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GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2398)

CONTINUING CONNECTED TRANSACTIONS

Connected transactions

During the audit work for the financial year ended 31 December 2006 of the Group, the Group discovered that Hangzhou GF had, during the Relevant Periods, entered into purchases of parts and components from Richest Way and sales of machine tools to Profit Group which had not been disclosed in accordance with the Listing Rules.

Breach of Listing Rules

As Richest Way is an associate of Ms. Lu, being one of the relatives who together with Mr. Chu are regarded as controlling shareholders of the Company as disclosed in the Prospectus, thus, the purchases of parts and components from Richest Way constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios of such purchases during the Relevant Periods were more than 2.5% and the total consideration was more than HK\$10,000,000 as set out in Chapter 14A of the Listing Rules, such purchases should have been subject to (i) reporting; (ii) announcement; and (iii) Independent Shareholders' approval requirements under the Listing Rules.

As Profit Group is an associate of Mr. Lee and Ms. Lu, being relatives who together with Mr. Chu are regarded as controlling shareholders of the Company as disclosed in the Prospectus, thus, the sales of machine tools to Profit Group also constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios of such sales during the Relevant Periods were more than 2.5% but less than 25% and the total consideration was less than HK\$10,000,000 as set out in Chapter 14A of the Listing Rules, such sales should have been only subject to (i) reporting and (ii) announcement requirements under the Listing Rules but exempt from the Independent Shareholders' approval requirement.

Accordingly, the conduct of the Transactions by the Group and the failure by the Company to report and announce the details of the Transactions and to seek Independent Shareholders' approval (as the case may be) have constituted a breach of the Listing Rules.

General

A circular containing, inter alia, further details of the Richest Way Transactions together with a letter from the Independent Board Committee to the Independent Shareholders and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the Shareholders as soon as practicable.

CONNECTED TRANSACTIONS

During the audit work for the financial year ended 31 December 2006 of the Group, the Group discovered that Hangzhou GF had, during the Relevant Periods, entered into the following category of connected transactions with Richest Way and Profit Group which had not been disclosed in accordance with the Listing Rules:

Type of transaction	Year ended 31 December 2006 <i>RMB (million) Audited</i>	From 1 January 2007 to 3 April 2007 <i>RMB (million) Unaudited</i>
1. Purchases of parts and components from Richest Way by Hangzhou GF	84.6	44.0
2. Sales of machine tools from Hangzhou GF to Profit Group	8.6	8.5

PRINCIPAL BUSINESS ACTIVITIES OF THE GROUP AND THE PARTIES TO THE CONNECTED TRANSACTIONS

The Group is principally engaged in the design and production of CNC machine tools, design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks.

Both Richest Way and Profit Group are principally engaged in trading business.

RELATIONSHIP BETWEEN THE GROUP AND THE PARTIES TO THE CONNECTED TRANSACTIONS

Mr. Chu, an executive Director and the Chairman of the Board, together with his relatives are considered as controlling shareholders of the Company as disclosed on page 64 of the Prospectus. As at the date of this announcement, Mr. Chu is the substantial shareholder of Taiwan FF, which indirectly holds 75% of the issued share capital of the Company.

Richest Way, a company incorporated in Hong Kong on 10 August 2001 with limited liability and is owned as to 50% by Ms. Lu and as to 50% by an Independent Third Party. Ms. Lu, who is a niece of Mr. Chu, together with Mr. Chu are considered as the controlling shareholders of the Company as disclosed on pages 64 and 65 of the Prospectus. Therefore, Richest Way is an associate of a connected person of the Company under the Listing Rules.

Profit Group, a company incorporated in Hong Kong on 2 November 2001 with limited liability and is owned as to 50% by Mr. Lee and as to 50% by Ms. Lu. Mr. Lee is a cousin of Mr. Chu. Mr. Lee and Ms. Lu together with Mr. Chu are considered as the controlling shareholders of the Company as disclosed on pages 64 and 65 of the Prospectus. Therefore, Profit Group is an associate of a connected person of the Company under the Listing Rules.

PRICING BASIS

Richest Way

The purchases of parts and components between Richest Way and Hangzhou GF were determined at an arm's length negotiation.

The Board considers that purchases of parts and components from Richest Way were on normal commercial terms and in the ordinary and usual course of business of the Group. The Board also considers that such purchases were in the interests of the Company and its shareholders as a whole.

Profit Group

The sales of machine tools between Profit Group and Hangzhou GF were determined at an arm's length negotiation.

The Board considers that the sales of goods to Profit Group were on normal commercial terms and in the ordinary and usual course of business of the Group. The Board also considers that such sales were in the interests of the Company and its shareholders as a whole.

BREACH OF LISTING RULES

As Richest Way is an associate of Ms. Lu, being one of the relatives who together with Mr. Chu are regarded as controlling shareholders of the Company as disclosed in the Prospectus, thus, the purchases of parts and components from Richest Way constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios of such purchases during the Relevant Periods were more than 2.5% and the total consideration was more than HK\$10,000,000 as set out in Chapter 14A of the Listing Rules, such purchases should have been subject to (i) reporting; (ii) announcement; and (iii) Independent Shareholders' approval requirements under the Listing Rules.

As Profit Group is an associate of Mr. Lee and Ms. Lu, being relatives, who together with Mr. Chu are regarded as controlling shareholders of the Company as disclosed in the Prospectus, thus, sales of machine tools to Profit Group also constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the relevant percentage ratios of such sales during the Relevant Periods were more than 2.5% but less than 25% and the total consideration was less than HK\$10,000,000 as set out in Chapter 14A of the Listing Rules, such sales should have been only subject to (i) reporting and (ii) announcement requirements under the Listing Rules but exempt from the Independent Shareholders' approval requirement.

The Directors explain that the non-compliance of Listing Rules was due to late reporting of such transactions from the management of Hangzhou GF. Such transactions were not reported to the Company until the auditors of the Company reviewed the accounts of the Group in the advanced stage in the process of preparing the final results of the Group for the financial year ended 31 December 2006 on 12 April 2007. Accordingly, the failure to comply with the Listing Rules requirements was partly due to the non-awareness of the obligation of the management of Hangzhou GF to disclose such Transactions and partly due to oversight of the management of the Company but was not intentional.

Accordingly, the conduct of the Transactions by the Group and the failure by the Company to report and announce the details of the Transactions and to seek Independent Shareholders' approval (as the case may be) have constituted a breach of the Listing Rules.

REMEDIAL ACTIONS

In order to prevent occurrence of similar events in the future and enable the Shareholders to better appraise the position of the Group, the Board proposes and resolves the following matters:

- (i) with respect to the Transactions, the Company confirms that such transactions between Hangzhou GF and the connected persons shall not continue from 4 April 2007. Such purchase and sales orders as described in 1 & 2 above are expected to be received or delivered by no later than June 2007;
- (ii) the Company shall establish a new internal control division and recruit a new qualified accountant to serve as head of the division as soon as practicable so as to observe the internal control of the Group on a day-to-day basis;
- (iii) the Company will seek external professional advice in the provision of training to personnel responsible for operation, financial reporting and management level so that relevant procedures will be consistently followed;
- (iv) the Company will timely provide the Board with the latest amendments of the Listing Rules and the relevant laws and regulations from time to time to improve its information disclosure management system to keep the Stock Exchange and its shareholders informed of relevant information;
- (v) the Company shall enforce its internal control procedures in order to enhance its management control system and will carry out periodic inspections of the internal control system of the Company and will promptly improve such control system if necessary; and
- (vi) the Company will adopt a new “Rules, Procedures and Corporate Governance Practices” adopted by the Company in compliance with the Listing Rules.

The Board has received written confirmation from each Director that each of them possess sufficient knowledge and understanding of the Listing Rules and is fully aware of the requirements thereunder as well as their respective obligations to ensure compliance with the same. The Directors will ensure such requirements are fully observed by responsible personnel in the future.

GENERAL

An Independent Board Committee will be established to advise the Independent Shareholders in relation to the Richest Way Transactions. An independent financial adviser will be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Richest Way Transactions as if there shall be a general meeting of the Company to approve the Richest Way Transactions.

A circular containing, inter alia, further details of the Richest Way Transactions together with a letter from the Independent Board Committee to the Independent Shareholders and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the Shareholders as soon as practicable.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CNC”	acronym for Computer Numerical Control, a numerical control system that utilizes a dedicated, stored program computer to perform some or all of the basic numerical control functions
“Company”	Good Friend International Holdings Inc., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	director(s) of the Company
“Group”	the Company and its subsidiaries
“Hangzhou GF”	杭州友佳精密機械有限公司 (Hangzhou Good Friend Precision Machinery Co., Ltd), a wholly foreign owned enterprise established in the PRC on 23 September 1993 and an indirect wholly owned subsidiary of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising Mr. KOO Fook Sun, Louis, Mr. CHIANG Chun-Te and Mr. YU Yu-Tang , the independent non-executive Directors
“Independent Financial Adviser”	the independent financial adviser to be appointed by the Company to the Independent Board Committee and the Independent Shareholders
“Independent Shareholder(s)”	Shareholder(s), other than Mr. Chu and his associates, who are not interested or involved in the Richest Way Transactions
“Independent Third Parties” or “Independent Third Party”	a person(s) or company(ies) which is/are independent of the Company and connected persons (as defined under the Listing Rules) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mr. Chu”	Mr. Chu Chih-Yaung (朱志洋先生), an executive Director and the Chairman of the Board
“Mr. Lee”	Mr. Lee Le-Shen (李力生先生), a director and a 50% shareholder of Profit Group and a cousin of Mr. Chu. Mr. Lee, being one of the relatives who together with Mr. Chu are regarded as controlling shareholders of the Company as disclosed on pages 64 and 65 of the Prospectus
“Ms. Lu”	Ms. Lu Hui-Wen (呂惠文女士), a director and a 50% shareholder of each of Richest Way and Profit Group respectively and a niece of Mr. Chu. Ms. Lu, being one of the relatives who together with Mr. Chu are regarded as controlling shareholders of the Company as disclosed on pages 64 and 65 of the Prospectus
“Profit Group”	Profit Group International Limited, a company incorporated in Hong Kong on 2 November 2001 with limited liability and is owned as to 50% by Mr. Lee and as to 50% by Ms. Lu respectively
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“Prospectus”	the prospectus of the Company dated 30 December 2005 in relation to the listing of the Shares on the main board of the Stock Exchange
“Relevant Periods”	Being the (i) the financial year ended 31 December 2006 and (ii) the period between 1 January 2007 and 3 April 2007
“Richest Way”	Richest Way Limited, a company incorporated in Hong Kong on 10 August 2001 with limited liability and is owned as to 50% by Ms. Lu and as to 50% by an Independent Third Party respectively
“Richest Way Transactions”	the purchases of parts and components from Richest Way by Hangzhou GF during the Relevant Periods
“Shareholder(s)”	holder(s) of Shares
“Shares(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Taiwan FF”	友嘉實業股份有限公司 (Fair Friend Enterprise Company Limited), a limited liability company incorporated in Taiwan on 15 March 1979
“Transactions”	the purchases of parts and components from Richest Way by Hangzhou GF and the sales of machine tools from Hangzhou GF to Profit Group during the Relevant Periods

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Reminbi, the lawyer currency of the PRC
“%”	per cent

By order of the Board
Good Friend International Holdings Limited
Chu Chih-Yaung
Chairman

Hong Kong, 18 April 2007

As at the date of this announcement, the Board comprises five executive directors, namely Mr. CHU Chih-Yaung (Chairman), CHEN Hsiang-Jung (Chief Executive Officer) CHEN Min-Ho, WEN Chi-Tang, CHIU Rung-Hsien and three independent non-executive directors, namely Mr. KOO Fook, Sun, Louis, Mr. CHIANG Chun-Te and Mr. YU Yu-Tang.

“Please also refer to the published version of this announcement in The Standard”