
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult appropriate independent professional advisers.

If you have sold or transferred all your shares in Good Friend International Holdings Inc., you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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****(1) RENEWAL OF FRAMEWORK AGREEMENT****FOR COMPONENTS PURCHASE AND SUPPLY****(2) ENTERING INTO AN EXCLUSIVE FRAMEWORK AGREEMENT****FOR THE PURCHASE OF DESIGNATED CNC MACHINE TOOLS**

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

ALTUS CAPITAL LIMITED

A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 19 of this circular.

A letter from Altus Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 37 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 15 June 2011 at 2:00 p.m. is set out on pages 43 to 45 of this circular. A form of proxy for use at the aforesaid extraordinary general meeting is enclosed with this circular. Whether or not you propose to attend the meeting or any adjournment thereof, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting should you so wish.

24 May 2011

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DEFINITIONS

In this circular (otherwise than in the notice of EGM), the following expressions shall have the meanings set out below unless the context requires otherwise:

“Agreements”	the Components Agreement and the Machine Tools Agreement
“Altus Capital”	Altus Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Components Agreement, the Machine Tools Agreement, the transactions and the Proposed Caps thereunder
“Announcement”	the announcement of the Company dated 19 May 2011 in relation to, amongst others, the Components Agreement, the Machine Tools Agreement, the transactions and the Proposed Caps thereunder
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors
“Buyer”	the buyer designated by the Company or Taiwan FF under the Components Agreement
“CKD”	acronym for Complete, Knock Down
“CNC Machine Tools”	CNC is the short form and acronym for Computer Numerical Control, a numerical control system that utilizes a dedicated, storage-program computer and has the functions to perform some or all of the basic numerical control. CNC Machine Tools refer to those machine tools with CNC systems installed
“Commencement Date”	23 June 2011, being the day after the condition precedent of the Components Agreement is fulfilled and immediately following the expiration of the Former Framework Agreement
“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

DEFINITIONS

“Components Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 19 May 2011, in relation to the purchase and provision of CKD components between the Company and Taiwan FF
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Designated CNC Machine Tools”	the CNC Machine Tools agreed between the Company and Taiwan FF to be sold under the Machine Tools Agreement and as mentioned under paragraphs (c) and (d) of Section (F) headed “Others” in the summary of principal terms for the Machine Tools Agreement herein
“Directors”	the directors of the Company
“Effective Date”	the date on which the condition precedent of the Machine Tools Agreement is fulfilled
“EGM”	the extraordinary general meeting to be held to consider and, if thought fit, approve the Agreements, the transactions and the Proposed Caps thereunder
“Former Framework Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 21 May 2008, in relation to the provision and sale of CKD components and CNC Machine Tools between the Company and Taiwan FF, which will expire on 22 June 2011
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong GF”	means Good Friend (H.K.) Corporation Limited, a company incorporated in Hong Kong with limited liability, beneficial owner of 232,000,000 Shares (representing approximately 57.54% of the issued share capital of the Company) and is owned as to approximately 99.99% by Taiwan FF

DEFINITIONS

“Independent Board Committee”	means the committee established by the Board, comprising the three independent non-executive Directors
“Independent Shareholders”	Shareholders other than Taiwan FF and any of its associates
“Latest Practicable Date”	19 May 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machine Tools Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 19 May 2011, in relation to the exclusive sale of Designated CNC Machine Tools by Taiwan FF to the Company
“Non-Compete Deed”	the non-competition deed entered into among Taiwan FF, Good Friend (H.K.) Corporation Limited (友佳實業(香港)有限公司) and Mr. CHU Chih-Yaung (executive director and chairman of the board of the Company) on 22 December 2005, as set out in the listing document of the Company dated 30 December 2005
“percentage ratios”	has the meaning as ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Caps”	the proposed ceiling for the annual amounts payable or receivable by the Group in the relevant financial periods for the respective transaction(s) under the Components Agreement or the Machine Tools Agreement (as the case may be)
“Purchaser”	the Company and its designated parties under the Machine Tools Agreement

DEFINITIONS

“Sales Region”	the PRC, Hong Kong and the Macau Special Administrative Region
“Seller”	the Seller designated by the Company or Taiwan FF under the Components Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Taiwan FF”	means Fair Friend Enterprise Company Limited, a limited liability company incorporated in Taiwan on 15 March 1979
“Taiwan FF Group”	Taiwan FF and its subsidiaries, excluding the Group
“Vendor”	Taiwan FF and its designated parties under the Machine Tools Agreement
“%”	per cent

LETTER FROM THE BOARD

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)

Executive Directors:–

CHU Chih-Yaung (*Chairman*)
CHEN Hsiang-Jung (*Chief Executive Officer*)
CHEN Min-Ho
WEN Chi-Tang
CHIU Rung-Hsien

Independent Non-Executive Directors:–

KOO Fook Sun, Louis
CHIANG Chun-Te
YU Yu-Tang

Registered Office:–

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business

in Hong Kong:–

Room 2003, 20th Floor,
Kai Tak Commercial Building
317-319 Des Voeux Road Central
Hong Kong

Principal Place of Business

in the PRC:–

No. 120 Shixin North Road
Xiaoshan Economic and
Technological Development Zone
Xiaoshan District
Hangzhou City
Zhejiang Province
The PRC

24 May 2011

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

(1) RENEWAL OF FRAMEWORK AGREEMENT FOR COMPONENTS PURCHASE AND SUPPLY

(2) ENTERING INTO AN EXCLUSIVE FRAMEWORK AGREEMENT FOR THE PURCHASE OF DESIGNATED CNC MACHINE TOOLS

1. INTRODUCTION

Reference is made to the Announcement, on 19 May 2011, the Company and Taiwan FF entered into a conditional Components Agreement, pursuant to which the Company agrees to supply CKD components to Taiwan FF and Taiwan FF agrees to supply CKD components to the Company

LETTER FROM THE BOARD

for a period of three years from the Commencement Date. Furthermore, on 19 May 2011, the Company and Taiwan FF entered into a conditional Machine Tools Agreement, pursuant to which the Company can purchase from Taiwan FF for a period of three years from the Effective Date, and has the rights to sell in the Sales Region on an exclusive basis, and upon the request of the Company, Taiwan FF shall supply to the Company on an exclusive basis and authorize the Company to sell the Designated CNC Machine Tools in the Sales Region on an exclusive basis. The Directors will seek the Independent Shareholders' approval for the Agreements and the transactions and the Proposed Caps thereunder at the EGM.

The purposes of this circular are (i) to provide you with, among other things, details of the terms of the Agreements and the transactions and the Proposed Caps thereunder; (ii) to set out the letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in relation to the terms of Agreements and the transactions and the Proposed Caps thereunder; (iii) to set out the recommendation and advice of the Independent Board Committee after taking into consideration of the advice from Altus Capital in relation to the terms of the Agreements and the transactions and the Proposed Caps thereunder, and (iv) to provide you with the notice of EGM.

2. COMPONENTS AGREEMENT

Background:

Reference is made to the announcement dated 21 May 2008 and the circular dated 3 June 2008 of the Company respectively in relation to the continuing connected transactions, in which it announced that the Company and Taiwan FF had entered into a conditional Former Framework Agreement on 21 May 2008, pursuant to which the Company agrees to supply CKD components to Taiwan FF and Taiwan FF agrees to supply CKD components to the Company for a period of three years commencing on 23 June 2008. The Former Framework Agreement will expire on 22 June 2011. As the Company and Taiwan FF intend to continue to carry out transactions with regard to the purchase and supply of CKD components in the future, hence, both parties will enter into the Components Agreement to renew the arrangement.

LETTER FROM THE BOARD

Basic Information of the Agreement:

(A) *Date*

19 May 2011

(B) *Parties*

(1) the Company; and

(2) Taiwan FF

Summary of principal terms:

(A) *Condition precedent*

The Components Agreement is subject to and conditional upon the approval by the Independent Shareholders in respect of the Components Agreement, the transactions and the Proposed Caps thereunder at the EGM.

(B) *Period of the Components Agreement*

The Components Agreement is for a term of three years from the Commencement Date unless terminated by either party before the expiry of such term.

(C) *Details of the transactions*

(a) *Supply of CKD components to Taiwan FF*

Pursuant to the terms of the Components Agreement, the Company agrees to supply CKD components to Taiwan FF for the production of CNC Machine Tools on a non-exclusive basis.

LETTER FROM THE BOARD

(b) Purchase of CKD components from Taiwan FF

Pursuant to the terms of the Components Agreement, Taiwan FF agrees to supply CKD components to the Company on a non-exclusive basis. The CKD components proposed to be sourced from and those proposed to be sold to Taiwan FF are of different types.

The Company may designate its subsidiaries or associates and Taiwan FF may designate its subsidiaries or associates or (with the prior approval by the other party) non-members of the Group or of Taiwan FF Group to be the Buyer or the Seller to enter into the transactions under the Components Agreement. The Company and Taiwan FF shall undertake and be responsible for the fulfillment of such transactions entered into by its respective designated parties.

(D) Delivery and payment arrangements

For the purpose of any transaction under the Components Agreement, the Buyer shall send a purchase notice to the Seller specifying the quantity of CKD components required 90 days prior to the requested delivery date. Upon receipt of the purchase notice, the Seller shall issue a price quotation within 7 days. Once the quotation is confirmed by the Buyer, it will then become effective and binding. The Buyer shall settle the payment within 30 days after receipt of the relevant CKD components.

(E) Price determination

The price of CKD components is to be determined by reference to:

- (i) the selling price of same type of products updated quarterly that are publicly offered by the Seller to its independent third party customers; or
- (ii) in the event that the Seller is unable to determine the selling price on the basis stipulated in (i) above for any reason, the reasonable costs incurred by the Seller in producing the relevant products plus the sales margin adjusted or determined with reference to (a) or (b) below:
 - (a) the historical selling price of the same type of products previously offered by the Seller to its independent third party customers; or
 - (b) failing (a) above, the price of similar products offered by third party manufacturers independent of the Seller.

LETTER FROM THE BOARD

For the avoidance of doubt, if the Buyer is able to obtain from third party manufacturers independent of the Buyer the relevant products on more favourable terms than those offered by the Seller, that is, if the trading terms are inferior to the terms which would otherwise be available to or obtainable by the Group from any third parties independent of the Buyer, then the Buyer must refuse to confirm any quotation in respect of the relevant transactions.

(F) Historical caps and Proposed Caps

The historical transaction amounts in respect of the purchase and supply of CKD components between the Group and Taiwan FF under the Former Framework Agreement were as follows (in RMB million):

	Historical transaction amounts for reference			
	23 June 2008 to 31 December 2008	1 January 2009 to 31 December 2009	1 January 2010 to 31 December 2010	1 January 2011 to 22 June 2011 (up till 31 March 2011)
Relevant financial periods:				
For the purpose of supplying CKD components to Taiwan FF	0.83	0.97	1.63	0.20
For the purpose of purchasing CKD components from Taiwan FF	14.80	129.40	146.80	38.60

During the term of the Components Agreement, it is projected that the annual aggregate amounts receivable and payable by the Group, as appropriate, shall not exceed the Proposed Caps in respect of each of the relevant financial periods, the details of which are as follows (in RMB million):

	Projected Proposed Caps			
	23 June 2011 to 31 December 2011	1 January 2012 to 31 December 2012	1 January 2013 to 31 December 2013	1 January 2014 to 22 June 2014
Relevant financial periods:				
For the purpose of supplying CKD components to Taiwan FF	1.35	2.60	3.15	1.30
For the purpose of purchasing CKD components from Taiwan FF	197.00	404.20	516.80	235.60

LETTER FROM THE BOARD

Basis of determining the Proposed Caps

Each of the projected Proposed Caps was determined after taking into account the factors including the followings:

1. the market outlook of the Group in the CNC Machine Tools industry during the period of the Components Agreement;
2. the potential fluctuations in respect of the estimated costs of purchasing CKD components;
3. in respect of the costs and payments of the Group incurred under the transactions for the provision of CKD components by Taiwan FF, catering for any increase in production demand and production capacity of the Group in CNC Machine Tools production with reference to the increase in sales of the relevant CNC Machine Tools of the Group in previous years;
4. the projected breakdown of orders for CKD components from Taiwan FF for each of the 3 years commencing from the Commencement Date; and
5. for the purpose of the Proposed Cap amounts relating to the provision of CKD components to Taiwan FF by the Group, the production capacity of the Group.

The consideration payable by the Group will be settled through the internal resources of the Group.

Reasons for and benefits of entering into the Components Agreement:

The sales and purchase of CKD components are transactions carried out in the usual and ordinary course of business of the Group.

The Directors consider that entering into the Components Agreement provides the Group with an alternative source of CKD components and an additional income source. The Directors consider that the terms of the Components Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

3. MACHINE TOOLS AGREEMENT

Date:

19 May 2011

Parties:

- (1) the Company; and
- (2) Taiwan FF

Summary of principal terms:

(A) *Condition precedent*

The Machine Tools Agreement is subject to and conditional upon the approval by the Independent Shareholders in respect of the Machine Tools Agreement, the transactions and the Proposed Caps thereunder at the EGM.

(B) *Period of the Machine Tools Agreement*

The Machine Tools Agreement is for a term of three years from the Effective Date unless terminated by either party before the expiry of such term.

(C) *Details of the transactions*

The Company can purchase from Taiwan FF and has the right to sell in the Sales Region on an exclusive basis, and at the request of the Company, Taiwan FF can supply to the Company and authorize the Purchaser to sell the Designated CNC Machine Tools in the Sales Region on an exclusive basis.

The Company may designate any members of the Group and/or associates of the Company, as Purchaser, and Taiwan FF may designate any member of Taiwan FF Group and/or associates of Taiwan FF, as Vendor, to perform and to procure those parties to perform such transactions according to the requirements of the Machine Tools Agreement.

LETTER FROM THE BOARD

(D) Delivery and payment arrangements

For the purpose of any transactions under the Machine Tools Agreement, the Purchaser shall send the purchase notice to the Vendor specifying the quantity of the Designated CNC Machine Tools required 90 days prior to the requested delivery date. Upon receipt of the purchase notice, the Vendor shall issue a price quotation to the Purchaser within 7 days. Once the quotation is confirmed by the Purchaser, it will then become effective and binding. The Purchaser shall settle 90% of the payment within 30 days after receipt of the relevant Designated CNC Machine Tools, with the remaining 10% to be settled within 6 months after receipt of the relevant Designated CNC Machine Tools.

(E) Price determination

The price of the Designated CNC Machines Tools is to be determined by reference to:

- (i) the selling price of same type of products updated quarterly that are publicly offered by the Vendor to its independent third party customers; or
- (ii) in the event that the Vendor is unable to determine the selling price on the basis stipulated in (i) above for any reason, the reasonable costs incurred by the Vendor in producing the relevant products plus the sales margin adjusted or determined with reference to (a) or (b) below:
 - (a) the historical selling price of the same type of products previously offered by the Vendor to its independent third party customers; or
 - (b) failing (a) above, the price of similar products offered by third party manufacturers independent of the Vendor.

For the avoidance of doubt, if the Purchaser is able to obtain from its third party manufacturers independent of the Purchaser the same products on more favourable terms than those offered by the Vendor, that is, if the trading terms are inferior to the terms which would otherwise be available to or obtainable by the Group from any third parties independent of the Company, then the Purchaser must refuse to confirm any quotation in respect of the relevant transactions.

LETTER FROM THE BOARD

(F) Others

Taiwan FF has agreed that:

- (a) any Designated CNC Machine Tools, which are designated by the Purchaser to purchase from the Vendor under the Machine Tools Agreement, are produced and sold under the designated brands which are owned or permitted to be used by the Company from time to time;
- (b) it will procure or assist with any possible application for tariff reductions with the relevant regulatory authorities in respect of the Designated CNC Machine Tools upon receipt of the relevant purchase requests from the Purchaser;
- (c) in the event that Taiwan FF Group has idle production availability and sufficient production capacity, it will assist the Group to produce and supply other CNC Machine Tools (other than the Designated CNC Machine Tools on the date of signing the Machine Tools Agreement) to the Group in accordance with the reasonable instructions and designated production specifications of the Group. Provided that the Group reasonably considers that the capacity of its own production of the relevant machine tools is insufficient or requesting Taiwan FF Group to produce on its behalf is more beneficial to the Group, then the Group shall request Taiwan FF Group to produce such CNC Machine Tools specified under this provision on its behalf;
- (d) the Group has the right to request Taiwan FF Group and/or the Vendor to supply the Group with any other CNC Machine Tool products sold by Taiwan FF Group (other than the Designated CNC Machine Tools on the date of signing the Machine Tools Agreement) for sale in the Sales Region. Provided that the Group reasonably considers that the capacity of its own production of the relevant machine tools is insufficient or requesting Taiwan FF Group to supply is more beneficial to the Group, then the Group shall purchase such CNC Machine Tools specified under this provision;

LETTER FROM THE BOARD

- (e) the Vendor will not supply or sell any Designated CNC Machine Tools products to any parties other than the Purchaser in the Sales Region at any time. Even if the Vendor receives requests from any parties other than the Purchaser for the Vendor to supply or sell any Designated CNC Machine Tools products in the Sales Region, Taiwan FF shall notify or procure the Vendor to notify the Purchaser that the Vendor shall not enter into or agree to any supply or sales arrangements or agreements in respect of these sales requests prior to the receipt of the written consent of the Purchaser. The Group has the rights to request and Taiwan FF shall procure that the Vendor shall notify these third parties, who have the intention to purchase the Designated CNC Machine Tools in the Sales Region, to consider directly purchasing from the Group, and this undertaking will continue to be valid after the termination of the Machine Tools Agreement; and
- (f) for the avoidance of doubt, the Vendor shall not request, require, direct, induce or compel the Purchaser to purchase any Designated CNC Machine Tools from it by any means, and the Vendor shall provide any Designated CNC Machine Tools to the Purchaser only upon the receipt of orders issued by the Purchaser under the Machine Tools Agreement.

Proposed Caps:

During the period of the Machine Tools Agreement, it is projected that the annual aggregate amounts payable by the Group shall not exceed the Proposed Caps in respect of each of the relevant financial periods, the details of which are as follows (in RMB million):

	Effective Date to 31 December	1 January 2012 to 31 December	1 January 2013 to 31 December	1 January 2014 to the date ending 3 years from the Effective Date
Relevant financial periods:	2011	2012	2013	
Projected Proposed Caps:	74.50	156.54	201.96	91.70

LETTER FROM THE BOARD

Basis of determining the Proposed Caps:

Each of the projected Proposed Caps was determined after taking into account the factors that include the followings:

1. the market outlook of the Group in the Designated CNC Machine Tools industry during the period of the Machine Tools Agreement;
2. the potential fluctuations in respect of the estimated costs in the production of the Designated CNC Machine Tools; and
3. the increase in sales of CNC Machine Tools of the Group in previous years.

The consideration payable by the Group will be settled through the internal resources of the Group.

Reasons for and benefits of entering into the Machine Tools Agreement:

The purchase and sale of CNC Machine Tools are transactions carried out in the usual and ordinary course of business of the Group.

The Directors consider that entering into the Machine Tools Agreement provides the Group with an alternative source of CNC Machine Tools with the potential to enlarge its customer base in the Sales Region. The Group will choose to source from under the Machine Tools Agreement or other third party suppliers in accordance with its procurement procedures. Under the Machine Tools Agreement, Taiwan FF can only supply CNC Machine Tools, at the Group's request, to the Group or those designated by the Group without directly approaching any customers in the Sales Region.

The Directors consider that the terms of the Machine Tools Agreement are fair and reasonable, in the interests of the Shareholders as a whole and in line with the terms of the Non-Compete Deed.

4. INFORMATION ON THE GROUP AND TAIWAN FF GROUP

The Company is an investment holding company and its subsidiaries are 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.

LETTER FROM THE BOARD

Taiwan FF Group is a conglomerate in Taiwan and has investments in a wide range of businesses such as the production of CNC Machine Tools, three-dimensional car parking garage structures, electric forklift trucks, construction machinery, power tools, elevators, anode-ray tube display, thin film transistor liquid crystal display, door drums, printed circuit boards and aviation parts.

5. LISTING RULES IMPLICATIONS

Taiwan FF is an associate of Hong Kong GF, the controlling shareholder of the Company, and therefore, Taiwan FF is a connected person of the Company under the Listing Rules. The transactions under the Agreements will be carried out in the ordinary and usual course of business of the Group and will expect to continue and extend over a period of time. Therefore, they will constitute continuing connected transactions of the Company respectively under Chapter 14A of the Listing Rules.

As both Agreements are entered into with Taiwan FF, the transactions under the Components Agreement and the Machine Tools Agreement will be aggregated for consideration under the Listing Rules and will be classified according to the larger of the supply transaction or the procurement transactions. For the supply transaction with Taiwan FF under the Components Agreement, the highest applicable percentage ratio based on the Proposed Caps thereof is between 0.1% and 5% with an annual consideration of over HK\$1 million. For the two procurement transactions with Taiwan FF under the Agreements, the highest applicable percentage ratio based on the Proposed Caps thereof, on an aggregated basis, exceeds 25% with an annual consideration of over HK\$10 million, which is larger than the supply transaction. Accordingly, the transactions under the Agreements will be classified according to the higher percentage ratio in the procurement transactions and all of the Agreements, the transactions and the Proposed Caps thereunder will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Under the Listing Rules, other than Mr. Chu Chih-Yaung (an executive Director and the Chairman of the Company), no Director has a material interest in the transactions and is therefore required to abstain from voting on the board resolutions to approve the Agreements and the transactions and the Proposed Caps thereunder. Hong Kong GF and any of its associates will abstain from voting in relation to the resolutions approving the Agreements, the transactions and the Proposed Caps thereunder at the EGM.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the Agreements, the transactions and the Proposed Caps thereunder. Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in this respect.

LETTER FROM THE BOARD

6. EGM AND ACTION TO BE TAKEN

The EGM will be held at 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 15 June 2011 at 2:00 p.m. to consider and, if thought fit, to approve, the Agreements and the transactions and the Proposed Caps thereunder. A notice convening the EGM is set out on pages 43 to 45 of this circular. A form of proxy for use at the aforesaid extraordinary general meeting is enclosed with this circular. Whether or not you intend to attend the EGM or any adjournment thereof, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Branch Share Registrar and Transfer Office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

Any connected person of the Company with a material interest in the transactions, and any Shareholder with a material interest in the transactions and its associates, shall not vote upon the proposed resolutions in respect of the Agreements and the transactions and the Proposed Caps thereunder at the EGM. Accordingly, Hong Kong GF and any of its associates will abstain from voting in relation to the relevant proposed resolutions at the EGM.

7. VOTING BY WAY OF POLL

Pursuant to the Listing Rules, the resolutions to be proposed at the EGM to approve the Agreements and the transactions and the Proposed Caps thereunder, are required to be voted upon by way of poll.

LETTER FROM THE BOARD

8. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 19 of this circular which contains its recommendation to the Independent Shareholders. The Independent Board Committee concurs with the opinion of Altus Capital that the entering into of the Agreements is in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Group and Shareholders as a whole, and the terms of the Agreements and the Proposed Caps thereunder are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM.

9. GENERAL

Your attention is drawn to the general information set out in the appendix of this circular.

Yours faithfully,
By order of the Board
Good Friend International Holdings Inc.
Chen Hsiang-Jung
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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)

24 May 2011

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(1) RENEWAL OF FRAMEWORK AGREEMENT
FOR COMPONENTS PURCHASE AND SUPPLY
(2) ENTERING INTO AN EXCLUSIVE FRAMEWORK AGREEMENT
FOR THE PURCHASE OF DESIGNATED CNC MACHINE TOOLS**

We have been appointed to form this Independent Board Committee to consider and advise you on the terms of the Agreements and the transactions and the Proposed Caps thereunder, details of which are set out in the circular issued by the Company to the Shareholders on 24 May 2011 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and letter of advice from Altus Capital set out on pages 5 to 18 and pages 20 to 37 of the Circular respectively.

Having taken into account the principal factors and reasons considered by Altus Capital, its conclusion and advice, we concur with the opinion of Altus Capital that the entering into of the Agreements is in the ordinary and usual course of business of the Company, on normal commercial terms, the terms of the Agreements and the Proposed Caps thereunder are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreements and the transactions and the Proposed Caps thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

KOO Fook Sun, Louis

CHIANG Chun-Te

YU Yu-Tang

Independent non-executive Directors

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from Altus Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions which has been prepared for the purpose of inclusion in this circular.

ALTUS CAPITAL LIMITED

8/F., Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong

24 May 2011

*The Independent Board Committee and Independent Shareholders
Good Friend International Holdings Inc.*

Room 2003, 20th Floor
Kai Tak Commercial Building
317-319 Des Voeux Road Central
Hong Kong

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
(1) RENEWAL OF FRAMEWORK AGREEMENT FOR
COMPONENTS PURCHASE AND SUPPLY
(2) ENTERING INTO AN EXCLUSIVE FRAMEWORK AGREEMENT
FOR THE PURCHASE OF DESIGNATED CNC MACHINE TOOLS**

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Agreements (“Continuing Connected Transactions”) and the Proposed Caps relating thereto. Details of the Continuing Connected Transactions and the terms of the Agreements are set out in the Letter from the Board (“Letter”) contained in the circular of the Company dated 24 May 2011 (the “Circular”) to the Shareholders, 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.

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The Independent Board Committee has been established to give advice and recommendation to the Independent Shareholders in relation to the Continuing Connected Transactions and the annual caps relating thereto. The Independent Board Committee comprises Mr. Koo Fook Sun, Louis, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang, all being independent non-executive Directors. We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Components Agreement and the Machine Tools Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion and recommendation with regard to the Continuing Connected Transactions, we have relied to a considerable extent on the information, statements, opinions and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete as at the date of the Circular. We have assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have also relied on certain publicly available information and we have assumed such information to be accurate and reliable, and we have not carried out any independent verification on the accuracy of such information.

The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of such information and the information contained in the Circular to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information (which is known to the Company, its representatives and the Directors) have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information, facts, and representations provided, or the reasonableness of the opinions expressed by the Company, its representatives and the Directors. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, carried out any independent verification on the information provided to us by the Company, its representatives and the Directors, nor have we conducted an independent in-depth investigation into the business affairs, assets and liabilities, and the prospects of the Group.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the Continuing Connected Transactions, we have considered the following principal factors and reasons:

1. Background

On 19 May 2011, the Company and Taiwan FF renewed the conditional Components Agreement pursuant to which, (i) the Company agrees to supply CKD components to Taiwan FF for the production of CNC Machine Tools on a non-exclusive basis; and (ii) Taiwan FF agrees to supply CKD components to the Company for the production of CNC Machine Tools on a non-exclusive basis. In addition, on 19 May 2011, the Company and Taiwan FF entered into a conditional Machine Tools Agreement pursuant to which the Company can purchase the Designated CNC Machine Tools from Taiwan FF upon the request of the Company on an exclusive basis, and to sell such products in the designated Sales Region, on an exclusive basis.

Taiwan FF is an associate of Hong Kong GF, the controlling shareholder of the Company interested in approximately 57.54% of the issued share capital of the Company, and is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the Components Agreement and Machine Tools Agreement will accordingly constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As both Agreements are entered into with Taiwan FF, the transactions under the Components Agreement and the Machine Tools Agreement will be aggregated for consideration under the Listing Rules. For the supply transaction with Taiwan FF under the Components Agreement, the highest applicable percentage ratio based on the Proposed Caps thereof is between 0.1% and 5% with an annual consideration exceeding HK\$1 million. For the purchase of CKD components and the Designated CNC Machine Tools with Taiwan FF under the Agreements, the highest applicable percentage ratio based on the Proposed Caps thereof, on an aggregated basis, exceeds 25% with an annual consideration of over HK\$10 million. Accordingly, the transactions under the Agreements will be classified according to the higher percentage ratio in the purchase transactions and all of the Agreements, the transactions and the Proposed Caps thereunder will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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2. The reasons and benefits of entering into the Agreements

Components Agreement

The Former Framework Agreement will expire on 22 June 2011. As the Company and Taiwan FF intend to continue to carry out transactions with regard to the purchase and supply of CKD components in future, both parties have entered into the Components Agreement for a term of another three years.

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. The supply and purchase of CKD components are transactions carried out as part of the usual and ordinary course of the business activities of the Group. From a business perspective, the Components Agreement will provide an alternative source of CKD components supply and allow the Group to manage its production schedules and customer orders more efficiently. Meanwhile, the sales of CKD components to Taiwan FF under the Components Agreement will provide the Group with an income source and allow the Group to more efficiently utilise its production capacity.

Machine Tools Agreement

We have reviewed the Group's production capacity and its utilisation rate during the years ended 31 December, 2008, 2009 and 2010. Despite the relatively low utilisation rate in 2008 and 2009 due to the adverse impact of the global economic downturn, we note that the Group has been utilising most of its production capacity throughout 2010 and the first quarter of 2011 as the demand of CNC Machine Tools picked up. Whilst the production capacity of the Group is expected to increase significantly upon the completion of a relevant construction work for the phase one production base located at Jiangdong, Hangzhou in mid 2011, the management expects that the utilisation rate of the Group's production capacity will remain high in the coming years amid growing demand from customers in the Sales Region.

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The purchase of Designated CNC Machine Tools under the Machine Tools Agreement will provide the Group with an alternative source of CNC Machine Tools, allowing the Group to capture businesses which otherwise it will have to forego at times when these orders cannot be handled by its production capacity or capability. With the combined range of products available between the Group and Taiwan FF, it is also more likely that the Group will be able to meet the demand of existing and new customers, thus helping the Group to establish itself as a major supplier of CNC Machines Tools and enlarge its customer base in the Sales Region.

In view of the above, we believe that from a business perspective, it is in the interests of the Company and the Shareholders as a whole to enter into the Components Agreement and the Machine Tools Agreement with Taiwan FF.

3. Terms of the Agreements

Components Agreement

Under the Components Agreement, the Company agrees, on a non-exclusive basis, to supply certain types of CKD components to Taiwan FF for their production of CNC Machine Tools. Meanwhile the Company also agrees to purchase certain different types of CKD components from Taiwan FF for the Group's production of CNC Machine Tools on a non-exclusive basis.

(1) Supply of CKD components by the Group to Taiwan FF

Pricing mechanism

The unit price of CKD components to be charged is set principally with reference to the respective selling price published quarterly to the Group's independent third party customers, if any.

If the aforesaid published selling prices are not available, the respective unit prices should be determined by respective production cost plus a profit margin to be adjusted by either (i) the relevant historical selling prices of the same CKD components previously charged to the Group's independent third party customers; or (ii) the relevant historical selling prices charged by independent third party manufacturers on similar CKD components in the market (subject to further adjustments where appropriate) if option (i) above is unavailable. The Components Agreement also provides that the Group will only supply CKD components to Taiwan FF on terms no less favourable to the Group than those under contracts between the Group and independent third parties customers.

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We note that the Group did not supply CKD components to independent third party customers during the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011. Therefore, direct comparison of supply transactions with Taiwan FF and independent third party customers is unavailable. Upon our review of historical sales records on CKD components supplied to Taiwan FF under the Former Framework Agreement, we note that the transactions in respect of supplying CKD components to Taiwan FF were RMB0.83 million, RMB0.97 million and RMB1.6 million, which accounted for only 0.11%, 0.12% and 0.12% of the Group's revenue (RMB730.52 million, RMB776.84 million & RMB1,374.18 million respectively) for the years ended 31 December 2008, 2009 and 2010. We have also reviewed samples the previous sale orders of CKD components supplied to Taiwan FF and noted that the selling prices for the CKD components were determined on cost-plus basis and were comparable to the prevailing market price of similar components. Given the pricing mechanism of cost-plus basis, it is not likely that the Group will incur losses on such supply to Taiwan FF. Therefore, we are of the view that the pricing mechanism is fair and reasonable and the sale of CKD components to Taiwan FF can provide an additional and low-risk source of revenue to the Group and is thus beneficial to the Group.

Order placing

It is stipulated in the Components Agreement that the supply of CKD components is on a non-exclusive basis. The Group shall only supply CKD components to Taiwan FF when the supply will not affect the manufacturing arrangement or schedule of the Group within reasonable time. In this respect, each time when such supply to Taiwan FF is to be conducted, the sales department is required to obtain written acknowledgement from the manager of the production department that the Group is, at that time, maintaining sufficient CKD components for its own operations and that the supply of such CKD components to Taiwan FF will not affect the Group's prevailing manufacturing schedule. Considering that the above order placing procedures do not give preferential treatment to Taiwan FF's orders and will not likely bring disruption to the Group's own production activities, we are of the view that such order placing procedures are appropriate.

In view of the pricing mechanism and order placing procedures above, we are of the view that the terms of transaction contemplated under the Components Agreement relating to the sale of CKD components to Taiwan FF are on normal commercial terms and are fair and reasonable.

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(2) *Purchase of CKD components by the Group from Taiwan FF*

Pricing mechanism

Pursuant to the Components Agreement, the unit price of CKD components to be charged on the Group's purchases is set principally with reference to the respective selling price published quarterly by Taiwan FF to its independent third party customers, if any. If the aforesaid published selling prices are unavailable, the respective unit prices should be determined by respective production cost plus a profit margin to be adjusted by either (i) the relevant historical selling prices of the same CKD components previously charged on the Taiwan FF's independent third party customers; or (ii) the relevant historical selling prices charged by independent third party manufacturers on similar CKD components in the market (subject to further adjustments where appropriate) if option (i) above is unavailable.

The Components Agreement provides that the Group will only purchase CKD components from Taiwan FF on terms no less favourable to the Group than those under contracts between the Group and independent third party suppliers.

We noted that the terms under the Components Agreement are in line with those with the Group's independent third party suppliers. We have also reviewed the historical purchase record of the Group and noted that the purchase prices of the CKD components were comparable to the prevailing market prices of similar components available in the market. We are of the view that the pricing mechanism in relation to purchase of CKD components by the Group from Taiwan FF is fair and reasonable.

Order placing

It is stipulated in the Components Agreement that the purchase of CKD components by the Group from Taiwan FF is on a non-exclusive basis. The Group shall only purchase CKD components from Taiwan FF when the Directors consider it is beneficial to the Group. The Components Agreement does not preclude the Group to purchase CKD components from independent third party suppliers.

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To assess the reasonableness of the terms under the Components Agreement relating to the purchase of CKD components by the Group from Taiwan FF, we have reviewed the relevant contracts entered into between the Group and the independent third party suppliers and found that the terms were comparable. The management also confirms that the procurement department will choose Taiwan FF as the CKD component supplier only when its price, quality of product and the time of delivery are comparable to or more favorable than other independent third party suppliers.

In view of the pricing mechanism and order placing procedures above, we are of the view that the terms of transactions contemplated under the Components Agreement relating to the purchase of CKD components from Taiwan FF are on normal commercial terms and are fair and reasonable.

Machine Tools Agreement

Under the Machine Tools Agreement, the Company can purchase Designated CNC Machine Tools from Taiwan FF and has the right to sell them in the Sales Region on an exclusive basis, whilst Taiwan FF will supply Designated CNC Machine Tools to the Company at its request, and authorise the Company to sell the Designated CNC Machine Tools in the Sales Region, on an exclusive basis.

Pricing mechanism

The unit price of CNC Machine Tools to be charged by Taiwan FF to the Group is set principally with reference to the respective selling price published quarterly by Taiwan FF to their independent third party customers, if any. If the aforesaid published selling prices are not available, the respective unit prices should be determined by respective production cost plus a profit margin to be adjusted by either (i) the relevant historical selling prices of the same type of CNC Machine Tools previously offered to Taiwan FF's independent third party customers; or (ii) the relevant historical selling prices charged by independent third party manufacturers on similar CNC Machine Tools in the market (subject to further adjustments where appropriate) if option (i) above is unavailable.

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The Machine Tools Agreement provides that the Group will only purchase CNC Machine Tools from Taiwan FF on terms no less favorable to the Group than those obtainable from independent third party suppliers. To assess the reasonableness of the pricing mechanism under the Machine Tools Agreement, we have reviewed the ordering procedures of the Group and the contracts which the Group had entered into with its independent third party suppliers during the years ended 31 December 2008, 2009 and 2010 in relation thereto. We noted that the pricing mechanism under the Machine Tools Agreement was comparable to those with independent third party suppliers.

In practice, the Directors informed that the Group will compare the pricing of Designated CNC Machine Tools obtainable from Taiwan FF under the Machine Tools Agreement to the pricing of similar products obtainable from other independent third party suppliers before placing orders with these external suppliers. Order will be placed with Taiwan FF only if it is beneficial to the Group to do so, for example, the Group can generate a reasonable profit margin from the trade, or such order is necessary for the Group's timely completion of customers' orders in order to maintain customer relationship. We are of the view that the pricing mechanism in relation to the purchase of Designated CNC Machine Tools by the Group from Taiwan FF is fair and reasonable.

Order placing

In addition to the Designated CNC Machine Tools, for other CNC Machine Tools which are not designated under the Machine Tools Agreement, the Group has the right to request Taiwan FF to supply such machine tools provided that the Group reasonably considers the Group's production capacity is insufficient to meet the demand or the Group finds it more beneficial to purchase rather than produce.

The sale of CNC Machine Tools is one of the major businesses of the Group. According to the management of the Group, there should be demand in the Sales Region to import CNC Machine Tools manufactured in Taiwan. There were also occasions which the Group's production facility and capacity were not able to meet the customers' demand and the Group had to source the CNC Machine Tools from independent third party suppliers at above-average prices. In view of this, we concur with the management that sourcing CNC Machine Tools from external suppliers, including Taiwan FF, is necessary and beneficial to fulfill some of its orders.

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The management will only source CNC Machine Tools from external suppliers for the purpose of fulfilling customers' orders. For the CNC Machines Tools which are both manufactured by the Group and Taiwan FF, following established internal control procedures, the sales department of the Group will be required to obtain written acknowledgement from the production manager that either (i) the current production capacity of the Group is insufficient to meet customers' demand; or (ii) the Group's production facilities did not have the technical capability in producing such CNC Machines Tools, before placing any purchase order of such CNC Machine Tools from other suppliers. The procurement team, which is responsible for sourcing the CNC Machine Tools from external suppliers (including Taiwan FF), will make the purchase decision based on various factors such as the price quotation, quality of the finished products and timeliness of order delivery. The Group will purchase Designated CNC Machine Tools only if the offer from Taiwan FF is comparable to or more favourable than other independent third party suppliers. We have reviewed the Group's historical purchase order of CNC Machine Tools placed with an independent third party supplier and found that the order placing procedures were comparable to those described above. Going forward, the prices and terms of contracts to be entered into with Taiwan FF will be compared with those offered by independent third party suppliers to ensure that they are comparable and are on normal commercial terms.

In view of the above, we concur that it is in the usual and ordinary course of business for the Group to purchase the Designated CNC Machine Tools from Taiwan FF in addition to the Group's own production of such products and that purchase of CNC Machine Tools sourced from other suppliers, including Taiwan FF, will provide the Group with alternative source of CNC Machine Tools. These can also broaden the product range offered to the Group's existing and new customers and can potentially expand the Group's customer base.

On this basis, we are of the view the Machine Tools Agreement is fair and reasonable and on normal commercial terms.

4. The Group's recent operating performance

As reported in the Group's final results for the year ended 31 December 2010, the Group recorded about 76.9% increase in revenue to RMB1,374.2 million compared to the corresponding period in the previous year of RMB776.8 million. CNC Machine Tools remained the major source of the Group's revenue amounted to approximately RMB1,135.5 million, representing 82.6% of the Group's total revenue.

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Meanwhile, the net profit before tax of the Group increased from approximately RMB107.7 million for the year ended 31 December 2009 to approximately RMB193.8 million for the year ended 31 December 2010, representing an increase of approximately 79.9%. The net profit margin before tax was approximately 14.1% during the year ended 31 December 2010 compared with approximately 13.7% during the previous corresponding period.

According to the management, the economy of China has been recovering since 2009 and the trend continues in 2010 and the first quarter of 2011. In line with this, sales orders for CNC Machine Tools recorded substantial growth in year 2010. For the four months ended 30 April 2011, the Group received sales orders from customers of 2,238 units in respect of its CNC Machine Tools business (sales orders for the four months ended 30 April 2010: 1,196 units), amounting to approximately RMB988.651 million (including tax) (for the four months ended 30 April 2010: approximately RMB595.078 million (including tax)), representing an increase of 66% when compared to the same period in 2010. In order to meet the growing demand, the Group will expand its production capacity upon the completion of relevant construction work for the phase one production base located at Jiangdong, Hangzhou in mid 2011. It is expected that the utilisation rate of the Group's new product capacity will remain high and there will be a significant increase in quantity output of its CNC Machines Tools, resulting in the increase in the Group's demand of CKD components.

Apart from the CNC Machine Tools manufactured by the Group, the Group has been receiving enquiries from potential customers regarding CNC Machine Tools manufactured in Taiwan, including those by Taiwan FF.

Having considered the above, we are of the view that the transactions contemplated under the Components Agreement and Machine Tools Agreements are favorable to the Group as long as the prices of the CKD components and the Designated CNC Machines Tools from Taiwan FF are competitive and their delivery lead-time is comparable to the independent third party suppliers.

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5. Proposed Caps

Table 1 and 2 below set out (i) the approved annual caps for transactions for the period from 23 June 2008 to 31 December 2008, the two years ended 31 December 2008 and 2009 respectively and the period from 1 January 2011 to 22 June 2011; (ii) the historical amount of annual caps used in the respective periods for transactions under the Former Framework Agreement and the relevant utilisation rate; and (iii) the Proposed Caps in relation to the Components Agreement.

(1) Supply of CKD components by the Group to Taiwan FF

Table 1 – Historical approved caps, utilisation rate of the caps and Proposed Caps for supply of CKD components by the Group to Taiwan FF

	Approved caps <i>(RMB million)</i>	Historical amount <i>(RMB million)</i>	Utilisation rate	Proposed Caps <i>(RMB million)</i>
For the period from 23 June 2008 to 31 December 2008	10.7	0.83	7.8%	–
For the year ended 31 December 2009	26.2	0.97	3.7%	–
For the year ended 31 December 2010	45.2	1.63	3.6%	–
For the period from 1 January 2011 to 22 June 2011	27.3	0.20 (up till 31 March 2011)	0.7%	–
For the year from 23 June 2011 to 31 December 2011	–	–	–	1.35
For the year from 1 January 2012 to 31 December 2012	–	–	–	2.60
For the year from 1 January 2013 to 31 December 2013	–	–	–	3.15
For the period from 1 January 2014 to 22 June 2014	–	–	–	1.30

As shown in Table 1 above, the Group had utilised approximately 7.8%, 3.7%, 3.6% and 0.7% of the approved annual caps for supply of CKD components for the period from 23 June 2008 to 31 December 2008, for the years ended 31 December 2009 and 2010, and for the three months ended 31 March 2011 respectively.

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The low level of supply of CKD components to Taiwan FF was mainly due to (i) the weak demand for Taiwan FF's machine tools; and (ii) the fact that Taiwan FF was able to source CKD components for its production needs from third party suppliers during the period.

The management has determined the Proposed Caps in respect of the Group's supply of CKD components under the Components Agreement based on the following factors:

- (i) the market outlook of the Group in the CNC Machines Tools industry;
- (ii) the potential price fluctuations of CKD components; and
- (iii) the production demand from Taiwan FF and the production capability of the Group.

The management advised that the Proposed Caps in respect of the Group's supply of CKD components to Taiwan FF under the Components Agreement are based on the historical quantity and pricing of orders placed by Taiwan FF with the Group and the expected increase in production and sale of CNC Machine Tools by Taiwan FF in its target markets amid recovery of global economy. As mentioned above, the supply of CKD components will be dependent on whether the Group has residual capacity to produce the CKD components as requested by Taiwan FF. The Group would have to satisfy its own production schedule for manufacturing CNC Machine Tools before utilizing its production capacity to supply the CKD components to Taiwan FF. In view of the above, we are of the view that the Proposed Caps for supply of CKD components by the Group to Taiwan FF under the Components Agreement are fair and reasonable.

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(2) Purchase of CKD components by the Group from Taiwan FF

Table 2 – Historical approved caps, utilisation rate of the caps and Proposed Caps for purchase of CKD components by the Group from Taiwan FF

	Approved caps <i>(RMB million)</i>	Historical amount <i>(RMB million)</i>	Utilisation rate	Proposed Caps <i>(RMB million)</i>
For the period from 23 June 2008 to 31 December 2008	91.8	14.8	16.1%	–
For the year ended 31 December 2009	173.8	129.4	74.5%	–
For the year ended 31 December 2010	190.3	146.8	77.1%	–
For the period from 1 January 2011 to 22 June 2011	97.5	38.6 (up till 31 March 2011)	39.6%	–
For the period from 23 June 2011 to 31 December 2011	–	–	–	197.00
For the year from 1 January 2012 to 31 December 2012	–	–	–	404.20
For the year from 1 January 2013 to 31 December 2013	–	–	–	516.80
For the period from 1 January 2014 to 22 June 2014	–	–	–	235.60

As shown in Table 2 above, the Group had utilised approximately 16.1%, 74.5%, 77.1% and 39.6% of the approved annual caps for purchase of CKD components for the period from 23 June 2008 to 31 December 2008, for the years ended 31 December 2009 and 2010 and for the period from 1 January 2011 to 31 March 2011 respectively.

The under-utilisation of the approved cap for the period from 23 June 2008 to 31 December 2008 was mainly due to the weak demand for CNC Machine Tools amid global financial crisis. The market demand for CNC Machine Tools gradually picked up for the years ended 31 December 2009 and 2010, resulting in the increase in the Group's purchase of CKD components during those two years. According to the Company's announcement dated 9 May 2011, for the four months ended 30 April 2011, the Group received sales orders for CNC Machines Tools of 2,238 units, representing an 87% increase as compared to the sales orders of 1,196 units for the same period in 2010.

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The management has determined the Proposed Caps in respect of the Group's purchase of CKD components under the Components Agreement based on the following factors, on the basis that the Group will only purchase CKD components to cater its own production of CNC Machine Tools and will not engage in trading of CKD components:

- (i) the market outlook of the Group in the CNC Machines Tools industry;
- (ii) the potential price fluctuations of CKD components; and
- (iii) the production capability of the Group.

As discussed above, the Group's production facilities are under further expansion. As stated in its 2010 annual report, the Company completed the offering and listing of Taiwan Depository Receipts ("TDR") on the Taiwan Stock Exchange Corporation in March 2010. The net proceeds raised from the issue of TDR amounted to approximately RMB205.8 million will mainly be utilised for expanding its production capacity in respect of CNC Machine Tools business. The management advised that it is expected that phase one production base located at Jiangdong, Hangzhou will be completed in mid 2011 and commence production in addition to the current two plants. The Group's overall production capacity is expected to be doubled by the end of year 2014. Meanwhile, the Group has recorded continuous growth for its CNC Machine Tools business in 2010 and the first quarter of 2011 as mentioned above.

As the Group expects significant increase in production capacities along with strong growth in market demand for CNC Machine Tools, the management believes that the utilisation rate of the existing and new production capacity will remain high and that buffer should be provided for possible surge of demand for CKD components in the future. In view of the above, we are of the view that the Proposed Caps for purchase of CKD components by the Group from Taiwan FF under the Components Agreement are fair and reasonable.

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(3) Purchase of CNC Machine Tools by the Group from Taiwan FF

Table 3 – Proposed Caps in respect of purchase of the Designated CNC Machine Tools by the Group from Taiwan FF

	Proposed Caps <i>(RMB million)</i>
For the Effective Date to 31 December 2011	74.50
For the year from 1 January 2012 to 31 December 2012	156.54
For the year from 1 January 2013 to 31 December 2013	201.96
For the period from 1 January 2014 to the date ending three years from the Effective Date	91.70

The management has determined the Proposed Caps in respect of purchase of the Designated CNC Machine Tools under the Machine Tools Agreement as shown in Table 3 above based on the following factors:

- (i) the market outlook of the Group in the CNC Machines Tools industry;
- (ii) the potential fluctuations in the estimated costs of production of the Designated CNC Machine Tools; and
- (iii) the increase in sales of CNC Machine Tools of the Group in previous years.

As discussed in section 4 above, the Group has recorded continuous growth of CNC Machine Tools business in 2011. The management expects that the market demand for CNC Machine Tools will grow strongly in the next three years amid the recovery of global economy and the continuous development of the PRC economy. We have reviewed the basis and the calculation of the Proposed Caps in respect of purchase of the Designated CNC Machine Tools under the Machine Tools Agreement and noted that they are made primarily with reference to the average price of the Designated CNC Machine Tools and the expected number of Designated CNC Machine Tools to be sourced from Taiwan FF having considered (i) the expected CNC Machine Tools demand; and (ii) the Group's prevailing and expected new production capability. Given the strong expected demand of the CNC Machine Tools, the management expects that the utilisation rate of the Group's existing and new product capacity will remain high and it is beneficial for the Group to arrange alternative

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supply source of CNC Machine Tools from Taiwan FF to meet any possible production shortfall. The management further advised that the quantity of Designated CNC Machines Tools sourced from Taiwan FF is expected to be less than 5% of the number of CNC Machine Tools produced by the Group's production facilities in the coming three years. In this connection, we are of the view that the Proposed Caps in respect of purchase of the Designated CNC Machine Tools under the Machine Tools Agreement are fair and reasonable.

6. Further safeguards under the Machine Tools Agreement

Taking into account that under the Machine Tools Agreement, Taiwan FF can only supply the Designated CNC Machine Tools to the Group or those designated by the Group in the Sales Region, the Machine Tools Agreement is in line with the Non-Compete Deed entered into among Taiwan FF, Hong Kong GF and Mr. Chu Chih-Yaung on 22 December 2005, pursuant to which Taiwan FF undertook that it will not compete with the sale business of the Group in the Sales Region. Notwithstanding the aforesaid, Taiwan FF has further agreed under the Machine Tools Agreement that:-

- (i) any Designated CNC Machine Tools purchased from Taiwan FF or its designated parties are produced and sold under the brands owned or permitted to be used by the Company from time to time;
- (ii) Taiwan FF will assist the Group in supplying non-Designated CNC Machine Tools in the event that Taiwan FF has sufficient production capacity, provided that the Group reasonably considers that its own production capacity of the relevant machine tools is insufficient or requesting the supply from Taiwan FF is more beneficial to the Group;
- (iii) being an exclusive arrangement, Taiwan FF will not supply or sell any Designated CNC Machine Tools to any parties other than the Group in the Sales Region at any time; and will notify the intending third party purchaser to consider buying from the Group; and
- (iv) Taiwan FF shall not request, require, direct, induce or compel the Group to purchase any Designated CNC Machine Tools by any means.

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The above provides the Group with full discretion as to the order placement and further safeguards the interests of the Company in addition to the Non-compete Deed. We understand from the management that internal control procedures (as discussed in the terms of order placing under the Machine Tools Agreement in section 3 above) are in place to ascertain that the Group will only source the Designated CNC Machine Tools from Taiwan FF when it is beneficial for the Group to do so. Furthermore, the management believes that Taiwan FF will continue to honour the spirit of the Non-compete Deed, and that entering into the Machine Tools Agreement is mutually beneficial to both the Group and Taiwan FF.

Based on the above, we are of the view that the internal control procedures mentioned above are effective in ensuring that the Group will exercise full discretion in making its purchase decisions from Taiwan FF and the purchase of CNC Machine Tools by the Group from Taiwan FF will be governed by the fair and reasonable terms of the Machine Tools Agreement.

CONCLUSION AND RECOMMENDATION

Having considered the above principal factors, we are of the opinion that terms and conditions of the Components Agreement and Machine Tools Agreement are on normal commercial terms, are in the ordinary and usual course of business, and are fair and reasonable so far as the Independent Shareholders are concerned. The aforesaid Agreements are also in the interests of the Company and Shareholders as a whole. We are of the view that the Proposed Caps have been fairly and reasonably arrived at. We would therefore advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Continuing Connected Transactions and the Proposed Caps thereof.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Arnold Ip
Executive 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, this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained herein the omission of which would make any statement contained in this circular misleading.

2. INTERESTS OF DIRECTORS

(a) Interests in the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to (a) Division 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) section 352 of the SFO, to be entered in the register required to be kept by the Company under such provision; or (c) the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Director	Name of associated corporation	Number and class of shares held			Total	Approximate percentage of shareholding
		Personal interest	Spouse interest	Family interest		
Mr. Chu Chih-Yaung	Taiwan FF	24,490,347 shares	4,528,925 shares <i>(Note 1)</i>	–	29,019,272 shares	18.43%
	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) <i>(Note 3)</i>	21,988 shares	21,988 shares <i>(Note 2)</i>	–	43,976 shares	0.44%
	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd) <i>(Note 3)</i>	1,000 shares	1,000 shares <i>(Note 4)</i>	–	2,000 shares	0.02%
	友嘉國際股份有限公司 (Decaview Asia Corporation) <i>(Note 3)</i>	–	14,700 shares <i>(Note 5)</i>	–	14,700 shares	0.59%
	Fair Fine (Hongzhou) Industrial Co., Ltd. <i>(Note 3)</i>	750 shares	–	–	750 shares	0.03%

Name of Director	Name of associated corporation	Number and class of shares held			Total	Approximate percentage of shareholding
		Personal interest	Spouse interest	Family interest		
Mr. Chen Hsiang-Jung	Taiwan FF	4,572,841 shares	-	-	-	2.90%
	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 3)	2,940 shares	-	-	-	0.12%
	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 3)	750 shares	-	-	750 shares	0.03%

Notes:

1. Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) (“**Ms. Wang**”), the spouse of Mr. Chu Chih-Yaung (“**Mr. Chu**”), holds 2.88% of the issued share capital of Taiwan FF. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.
2. Ms. Wang holds 0.22% of the issued share capital of Fairskq (Taiwan) Co., Ltd.. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Fairskq (Taiwan) Co., Ltd. under the SFO.
3. These companies are non-wholly-owned subsidiaries of Taiwan FF and are therefore associated corporations of the Company under the SFO.
4. Ms. Wang holds 0.01% of the issued share capital of Yu Thai Xin Ent. Co., Ltd.. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Yu Thai Xin Ent. Co., Ltd. under the SFO.
5. Ms. Wang holds 0.59% of the issued share capital of Decaview Asia Corporation. Mr. Chu is deemed to be interested in all the shares held by Ms. Wang in Decaview Asia Corporation under the SFO.

All interests disclosed above represent long positions in the relevant ordinary shares of the associated corporations.

(b) Interests in contracts and assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors, there was no other person who had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of SFO) which would fall to be disclosed under 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 carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Interests in Shares

Name of substantial shareholders	Nature of interest		Number of Shares held	Percentage of issued share capital of the Company
Hong Kong GF	Beneficial owner	Long position	232,000,000 Shares <i>(Note)</i>	57.54%
Taiwan FF	Interest of controlled corporation	Long position	232,000,000 Shares <i>(Note)</i>	57.54%

Note: Hong Kong GF is owned as to approximate 99.99% by Taiwan FF. Taiwan FF is deemed to be interested in 232,000,000 shares of the Company held by Hong Kong GF under the SFO.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS

Save as set out on pages 94 to 106 of the prospectus of the Company dated 30 December 2005, as at the Latest Practicable Date, none of the Directors or their respective associates was considered to have any interest in a business which competes or may compete with the business of the Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are of the view that there was no material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. EXPERT AND CONSENT

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

Name	Qualification
Altus Capital Limited	a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, Altus Capital is not beneficially interested in the share capital of any member of the Group, nor has any right (whether legitimate or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Altus Capital did not have any direct or indirect interest in any asset which had been, since 31 December 2010, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Altus Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 24 May 2011 set out on pages 20 to 37 of and made for incorporation in this circular and references to its name in the form and context in which they respectively appear.

8. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents will be available for inspection at Room 2003, 20th Floor, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

- Components Agreement
- Machine Tools Agreement

9. GENERAL

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

NOTICE OF EGM

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**Meeting**”) of Good Friend International Holdings Inc. (the “**Company**”) will be held at 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 15 June 2011 at 2:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

“THAT:

1. (a) the entering into of the components agreement (“**Components Agreement**”) (a copy of which marked “A” has been produced to the Meeting and initialed by the chairman of the Meeting for the purpose of identification) by the Company and Fair Friend Enterprise Company Limited on 19 May 2011 in relation to the supply and purchase of CKD components and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;
- (b) the proposed annual caps in respect of the Components Agreement (“**Components Proposed Caps**”), details of which are set out in the circular of the Company dated 24 May 2011, be and are hereby approved;
- (c) any one or more director(s) of the Company be and are hereby authorized for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and deeds as such director(s) may consider necessary, expedient or desirable to give effect to or otherwise in connection with the Components Agreement, the transactions contemplated thereunder and the Components Proposed Caps;

NOTICE OF EGM

2. (a) the entering into of the machine tools agreement (the “**Machine Tools Agreement**”) (a copy of which marked “B” has been produced to the Meeting and initialed by the chairman of the Meeting for the purpose of identification) by the Company and Fair Friend Enterprise Company Limited on 19 May 2011 in relation to the purchase of CNC machine tools and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;
- (b) the proposed annual caps in respect of the Machine Tools Agreement (“**Machine Tools Proposed Caps**”), details of which are set out in the circular of the Company dated 24 May 2011, be and are hereby approved;
- (c) any one or more director(s) of the Company be and are hereby authorized for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and deeds as such director(s) may consider necessary, expedient or desirable to give effect to or otherwise in connection with the Machine Tools Agreement, the transactions contemplated thereunder and the Machine Tools Proposed Caps.”

By Order of the Board
Good Friend International Holdings Inc.
Chen Hsiang-Jung
Chief Executive Officer

Hong Kong, 24 May 2011

Principal Place of Business in Hong Kong:

Room 2003, 20th Floor
Kai Tak Commercial Building
317-319 Des Voeux Road Central
Hong Kong

NOTICE OF EGM

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or, if he holds two or more shares, more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, not less than 48 hours before the time for holding the Meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting or any adjournment thereof should the shareholder of the Company so desires, and in such event, the form of proxy will be deemed to be revoked.
4. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of other joint holders seniority being determined by the order in which names stand in the register of members.
5. As at the date of this notice, the board of directors of the Company comprises Mr. Chu Chih-Yaung, Mr. Chen Hsiang-Jung, Mr. Chen Min-Ho, Mr. Wen Chi-Tang and Mr. Chiu Rung-Hsien, all being the executive directors and Mr. Koo Fook Sun, Louis, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang, all being the independent non-executive directors.