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

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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**

**Financial Adviser to Good Friend International Holdings Inc.**



**寶來證券(香港)有限公司**

**Polaris Securities (Hong Kong) Limited**

A Member of Polaris Financial Group

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



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A letter from the board of directors of Good Friend International Holdings Inc. (the “Company”) is set out on pages 5 to 10 of this circular. A letter from the independent board committee of the Company is set out on pages 11 to 12 of this circular. A letter from Access Capital, the independent financial adviser to the independent board committee and independent shareholders of the Company, is set out on pages 13 to 17 of this circular.

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context otherwise requires.*

“Access Capital” or “Independent Financial Adviser”	Access Capital Limited, a licensed corporation under the SFO and engages in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Richest Way Transactions
“Announcement”	the announcement of the Company dated 18 April 2007 in relation to continuing connected transactions of the Company
“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
“Director(s)”	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

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## DEFINITIONS

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“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, being all the independent non-executive Directors
“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
“Latest Practicable Date”	7 May 2007 being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular
“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 Company
“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

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## DEFINITIONS

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“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“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
“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 by way of placing and public offer
“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“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

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## DEFINITIONS

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

**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:*

Mr. Chu Chih-Yaung (*Chairman*)  
Mr. Chen Hsiang-Jung (*Chief Executive Officer*)  
Mr. Chen Min-Ho  
Mr. Wen Chi-Tang  
Mr. Chiu Rung-Hsien

*Registered Office:*

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

*Independent non-executive Directors:*

Mr. Koo Fook Sun, Louis  
Mr. Chiang Chun-Te  
Mr. Yu Yu-Tang

*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:*  
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Xiaoshan Economic and Technological  
Development Zone  
Xiaoshan District  
Hangzhou City  
Zhejiang Province  
The PRC

9 May 2007

*To the Shareholders*

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS**

**1. INTRODUCTION**

As stated in the Announcement, during the audit work of the Group for the financial year ended 31 December 2006, 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.

# LETTER FROM THE BOARD

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. As Richest Way Transactions had been entered into between Richest Way and Hangzhou GF during the Relevant Periods, hence those transactions could not be retroactively sought Independent Shareholders' approval.

The purpose of this circular is to provide you with further information relating to Richest Way Transactions and other information required by the Listing Rules. A letter from the Independent Board Committee and its recommendations to the Independent Shareholders is set out on pages 11 to 12 of this circular, and the opinion letter from Access Capital is set out on pages 13 to 17 of this circular.

## 2. CONTINUING CONNECTED TRANSACTIONS

### Background

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

<b>Type of transaction</b>	<b>Year ended 31 December 2006 <i>RMB'million Audited</i></b>	<b>From 1 January 2007 to 3 April 2007 <i>RMB'million Unaudited</i></b>
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 continuing 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.

Each of Richest Way and Profit Group is principally engaged in trading business.



### **Relationship between the Group and the parties to the continuing connected transactions**

Mr. Chu, an executive Director and the Chairman of the Company, together with his relatives are considered as controlling shareholders of the Company as disclosed on page 64 of the Prospectus. As at the Latest Practicable Date, 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.

By reason of the aforesaid relationship between Richest Way and Mr. Chu, the purchases of parts and components from Richest Way constituted continuing 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.

In addition, by reason of the aforesaid relationship between Profit Group and Mr. Chu, the sales of machine tools to Profit Group also constituted continuing 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.

### **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.

### **3. BREACH OF LISTING RULES**

The conduct of the Transactions by the Company 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.

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.

The Transactions were entered into after the listing of the shares of the Company on the Stock Exchange on 11 January 2006. The Directors confirm that the Transactions had been discontinued since 4 April 2007. The purchase and sales orders as referred to in Transactions are expected to be completed by no later than June 2007. The Company informed the independent non-executive Directors with regard to such breach of the Listing Rules during the audit work of the Group for the financial year ended 31 December 2006, as such, they were not aware of such breach prior to 12 April 2007.

### 4. REMEDIAL ACTIONS

In order to prevent occurrence of similar events in the future and enable the shareholders of the Company 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 paragraph 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 at all times.

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## LETTER FROM THE BOARD

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### 5. OPINION

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 11 to 12 of this circular and (ii) the letter from Access Capital, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders, as set out on pages 13 to 17 of this circular.

The Board is of the opinion that the Richest Way Transactions, which constituted continuing connected transactions, were on normal commercial terms and in the ordinary and usual course of business of the Group. Accordingly, the Board considers that the terms of the Richest Way Transactions were fair and reasonable so far as the Independent Shareholders are concerned and that the Richest Way Transactions were in the interests of the Company and its shareholders as a whole.

### 6. ADDITIONAL INFORMATION

Your attention is also drawn to Appendix of this circular setting out the general information of the Company.

Yours faithfully  
By order of the Board  
**Good Friend International Holdings Inc.**  
**Chu Chih-Yaung**  
*Chairman*

**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)**

*Registered Office:*

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*Principal place of business*

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Hong Kong

*Principal place of business*

*in the PRC:*

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Xiaoshan Economic and Technological  
Development Zone  
Xiaoshan District  
Hangzhou City  
Zhejiang Province  
The PRC

9 May 2007

*To the Independent Shareholders*

Dear Sir or Madam

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 9 May 2007 (the “Circular”) to the shareholders of the Company of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed as members of the Independent Board Committee, which has been established to advise the Independent Shareholders in connection with the Richest Way Transactions, details of which are set out in the “Letter from the Board” contained in the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Access Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders as to whether the terms of the Richest Way Transactions were fair and reasonable so far as the Independent Shareholders are concerned and the Richest Way Transactions were in the interests of the Company and its shareholders as a whole. We wish to draw your attention to the opinion letter from Access Capital as set out on pages 13 to 17 of the Circular.

As members of the Independent Board Committee, we have discussed with the management of the Company in relation to the Richest Way Transactions, and the basis upon which the terms of the transactions have been determined. We have also taken into account the principal factors and reasons considered by Access Capital in forming its opinion in relation to the Richest Way Transactions, and have discussed with Access Capital its opinion letter and its advice. On the basis of the above, we consider, and agree with the view of Access Capital, that the terms of the Richest Way Transactions were fair and reasonable so far as the Independent Shares are concerned and that the Richest Way Transactions were in the interests of the Company and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolution in relation to the Richest Way Transactions as if there shall be a general meeting of the Company to approve the Richest Way Transactions.

Yours faithfully,

**Independent Board Committee**

**KOO Fook Sun, Louis**

**CHIANG Chun-Te**

**YU Yu-Tang**

*Independent non-executive Directors*

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# LETTER FROM ACCESS CAPITAL

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*The following is the text of the letter of advice from Access Capital to the Independent Board Committee and the Independent Shareholders in relation to the Richest Way Transactions prepared for the purpose of incorporation in this circular.*



Suite 606, 6th Floor  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

9 May 2007

*To: The Independent Board Committee and the Independent Shareholders of  
Good Friend International Holdings Inc.*

Dear Sirs,

## **CONTINUING CONNECTED TRANSACTIONS**

### **I. INTRODUCTION**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Richest Way Transactions. Details of the Richest Way Transactions are contained in the “Letter from the Board” of the circular to the Shareholders dated 9 May 2007 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

As stated in the “Letter from the Board”, during the audit work of the Group for the financial year ended 31 December 2006, the Group discovered that Hangzhou GF had, during the Relevant Periods, entered into purchases of parts and components from Richest Way which had not been disclosed in accordance with the Listing Rules.

Richest Way 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. Therefore, Richest Way is an associate of a connected person of the Company under the Listing Rules. By reason of the relationship between Richest Way and Mr. Chu, the purchases of parts and components from Richest Way constituted continuing 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.

Accordingly, the conduct of the Richest Way Transactions by the Group and the failure by the Company to report and announce the details of the Richest Way Transactions and to seek Independent Shareholders' approval have constituted a breach of the Listing Rules. As Richest Way Transactions had been entered into between Richest Way and Hangzhou GF during the Relevant Periods, hence those transactions could not be retroactively sought Independent Shareholders' approval.

### **II. THE INDEPENDENT BOARD COMMITTEE**

The Board currently consists of five executive Directors, namely Messrs. CHU Chih-Yaung, CHEN Hsiang-Jung, CHEN Min-Ho, WEN Chi-Tang, CHIU Rung-Hsien and three independent non-executive Directors, namely Messrs. KOO Fook Sun, Louis, CHIANG Chun-Te and YU Yu-Tang.

The Independent Board Committee comprising all independent non-executive Directors, namely Messrs. KOO Fook Sun, Louis, CHIANG Chun-Te and YU Yu-Tang has been established to consider the Richest Way Transactions.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Richest Way Transactions were agreed on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and to give our opinion in relation to the terms of the Richest Way Transactions for their consideration when making their recommendation to the Independent Shareholders.

### **III. BASIS AND ASSUMPTIONS OF THE ADVICE**

In formulating our advice, we have relied solely on the statements, information, opinions and representations for matters relating to the Company contained in the Circular and the information and representations provided to us by the Company and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations for matters relating to the Company contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Company made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.



We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

#### **IV. PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

##### **1. Background to the Richest Way 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.

Richest Way, a company incorporated in Hong Kong on 10 August 2001, is principally engaged in trading business. During the audit work of the Group for the financial year ended 31 December 2006, the Group discovered that Hangzhou GF had, during the Relevant Periods, entered into purchases of parts and components from Richest Way.

By reason of the relationship between Richest Way and Mr. Chu, the purchases of parts and components from Richest Way constituted continuing 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. Accordingly, the conduct of the Richest Way Transactions by the Group and the failure by the Company to report and announce the details of the Richest Way Transactions and to seek Independent Shareholders' approval have constituted a breach of the Listing Rules.

The Directors explained 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, 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 the Richest Way Transactions and partly due to oversight of the management of the Company but was not intentional.

As set out in the “Letter from the Board”, the Richest Way Transactions were entered into after the listing of the Company on 11 January 2006. The Directors confirm that the Richest Way Transactions had been discontinued since 4 April 2007. The purchase orders as referred to in the Richest Way Transactions are expected to be completed by no later than June 2007. The Company informed the independent non-executive Directors with regard to such breach of the Listing Rules during the audit work of the Group for the financial year ended 31 December 2006, as such, they were not aware of such breach prior to 12 April 2007.

### **2. Basis of and reasons for entering into the Richest Way Transactions**

As set out in the “Letter from the Board”, 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.

We understand from the senior management that the parts and components purchased under the Richest Way Transactions were mainly used for the production of CNC machine tools.

Given that the principal business of the Group is 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, we concur with the Board’s view that the Richest Way Transactions fall within the ordinary and usual course of business of the Group.

Based upon the contracts in relation to the Richest Way Transactions, it is noted that the Richest Way Transactions covered a vast amount of different types of parts and components required for the production of CNC machine tools. We have reviewed the pricing for certain parts and components under the Richest Way Transactions and the price quotations from independent suppliers and noted the pricing for such parts and components under the Richest Way Transactions were similar to the sampled price quotations from independent suppliers.

**V. RECOMMENDATION**

After having considered the above principal factors, namely (i) the background to the Richest Way Transactions; and (ii) the terms of the Richest Way Transactions; we are of the view that terms of the Richest Way Transactions were on normal commercial terms, in the ordinary and usual course of business of the Group and were fair and reasonable so far as the Shareholders are concerned and were in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the Richest Way Transactions as if there shall be a general meeting of the Company to approve the Richest Way Transactions.

Yours faithfully,  
For and on behalf of  
**ACCESS CAPITAL LIMITED**  
**Jeanny Leung**  
*Managing Director*

## 1. Responsibility Statement

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. Directors' Interests in Shares

As at the Latest Practicable Date, the interests and short positions of the directors or chief executive of the Company 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 to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO); or were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, were as follows:

### (A) Aggregate long position in the shares, underlying shares and debentures of the Company and its associated corporations

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu Chih-Yaung	友嘉實業股份有限公司 (Fair Friend Enterprise Company Limited) ("Taiwan FF")	Beneficial owner	24,512,401 shares	15.57%
Mr. Chu Chih-Yaung (Note 1)	Taiwan FF	Spouse interest	4,831,925 shares	3.07%
Mr. Chu Chih-Yaung (Note 2)	Taiwan FF	Family interest	454,283 shares	0.29%
Mr. Chen Hsiang-Jung	Taiwan FF	Beneficial owner	4,815,841 shares	3.06%
Mr. Chu Chih-Yaung	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) (Note 4)	Beneficial owner	21,988 shares	0.22%
Mr. Chu Chih-Yaung (Note 3)	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) (Note 4)	Spouse interest	21,988 shares	0.22%

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chen Min-Ho	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd.) (Note 4)	Beneficial owner	43,976 shares	0.44%
Mr. Chu Chih-Yaung	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) (Note 4)	Beneficial owner	1,000 shares	0.01%
Mr. Chu Chih-Yaung (Note 5)	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) (Note 4)	Spouse interest	1,000 shares	0.01%
Mr. Chu Chih-Yaung	友嘉全球航太股份有限公司 (Turbofair Corporation) (Note 4)	Beneficial owner	600 shares	0.10%
Mr. Chu Chih-Yaung (Note 6)	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 4)	Spouse interest	50,000 shares	0.59%
Mr. Chen Hsiang-Jung	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 4)	Beneficial owner	10,000 shares	0.12%
Mr. Chu Chih Yaung	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 4)	Beneficial owner	750 shares	0.03%
Mr. Chen Hsiang-Jung	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 4)	Beneficial owner	750 shares	0.03%

## Notes:

- Ms. Wang Jin-Zu (“Ms. Wang”), Mr. Chu’s spouse, holds 3.07% of the issued share capital of Taiwan FF. Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.
- Mr. Chu Yi-Chia, Mr. Chu’s son under the age of 18, holds 0.29% of the issued share capital of Taiwan FF, Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Mr. Chu Yi-Chia in Taiwan FF under the SFO.
- Ms. Wang holds 0.22% of the issued share capital of Fairskq (Taiwan) Co., Ltd.. Mr. Chu Chih-Yaung is deemed to be interested in all the shares held by Ms. Wang in Fairskq (Taiwan) Co., Ltd. under the SFO.
- These companies are non-wholly-owned subsidiaries of Taiwan FF and are therefore associated corporations of the Company for the purpose of the SFO.
- 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.
- 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.

Save as disclosed above, as at the Latest Practicable Date, none of the directors and the chief executive of the Company had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

**(B) Aggregate short position in the shares, underlying shares and debentures of the Company and its associated corporations**

As at the Latest Practicable Date, none of the directors and the chief executive of the Company had any short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

**3. Substantial Shareholders' Interests in Shares**

As at the Latest Practicable Date, the interest or short positions of every person (other than a director or chief executive of the Company whose interests are disclosed above) in the shares or underlying shares of the Company according to the register of the Company required to be kept under Section 336 of the SFO which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, 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 members of the Group, together with particulars of any option in respect of such capital are set out below:

**(A) Aggregate long position in the shares and underlying shares of the Company**

Name of Shareholder	Nature of interest	Number of ordinary shares held	Percentage of the issued share capital of the Company
Good Friend (H.K.) Corporation Limited	Beneficial owner	210,000,000 shares (Note)	75%
Taiwan FF	Interest of controlled corporation	210,000,000 shares (Note)	75%

*Note:* Good Friend (H.K.) Corporation Limited is owned as to approximately 99.99% by Taiwan FF. Taiwan FF is deemed to be interested in 210,000,000 shares of the Company held by Good Friend (H.K.) Corporation Limited under the SFO.

**(B) Aggregate short position in the shares and underlying shares of the Company**

So far as is known to the Directors, as at the Latest Practicable Date, no other person had a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or had any option in respect of such capital.

**4. Directors' Service Contracts**

Each of the executive Directors has entered into a service agreement dated 22 December 2005 with the Company for an initial fixed term of three years commencing from 11 January 2006 until terminated by not less than three months' notice in writing served by either party to the other or in accordance with the provisions set out in the respective service agreement. Each of the executive Directors may receive a discretionary bonus, the amount of which will be determined by reference to the comments of the remuneration committee of the Company.

Each of the independent non-executive Directors has entered into a service agreement dated 22 December 2005 with the Company for an initial fixed term of two years commencing from 11 January 2006 until terminated by not less than three months' notice in writing served by either party to the other.

Other than disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable within one year without payment of compensation other than statutory compensation.

## 5. Directors' Interests in Competing Business

As at the Latest Practicable Date, none of the Directors, or so far as is known to them, any of their respective associates (as defined in the Listing Rules) was interested in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group in the PRC, Hong Kong and Macau.

## 6. Directors' Interests in the Group's Assets or Contracts or Arrangements Significant to the Group

As at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2006 (being the date to which the latest published audited accounts 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 was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Group.

## 7. Material Adverse Change

As at the Latest Practicable Date, the Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up.

## 8. Litigation

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

## 9. Qualification and Consent of Experts

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

<b>Name</b>	<b>Qualification</b>
Access Capital	A corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO.



Access Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name included herein in the form and context in which they respectively appear.

As at the Latest Practicable Date, Access Capital was not beneficially interested in the share capital of any member of the Group or had no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and had no interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 10. General

- (a) The Company Secretary is Ms. Leung Pui Ki, an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and the Hong Kong Institute of Company Secretaries (HKICS).
- (b) The Qualified Accountant of the Company is Ms. Kong Sau Ha, a fellow of both the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Ms. Kong is also an associate of The Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

## 11. Documents Available for Inspection

Copies of the following documents be available at the offices of the Company at Room 2003, 20th Floor, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Hong Kong during normal business hours up to and including to 25 May 2007:

- (a) the articles of association of the Company;
- (b) the service contracts of the Directors as referred to in paragraph 4 in this appendix;
- (c) the annual reports of the Company for the two years ended 31 December 2006;
- (d) the announcement of the Company in relation to the Transactions dated 18 April 2007;

- (e) a memorandum in relation the Richest Way Transactions;
- (f) the letter dated 9 May 2007 from the Independent Board Committee, the text of which is set out on pages 11 to 12 of this circular;
- (g) the letter dated 9 May 2007 from Access Capital, the text of which is set out on pages 13 to 17 of this circular;
- (h) the written consent from Access Capital as referred to in paragraph 9 in this appendix; and
- (i) this circular.