30th September 2007

| | Note | **Unaudited 30th September 2007 US$'000** | Audited 31st March 2007 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **384,647** | 390,019 |
| Investment properties | | **34,703** | 24,208 |
| Leasehold land and land use rights | | **23,670** | 24,805 |
| Intangibles | | **681,747** | 667,154 |
| Associated companies | | **1,907** | 2,364 |
| Deferred income tax assets | | **29,914** | 30,918 |
| Available-for-sale financial assets | | **4,434** | 5,131 |
| Other financial assets at fair value through profit or loss | | **5,371** | 4,140 |
| | | **1,166,393** | 1,148,739 |
| **Current assets** | | | |
| Stocks and work in progress | | **286,802** | 251,170 |
| Trade and other receivables | 7 | **479,271** | 458,859 |
| Derivative financial instruments | | **18,010** | 9,463 |
| Other financial assets at fair value through profit or loss | | **-** | 995 |
| Income tax recoverable | | **6,215** | 7,482 |
| Bank balances and cash | | **194,915** | 149,282 |
| | | **985,213** | 877,251 |
| **Current liabilities** | | | |
| Trade and other payables | 8 | **334,608** | 298,055 |
| Current income tax liabilities | | **33,252** | 19,869 |
| Derivative financial instruments | | **7,239** | 698 |
| Borrowings | | **21,824** | 20,615 |
| Provisions and other liabilities | | **22,206** | 25,539 |
| | | **419,129** | 364,776 |
| **NET CURRENT ASSETS** | | **566,084** | 512,475 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,732,477** | 1,661,214 |
| **Non-current liabilities** | | | |
| Borrowings | | **526,587** | 552,900 |
| Derivative financial instruments | | **32,343** | 19,272 |
| Deferred income tax liabilities | | **92,618** | 87,535 |
| Provisions and other liabilities | | **36,507** | 38,117 |
| | | **688,055** | 697,824 |
| **NET ASSETS** | | **1,044,422** | 963,390 |

| | **Unaudited 30th September 2007 US$'000** | Audited 31st March 2007 US$'000 |
|---|---|---|
| **EQUITY** | | |
| Share capital | **82,284** | 82,062 |
| Reserves | **912,307** | 818,568 |
| Proposed dividend | **21,195** | 40,035 |
| | **1,015,786** | 940,665 |
| **Minority interest** | **28,636** | 22,725 |
| **TOTAL EQUITY** | **1,044,422** | 963,390 |

## CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the six months ended 30th September 2007

| | **2007** | 2006 |
|---|---|---|
| | **US$'000** | US$'000 |
| Gain on revaluation of property, plant and equipment and leasehold land transfer to investment properties | **4,346** | - |
| Deferred income tax effect on gain on revaluation of property, plant and equipment and leasehold land transfer to investment properties | **(761)** | - |
| Available-for-sale financial assets: | | |
| - fair value (losses)/gains | **(355)** | 1,169 |
| - release of reserves upon disposal | **(120)** | 122 |
| Hedging instruments: | | |
| - fair value gains | **8,148** | 22,324 |
| - transferred to profit and loss account | **(4,430)** | (17,105) |
| Deferred income tax effect on fair value gains in hedging instruments | **(491)** | (894) |
| Actuarial gains/(losses) of defined benefit plan | **693** | (3,254) |
| Deferred income tax effect on actuarial (gains)/losses of defined benefit plan | **(16)** | 128 |
| Adjustment arising on translation of foreign subsidiaries, associated companies and jointly controlled entities | **29,335** | 21,181 |
| Net income recognised directly in equity | **36,349** | 23,671 |
| Profit for the period | **85,150** | 66,210 |
| Total recognised income for the period | **121,499** | 89,881 |
| | | |
| Attributable to: | | |
| Equity holders of the Company | **115,341** | 87,814 |
| Minority interest | | |
| Share of profit for the period | **5,358** | 1,464 |
| Adjustment arising on translation of foreign subsidiaries | **800** | 603 |
| | **6,158** | 2,067 |
| | **121,499** | 89,881 |

**Note:**

1. **Principal accounting policies**

This unaudited condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard (HKAS) 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31st March 2007, except that the Group adopted all the new standards, amendments to standards and interpretations (new/revised HKFRSs) which are effective for accounting periods commencing on 1st April 2007. The adoption of these new/revised HKFRSs did not have a material financial impact on the condensed consolidated financial information of the Group.

2. **Segment information**

**Primary reporting format – business segments**

**The segment results for the six months ended 30th September are as follows:**

| | **Sales** | | **Operating Profit** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **US$'000** | US$'000 | **US$'000** | US$'000 |
| Manufacturing | **1,041,077** | 1,002,275 | **115,343** | 88,939 |
| Trading | **53,099** | 50,049 | **520** | 2,862 |
| | **1,094,176** | 1,052,324 | **115,863** | 91,801 |

**Secondary reporting format - geographical segments**

| | **2007** | 2006 |
|---|---|---|
| | **US$'000** | US$'000 |
| **Sales analysed by the region from which the customer order originated** | | |
| Asia | **345,499** | 354,530 |
| America | **284,823** | 258,362 |
| Europe | **463,854** | 439,432 |
| | **1,094,176** | 1,052,324 |

3. **Depreciation and amortization**

During the period, depreciation of US$35,657,000 (2006: US$37,116,000) and amortization of US$9,008,000 (2006: US$8,859,000) were charged in respect of the Group's property, plant and equipment and intangible assets and leasehold land and land use rights respectively.

## 4. Income tax expenses

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period. Overseas tax has been provided at the applicable rate on the estimated assessable profit in respective countries of operations for the six months ended 30th September.

| | **2007** | 2006 |
|---|---|---|
| | **US$'000** | US$'000 |
| Current taxation | | |
| Hong Kong profits tax | **8,535** | 7,558 |
| Overseas taxation | **11,690** | 9,551 |
| | **20,225** | 17,109 |
| Deferred income tax | **775** | (2,079) |
| | **21,000** | 15,030 |

## 5. Interim dividend

The interim dividend of 0.58 US cents per share are based on the existing 3,673,788,920 (30th September 2006: 3,673,788,920) shares in issue (30th September 2006: interim dividend of 0.58 US cents per share each).

## 6. Earnings per share

The calculations of basic and fully diluted earnings per share are based on the Group's profit attributable to shareholders of US$79,792,000 (2006: US$64,746,000).

The basic earnings per share is based on the weighted average of 3,672,196,311 (2006: 3,671,775,805) shares in issue during the period.

There is no significant impact on the fully diluted earnings per share if all outstanding options are deemed to be issued at no consideration.

## 7. Trade and other receivables

The Group normally grants credit for a period ranging from 30 to 90 days to its trade customers. The trade and other receivables include gross trade receivables of US$425,470,000 (31st March 2007: US$408,178,000). The ageing analysis of gross trade receivables based on invoice date was as follows:

| | 0-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Balance at 30th September 2007 | **328,381** | **43,768** | **53,321** | **425,470** |
| Balance at 31st March 2007 | 326,703 | 35,693 | 45,782 | 408,178 |

## 8. Trade and other payables

The trade and other payables include trade payables of US$208,933,000 (31st March 2007: US$182,976,000). The ageing analysis of trade payables based on invoice date was as follows:

| | 0-60 days<br>US$'000 | 61-90 days<br>US$'000 | Over 90 days<br>US$'000 | Total<br>US$'000 |
|---|---|---|---|---|
| Balance at 30th September 2007 | **172,291** | **18,321** | **18,321** | **208,933** |
| Balance at 31st March 2007 | 148,275 | 11,454 | 23,247 | 182,976 |

# CHAIRMAN’S STATEMENT

## Overview of Financial Results

In the six month period ended 30th September 2007, Johnson Electric made satisfactory progress in improving profitability in what continues to be a challenging and unpredictable macro-economic environment. Group sales for the first half of the financial year totaled US$1,094 million, an increase of 4% over the comparable period last year, while profit attributable to shareholders increased by 23% to US$80 million. This profit included unbudgeted gains of US$6.7 million (after tax and minority interest) on two asset disposals.

Important factors affecting sales during the period included soft end-user demand in the North American and European automotive markets, the strength of the Euro and other currencies against the US dollar, and a strategic shift away from unprofitable business in selected motor segments.

On the cost side, the headwinds that have negatively affected the profitability of the Group in recent years continued to exert pressure on the business. The price of copper and plastics – which comprise a major portion of the cost of the Group’s range of precision motor and motion system products – increased compared to the same period a year ago. In addition, higher direct labour rates and the sustained appreciation of the renminbi continued to increase the cost of manufacturing in China.

In the face of these conditions, we continued our efforts to mitigate their adverse impact on our financial performance. These efforts included increasing sales prices, shifting production and component purchases to lower cost sources, hedging our copper purchases, changing the type of raw materials used for some products and driving multiple lean manufacturing initiatives to improve shop floor productivity. These efforts helped restore gross margins to a level which is comparable with the same period last year and which is an improvement of 3.3 percentage points over second half of the year ended 31st March 2007.

We were also able to lower selling, general and administrative costs by US$5 million from US$183 million in the same period last year to US$178 million as a result of stronger operational controls which led to lower claims, warranty and bad debt expenses, and we recorded unbudgeted gains of US$11.9 million (before tax and minority interest) on two asset disposals. Business restructuring charges and provisions related to ongoing improvements to the Group’s global manufacturing footprint declined from US$5 million in the same period last year to US$3 million during the period, with the result that our operating profit increased by 26% compared with same period last year to US$116 million.

After taking into account slightly lower financing costs and higher charges for income tax and minority interests, the consolidated profit attributable to shareholders for the first half of the financial year increased by 23% to US$80 million or 2.17 US cents per share.

During the period, cash generated from operations increased 71% to US$140.3 million, which enabled the Group to reduce its outstanding borrowings by US$25 million to US$548 million and to increase its cash reserves to US$195 million. Including the Group's cash reserves of US$195 million, net debt as a proportion of total equity stood at 34% at 30th September 2007 compared to 44% at 31st March 2007.

**Interim Dividend**

The Directors have today declared an interim dividend of 4.5 HK cents, equivalent to 0.58 US cents per share (2006: 4.5 HK cents or 0.58 US cents per share) payable on 4th January 2008 to shareholders registered on 28th December 2007.

**Focus on Product Innovation and Improving Profitability**

It is just over two years since Johnson Electric completed the acquisition of Saia-Burgess Electronics and the enlarged Group is a significantly stronger and more global enterprise as a result.

With the key integration initiatives relating to people, structure and manufacturing operations now largely behind us, we are currently focused on new product innovation, technology collaboration with our customers, accelerating new product development, and reducing time to market. The ability to do these successfully is a critical element in our value proposition and key to future value creation.

The two main business units within the Manufacturing segment – Automotive Products Group ("APG") and Industry Products Group ("IPG") – are market leaders in delivering precision motor and motion system solutions in their respective market segments. In this position, they are able to support customers in the development of next generation products. Now, with a global network of engineering centres that spans China, Switzerland, Germany, the USA, Japan and Israel, the Group has the breadth of technology and application expertise to convert its market insight into product solutions and an overall customer value proposition that no competitor can match.

Both APG and IPG are executing strategies enabling them to expand in those segments where they are best positioned to offer differentiated, customized solutions. This also means selectively exiting unprofitable segments and, if appropriate, divesting non-core assets.

The expanded scope and capabilities of the Group is also beginning to open the doors to new market segments with attractive long-term growth potential. For example, we are in the early stages of establishing a new platform in the area of medical devices where our unique range of motion and electronic sensor technologies as well as our global manufacturing capabilities can be utilized to full effect.

For the Group's smaller business units, the priorities remain on gaining scale and improving profitability. Johnson Electric Trading's sales were lower than expected in the first half of the year but its specialty metals trading business is showing encouraging progress as we move into the second half. Parlex, a manufacturer of flexible printed circuits, has also been behind schedule on the restructuring of its various production facilities in the United States and China. However, with the closure of a plant in Cranston, USA, and the opening of a new facility in Qingpu, China now accomplished, the management team is better positioned to focus on improving productivity and growing its blue-chip customer base. Saia-Burgess Controls has achieved excellent progress in improving profit margins over the past two years and is now further strengthening its product pipeline and organization to sustain growth for the longer term.

**Prospects**

Although the Group's underlying operational performance has been relatively strong in the first half of the financial year, there are reasons to be cautious about the prospects for the second half. First, there are indications that economic activity in North America and Europe could slow down – with particular concern and uncertainty about the extent to which problems in the US housing and financial sectors could adversely affect consumer sentiment in those regions. Second, global commodity price increases continue to be fuelled by strong demand from China and India, tight supply, and the weakness of the US dollar, and show no signs of abating in the near-term.

We anticipate revenue growth for the full year to be broadly in line with our original expectations of 5% to 7%. Given the improved operational performance and the unbudgeted gains on asset sales in the first half, plus the currently projected second half performance in what could be softer market conditions, it presently appears that the Group is on track to produce an improvement in full year net profit compared to the prior year.

**Patrick Wang Shui Chung**
*Chairman and Chief Executive*
Hong Kong, 7th December 2007

## CLOSING REGISTER OF SHAREHOLDERS

The Register of Shareholders of the Company will be closed from Monday, 24th December 2007 to Friday, 28th December 2007, both dates inclusive, during which no transfer of shares will be registered.

In order to qualify for the interim 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 Friday, 21st December 2007.

## MANAGEMENT’S DISCUSSION AND ANALYSIS
**(INCLUDING FINANCIAL REVIEW)**

## RESULTS OVERVIEW

### Sales

Total Group sales for the half-year ended 30th September 2007 were US$1,094 million, an increase of 4.0% over US$1,052 million in the same period last year. The strength of the Euro and other currencies against the US dollar contributed an additional US$30.1 million to Group revenues in comparison with the same period last year. This primarily impacted sales in automotive markets. Excluding this, the underlying growth in Group sales was 1.1%.

Overall, sales to Europe were US$464 million (42% of total sales), an increase of 5.6%; sales to Asia were US$345 million (32% of total sales), a decrease of 2.5%; and sales to the Americas were US$285 million (26% of total sales), an increase of 10.2%.

The relatively strong growth in the US was driven by sales in automotive power cooling applications, while sales in Asia were down primarily due to weaker markets in power tools and camera motors.

### Gross Profit

Gross profit of US$284.0 million increased by US$6.1 million and was 26.0% of sales, down slightly from 26.4% a year ago.

Gross profit was adversely impacted by ongoing pressures in a number of the key ingredients in the cost structure including the cost of copper, labour rates in the PRC, and the renminbi. In contrast, a strong Euro and the lower cost of steel relative to the same period last year helped gross profits. Combined, these elements reduced gross profit by US$9.5 million or 0.9% of sales in the period.

Compared to the same period last year, the increased costs of copper and the higher labour rates in our principal manufacturing base in China, together with the effects of the strengthening renminbi, resulted in additional costs of US$21.6 million.

The relative strength of the Euro against the US dollar, including its impact on manufacturing costs in Europe, and lower steel costs combined to improve profitability by US$12.1 million.

In our Parlex business, gross profits were down compared to last year by US$3.8 million. This disappointing performance is primarily due to delays in rationalizing the global manufacturing footprint of this business and in improving operational performance.

As regards actions taken to improve gross profits, the Group has increased profitability through a number of measures. These include price increases in selected products and markets to mitigate increased material, labour and currency costs, volume increases and product mix changes and improved productivity in our manufacturing operations through one-piece-flow and other lean manufacturing techniques. Combined, these helped improve profitability by US$12.4 million over the same period last year.

Additionally, improved profits from our JE Capital businesses, primarily Saia Burgess Controls and China Autoparts, contributed an incremental US$2.9 million.

**Other Income and Gains**

Other income and gains amounted to US$12.7 million, US$11.1 million more than in the same period last year.

US$11.9 million of the increase compared to the same period last year results from the combination of a gain on the sale of land and buildings and a gain on the disposal of a non-core associated company.

**Selling and Administrative Expenses ("SG&A")**

SG&A expenses of US$178.2 million decreased by US$4.5 million compared to the same period last year. As a percentage of sales, SG&A reduced to 16.3% from 17.4% in the same period last year.

Lower claims, warranty, bad debt, and VAT related costs booked in this period compared to the same period last year accounted for a total improvement of US$10.6 million. Conversely, the impact of the Euro exchange rate against the US dollar increased our SG&A costs by US$4.8 million. Excluding these effects which totaled US$5.8 million, the SG&A costs increased by an underlying rate of US$1.3 million, or 0.7% higher than the same period last year.

**Restructuring Costs**

The Group's restructuring charges of US$2.7 million in the period related to restructuring activities in our Europe-based Industrial and China-based Parlex businesses. Total restructuring costs were US$2.4 million lower than in the same period last year.

**Operating Profit**

Operating profit was US$115.9 million, an increase of US$24.1 million or 26.2% from a year ago. Excluding the effect of one off gains included in other income and gains, operating profit increased by US$12.2 million, or 13.3%, over the same period last year.

**Finance Costs, net**

Interest expense for the period was US$9.8 million, a decrease of US$0.9 million from the same period last year due to the reduction in debt levels between 30th September 2006 and 30th September 2007.

**Share of Profits of Jointly Controlled Entities/Associated Companies**

The Company no longer holds any significant interests in any jointly controlled entities/ associated companies.

**Income Tax Expenses**

The effective tax rate for the period was 19.8%, compared to 18.5% for the prior period. The increase was mainly due to a change in the proportion of the Group's taxable profit which was earned in Europe and the US, where effective tax rates generally exceed those in Asia.

**Profit Attributable to Shareholders**

Profit attributable to shareholders for the period increased 23.2% to US$79.8 million and earnings per share increased from 1.76 US cents per share to 2.17 US cents per share.

## BUSINESS PERFORMANCE

We manage the Group's activities in two segments: Manufacturing and Trading.

## MANUFACTURING SEGMENT

The Manufacturing segment is sub-divided into three business units which focus on specific customer needs and technologies in defined markets: Automotive Products Group, Industry Products Group and Other Businesses.

## AUTOMOTIVE PRODUCTS GROUP ("APG")

APG revenues in the period represented 51% of the total turnover of the Group. APG sales in the period increased US$38.9 million, or 7.5%, to US$559.4 million. Of this increase, the appreciation of the Euro against the US dollar contributed US$20.6 million. Excluding this effect, the underlying sales increase was 3.5%.

During the period April to September, worldwide passenger car production grew around 5%. In Johnson Electric's principal markets, there was little growth in Western Europe and markets declined in North America.

APG's sales by Region, and the respective growth rates compared to the same period last year, are as follows:

| *US$ Million* | H1 2007 | H1 2006 | Growth % |
|---|---:|---:|---:|
| Europe | 334.5 | 318.4 | 5.1 |
| Asia | 71.3 | 65.8 | 8.4 |
| Americas | 153.6 | 136.3 | 12.7 |

Sales and marketing activities for APG focus on two main business areas: Motors and Motion & Actuation Systems.

**Motors**

Of the total APG sales in the period, motor sales amounted to US$392.7 million, representing a US$37.4 million increase, or 10.5%, over the same period last year.

Despite the relatively stagnant conditions in our traditional markets, progress has been made. In particular, growth in the sales of the power cooling products has been quite strong in North America, and new programs in our body climate and chassis braking products across all regions have also contributed to this progress.

Increases in raw material costs, especially copper, impacted margins. However, tight cost control, payback from prior period restructuring activities, and productivity gains derived from continuous improvement activities in manufacturing and other processes allowed us to offset this impact as well as to mitigate the continuous price down pressures prevalent in these markets. Where all these actions, including implementing price increases on selected products, cannot satisfactorily compensate for such ongoing margin pressures we continue to shift away from unprofitable business in selected motor segments.

**Motion and Actuation Systems**

Of the total APG sales in the period, motion system sales amounted to US$166.7 million, representing a US$1.5 million increase, or 0.9%, over the same period last year.

The softness in North American car production and our already existing high market share in this particular market have limited our growth potential for the period under review. In Europe, in response to continuous price pressure, the introduction of our new product generation replacing the existing higher priced product range also impacted our growth. New applications and volume increases allowed us to maintain our position and leadership in the market.

Similar cost reduction and profit improvement activities were undertaken in this business area as were noted above in the motors area.

**INDUSTRY PRODUCTS GROUP ("IPG")**

Sales for IPG in the period decreased US$3.2 million, or 0.8%, to US$372.3 million. IPG sales in the period represented 34% of the total turnover of the Group.

Sales analysis, geographically, is as follows:

| *US$ Million* | H1 2007 | H1 2006 | Growth % |
|---|---:|---:|---:|
| Europe | 93.7 | 86.6 | 8.2 |
| Asia | 183.6 | 201.6 | (8.9) |
| Americas | 95.0 | 87.3 | 8.8 |

**Motors**

IPG Business Units provide tailored motion solutions to global customers. In the Power Tools, Home Appliances and Business & Lifestyle Products markets, total sales for the period amounted to US$275.6 million, a decrease of US$11.3 million, or 3.9%, over the same period a year ago.

Sales by the Power Tools Business Unit decreased by US$9.6 million, (11%), to US$77.5 million, due to the strategic exit of low profit products and the softening of the US power tool market as US housing sales and consumer confidence fall. This mainly impacted our Asia region sales, where many of our customers have export-oriented assembly operations. In contrast, new product launches have driven growth in market share in the electric starter segment and this has helped offset the decline in the gas engine market.

Sales of Business & Lifestyle products decreased US$4.6 million (4.6%) to US$94.9 million due to the decline in sales in the Camera application segment in Japan, again depressing Asian sales.

In the Home Appliance Business Unit, sales increased by US$2.9 million (2.9%) to US$103.2 million, due mainly to the successful introduction of new motor and pump platforms. The increase in market share with key Floor Care and White Goods customers more than offset reduced volumes of low margin business.

**Motion and Actuation Systems**

Sales of Actuators increased by US$4.9 million, 10.3%, to US$52.8 million in the period due mainly to the successful launch of a new water valve product in the HVAC segment and stronger performance in the postal-sorting segment.

**Switches**

Switches sales increased by US$3.2 million, 7.9%, to US$43.9 million in the period due to improvements in production processes and in the delivery supply chain. This followed the restructuring and consolidation of manufacturing operations in prior periods.

**OTHER BUSINESSES**

The Other Businesses category includes the operations of Johnson Electric Capital (which includes Parlex, Saia-Burgess Controls, and China Autoparts, Inc.).

Overall, sales revenue for the Other Businesses was US$109.3 million for the six-month period ended 30th September 2007, accounting for 10% of the total Johnson Electric Group sales. Compared to a year ago, this category has increased its sales by US$3.0 million in the six-month period, or 2.8%.

Parlex Corporation, a manufacturer of copper flexible circuits and polymer thick film circuits, contributed sales of US$60.5 million during the six-month period to 30th September 2007, a decrease of 4.3% compared to the same period in the prior year. Although sales of applications in many key markets continue to demonstrate very positive demand trends, sales to the computer equipment market were lower than expected.

Saia-Burgess Controls, a successful niche player in the European programmable controls industry achieved sales of US$32.5 million, an increase of 5.3% on the same period last year. The business serves both OEM and system integrator customers and its new generation of Human Machine Interface products have been very positively received by the market.

Sales by China Autoparts were US$16.3 million for the period, an increase of 33.7% over the same six-month period in 2006. The company is a leading supplier of iron cast engine blocks to the rapidly growing domestic automotive industry in China.

**TRADING SEGMENT**

Johnson Electric Trading was established in 2004-2005 to build a sourcing platform in China to supply global customers with a wide range of motor and motor-related electro-mechanical components that are not currently manufactured within Johnson Electric, and to supply specialty metals for local Asia customers. For the six-month period ended 30th September 2007, sales were US$53.1 million, representing an increase of US$3.1 million, or 6.1%, over the same period last year. Intensive efforts are being put into expanding the precision parts and motorized subsystems businesses, which will help penetration into high-tech industry markets, while the specialty metals businesses remained relatively steady in a volatile market environment. As the critical mass grows and the infrastructure is leveraged the profit performance of this unit is expected to improve significantly.

## FINANCIAL POSITION AND LIQUIDITY

## ANALYSIS OF CASH FLOWS

**Simplified Cash Flow Six Months to 30th September**

*US$ Million*

| | 2007 | 2006 | Change |
|---|---|---|---|
| Profit Before Interest and Tax* | 115.9 | 91.8 | 24.1 |
| Depreciation and Amortization (including Intangibles) | 44.6 | 44.4 | 0.2 |
| ***EBITDA*** | ***160.5*** | ***136.2*** | ***24.3*** |
| Other Non Cash Items in Profit Before Tax | (11.3) | 2.0 | (13.3) |
| Working Capital Change | (8.9) | (56.0) | 47.1 |
| ***Cash from Operating Activities*** | ***140.3*** | ***82.2*** | ***58.1*** |
| Capital Expenditure | (33.7) | (27.4) | (6.3) |
| Proceeds from Sale of Assets and Investments | 15.4 | 4.2 | 11.2 |
| ***Operating Cash Flow less Operating Investment Activities*** | ***122.0*** | ***59.0*** | ***63.0*** |
| Interest (Paid) less Interest Received | (8.5) | (10.7) | 2.2 |
| Tax | (4.2) | (14.7) | 10.5 |
| Dividend Paid | (40.0) | (40.0) | - |
| Treasury Shares and Liquid Securities | (1.4) | 0.1 | (1.5) |
| Exchange Gains on Cash and Overdrafts and Borrowings | 1.8 | 1.3 | 0.5 |
| **Net cash inflow/(outflow)** | **69.7** | **(5.0)** | **74.7** |
| | | | |
| **Used to repay debt** | **25.5** | **81.7** | **(56.2)** |
| **Net increase/(decrease) in cash & cash equivalent**** | **43.4** | **(87.2)** | **130.6** |
| **Exchange Gains on Net Debt plus movement in Short Term Investments** | **0.8** | **0.5** | **0.3** |
| | **69.7** | **(5.0)** | **74.7** |

* *Operating Profit per accounts*

** *See condensed consolidated cash flow per accounts*

## CASH FLOWS

The Group's ability to generate cash from operations continues to be one of its principal strengths. In the six-month period, cash generated from operating activities (before capital expenditure and before proceeds from the sale of fixed assets), as shown above, was US$140.3 million compared to US$82.2 million for the same period a year ago.

This increase of US$ 58.1 million is primarily due to the increase in operating profit of US$24.1 million and a significantly improved working capital performance compared to the same period last year. The increase in working capital of US$8.9 million this year compared to an increase of US$56.0 million in the same period last year.

**Working Capital**

Overall, net of currency translation effects of US$14.2 million, working capital increased by US$8.9 million since 31st March 2007.

Trade receivables amounted to US$425.5 million at 30th September 2007, of which 77.2% was aged less than 60 days. Excluding currency translation effects, the increase during the period was US$3.8 million.

Stocks and work in progress amounted to US$286.8 million at 30th September 2007. Excluding currency translation effects, the increase during the period was US$28.6 million, or 11.4%. This was mainly due to increases in stock in our European operations to meet market demand and service level commitments. Inventories in the US also increased, as a result of sales growth. Stock turns were 7.6 this year compared 7.1 in the same period last year reflecting an overall year on year improvement in inventory management.

Partially offsetting these increases in working capital assets was an increase in trade and other payables, net of currency translation effects, of US$28.2 million.

**Capital Expenditure**

Capital Expenditure was US$33.7 million in the period. US$2.2 million below the charge for fixed asset depreciation (excluding depreciation on intangible assets).

Proceeds from the sale of assets and investments were US$15.4 million, US$11.2 million higher than in the same period last year, primarily due to the sale of land and buildings and the sale of MiCS MicroChemical Systems SA, a non-core business.

**Interest and Tax**

Net interest paid (after deducting interest income on cash balances) was US$8.5 million. This reduction from the same period last year results from the progressive reduction in borrowings and the increase in cash balances. Short term overdrafts and long term loans were US$79.9 million lower at 30th September 2007 than a year ago and cash balances were US$42.3 million higher.

Taxes paid, net of refunds, amounted to US$4.2 million, US$10.5 million lower than in the same period last year. Tax refunds were received in the period which relate to the businesses in Germany and Switzerland for the prior tax years.

**Dividends and Other Cash Flows**

The Final Dividend of US$40.0 million for the fiscal year 2006-2007 was paid in the period. This dividend payment was at the same level as was paid in the prior year.

**Movement of Net Borrowings**

The Group's debt : equity ratio (calculated on the total borrowings net of cash and other financial assets at fair value through profit or loss, to total equity) was 34%, down from 44% at 31st March 2007.

The reduction in net debt in this six-month period has been US$69.7 million. Net borrowings (total borrowings net of cash and other financial assets at fair value through profit or loss) at 30th September 2007 were US$353.5 million. This compares to US$423.2 million at 31st March 2007.

The lowering of the net debt position has been enabled mainly by an improved profit performance and by improvements in working capital management, as shown in the table above. The operating cash flow, after deducting capital expenditure and including the proceeds of sale from asset disposals, amounted to US$122.0 million, double compared to the same period last year.

**Liquidity**

For day-to-day liquidity management and to maintain flexibility in funding, the Group also has access to significant unutilized short-term borrowing facilities exceeding US$260.0 million provided by its principal relationship banks.

## FINANCIAL MANAGEMENT AND TREASURY POLICY

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

**Foreign Currency**

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

For APG and IPG, the major revenue generating currencies continue to be the US dollar, the Euro and the Japanese Yen. For the period to 30th September, 2007, of the sales from these business units, 53% were in US dollars, 37% in Euro, and the rest in other currencies such as Japanese Yen. The major currencies used for purchases of materials and services are the US dollar, the Euro, the Hong Kong dollar and the Japanese Yen. Aside from the US dollar and Hong Kong dollar (which is pegged to the US dollar), material open foreign exchange exposures in Euro are hedged with currency contracts, including forward and options contracts, with a view to reducing the net exposure to currency fluctuations.

## HUMAN RESOURCES AND ENVIRONMENTAL, HEALTH & SAFETY

The Johnson Electric Group has over 40,000 full-time employees and subcontract workers as of 30th September 2007.

The Group provides competitive remuneration packages and various types of benefit schemes that are appropriate to the local labour markets in which we operate.

The Group operates a number of defined benefit and defined contribution retirement schemes which cover certain groups of employees in Europe, Hong Kong and the USA. Incentive schemes composed of annual and long-term incentives are provided to selective managers and senior executives on the basis of performance measured by metrics which include the Group's revenue, net profit, and cash generated as well as other complementary financial measures and the achievement of personal objectives.

JENESIS, the Group's flagship leadership development programme, has continued to develop future leaders for the Group and operates in both English and Putonghua versions. In July of 2007, the Group conducted its third annual Senior Management Development Seminar designed for the continuous development of the Group's international cadre of senior managers.

The Group maintains its long-standing commitment to environmental, health and safety and to being a responsible corporate citizen. Continuous progress is made in working towards ISO14000 registration of the Group's main manufacturing facility in Shajing, Guangdong Province; the Group's key sites in Europe and North America are already ISO14000 registered.

The safety campaign, *Safety is Job One,* launched by the Group's CEO in Shajing in 2003, continues to produce impressive results.

## 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.

During the six months ended 30th September 2007, Mrs. Laura May-Lung Cha, an Independent Non-Executive Director of the Company, resigned as a member of the Audit Committee of the Company effective 1st August 2007. Mr. Peter Kin-Chung Wang, an existing Non-Executive Director of the Company, was appointed to replace Mrs. Laura May-Lung Cha as a member of the Audit Committee effective 1st August 2007. Save for the above, the composition of the board committees remains the same as set out in the Corporate Governance Report in the Company's Annual Report 2007.

During the six months ended 30th September 2007 the Company continued to abide by the corporate governance practices set out in the Corporate Governance Report.

### Code on Corporate Governance Practices

During the six months ended 30th September 2007, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 at its present stage of development 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.

**Model Code for Securities Transactions**

The Group has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 of the Listing Rules. Specific confirmation has been obtained from all directors of compliance with the Model Code throughout the six months ended 30th September 2007. No incident of non-compliance was noted by the Company to date in 2007/08.

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 INTERIM RESULTS

The Company's interim report for the six months ended 30th September 2007 has been reviewed by the Audit Committee and the auditors of the Company, PricewaterhouseCoopers.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.johnsonelectric.com) and the Stock Exchange (www.hkex.com.hk). The Company's Interim Report 2007 will be despatched to the shareholders and available on the same websites on or about 21st December 2007.

## BOARD OF DIRECTORS

As at the date of this announcement, the board of directors of the Company comprises Patrick Shui-Chung Wang, Winnie Wing-Yee Wang, Richard Li-Chung 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, Laura May-Lung Cha and Oscar de Paula Bernardes Neto, being the Independent Non-Executive Directors.

On behalf of the board of directors
**Patrick Shui-Chung Wang**
*Chairman and Chief Executive*

Hong Kong, 7th December 2007

*Website: www.johnsonelectric.com*