

CORPORATE GOVERNANCE REPORT

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

BOARD OF DIRECTORS

As of 31st March 2011, Johnson Electric's Board consisted of three executive directors and seven non-executive directors (of whom five are independent).

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

The profile of the directors are provided on pages 136 to 138 of this report.

THE BOARD AT WORK

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

management, major acquisitions, disposals and capital transactions and other significant operational and financial matters.

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

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

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

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

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

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

COMMITTEES

The monitoring and assessment of certain governance matters are allocated to four committees which operate under defined terms of reference and are required to report to the full Board on a regular basis. The composition of the committees during FY2010/11 and up to the date of this report is set out in the table below.

Directors	Audit Committee	Remuneration Committee	Nomination And Corporate Governance Committee	Board Committee
Executive Directors				
Patrick Shui-Chung Wang			M	M
Winnie Wing-Yee Wang		M		M
Non-Executive Director				
Peter Kin-Chung Wang	M			
Independent Non-Executive Directors				
Peter Stuart Allenby Edwards			C	
Patrick Blackwell Paul	C		M	
Oscar de Paula Bernardes Neto		M		
Michael John Enright	M	C		

C – Chairman

M – Member

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AUDIT COMMITTEE

The majority of the members of the Audit Committee are independent non-executive directors of the Company. The Committee is currently comprised of two independent non-executive directors (including the Committee Chairman) and one non-executive director who together have substantial experience in the fields of accounting, business, corporate governance and regulatory affairs.

The Committee is responsible for monitoring the reporting, accounting, financial and control aspects of the executive management's activities. It has full access to the Group's Global Head of Corporate Audit Services to hear directly any concerns of the Corporate Audit Services Department that may have arisen during the course of the department's work. The Committee also monitors the appointment and function of the Group's external auditor. The Committee's authority and duties are set out in written terms of reference and are posted on the Group's website.

Four Audit Committee meetings were held in FY2010/11 to discuss and review the following matters together with the Chief Financial Officer, Global Head of Corporate Audit Services and the external auditor:

1. the FY2010 annual results and interim results for FY2011, to ensure that the related disclosures in the financial statements were complete, accurate and fair and complied with accounting standards, stock exchange and legal requirements, and to submit the same to the Board for approval;
2. the principal accounting policies adopted by the Group;
3. the work done by the internal and external auditors, the relevant fees and terms, results

of audits performed by the external auditor and appropriate actions required on any significant control weaknesses;

4. the external auditor's independence, including consideration of their provision of non-audit services;
5. the Group's report on compliance with laws and regulations in the countries in which it operates;
6. the Corporate Audit Services Department's audit plan and ongoing progress reports;
7. the overall adequacy and effectiveness of the internal control and risk management systems; and
8. the status and adequacy of the Group's insurance cover.

REMUNERATION COMMITTEE

The Remuneration Committee is comprised of two independent non-executive directors (including the Committee Chairman) and one executive director.

The Committee determines the compensation structure and rewards for the Chief Executive and other executive directors and monitors the policies being applied in remunerating other senior executives in the Group.

In addition, it has responsibility for reviewing and making appropriate recommendations to the Board on management development and succession plans for executive directors and senior management. The Committee's authority and duties are set out in written terms of reference and are available on the Group's website.

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

All global staff positions, including senior management, are sized based on a job evaluation methodology which takes into account management/technical know-how, problem solving and accountability. Individual senior management remuneration acknowledges scope of responsibilities, contribution and performance. The base salary takes into account factors such as job value, retention and market. The annual incentive plan, when payable, in addition to the basic salary, is entirely performance-based, and includes Corporate and Group financial objectives as well as non-financial objectives. The Long-Term Incentive Share Scheme provides for the grant of Johnson Electric Restricted Stock Units (RSUs) to senior management, subject to vesting requirements based upon Group service. Performance Shares Units (PSUs) are also provided for executives. Awards are subject to the attainment of annual and/or long term financial goals. RSUs and PSUs are used to retain and motivate senior staff and are designed to maximise long term shareholder value.

In determining the level of remuneration and fees paid to members of the Board of Directors, a review of current practices in leading Hong Kong public companies and comparator companies elsewhere in the world is conducted with the aid of an independent consultant. Board remuneration consists of an annual retainer with additional fees payable for attendance at committee meetings. A biannual grant of fully-vested shares comprises a component of compensation for the independent non-executive directors. Executive directors are not eligible for remuneration or fees for Board activities.

On an ongoing basis, the Committee reviews the overall remuneration program over the short, medium and long term time horizon while addressing the goals of management development and retention, while enhancing shareholder value.

No individual director or senior manager approves his or her own remuneration.

Three committee meetings were held in FY2010/11. During the financial year, the Committee addressed the following:

1. Retirement Plan Structures in Europe;
2. Expatriate Policy;
3. Senior Executive Compensation and Benefits;
4. Long Term Incentive Plan;
5. Succession and Development Plans for Executives and Managers; and
6. Medical and Retirement Benefits in China and Americas.

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NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

The Nomination And Corporate Governance Committee is comprised of two independent non-executive directors (including the Committee Chairman) and one executive director.

The Committee is responsible for the identification and evaluation of candidates for appointment or re-appointment as a director, as well as the development and maintenance of the Group's overall corporate governance policies and practices. The Committee's authority and duties are set out in written terms of reference and are posted on the Group's website.

The Company follows a formal, fair and transparent procedure for the appointment of new directors to the Board. The Committee will first consider necessary changes in respect of the structure, size and composition of the Board, identify suitably qualified candidates by considering their professional knowledge and industry experience, personal ethics, integrity and personal skills and time commitments, and makes recommendation to the Board for decision. In accordance with the Bye-laws of the Company, every newly appointed director is subject to re-election at the following annual general meeting.

One new director was nominated in FY2010/11.

During the financial year, the Committee met on one occasion. The following is a summary of work performed by the Committee during the financial year:

1. consideration and recommendation of the retiring directors for re-election at the Annual General Meeting;
2. the review of the structure and composition of the Board;
3. the nomination of a new director for approval by the Board;
4. consideration of the independence of all the independent non-executive directors; and
5. the review and approval of the corporate governance report and information for the Annual Report and the Interim Report.

BOARD COMMITTEE

The Board Committee is comprised of two executive directors. Its primary function is to undertake and supervise the day to day management and operating affairs of the Group. It exercises leadership and develops and keeps under review strategy and business development initiatives of the Group and supervises their implementation. The Committee's authority and duties are set out in written terms of reference and are posted on the Group's website.

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BOARD AND COMMITTEE ATTENDANCE

The Board held four full board meetings in FY2010/11 and the average attendance rate was 95%. Details of the attendance of individual directors at board meetings and committee meetings during FY2010/11 are set out in the table below:

Directors	No. of meetings attended/held			
	Full Board Meeting	Audit Committee	Remuneration Committee	Nomination And Corporate Governance Committee
Executive Directors				
Patrick Shui-Chung Wang <i>(Chairman and Chief Executive)</i>	4/4	–	–	1/1
Winnie Wing-Yee Wang <i>(Vice-Chairman)</i>	4/4	–	3/3	–
Austin Jesse Wang <i>(Executive Director)</i>	3/4	–	–	–
Non-Executive Directors				
Yik-Chun Koo Wang <i>(Honorary Chairman)</i>	3/4	–	–	–
Peter Kin-Chung Wang	4/4	4/4	–	–
Independent Non-Executive Directors				
Peter Stuart Allenby Edwards	4/4	–	–	1/1
Patrick Blackwell Paul	4/4	4/4	–	1/1
Oscar de Paula Bernardes Neto	4/4	–	3/3	–
Michael John Enright	4/4	4/4	3/3	–
Joseph Chi-Kwong Yam*	2/2	–	–	–
Average attendance rate	95%	100%	100%	100%
Date of meetings	31/05/2010 06/09/2010 29/11/2010 04/03/2011	18/05/2010 06/09/2010 10/11/2010 14/02/2011	30/05/2010 28/11/2010 03/03/2011	31/05/2010

* appointed on 30th September 2010

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INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring that a sound and effective system of internal control and risk management is maintained within the Group, and for reviewing its design and operational adequacy and effectiveness through the Audit Committee.

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

Policies and procedures are established to ensure reasonable, but not absolute, assurance against material misstatement or loss and to manage, but not to eliminate, risks of failure in achieving the Group's objectives.

Pursuant to a risk-based approach, the Group's Corporate Audit Services Department independently reviews the risks associated with and controls over various operations and activities and evaluates their adequacy, effectiveness and compliance. Audit findings and recommendations are reported to the Audit Committee, Executive Committee, and the external auditor. In addition, progress on audit recommendations implementation is followed up on a monthly basis. The results are discussed with the Audit Committee on a periodic basis.

During its annual review, the Audit Committee also considers the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programs and budgets.

To supplement the above, under the Integrity and Ethics Policy, employees can report any misconduct, impropriety or fraud cases within the Group to the Group's Corporate Audit Services Department through an integrity hotline or in writing in confidence without the fear of recrimination.

Based on the results of evaluations and representations made by the management, the Group's Corporate Audit Services Department and external auditor in FY2010/11, the Audit Committee is satisfied that:

- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that threaten the achievement of its business objectives; and
- an appropriate system of internal control and risk management has been in place in FY2010/11, and up to the date of approval of the Annual Report.

EXTERNAL AUDITOR

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

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During FY2010/11, the services (and associated remuneration) provided to the Group by PricewaterhouseCoopers were as follows:

	FY2010/11 US\$ million	FY2009/10 US\$ million
Audit	2.08	1.95
Taxation and other advisory services	0.49	0.52

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The directors' responsibilities for the accounts are set out on page 44, and the responsibilities of the external auditor to the shareholders are set out on page 45.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31st March 2011, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, 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.

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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 2011. No incident of non-compliance was noted by the Company in FY2010/11.

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.

COMMUNICATIONS WITH SHAREHOLDERS

Johnson Electric uses a number of formal communications channels to account to shareholders for the performance of the Group. These include the annual report and accounts, the interim report, periodic announcements made through the Stock Exchange, as well as through the annual general meeting. Copies of relevant corporate and financial information are also made available through the Group's website: www.johnsonelectric.com.

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

comments and questions from shareholders at its annual general meeting.

VOTING BY POLL

The Company regularly informs shareholders of the procedures for voting by poll and ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Bye-laws of the Company.

Procedures for and the rights of shareholders to demand a poll are disclosed in the Company's circular to shareholders dated 16th June 2011.

Since 2003 the Chairman has demanded a poll on each of the resolutions submitted for determination at annual general meetings. The Chairman will continue to demand a poll on each of the resolutions submitted for determination at the forthcoming Annual General Meeting. The results of the poll will be published on the Group's and the Stock Exchange's websites.

SOCIAL RESPONSIBILITIES

Johnson Electric is a global organisation which is dedicated to act in a socially responsible way in its interactions with all stakeholders, shareholders, customers, employees, suppliers, business partners and local communities, worldwide.

The Group's commitment to social accountability includes policies and practices on a variety of issues such as human rights, non-discrimination and environmental management.

The Group's commitment to business excellence is demonstrated on a continuing basis by a focus on innovation, quality, results and service. These goals can only be achieved in a work environment where respect for the highest standard of business ethics is present. Management and the Board of Directors are committed to operating in compliance with all applicable national, state and local laws.

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**ENVIRONMENTAL ENGINEERING,
HEALTH & SAFETY (EHS)**

Progressive structures for the management of Environmental Engineering, as well as Health & Safety programs, are central to Johnson Electric's overall business objectives.

A major objective of Environmental Engineering, Health & Safety (EHS) is ongoing activity to develop and install an EHS Management System world-wide. This system, when fully operational, is a necessary first step to good management in any industrial enterprise and is also a pre-requisite to securing and maintaining contracts with major customers.

A major component of good EHS management is regulatory compliance. A system-based approach to compliance ensures auditable standards are maintained and risk minimised. All levels of management are committed to this.

Other EHS highlights include monitoring and approval of machine design and build to ensure operator safety is not compromised, and comprehensive fire safety and emergency response plans. Also critical is the training and development of Safety Officers, Safety Committee members, workers and managers. An important area of the EHS management system is emphasis on an energy policy for the Group. This initiative will have energy savings initiatives, "3R" programs, water conservation goals and carbon care targets. This element of the EHS management system in particular is good for the planet, good for our employees and customers alike and positive to the bottom line.

The significant critical success factor associated with this program is the level of support from the Board of Directors, the CEO and all of the members of senior management. This support is overwhelmingly present at Johnson Electric.

RESPONSIBLE CORPORATE CITIZEN

The Group is active in its support of worthy causes, however, support for education and

the development of young people is central to Johnson Electric's efforts as a responsible corporate citizen.

Such support may be in the form of donations to education institutions at various locations in the world, or through the provision of financial and other encouragement to young students to increase their general academic qualifications and workplace skills in Group sponsored programs. Most noteworthy of these latter initiatives is the Johnson Electric Technical College (JETC), run out of our Shajing, China location. This program, first established in 2002 provides general education and attainment of technical qualifications for Chinese youths from disadvantaged families. This program is successful at producing skilled young workers, who, it is hoped, will remain with the Group for their careers. This program continues to expand in scope and represents a significant commitment by the Group, and by the staff and educators who administer it. In 2011 an intake of 250 students is anticipated.

OUR COMMUNITIES

We are dedicated to being an active participant in all of our communities around the world. We pursue responsible community practices, responsible employment practices and responsible social practices that are sustainable over time in all our business activities. We also encourage these practices by our suppliers and business partners.

In particular, we try to extend our charitable giving to cover projects for education, child and youth development, environmental protection and community building.

Good corporate social policies are not only desirable but make good business sense. Investments that are made today for our people and communities are for the benefit of our world tomorrow.