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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

(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

The Board is pleased to announce that, 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 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.

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. 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 Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in this respect.

A circular containing details of (i) the terms of the Agreements and the transactions and the Proposed Caps thereunder; (ii) the respective letters of advice from the Independent Board Committee and Altus Capital Limited; and (iii) a notice convening the EGM is expected to be dispatched to the Shareholders on or before 24 May 2011.

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.

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.

(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.

For the avoidance of doubt, if the Buyer is able to obtain from its 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

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 activities 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.

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.

(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.

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

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 activities 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.

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.

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.

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. 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 Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in this respect.

A circular containing details of (i) the terms of the Agreements, the transactions and the Proposed Caps thereunder; (ii) the respective letters of advice from the Independent Board Committee and Altus Capital Limited; and (iii) a notice convening the EGM is expected to be dispatched to the Shareholders on or before 24 May 2011.

DEFINITIONS

In this announcement, unless otherwise indicated in the context, the following terms shall have the meanings set out below:

“Agreements”	the Components Agreement and the Machine Tools Agreement
“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
“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 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
“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
“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 announcement, 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
“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
“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
“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

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

Hong Kong, 19 May 2011

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