
**THIS CIRCULAR IS IMPORTANT AND
REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares of Johnson Electric Holdings Limited, you should hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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Johnson Electric Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 179)

CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 18 to 19 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 32 of this circular.

13 July 2009

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“Announcement”	an announcement of the Company in relation to the connected transactions and discloseable transactions dated 25 June 2009
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“BVI”	the British Virgin Islands
“China Autoparts”	China Autoparts, Inc., a company incorporated in Delaware with limited liability and a non-wholly owned subsidiary of the Company
“Company”	Johnson Electric Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Double Unity”	Double Unity Investments Limited, a company incorporated in the BVI with limited liability
“Double Unity Agreement”	the stock purchase agreement dated 18 June 2009 entered into between JE Castings and Double Unity
“Four Individual Shareholders”	the four individual shareholders who in aggregate holding approximately 6.1% equity interests in China Autoparts
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong

DEFINITIONS

“Holding Company”	Tonglin Precision Parts Limited (formerly Beauty Color Investment Ltd.), an international business company established in the BVI with limited liability and whose entire issued share capital is currently held by JE Castings
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising the independent non-executive Directors to advise the Independent Shareholders in respect of the Double Unity Agreement, the Merger Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Sun Hung Kai International Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholder(s)”	Shareholder(s) who is/are not required to abstain from voting at the general meeting of the Company (if held) to approve the Double Unity Agreement, the Merger Agreement and the transactions contemplated thereunder
“Individuals’ Purchase Agreement”	the stock purchase agreement dated 18 June 2009 entered into between JE Castings and the Four Individual Shareholders
“JE Castings”	JE Castings Investments Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company
“Laser Jet”	Laser Jet Investment Limited, a company incorporated in the BVI with limited liability
“Latest Practicable Date”	9 July 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Merger Agreement”	the merger and reorganisation agreement dated 18 June 2009 entered into between, among others, JE Castings, Laser Jet and Double Unity
“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	shareholders of the Company
“Shares”	shares of HK\$0.0125 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianxi”	Tian Xi Auto Parts Group Co., Ltd., a company incorporated in the BVI with limited liability and whose entire issued share capital is held by Laser Jet
“US\$”	United States dollar, the lawful currency of United States of America
“%”	per cent.

For the purpose of this circular, the exchange rate used is US\$1= HK\$7.8.

LETTER FROM THE BOARD



Johnson Electric Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 179)

Board of Directors

Independent Non-Executive Directors

Peter Stuart Allenby Edwards
Patrick Blackwell Paul
Oscar de Paula Bernardes Neto
Laura May-Lung Cha *SBS, JP*
Michael John Enright

Non-Executive Directors

Yik-Chun Koo Wang
Honorary Chairman
Peter Kin-Chung Wang

Hong Kong Head Office

12 Science Park East Avenue, 6/F
Hong Kong Science Park
Shatin, New Territories
Hong Kong

Executive Directors

Patrick Shui-Chung Wang *JP*
Chairman and Chief Executive
Winnie Wing-Yee Wang
Vice-Chairman
Richard Li-Chung Wang
Austin Jesse Wang

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

13 July 2009

To the Shareholders

Dear Sir/Madam,

CONNECTED TRANSACTIONS

INTRODUCTION

The Company announced on 25 June 2009 that JE Castings, an indirect wholly-owned subsidiary of the Company, entered into the Double Unity Agreement and the Merger Agreement.

LETTER FROM THE BOARD

Transactions contemplated under the Double Unity Agreement and the Merger Agreement constitute connected transactions of the Company under the Listing Rules subject to reporting, announcement and Independent Shareholders' approval.

Application has been made to the Stock Exchange for a waiver of the requirement of holding a general meeting and to accept the written Independent Shareholders' approval pursuant to Rule 14A.43 of the Listing Rules and the Stock Exchange has granted such waiver to the Company.

The purpose of this circular is to provide you further information regarding, among others, (a) details of the Double Unity Agreement and the Merger Agreement; (b) the letter from the Independent Board Committee; and (c) the letter from the Independent Financial Adviser.

ACQUISITION OF INTERESTS IN CHINA AUTOPARTS FROM DOUBLE UNITY

Background

China Autoparts is currently owned by JE Castings, Double Unity and the Four Individual Shareholders as to approximately 56.8%, 37.1% and 6.1%, respectively.

Pursuant to the completion of the Individuals' Purchase Agreement (details of which are set out in the Announcement), China Autoparts will be owned as to approximately 62.9% and 37.1% by JE Castings and Double Unity, respectively.

JE Castings entered into the Double Unity Agreement to acquire approximately 24.7% equity interests in China Autoparts from Double Unity.

Double Unity Agreement

1. Date

18 June 2009.

2. The parties

- (a) JE Castings (as purchaser), an indirect wholly-owned subsidiary of the Company; and
- (b) Double Unity (as vendor).

China Autoparts is a subsidiary of the Company. As Double Unity holds approximately 37.1% equity interests in China Autoparts, it is therefore a substantial shareholder of China Autoparts. Accordingly, Double Unity is a connected person of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

3. Assets to be acquired

2,918,249 common stocks of par value of US\$0.0001 each in China Autoparts, representing approximately 24.7% equity interests in China Autoparts.

4. Consideration

JE Castings agrees to pay Double Unity a sum of US\$9,813,730 (equivalent to approximately HK\$76,547,000) as consideration for the 2,918,249 common stocks of par value of US\$0.0001 each in China Autoparts which is to be settled in cash on completion.

The consideration for the acquisition of the 2,918,249 common stocks of par value of US\$0.0001 each in China Autoparts and the terms of the Double Unity Agreement were reached based on arm's length negotiations between the Company and Double Unity with reference to the audited consolidated net asset value of China Autoparts as at 31 December 2008 which is of approximately US\$39,542,000 (equivalent to approximately HK\$308,427,600).

5. Completion

It is expected that the Double Unity Agreement will be completed within three business days from the fulfillment or waiver of the conditions, or such other date as agreed by the parties. If the Company is required to convene a general meeting to approve the Double Unity Agreement, it is expected that the Double Unity Agreement will be completed within seven business days from the date of passing such shareholders' resolution.

Completion of the Double Unity Agreement is conditional on:-

- (i) representation and warranties made by each of the parties to the Double Unity Agreement be true and correct and each of the parties to the Double Unity Agreement has performed all obligations thereof;
- (ii) Double Unity has obtained a waiver from the other shareholder (if any) for the disposal;
- (iii) Double Unity shall have obtained all qualifications for the disposal; and
- (iv) there shall not be any injunction, order or other restrictions regarding the disposal.

In the event that the above conditions are not fulfilled in full on or before 31 July 2009, or such date as agreed by all parties or waived by the relevant party, the Double Unity Agreement shall terminate with immediate effect.

LETTER FROM THE BOARD

Reasons for, and benefits of, the Double Unity Agreement

The Board considers the prospect of the machining and casting business conducted by China Autoparts is in general positive. After completion of the Individuals' Purchase Agreement and before the completion of the Double Unity Agreement, the Group will hold approximately 62.9% equity interests in China Autoparts. After completion of the Double Unity Agreement, the Group's equity interests in China Autoparts will further increase to approximately 87.6%.

The Directors, including the independent non-executive Directors, consider that the terms of the Double Unity Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Directors, including the independent non-executive Directors, confirm that the terms under the Double Unity Agreement are negotiated on an arm's length basis and are on normal commercial terms.

Financial effect of the Double Unity Agreement

China Autoparts is accounted for as a subsidiary of the Company and its accounts are consolidated in the financial statements of the Company prior to execution of the Double Unity Agreement. After completion of the Double Unity Agreement, the accounts of China Autoparts will remain consolidated in the financial statement of the Company.

Information about China Autoparts

China Autoparts is a limited liability company incorporated in Delaware. It is principally engaged in casting and component manufacturing activities for the PRC automotive industry.

The audited consolidated net asset value of China Autoparts amounted to approximately US\$39,542,000 (equivalent to approximately HK\$308,427,600) as at 31 December 2008 and approximately US\$32,630,000 (equivalent to approximately HK\$254,510,000) as at 31 December 2007. The audited financial information of China Autoparts for each of the two years ended 31 December 2008 is as follows:–

	For the year ended 31 December 2008	For the year ended 31 December 2007
	US\$	US\$
Profit before tax	5,663,000	6,088,000
Profit after tax	4,961,000	5,292,000

Information about Double Unity

Double Unity is a limited liability company incorporated in the BVI. To the knowledge of the Directors, its principal business is investment holding.

LETTER FROM THE BOARD

To the best knowledge of the Company, Double Unity is the founder of China Autoparts and there was no purchase cost for Double Unity in China Autoparts.

Information about the Group

The Group is one of the world's largest providers of motion systems and components for automotive applications, domestic equipment, office equipment, industrial products, consumer products and medical devices.

THE MERGER

Background

Upon completions of the Double Unity Agreement and the Individuals' Purchase Agreement, China Autoparts will be owned as to approximately 87.6% and 12.4% by JE Castings and Double Unity, respectively.

Tianxi is wholly owned by Laser Jet.

JE Castings, Laser Jet and Double Unity agreed to merge and reorganise China Autoparts and Tianxi in accordance with the terms of the Merger Agreement.

The Merger Agreement

1. Date

18 June 2009.

2. The parties

The parties to the Merger Agreement and the relationships between the Company and each of the parties to the Merger Agreement are set out as follows:–

- (a) JE Castings, an indirect wholly-owned subsidiary of the Company;
- (b) Laser Jet. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Laser Jet and its ultimate beneficial owner are third parties independent of the Company and its connected persons as defined under the Listing Rules;
- (c) Double Unity, a substantial shareholder of China Autoparts;
- (d) Holding Company, a wholly-owned subsidiary of JE Castings and will be the holding company of China Autoparts and Tianxi;
- (e) beneficial owner of Laser Jet;

LETTER FROM THE BOARD

- (f) beneficial owner of Double Unity; and
- (g) chairman of China Autoparts, who is also a director of China Autoparts.

3. Transactions

(a) *Transfer of equity interests in China Autoparts by Double Unity to the Holding Company*

Double Unity will transfer all its equity interests in China Autoparts to the Holding Company. In consideration for such transfer, the Holding Company will allot and issue to Double Unity 1,000 shares in the Holding Company.

(b) *Transfer of equity interests in China Autoparts by JE Castings to the Holding Company*

JE Castings will transfer all its equity interests in China Autoparts to the Holding Company. In consideration for such transfer, the Holding Company will allot and issue to JE Castings 7,082 shares in the Holding Company.

(c) *Transfer of equity interests in Tianxi by Laser Jet to the Holding Company*

Laser Jet will transfer all its equity interests in Tianxi to the Holding Company. In consideration for such transfer, the Holding Company will allot and issue to Laser Jet 3,992 shares in the Holding Company.

Immediately upon completions of the abovementioned transfers, the Holding Company will be owned as to approximately 58.7%, 33.0% and 8.3% by JE Castings, Laser Jet and Double Unity, respectively.

(d) *Acquisitions of shares in the Holding Company by Tianxi*

Immediately after completion of the merger:

- (i) JE Castings will provide an interest-free loan to Tianxi in the principal amount of US\$1,000,000 (equivalent to approximately HK\$7,800,000) (the “Loan”). The maturity date of the Loan is six months from the drawn-down date, or such other date as agreed by JE Castings and Tianxi;
- (ii) Laser Jet will transfer 192 shares in Holding Company to Tianxi at a consideration of US\$942,826 (equivalent to approximately HK\$7,354,000). The consideration, which is determined with reference to the net asset value of the Holding Company after the merge of China Autoparts and Tianxi, of this transfer is to be settled by the Loan; and

LETTER FROM THE BOARD

- (iii) JE Castings will transfer 1,883 shares in Holding Company to Tianxi at a consideration of US\$9,259,461 (equivalent to approximately HK\$72,224,000). The consideration, which is determined with reference to the net asset value of the Holding Company after the merger of China Autoparts and Tianxi, of this transfer is to be settled by a promissory note issued by Tianxi in favour of JE Castings. The principal amount under the promissory note does not bear any interest and all sums under the promissory note is payable upon demand by JE Castings.

As a result of the transfers set out in paragraphs (ii) and (iii) above, under the laws of BVI, the total 2,075 shares in the Holding Company held by Tianxi, being the wholly-owned subsidiary of the Holding Company, will become treasury shares carrying no rights to vote and dividends and will not be treated as outstanding except for the purpose of determining the capital of the Holding Company, and the issued share capital of the Holding Company will be as follows:

	Number and percentage of shares carrying voting rights	Number and percentage of treasury shares
JE Castings	5,200 shares (52%)	Nil
Laser Jet	3,800 shares (38%)	Nil
Double Unity	1,000 shares (10%)	Nil
Tianxi	Nil	2,075 shares (100%)
	<hr/>	<hr/>
Total:	<u>10,000 shares (100%)</u>	<u>2,075 shares (100%)</u>

The treasury shares will be cancelled upon the winding up of the Holding Company. The purpose of the treasury shares is to achieve the abovementioned shareholding structure.

Apart from achieving the shareholding structure above, the transfer of shares in the Holding Company from JE Castings and Laser Jet to Tianxi, which will be settled by the Loan and the promissory note, will entitle JE Castings to be a creditor of Tianxi for an aggregate amount of approximately US\$10,200,000. JE Castings will have privileges over Double Unity and Laser Jet since JE Castings will have the creditor's privileges, including but not limited to liquidity priority, in addition to being a shareholder of the Holding Company.

4. Consideration

Pursuant to the reorganisations under the Merger Agreement, JE Castings' attributable equity interests in China Autoparts will decrease from approximately 87.6% to 52.0% whereas its attributable equity interests in Tianxi will increase from 0.0% to approximately 52.0%.

LETTER FROM THE BOARD

In addition to the transfer of its approximately 35.6% equity interests in China Autoparts, JE Castings has to (i) provide a loan in a principal sum of US\$1,000,000 (equivalent to approximately HK\$7,800,000) to Tianxi for its acquisition of 192 shares in the Holding Company from Laser Jet; and (ii) accept a promissory note in a principal sum of US\$9,259,461 (equivalent to approximately HK\$72,224,000) as consideration for Tianxi's acquisition of 1,883 shares in the Holding Company.

The consideration for the reorganisations contemplated under the Merger Agreement and the terms of the Merger Agreement were reached based on arm's length negotiations among the parties to the Merger Agreement with reference to the audited consolidated net asset values of China Autoparts and Tianxi as at 31 December 2008 which are approximately US\$39,542,000 (equivalent to approximately HK\$308,427,000) and US\$19,527,000 (equivalent to approximately HK\$152,310,600), respectively.

5. Completion

It is expected that the transactions under the Merger Agreement will be completed within three business days from the fulfillment or waiver of the conditions, or such other date as the parties agreed. If the Company is required to convene a general meeting to approve any of the transactions under the Merger Agreement, it is expected that such transactions under the Merger Agreement will be completed within seven business days from the date of passing such shareholders' resolution.

Completion of the relevant transactions under the Merger Agreement is conditional on:-

- (a) where applicable, the obtaining of shareholders' approval by the Company on the relevant transactions contemplated under the Merger Agreement;
- (b) the signing and becoming unconditional of the relevant transaction documents by all parties thereto;
- (c) the fulfilment of the conditions as referred to in the relevant transaction documents;
- (d) all the representations, warranties and undertakings given in the relevant transaction documents remain true, accurate and have not been breached, and no event has developed or revealed to render any of the representations, warranties and undertakings given in the relevant transaction documents untrue and inaccurate;
- (e) completion of the legal, financial and business due diligence exercises of Tianxi and its subsidiaries with results to the satisfaction of JE Castings;
- (f) completion of the tax consultation work regarding the reorganization transactions under the Merger Agreement, the shareholding structure and business model of the Holding Company and its subsidiaries;

LETTER FROM THE BOARD

- (g) the settlement, with support of evidence, of all liabilities and debts due to and from related parties; and
- (h) the obtaining of all consents, permits, approvals by the relevant party, whether from government or regulatory authorities or third parties or otherwise which are necessary and applicable in connection with the execution and performance of the relevant transactions under the Merger Agreement.

If the conditions set out above have not been fulfilled or waived on or before 31 July 2009 (or such date as agreed by the parties), the relevant transactions under the Merger Agreement shall automatically lapse and terminate accordingly.

Reasons for, and benefits of, the Merger Agreement

The Directors consider that the reorganisation transactions contemplated under the Merger Agreement have significant strategic and financial logic and are therefore beneficial to the Group for a number of reasons. Firstly, China Autoparts is a leading supplier of engine block castings to the PRC automotive sector while Tianxi is a leading supplier of machined engine blocks. The two businesses have already cooperated closely on a commercial basis for more than a decade and Tianxi presently sources more than half of its raw castings from China Autoparts. Consequently, it is expected that the vertical integration of casting and machining activities will provide significant operational synergies in the areas of research and development, manufacturing, quality control, and sales, as well as offer savings in administrative overheads. Secondly, upon the merger, the combined business will be the leading independent player in the engine block market in the PRC with casting capacity of over one million units per annum and machining capacity of over 600,000 units per annum. It is expected that this greater scale and scope will enable the merged companies to be highly competitive domestically and to have the resources to expand internationally in an industry segment which is generally favourable to PRC-based manufacturing. Thirdly, the larger scope and wider resources of the combined businesses are expected to accelerate the expansion into other precision machined parts and castings outside of the automotive industry.

The Directors, including the independent non-executive Directors, are of the view that the terms of the Merger Agreement are on normal commercial terms, fair and reasonable and in the interests of the Shareholders as a whole.

Financial effect of the Merger Agreement

China Autoparts is accounted for as a subsidiary of the Company and its accounts are consolidated in the financial statements of the Company prior to execution of the Merger Agreement. After completion of the Merger Agreement, the accounts of China Autoparts will remain consolidated in the financial statement of the Company.

LETTER FROM THE BOARD

The Group does not have any equity interests in Tianxi before the execution of the Merger Agreement. After completion of the Merger Agreement, the accounts of Tianxi will be consolidated in the financial statements of the Company.

Information about Tianxi

Tianxi is a limited liability company incorporated in the BVI. To the knowledge of the Directors, it is principally engaged in manufacturing and supplying precision, machined automotive engine blocks in the PRC.

The audited consolidated net asset value of Tianxi amounted to approximately US\$19,527,000 (equivalent to approximately HK\$152,310,600) as at 31 December 2008 and the unaudited consolidated net asset value of Tianxi amounted to approximately US\$14,023,000 (equivalent to approximately HK\$109,379,400) as at 31 December 2007. The consolidated financial information of Tianxi for each of the two years ended 31 December (audited in the case of the 2008 financial year and unaudited in the case of the 2007 financial year) and the unaudited financial information of Tianxi for the five months ended 31 May 2009 is as follows:–

	For the five months ended 31 May 2009 (Unaudited) US\$	For the year ended 31 December 2008 (Audited) US\$	2007 (Unaudited) US\$
Profit before tax	739,000	1,708,000	1,147,000
Profit after tax	657,000	1,597,000	987,000
Net asset value	20,213,000	19,527,000	14,023,000

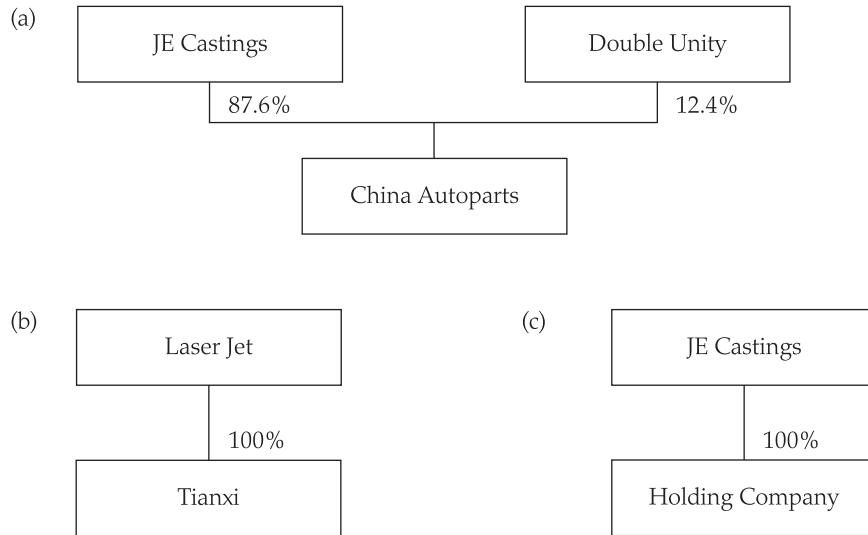
Information about Laser Jet

Laser Jet is a limited liability company incorporated in the BVI. To the knowledge of the Directors, its principal business is investment holding.

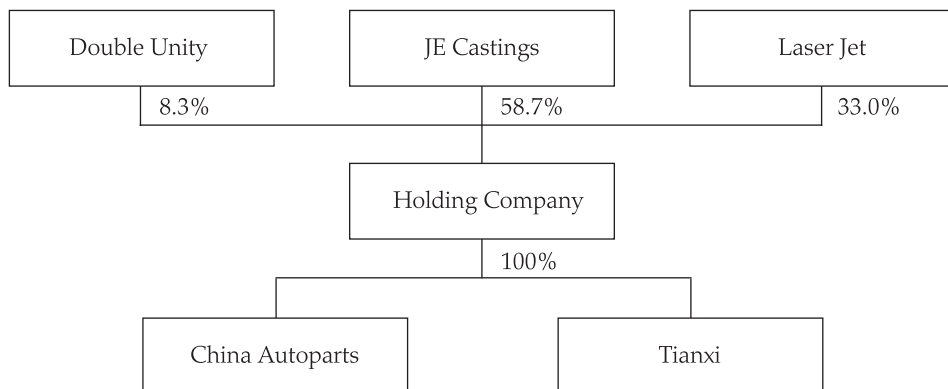
LETTER FROM THE BOARD

GROUP STRUCTURES OF SHAREHOLDING CARRYING VOTING RIGHTS BEFORE AND AFTER COMPLETION OF THE MERGER AGREEMENT

1. Upon completion of the Double Unity Agreement and before completion of the Merger Agreement

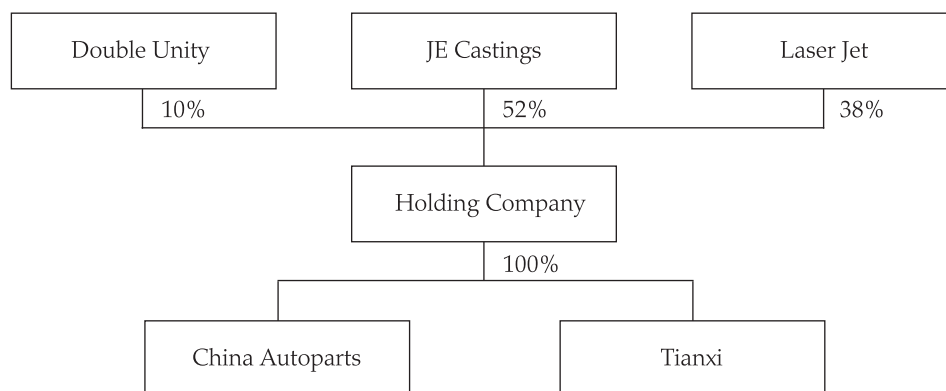


2. Upon completion of the transfers of (i) equity interests in China Autoparts by Double Unity and JE Castings to Holding Company; and (ii) equity interests in Tianxi by Laser Jet to Holding Company



LETTER FROM THE BOARD

3. Upon completion of acquisition of shares in Holding Company by Tianxi



IMPLICATION UNDER THE LISTING RULES

As Double Unity is a substantial shareholder of China Autoparts, and therefore, a connected person of the Company, and the ultimate beneficial owner of Tianxi will be the controlling shareholder and a director of the Holding Company after completion of the Merger Agreement, the transactions contemplated under the Double Unity Agreement and the Merger Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the transactions under the Double Unity Agreement and the Merger Agreement is/are equal to or more than 2.5% but less than 25%, they are subject to the reporting, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.

WRITTEN INDEPENDENT SHAREHOLDERS' APPROVAL

No Shareholders are required to abstain from voting in respect of the transactions contemplated under the Double Unity Agreement and the Merger Agreement. Ms. Yik-Chun Koo Wang was a beneficiary of various family discretionary trusts which in aggregate are directly or indirectly interested approximately 58.98% of the issued share capital of the Company as at the Latest Practicable Date. Written approvals from a closely allied group of Shareholders who together holding 2,132,210,880 Shares, representing approximately 58.04% in nominal value of the issued share capital of the Company were obtained. The Company has applied to the Stock Exchange for a waiver of the requirement of holding a general meeting and to accept the written Independent Shareholders' approval pursuant to Rule 14A.43 of the Listing Rules, and the Stock Exchange has granted such a waiver to the Company.

LETTER FROM THE BOARD

GENERAL

The Company has established the Independent Board Committee, consisting of the independent non-executive Directors, to advise the Independent Shareholders as to whether the terms of the Double Unity Agreement and the Merger Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company has appointed Sun Hung Kai International Limited as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Double Unity Agreement and the Merger Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATIONS

The Directors, including the independent non-executive Directors, are of the view that the Double Unity Agreement, the Merger Agreement and the transactions contemplated thereunder are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole, and the terms thereof are fair and reasonable so far as the Shareholders as a whole are concerned. Accordingly, they recommend the Independent Shareholders to vote in favour in respect of the Double Unity Agreement, the Merger Agreement and the transactions contemplated thereunder if a general meeting of the Company were to be convened to approve the same.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee and the letter from the Independent Financial Adviser set out in this circular and additional information set out in the Appendix to this circular.

Yours faithfully

For and on behalf of the Board
Johnson Electric Holdings Limited

Patrick Shui-Chung Wang
Chairman and Chief Executive

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter to the Independent Shareholders from the Independent Board Committee prepared for the purpose of incorporation into this circular:



Johnson Electric Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 179)

13 July 2009

To the Independent Shareholders

Dear Sirs or Madams,

CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to the Shareholders dated 13 July 2009 (the “Circular”) of which this letter forms part. Unless the context otherwise defines, terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in connection with the terms of the Double Unity Agreement, the Merger Agreement and the transactions contemplated thereunder (the “Transactions”). Sun Hung Kai International Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transactions.

Your attention is drawn to the letter from the Board as set out on pages 5 to 17 and the letter from the Independent Financial Adviser as set out on pages 20 to 32 of the Circular.

We understand that none of the Shareholders have an interest in the Transactions, which is different from other Shareholders, and therefore no Shareholders are required to abstain from voting if the Company were to convene a general meeting for the approval of the Transactions, and a closely allied group of Shareholders holding 2,132,210,880 Shares, representing approximately 58.04% of the issued share capital of the Company has given written approvals for the Transactions. The Company has applied to the Stock Exchange for a waiver of the requirement of holding a general meeting and to accept the written Independent Shareholders’ approval pursuant to Rule 14A.43 of the Listing Rules, and the Stock Exchange has granted such a waiver to the Company. Accordingly, no Shareholders’ meeting is required in relation to the Transactions for the purpose of the Listing Rules.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the Transactions are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. If a general meeting of the Shareholders were to be held for the purpose of considering and, if thought fit, approving the Double Unity Agreement, the Merger Agreement and the transactions contemplated thereunder, we would recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,

Independent Board Committee

Peter Stuart Allenby Edwards **Patrick Blackwell Paul** **Oscar de Paula Bernardes Neto**
Independent non-executive Director *Independent non-executive Director* *Independent non-executive Director*

Laura May-Lung Cha SBS, JP
Independent non-executive Director

Michael John Enright
Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transactions for the purpose of inclusion in this circular.



13 July 2009

*To the Independent Board Committee and the
Independent Shareholders*

Dear Sirs and Madams,

CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders of the Company in respect of the connected transactions contemplated under the Double Unity Agreement and the Merger Agreement (the “Transactions”), particulars of which are set out in the letter from the Board (the “Board Letter”) contained in the circular of the Company dated 13 July 2009 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Acquisition of interests in China Autoparts from Double Unity

The Board announces that on 18 June 2009, JE Castings, an indirect wholly-owned subsidiary of the Company, entered into the Double Unity Agreement agreeing to acquire approximately 24.7% equity interests in China Autoparts from Double Unity at a consideration of US\$9,813,730 (equivalent to approximately HK\$76,547,000). Upon completion of this acquisition, JE Castings’ equity interests in China Autoparts will increase to approximately 87.6%.

The Merger

On 18 June 2009, JE Castings entered into the Merger Agreement in relation to the merger and reorganization of China Autoparts and Tianxi. Immediately upon completion of the Merger Agreement, the Holding Company will be owned as to approximately 52%, 38% and 10% by JE Castings, Laser Jet and Double Unity, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Implication under the Listing Rules

As Double Unity is a substantial shareholder of China Autoparts, and therefore, a connected person of the Company, and the ultimate beneficial owner of Tianxi will be the controlling shareholder and a director of the Holding Company after completion of the Merger Agreement, the transactions contemplated under the Double Unity Agreement and the Merger Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the transactions under the Double Unity Agreement and the Merger Agreement is/are equal to or more than 2.5% but less than 25%, they are subject to the reporting, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules.

Written Independent Shareholders' Approval

No Shareholders are required to abstain from voting in respect of the transactions contemplated under the Double Unity Agreement and the Merger Agreement. Ms. Yik-Chun Koo Wang was a beneficiary of various family discretionary trusts which in aggregate are directly or indirectly interested approximately 58.98% of the issued share capital of the Company as at the Latest Practicable Date. Written approvals from a closely allied group of Shareholders who together holding 2,132,210,880 Shares, representing approximately 58.04% in nominal value of the issued share capital of the Company were obtained.

The Company has applied to the Stock Exchange for a waiver of the requirement of holding a general meeting and to accept the written Independent Shareholders' approval pursuant to Rule 14A.43 of the Listing Rules, and the Stock Exchange has granted such a waiver to the Company.

II. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Peter Stuart Allenby Edwards, Mr. Patrick Blackwell Paul, Mr. Oscar de Paula Bernardes Neto, Mrs. Laura May-Lung Cha *SBS, JP* and Prof. Michael John Enright, has been formed to advise the Independent Shareholders as to whether the terms of the Double Unity Agreement and the Merger Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We have been appointed to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Double Unity Agreement and the Merger Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

III. BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the statements, information, opinions, representations and facts supplied to us by the Company and its advisers. We have assumed that all information and representations contained or referred to in the Circular or otherwise supplied to us by the Company were true at the time they were made and continue to be true as at the Latest Practicable Date. We have assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth and accuracy of the information and facts provided to us. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

Our review and analyses were based upon the information provided by the Company which include, among others, (i) the Double Unity Agreement; (ii) the Merger Agreement; (iii) the annual reports of the Company for three years ended 31 March 2009; (iv) the annual reports of China Autoparts for two years ended 31 December 2008; (v) the unaudited management account of China Autoparts for five months ended 31 May 2009; (vi) the unaudited management account of Tianxi for the year ended 31 December 2007 and annual report of Tianxi for the year ended 31 December 2008; (vii) the unaudited management account of Tianxi for five months ended 31 May 2009; (viii) the Announcement; (ix) the Circular; and (x) the public information from the websites of the Hong Kong Trade Development Council, the Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the National Bureau of Statistics of China. We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for entering into the Double Unity Agreement and Merger Agreement.

We consider that we have been provided with sufficient information to reach an informed view regarding the terms of the Transactions, and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our recommendations. We have no reason to suspect that the Company has withheld any relevant information. We have not, however, carried out any independent verification of the information, nor have we conducted any form of investigation into the businesses, operational aspects, financial standing and affairs of the Group, Tianxi and the Holding Company.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they exist on, and the facts, information, representations and opinions made available to us as at the Latest Practicable Date. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

IV. PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the Transactions, we have taken into consideration the following principal factors:

A. Acquisition of interests in China Autoparts from Double Unity

1. *Background of the Double Unity Agreement*

As mentioned in the Board Letter, China Autoparts was owned by JE Castings, Double Unity and the Four Individual Shareholders as to approximately 56.8%, 37.1% and 6.1% respectively as at the Latest Practicable Date. Pursuant to the completion of the Individuals' Purchase Agreement (details of which are set out in the Announcement), China Autoparts will be owned as to approximately 62.9% and 37.1% by JE Castings and Double Unity respectively. JE Castings entered into the Double Unity Agreement to acquire approximately 24.7% equity interests in China Autoparts from Double Unity.

2. *Information about the Group*

The Group is one of the world's largest providers of motion systems and components for automotive applications, domestic equipment, office equipment, industrial products, consumer products and medical devices.

Review of financial performance of the Group

Based on the information set out in the annual reports for 2007, 2008 and 2009 of the Company, the financial results of the Company are summarized as follows:

	For the year ended 31 March		
	2009 (Audited) US\$'000	2008 (Audited) US\$'000	2007 (Audited) US\$'000
Revenue	1,828,165	2,220,792	2,086,628
Gross profit	425,697	564,340	512,227
Gross profit margin	23.3%	25.4%	24.5%
Profit/(Loss) attributable to equity holders of the Company	2,591	130,849	109,696
Net profit margin	0.14%	5.89%	5.26%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's consolidated revenue for the year ended 31 March 2009 amounted to US\$1,828.2 million, representing a decrease of 17.6% from US\$2,220.8 million in 2008, primarily because Automotive Products Group, the largest operating division, was hardest hit by the global economic downturn, had resulted in new light vehicle production volumes in North America declining by over 50% year-on-year, and production volumes in Europe – partially cushioned by government incentives – declining by 36%. Accordingly, the profit attributable to equity holders of the Group decreased by 98% from US\$130.8 million in 2008 to US\$2.6 million in 2009 and the net profit margin reduced to 0.14% from 5.89%.

For the year ended 31 March 2008, the Group's consolidated revenue amounted to US\$2,220.8 million, representing an increase of 6.4% from US\$2,086.6 million in 2007, primarily because the sales in Europe increased 10.2% mainly due to the strength of Euro and Swiss Franc currencies against the US Dollar; excluding these benefits, sales were at a similar level to the prior year. The profit attributable to equity holders of the Group increased by 19.2% from US\$109.7 million in 2007 to US\$130.8 million in 2008.

3. *Information about China Autoparts*

As stated in the Board Letter, China Autoparts is a limited liability company incorporated in Delaware. It is principally engaged in casting and component manufacturing activities for the PRC automotive industry.

As advised by the Directors, China Autoparts is the supplier of iron cast engine blocks with an annual capacity exceeding one million units or approximately 40,000 tons, and non-engine block casting parts with an annual capacity of around 10,000 tons. It is the leading engine block casting supplier to domestic PRC automotive original equipment manufacture ("OEM") customers. Its customers include a number of leading domestic PRC automotive OEMs.

The audited financial information for each of the two years ended 31 December 2008 and unaudited financial information of China Autoparts for the five months ended 31 May 2009 is as follows:-

	For the five months ended 31 May 2009 (Unaudited) US\$	For the year ended 31 December 2008 (Audited) US\$	2007 (Audited) US\$
Profit before tax	3,564,000	5,663,000	6,088,000
Profit after tax	3,099,000	4,961,000	5,292,000
Net asset value	42,242,000	39,542,000	32,634,000

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The audited consolidated net asset value of China Autoparts amounted to approximately US\$39,542,000 (equivalent to approximately HK\$308,427,600) as at 31 December 2008; and approximately US\$32,634,000 (equivalent to approximately HK\$254,510,000) as at 31 December 2007. According to the latest management account of China Autoparts as at 31 May 2009, China Autoparts had net asset value of approximately US\$42,242,000.

Its audited profit before tax for the two years ended 31 December 2008 and the unaudited five months ended 31 May 2009 was approximately US\$6,088,000, US\$5,663,000 and US\$3,564,000 respectively. Its audited profit after tax for the two years ended 31 December 2008 and the unaudited five months ended 31 May 2009 was approximately US\$5,292,000 and US\$4,961,000 and US\$3,099,000 respectively. The decrease in net profit in 2008 was primarily due to decrease in sales because of the downturn in the global economy in 2008.

4. *Information about Double Unity*

As stated in the Board Letter, Double Unity is a limited liability company incorporated in the BVI. To the knowledge of the Directors, its principal business is investment holding. To the best knowledge of the Company, Double Unity is the founder of China Autoparts and there was no purchase cost for Double Unity in China Autoparts.

5. *Net asset approach*

Given that the net asset approach is a conservative valuation method for manufacturing companies with profit like the cases of China Autoparts and Tianxi, we consider it is appropriate to adopt such approach by the Company.

As both China Autoparts and Tianxi are located at and with their major market in the PRC, we consider it is appropriate to compare their values with the companies with their ordinary shares denominated in Renminbi (“RMB”) listed on a stock exchange in the PRC (the “A Share Companies”). We have, to the best of our knowledge and based on the A Share Companies, try to review and compare the price-to-book ratio of China Autoparts and Tianxi to the A Share Companies which are principally engaged in the similar businesses.

We have reviewed some industry related A Share Companies and note that almost all of the industry related A Shares Companies examined by us are trading at a premium to their respective net asset values. As the considerations in the Transactions are equivalent to the net asset values of China Autoparts and/or Tianxi, respectively, it clearly lower than the usual practices (at a premium to their respective net asset values) for the A Share Companies and therefore would not be unfavourable to the Group on the whole. As such, we consider it is appropriate for the Company to adopt such consideration basis.

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We also note that both China Autoparts and Tianxi are not listed companies, the value of their respective shares may have a discount to the price of similar listed companies whose shares have less liquidity risks.

Having considered the above factors, we are of the opinion that, on balance, the basis of consideration for the Transactions is appropriate on the whole.

6. *Consideration of the Double Unity Agreement*

As stated in the Board Letter, JE Castings agrees to acquire approximately 24.7% equity interests in China Autoparts from Double Unity at a consideration of US\$9,813,730 (equivalent to approximately HK\$76,547,000) which is to be settled in cash on completion.

The consideration for the acquisition of the 2,918,249 common stocks of par value of US\$0.0001 each in China Autoparts and the terms of the Double Unity Agreement were reached based on arm's length negotiations between the Company and Double Unity with reference to the audited consolidated net asset value of the China Autoparts as at 31 December 2008 which is of approximately US\$39,542,000 (equivalent to approximately HK\$308,427,600).

The consideration of the Double Unity Agreement is approximately equivalent to 24.7% (which is the portion of equity interests to be brought by JE Castings in China Autoparts) of the audited consolidated net asset value of the China Autoparts as at 31 December 2008.

Based on the above, we are of the view that the consideration of the Double Unity Agreement is fair and reasonable to and in the interests of the Company and the Shareholders as a whole.

7. *Reasons for, and benefits of, the Double Unity Agreement*

As mentioned in the Board Letter, the Board considers the prospect of the machining and casting business conducted by China Autoparts is in general positive.

In light of the satisfactory business performance of China Autoparts pursuant to the latest management account of China Autoparts as at 31 May 2009, we concur with the Directors that the Double Unity Agreement is believed to bring a positive prospect to the results of the Group.

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As stated in the Board Letter, pursuant to the completion of the Individuals' Purchase Agreement (details of which are set out in the Announcement), China Autoparts will be owned as to approximately 62.9% and 37.1% by JE Castings and Double Unity, respectively. JE Castings entered into the Double Unity Agreement to acquire approximately 24.7% equity interests in China Autoparts from Double Unity. After completion of the Individuals' Purchase Agreement and before the completion of the Double Unity Agreement, the Group will hold approximately 62.9% equity interests in China Autoparts. After completion of the Double Unity Agreement, the Group's equity interests in China Autoparts will further increase to approximately 87.6%.

Based on the above, we are of the view that the terms of the Double Unity Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

We would like to draw your attention that the Group will further enter into the Merger Agreement.

B. The Merger

1. Background of the Merger Agreement

As disclosed in the Board Letter, upon completions of the Double Unity Agreement and the Individuals' Purchase Agreement, China Autoparts will be owned as to approximately 87.6% and 12.4% by JE Castings and Double Unity respectively. Tianxi is wholly-owned by Laser Jet. JE Castings, Laser Jet and Double Unity agreed to merge and reorganize China Autoparts and Tianxi in accordance with the terms of the Merger Agreement.

2. Information about Tianxi

Tianxi is a limited liability company incorporated in the BVI. To the knowledge of the Directors, it is principally engaged in manufacturing and supplying precision, machined automotive engine blocks in the PRC.

As advised by the Directors, Tianxi is the supplier of engine block machining to automobile OEMs, with annual capacity of 600,000 units. It is one of the leading engine block machining suppliers in the PRC. Its customers include a number of leading domestic PRC automotive OEMs and several leading global OEMs.

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The consolidated financial information for each of the two years ended 31 December (audited in the case of the 2008 financial year and unaudited in the case of the 2007 financial year) and the unaudited financial information of Tianxi for the five months ended 31 May 2009 is as follows:–

	For the five months	For the year ended	
	ended 31 May	31 December	
	2009	2008	2007
	(Unaudited)	(Audited)	(Unaudited)
	US\$	US\$	US\$
Profit before tax	739,000	1,708,000	1,147,000
Profit after tax	657,000	1,597,000	987,000
Net asset value	20,213,000	19,527,000	14,023,000

The audited consolidated net asset value of Tianxi amounted to approximately US\$19,527,000 (equivalent to approximately HK\$152,310,600) as at 31 December 2008 and the unaudited consolidated net asset value of Tianxi amounted to approximately US\$14,023,000 (equivalent to approximately HK\$109,379,400) as at 31 December 2007. According to the latest management account of Tianxi as at 31 May 2009, Tianxi had net asset value of approximately US\$20,213,000 (equivalent to approximately HK\$157,661,400).

Its unaudited profit before tax for the year ended 31 December 2007, audited profit before tax for the year ended 31 December 2008 and the unaudited five months ended 31 May 2009 was approximately US\$1,147,000, US\$1,708,000 and US\$739,000 respectively. Its unaudited profit after tax for the year ended 31 December 2007, audited profit after tax for the year ended 31 December 2008 and the unaudited five months ended 31 May 2009 was approximately US\$987,000 and US\$1,597,000 and US\$657,000 respectively.

3. *Information about Laser Jet*

Laser Jet is a limited liability company incorporated in the BVI. To the knowledge of the Directors, its principal business is investment holding.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. *Consideration of the Merger Agreement*

Pursuant to the reorganisations under the Merger Agreement, JE Castings' attributable equity interests in China Autoparts will decrease from approximately 87.6% to 58.7%, representing a decrease of approximately 28.9% whereas its attributable equity interests in Tianxi will increase from 0.0% to approximately 58.7%. As confirmed by the Directors, since the 28.9% decrease of net asset value of China Autoparts is equivalent to approximately 58.7% increase of net asset value of Tianxi of approximately US\$11.4 million, we consider the reorganisations as referred in parts (a) to (c) of Merger Agreement stated in the Board Letter are fair and reasonable.

In addition to the transfer of its approximately 35.6% equity interests in China Autoparts, JE Castings has to (i) provide a loan (the "Loan") in a principal sum of US\$1,000,000 (equivalent to approximately HK\$7,800,000) to Tianxi for its acquisition of 192 shares in the Holding Company from Laser Jet; and (ii) accept a promissory note in a principal sum of US\$9,259,461 (equivalent to approximately HK\$72,224,000) as consideration for Tianxi's acquisition of 1,883 shares in the Holding Company.

Laser Jet will transfer 192 shares in the Holding Company to Tianxi at a consideration of US\$942,826 (equivalent to approximately HK\$7,354,000). The consideration, which is equivalent to approximately 192 shares of the net asset value of the Holding Company after the merge of China Autoparts and Tianxi, of this transfer is to be settled by the Loan. As the consideration is equivalent to the net asset value discussed above, we consider such consideration fair and reasonable.

JE Castings will transfer 1,883 shares in the Holding Company to Tianxi at a consideration of US\$9,259,461 (equivalent to approximately HK\$72,224,000). The consideration, which is equivalent to approximately 1,883 shares of the net asset value of the Holding Company after the merge of China Autoparts and Tianxi, of this transfer is to be settled by a promissory note issued by Tianxi in favour of JE Castings. As the consideration is equivalent to the net asset value discussed above, we consider such consideration fair and reasonable.

As confirmed by the Directors, upon completion of aforesaid transactions, the equity interests of the Group in the Holding Company will decrease from approximately 58.7% to approximately 52%, represents a decrease of approximately 6.7% which is equivalent to approximately US\$3.96 million (6.7% of the sum of the net asset values of China Autoparts and Tianxi as at 31 December 2008 respectively). At the same time, as the result of the Loan and the interest free promissory note issued by Tianxi in favour of JE Castings, entitles JE Castings to be a creditor of Tianxi for an aggregate amount of approximately US\$10.2 million.

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As such, we are of the opinion that part (d) of the Merger Agreement as referred in the Board Letter is favourable to the Group.

As disclosed in the Board Letter, the consideration for the reorganisation contemplated under the Merger Agreement and the terms of the Merger Agreement were reached based on arm's length negotiations among the parties to the Merger Agreement with reference to the audited consolidated net asset values of China Autoparts and Tianxi as at 31 December 2008 which are approximately US\$39,542,000 (equivalent to approximately HK\$308,427,000) and US\$19,527,000 (equivalent to approximately HK\$152,310,600) respectively. As the consideration for the reorganisations contemplated under the Merger Agreement is equivalent to the respective portion of net asset value of the subject companies discussed above, we consider that the Merger Agreement is fair and reasonable.

Based on the above and the discussion set out in section A5 headed "*Net Asset Approach*" below, we concur with the Directors that the Merger Agreement is fair and reasonable to and are in the interests of the Company and the Shareholders as a whole.

5. *Reasons for, and benefits of, the Merger Agreement*

As disclosed in the Board Letter, the Directors consider that the reorganisation transactions contemplated under the Merger Agreement have significant strategic and financial logic and are therefore beneficial to the Group for a number of reasons. Firstly, China Autoparts is a leading supplier of engine block castings to the PRC automotive sector while Tianxi is a leading supplier of machined engine blocks. The two businesses have already cooperated closely on a commercial basis for more than a decade and Tianxi presently sources more than half of its raw castings from China Autoparts. Consequently, it is expected that the vertical integration of casting and machining activities will provide significant operational synergies in the areas of research and development, manufacturing, quality control, and sales, as well as offer savings in administrative overheads. Secondly, upon the merger, the combined business will be the leading independent player in the engine block market in the PRC with casting capacity of over one million units per annum and machining capacity of over 600,000 units per annum. It is expected that this greater scale and scope will enable the merged companies to be highly competitive domestically and to have the resources to expand internationally in an industry segment which is generally favourable to PRC-based manufacturing. Thirdly, the larger scope and wider resources of the combined businesses are expected to accelerate the expansion into other precision machined parts and castings outside of the automotive industry.

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In light of the satisfactory business performance of Tianxi pursuant to the latest management account of Tianxi as at 31 May 2009, we concur with the Directors that the Merger Agreement is believed to bring a positive prospect to the results of the Group.

We are of the view that acquisition of Tianxi is a restructuring of the existing businesses which aligns with the overall business strategy of the Group. In addition, the Merger Agreement enables the Group to have control of Tianxi in addition to China Autoparts and thus enhances the efficiency in management, product development of the Group in long term. The Merger Agreement will have the benefit of better costs control which is in line with the business strategy as disclosed in the annual report 2009 of the Company.

Based on the above and the discussion as set out in the section V headed “**OVERVIEW OF THE PRC ECONOMY**” below, we concur with the Directors that the terms of the Merger Agreement are on normal commercial terms, fair and reasonable and in the interests of the shareholders as a whole.

V. OVERVIEW OF THE PRC ECONOMY

According to the China Statistics Yearbook 2008, which is the latest available official publication, the GDP of the PRC increased from approximately RMB12.03 trillion in 2002 to approximately RMB30.06 trillion in 2008, representing a compound annual growth rate of approximately 12.13% and showing a double-digit annual growth for six consecutive years. As set out in the Eleventh Five-Year plan for National Economic and Social Development of the PRC (from 2006 to 2010) that, among other things, by 2010, the average real GDP growth rate would be approximately 7.5% per year and GDP per capita would increase to approximately RMB19,200.

In order to cope with recent global financial tsunami and maintain the economic growth momentum, the State Council of the PRC announced a stimulation plan on 9 November 2008 with a budget of RMB4 trillion aiming at boost domestic demand by increasing fixed asset investment in the coming two years. Areas covered under the stimulation plan include infrastructure, rural development and post-disaster reconstruction.

The State Council of the PRC further announced a new subsidy plan for appliances and vehicles on 19 May 2009. The Chinese government will allocate RMB5 billion to subsidize vehicle upgrades and RMB2 billion to replace home appliances.

As set out in the website of the Hong Kong Trade Development Council, the new subsidy plans are parts of the government’s ongoing efforts to stimulate consumption, expand domestic demand, and increase efficiency to reduce pollution. The plan provides owners compensation equivalent to the purchase tax to upgrade small to mid-sized trucks, medium-sized coaches and gasoline-powered and diesel vehicles that fail to meet specified emissions standards. The plan also offers owners subsidies equal to 10% of the price of the new appliance to replace their televisions, refrigerators, washing machines, air conditioners and computers. The subsidies will begin in nine trial areas that will include Shanghai, Beijing, Tianjin and several coastal provinces. China expects to reap RMB1.6 trillion in sales through this move in the next four years.

According to statistics released by the National Bureau of Statistics of China, retail sales rose 14.8% to RMB934.32 billion in April 2009 as compared with the same period in previous year.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On such basis, we consider that by entering into the Transactions, the Company can participate in other precision machined parts and castings outside of the automotive industry in the PRC, which has the potential to grow in line with the growth of the PRC economy. It could bring a positive impact on the growth and development of the Group in the medium to long run.

VI. FINANCIAL EFFECT OF THE TRANSACTIONS

Net assets value

The unaudited consolidated net assets of the Group should be improved slightly upon completion of the Transactions.

Working capital and gearing ratio

The working capital of the Group will decrease slightly and the gearing ratio of the Group will increase slightly upon completion of the Transactions.

Earnings

After completion of the Double Unity Agreement and the Merger Agreement, the accounts of China Autoparts will remain consolidated in the financial statement of the Group. As the Group's effective interest in China Autoparts will decrease from 56.8% to 52% upon completion of the Transactions, the Group will have a lower proportion of the profit of China Autoparts.

The Group does not have any equity interests in Tianxi before the execution of the Merger Agreement. After completion of the Merger Agreement, the accounts of Tianxi will be consolidated in the financial statements of the Group which will have 52% of the profit of Tianxi.

We are of the view that there will not have any material effect on the Group's financial position.

VII. RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Double Unity Agreement and the Merger Agreement have been entered into on normal commercial terms and the terms of the Double Unity Agreement and the Merger Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the resolution approving the Transactions if a meeting of Shareholders has to be convened.

Yours faithfully,

For and on behalf of

Sun Hung Kai International Limited

Eric Shum
Managing Director

Anthony Lai
Associate Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) in the Listing Rules and which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, were as follows:

Name	Shares of HK\$0.0125 each of the Company	
	Personal interests	Other interests
Yik-Chun Koo Wang	–	2,166,710,880 (<i>Notes 1 & 2</i>)
Richard Li-Chung Wang	–	48,000,000 (<i>Note 3</i>)
Peter Kin-Chung Wang	–	577,000 (<i>Note 4</i>)
Peter Stuart Allenby Edwards	–	100,000 (<i>Note 5</i>)
Patrick Blackwell Paul	50,000	–

Notes:

1. *These Shares were held, directly or indirectly, by the trustees of various trusts associated with the Wang family.*
2. *Duplications of shareholdings occurred among and between the parties shown below under the paragraph headed "Interests of Shareholders" in this Appendix.*
3. *These Shares were held under a trust of which Mr. Richard Li-Chung Wang was the founder.*
4. *These Shares were held beneficially by Mr. Peter Kin-Chung Wang's spouse.*
5. *These Shares were held under a trust of which Mr. Peter Stuart Allenby Edwards was one of the beneficiaries.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date:–

- (i) none of the Directors had any direct or indirect interests in any assets which have since 31 March 2009 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company;
- (ii) none of the Directors was materially interested in any contracts or arrangements entered into by the Company subsisting as at the Latest Practicable Date which is significant in relation to the business of the Company.

(b) Interests of Shareholders

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the following are details of the person who had interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any option in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company.

Name	Capacity	Number of Shares held	Approximate % of shareholding
Yik-Chun Koo Wang	Beneficiary of family trusts	2,166,710,880 (Notes 1 & 2)	58.98
HSBC International Trustee Limited	Trustee	772,816,728 (Notes 1 & 3)	21.03
Ansbacher (Bahamas) Limited	Trustee	887,040,000 (Note 1)	24.15
Great Sound Global Limited	Interest of controlled corporation	717,255,360 (Note 4)	19.52
Winibest Company Limited	Beneficial owner	717,255,360 (Note 5)	19.52
HSBC Trustee (Guernsey) Limited	Trustee	358,972,480 (Note 1)	9.77
Ceress International Investment (PTC) Corporation (formerly known as Ceress International Investment Corporation)	Trustee	223,014,080 (Note 6)	6.07
Federal Trust Company Limited	Trustee	211,943,040 (Note 1)	5.77
Merriland Overseas Limited	Trustee	211,943,040 (Note 7)	5.77

Notes:

1. The Shares in which Ansbacher (Bahamas) Limited, HSBC Trustee (Guernsey) Limited and Federal Trust Company Limited were interested and 708,755,360 of the Shares in which HSBC International Trustee Limited was interested were held, directly or indirectly, by them as the trustees of various trusts associated with the Wang family and were included in the Shares in which Ms. Yik-Chun Koo Wang was interested as referred to above under Interests of Directors.
2. The Shares in which Ms. Yik-Chun Koo Wang was interested as referred to above formed part of the Shares referred to in Note 1.
3. 48,000,000 of the Shares in which HSBC International Trustee Limited was interested were the same interests in which Mr. Richard Li-Chung Wang was interested as referred to above under Interests of Directors.

4. *The interests of Great Sound Global Limited in the Company were duplicated by the interests in the Company held by HSBC International Trustee Limited.*
5. *The interests of Winibest Company Limited in the Company were duplicated by the interests in the Company held by Great Sound Global Limited.*
6. *The interests of Ceress International Investment (PTC) Corporation in the Company were duplicated by the interests in the Company held by HSBC Trustee (Guernsey) Limited.*
7. *The interests of Merriland Overseas Limited in the Company were duplicated by the interests in the Company held by Federal Trust Company Limited.*

Save as disclosed above, the Directors and the chief executive of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of the Company.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company.

5. NO MATERIAL ADVERSE CHANGE

So far as the Directors are aware, there has been no material adverse change in the financial or trading position of the Company since 31 March 2009, being the date to which the latest published audited financial statements of the Company had been made up.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinion or advice which are contained in this circular:

Name	Qualification
Sun Hung Kai International Limited	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Sun Hung Kai International Limited has given and has not withdrawn its consent to the issue of this circular with the inclusion therein of its letter and/or references to its name in the form and context in which they appear.

At the Latest Practicable Date, Sun Hung Kai International Limited did not have any shareholding, directly or indirectly, in the Company or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

At the Latest Practicable Date, Sun Hung Kai International Limited did not have any direct or indirect interests in any assets which had been since 31 March 2009, the date of which the latest published audited financial statements of the Company were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, the Company.

7. GENERAL

- (i) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- (ii) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (iii) The English version of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the following documents will be available for inspection at the principal office of the Company in Hong Kong at 12 Science Park East Avenue, 6/F, Hong Kong Science Park, Shatin, New Territories, Hong Kong for a period of 14 days from the date of this circular:

- (a) the Double Unity Agreement;
- (b) the Merger Agreement;
- (c) the letter confirmed from the Independent Board Committee, the text of which is set out on pages 18 to 19 of this circular;
- (d) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 20 to 32 of this circular; and
- (e) the written consent from the Independent Financial Adviser as referred to in paragraph 6 of this Appendix.