
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 form of proxy 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 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
(1) RENEWAL OF FRAMEWORK AGREEMENT
FOR THE PURCHASE AND SUPPLY OF CKD COMPONENTS
(2) RENEWAL OF EXCLUSIVE FRAMEWORK AGREEMENT
FOR THE PURCHASE OF DESIGNATED CNC MACHINE TOOLS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

ALTUS CAPITAL LIMITED

Capitalised terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 7 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 28 to 51 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 13 July 2017 at 11:00 a.m. is set out on pages 57 to 58 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 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, Tricor Investor Services Limited at Level 22, 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 the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

27 June 2017

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DEFINITIONS

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

“Agreements”	the CKD Components Agreement and the CNC Machine Tools Agreement
“Altus Capital”	Altus Capital Limited, a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Announcement”	the announcement of the Company dated 26 May 2017
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors
“CKD Components”	CKD is the short form and acronym for Complete Knock Down, and CKD components are the major components required to assemble and manufacture CNC Machine Tools
“CKD Components Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 26 May 2017, in relation to the purchase and supply of CKD Components between the Group (or the CKD Components Purchaser and/or the CKD Components Supplier designated by the Company) and the Taiwan FF Group (or the CKD Components Purchaser and/or CKD Components Supplier designated by Taiwan FF) for a period of three years commencing from the Effective Date
“CKD Components Purchaser(s)”	the purchaser(s) designated by the Company or Taiwan FF (as the case may be) to purchase CKD Components under the CKD Components Agreement, which may be any member(s) of the Group or the Taiwan FF Group (as the case may be), or person(s) other than member(s) of the Group or the Taiwan FF Group (as the case may be) if with the written consent of the other party

DEFINITIONS

“CKD Components Supplier(s)”	the supplier(s) designated by the Company or Taiwan FF (as the case may be) to supply CKD Components under the CKD Components Agreement, which may be any member(s) of the Group or the Taiwan FF Group (as the case may be), or person(s) other than member(s) of the Group or the Taiwan FF Group (as the case may be) if with the written consent of the other party
“CNC Machine Tools”	CNC is the short form and acronym for Computer Numerical Control, a numerical control and computer storage 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
“CNC Machine Tools Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 26 May 2017, in relation to the exclusive sale of Designated CNC Machine Tools by the Taiwan FF Group (or the CNC Machine Tools Seller designated by Taiwan FF) to the Group (or the CNC Machine Tools Purchaser designated by the Company), and the rights to exclusive sale of Designated CNC Machine Tools by the Group (or the CNC Machine Tools Purchaser designated by the Company) in the Sales Region for a period of three years commencing from the Effective Date
“CNC Machine Tools Purchaser(s)”	the purchaser(s) designated by the Company to purchase Designated CNC Machine Tools under the CNC Machine Tools Agreement, which may be any member(s) of the Group, or person(s) other than member(s) of the Group if with the written consent of Taiwan FF
“CNC Machine Tools Seller(s)”	the seller(s) designated by Taiwan FF to sell Designated CNC Machine Tools under the CNC Machine Tools Agreement, which may be any member(s) of the Taiwan FF Group, or person(s) other than member(s) of the Taiwan FF Group if with the written consent of the Company
“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

“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”	include (i) the CNC Machine Tools agreed to be sold and purchased under the CNC Machine Tools Agreement, the models and production specifications of which were specified under the CNC Machine Tools Agreement; and (ii) other CNC Machine Tools as mentioned under paragraphs (ii) and (iii) of the section headed “ <i>Letter from the Board – (2) CNC Machine Tools Agreement – Summary of principal terms – (F) Others</i> ”
“Directors”	the directors of the Company
“Effective Date”	the date on which the condition precedent under each of the CKD Components Agreement and the CNC Machine Tools Agreement (as set out in the sections headed “ <i>Letter from the board – (1) CKD Components Agreement – Summary of principal terms – (A) Condition precedent</i> ” and “ <i>Letter from the board – (2) CNC Machine Tools Agreement – Summary of principal terms – (A) Condition precedent</i> ”) is fulfilled
“EGM”	the extraordinary general meeting of the Company to be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 13 July 2017 at 11:00 a.m. to consider and, if thought fit, approve, among others, the Agreements, the Transactions and Proposed Annual Caps thereunder
“Former CKD Components Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 22 May 2014, in relation to the purchase and supply of CKD Components between the Company (or persons designated by the Company) and Taiwan FF (or persons designated by Taiwan FF) for a period of three years commencing from 27 June 2014 and expiring on 26 June 2017

DEFINITIONS

“Former CNC Machine Tools Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 22 May 2014, in relation to the exclusive sale of Designated CNC Machine Tools by Taiwan FF (or persons designated by Taiwan FF) to the Company (or persons designated by the Company), and the rights to exclusive sale of Designated CNC Machine Tools by the Company (or persons designated by the Company) in the Sales Region for a period of three years commencing from 27 June 2014 and expiring on 26 June 2017
“Group”	the Company and its then subsidiaries at any time, together with their associates
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong GF”	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 as at the Latest Practicable Date
“Independent Board Committee”	the committee established by the Board, comprising the three independent non-executive Directors
“Independent Shareholders”	Shareholders (other than Hong Kong GF, Sunward Gold Global Investments Limited (a company held as to approximately 72.22% by Mr. Chu as at the Latest Practicable Date) and any of their respective associates and, if any, any other Shareholders who have a material interest and are required to abstain from voting at the EGM pursuant to the Listing Rules) who do not have to abstain from voting in the EGM under the Listing Rules
“Latest Practicable Date”	23 June 2017, 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

DEFINITIONS

“Mr. Chu”	Mr. CHU Chih-Yaung, an executive Director and the chairman of the Company, who as at the Latest Practicable Date was beneficially interested in 18,352,181 shares in Taiwan FF (representing approximately 17.92% of the entire issued capital thereof) and, through Sunward Gold Global Investments Limited, a company held as to approximately 72.22% by him, interested in 20,000,000 Shares (representing approximately 4.96% of the entire issued capital of the Company)
“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 Annual Caps”	the proposed annual caps for the annual amounts payable or receivable by the Group in the relevant financial periods for the respective Transaction(s) under the CKD Components Agreement or the CNC Machine Tools Agreement (as the case may be)
“RMB”	Renminbi, the lawful currency of PRC
“Sales Region”	the PRC, Hong Kong and the Macau Special Administrative Region
“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

DEFINITIONS

“Taiwan FF”	Fair Friend Enterprise Company Limited, a limited liability company incorporated in Taiwan on 15 March 1979
“Taiwan FF Group”	Taiwan FF and its then subsidiaries at any time (excluding members of the Group), together with their associates
“Transaction(s)”	the continuing connected transactions contemplated under the CKD Components Agreement and/or the CNC Machine Tools Agreement respectively (as the case may be)
“%”	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:-

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:-

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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:-

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

27 June 2017

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(1) RENEWAL OF FRAMEWORK AGREEMENT
FOR THE PURCHASE AND SUPPLY OF CKD COMPONENTS
(2) RENEWAL OF EXCLUSIVE FRAMEWORK AGREEMENT
FOR THE PURCHASE OF DESIGNATED CNC MACHINE TOOLS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

LETTER FROM THE BOARD

1. INTRODUCTION

Reference is made to the Announcement whereby it was announced that, among others, on 26 May 2017, the Company and Taiwan FF entered into a conditional CKD Components Agreement, pursuant to which (i) the Group (or the CKD Components Supplier designated by the Company) may supply CKD Components to the Taiwan FF Group (or the CKD Components Purchaser designated by Taiwan FF) for the production of CNC Machine Tools on a non-exclusive basis and (ii) the Taiwan FF Group (or the CKD Components Supplier designated by Taiwan FF) may supply CKD Components to the Group (or the CKD Components Purchaser designated by the Company) for the production of CNC Machine Tools on a non-exclusive basis, for a period of three years commencing from the Effective Date. Furthermore, on 26 May 2017, the Company and Taiwan FF entered into a conditional CNC Machine Tools Agreement, pursuant to which the Group (or the CNC Machine Tools Purchaser designated by the Company) may purchase from the Taiwan FF Group (or the CNC Machine Tools Seller designated by Taiwan FF), which shall, upon receiving the former's request, sell the Designated CNC Machine Tools to it on an exclusive basis, for a period of three years commencing from the Effective Date. Pursuant to the CNC Machine Tools Agreement, the Group (or the CNC Machine Tools Purchaser designated by the Company) has the right to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis, and the Taiwan FF Group (or the CNC Machine Tools Seller designated by Taiwan FF) shall authorize the CNC Machine Tools Purchaser to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis. The Directors will seek the Independent Shareholders' approval for the Agreements, the Transactions and the Proposed Annual Caps thereunder at the EGM.

The purposes of this circular are, among others, (i) to provide you with, among other things, details of the terms of the Agreements, the Transactions and the Proposed Annual 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, the Transactions and the Proposed Annual 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, the Transactions and the Proposed Annual Caps thereunder, and (iv) to provide you with the notice of EGM.

LETTER FROM THE BOARD

2. BACKGROUND

Reference is made to the announcement dated 22 May 2014 and the circular dated 6 June 2014 of the Company respectively in relation to, among others, the continuing connected transactions under the Former CKD Components Agreement for the purchase and supply of CKD Components between the Company (or persons designated by the Company) and Taiwan FF (or persons designated by Taiwan FF) and the Former CNC Machine Tools Agreement for the exclusive sale of CNC Machine Tools by Taiwan FF (or persons designated by Taiwan FF) to the Company (or persons designated by the Company), and the rights to exclusive sale of Designated CNC Machine Tools by the Company (or persons designated by the Company) in the Sales Region, both entered into between the Company and Taiwan FF on 22 May 2014 respectively. The Former CKD Components Agreement and the Former CNC Machine Tools Agreement will both expire on 26 June 2017. As the Company and Taiwan FF intend to continue to carry out the relevant transactions, the CKD Components Agreement and the CNC Machine Tools Agreement were entered into on 26 May 2017 to renew the above arrangements.

3. CKD COMPONENTS AGREEMENT

Date:

26 May 2017

Parties:

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

Summary of principal terms:

(A) *Condition precedent*

The CKD Components Agreement is subject to and conditional upon the approval of the CKD Components Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps by the Independent Shareholders at the EGM in accordance with the Listing Rules.

In case where the condition precedent cannot be fulfilled on or before 14 July 2017 (or a later date as agreed between the Company and Taiwan FF), the CKD Components Agreement shall be terminated, and, except in relation to any default occurred prior to such termination, none of the parties shall have any rights or remedies against the other thereunder.

LETTER FROM THE BOARD

(B) Term of the CKD Components Agreement

The CKD Components Agreement is for a term of three years commencing from the Effective Date unless (i) earlier terminated by either party by providing to the other party with two months' prior termination notice provided that such termination notice shall not be given within the six months prior to the expiry of the term of the CKD Components Agreement; and (ii) in case a party is in breach of any provision of the CKD Components Agreement, and fails to remedy such breach within a reasonable grace period allowed by the non-defaulting party as stipulated under the written notice of such breach given by the non-defaulting party, the latter may terminate the CKD Components Agreement or any Transactions thereunder, without prejudice to its rights to other compensations and legal remedies.

(C) Details of the Transactions under the CKD Components Agreement

(a) Supply of CKD Components to the Taiwan FF Group (or the CKD Components Purchaser designated by Taiwan FF)

Pursuant to the terms of the CKD Components Agreement, the Group (or the CKD Components Supplier designated by the Company) may supply CKD Components to the Taiwan FF Group (or the CKD Components Purchaser designated by Taiwan FF) for the production of CNC Machine Tools on a non-exclusive basis.

The CKD Components to be supplied by the Group (or the CKD Components Supplier designated by the Company) to the Taiwan FF Group (or the CKD Components Purchaser designated by Taiwan FF) under the CKD Components Agreement mainly be castings, including the counter balance, etc., which form the outer surface of the CNC Machine Tools.

(b) Purchase of CKD components from the Taiwan FF Group (or the CKD Components Supplier designated by Taiwan FF)

Pursuant to the terms of the CKD Components Agreement, the Taiwan FF Group (or the CKD Components Supplier designated by Taiwan FF) may supply CKD Components to the Group (or the CKD Components Purchaser designated by the Company) for the production of the CNC Machine Tools on a non-exclusive basis.

LETTER FROM THE BOARD

The CKD Components proposed to be sourced from and those proposed to be sold to the Taiwan FF Group (or the CKD Components Supplier and/or the CKD Components Purchaser designated by Taiwan FF) are of different types. The CKD Components to be supplied by the Taiwan FF Group (or the CKD Components Supplier designated by Taiwan FF) to the Group (or the CKD Components Purchaser designated by the Company) under the CKD Components Agreement mainly comprise the integral components and parts of the CNC Machine Tools including spindle head and table.

The Company may designate any members of the Group and Taiwan FF may designate any members of the Taiwan FF Group as the CKD Components Purchaser or the CKD Components Supplier to perform and shall procure those parties to perform the Transactions under the CKD Components Agreement in accordance with its terms. The Company and Taiwan FF shall undertake and be responsible for the performance of any such Transactions entered into by its respective designated parties. The Company or Taiwan FF shall obtain the prior written consent of the other party if the designated parties are non-members of the Group or of the Taiwan FF Group. The Company (or its designated CKD Components Purchaser and/or the CKD Components Supplier) shall have the sole discretion to determine, according to actual circumstances, whether to source from or supply to Taiwan FF (or its designated CKD Components Supplier and/or the CKD Components Purchaser) any CKD Components or the quantity of which to be so sourced or supplied.

(D) Delivery and payment arrangements

For the purpose of any Transaction under the CKD Components Agreement, the CKD Components Purchaser shall send a purchase notice to the CKD Components Supplier specifying, among others, the quantity and delivery time of the CKD Components required 90 days prior to the requested delivery date. Upon receipt of the purchase notice, the CKD Components Supplier shall issue a price quotation to the CKD Components Purchaser, which shall conform with the pricing policies as agreed under the CKD Components Agreement, within 7 days. The price quotation will become effective and binding upon the written confirmation of the CKD Components Purchaser. All Transactions under the CKD Components Agreement shall be made in accordance with the terms of the CKD Components Agreement and the aforesaid price quotation. Where there are conflicts between the terms of the CKD Components Agreement and the terms of the price quotation, the former shall prevail. The CKD Components Purchaser shall settle the relevant payment for the CKD Components within 30 days after receipt of the relevant CKD Components.

LETTER FROM THE BOARD

(E) Price determination

The price of the CKD Components to be purchased and supplied under the CKD Components Agreement is to be determined by reference to:

- (i) the price quotation for the same type of CKD Components (to be updated quarterly during the term of the CKD Components Agreement, or to be updated in other reasonable intervals as agreed between the Company and Taiwan FF) publicly provided by the CKD Components Supplier to its third party customers independent of the CKD Components Supplier; or
- (ii) in the event that the CKD Components Supplier is unable to determine the price quotation of the CKD Components on the basis stipulated in (i) above for any reason, the reasonable costs incurred by the CKD Components Supplier in producing the relevant CKD Components plus the sales margin adjusted or determined with reference to (a) or (b) below:
 - (a) the historical price quotation of the same type of CKD Components previously provided by the CKD Components Supplier to its third party customers independent of the CKD Components Supplier; or
 - (b) failing (a) above, the price quotation of similar CKD Components offered by third party manufacturers independent of the CKD Components Supplier provided that reasonable adjustments may be made to such price quotation taking into account factors including the difference in the sales region of the CKD Components, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

For the avoidance of doubt, the Group (or the CKD Components Purchaser and/or the CKD Components Supplier designated by the Company) will only purchase or supply the relevant CKD Components from the CKD Components Suppliers or CKD Components Purchasers designated by Taiwan FF on terms no less favourable to the Group (or persons designated by the Company) than those which the Group (or persons designated by the Company) would have obtained from independent third party suppliers or purchasers. The Group will not confirm any price quotation which does not meet such criteria.

LETTER FROM THE BOARD

Historical transaction amounts and Proposed Annual Caps

The historical transaction amounts in respect of the purchase and supply of CKD Components between the Group (or persons designated by the Company) and the Taiwan FF Group (or persons designated by Taiwan FF) under the Former CKD Components Agreement were as follows (in RMB million):

Relevant financial periods	Historical transaction amounts			
	27 June 2014 to 31 December 2014	1 January 2015 to 31 December 2015	1 January 2016 to 31 December 2016	1 January 2017 to 31 March 2017
For the purpose of supplying CKD Components to Taiwan FF (or persons designated by Taiwan FF)	0.097	1.477	0.206	0.084
For the purpose of purchasing CKD Components from Taiwan FF (or persons designated by Taiwan FF)	23.947	37.332	27.374	10.349

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

Relevant financial periods	Projected Proposed Annual Caps			
	Effective Date to 31 December 2017	1 January 2018 to 31 December 2018	1 January 2019 to 31 December 2019	1 January 2020 to 3 years from the Effective Date
For the purpose of supplying CKD Components to the Taiwan FF Group (or persons designated by Taiwan FF)	1.600	3.360	3.850	1.900
For the purpose of purchasing CKD Components from the Taiwan FF Group (or persons designated by Taiwan FF)	45.269	98.213	114.028	67.020

LETTER FROM THE BOARD

Basis of determining the Proposed Annual Caps

Each of the projected Proposed Annual Caps in relation to the Transactions under the CKD Components Agreement was determined after taking into account factors including the following:

- (i) the positive performance of the Group's CNC Machine Tools business during 2016;
 - CKD Components are the major components required to assemble and manufacture CNC Machine Tools.
 - For the year ended 31 December 2016, the Group's sales revenue from the CNC Machine Tools business increased by approximately 13.1% as compared to 2015.
- (ii) the Group's view on the positive market outlook of the CNC Machine Tools industry;
 - The Group anticipates that the demand for CNC Machine Tools would continue to increase during the term of the CKD Components Agreement. For detailed discussions, please refer to the section headed "*(2) CNC Machine Tools Agreement – Historical transaction amounts and Proposed Annual Caps – Basis of determining the Proposed Annual Caps*".
- (iii) the potential fluctuations in respect of the estimated costs of the Group (or the CKD Components Purchasers designated by the Company) purchasing CKD Components, which may be caused by the fluctuations in the costs of the raw materials sourced by the CKD Components Suppliers designated by Taiwan FF; their costs of production, etc.;
- (iv) the projected breakdown of orders for CKD Components from Taiwan FF for each of the 3 years commencing from the Effective Date which are approximately RMB1.45 million, RMB3.01 million, RMB3.45 million and RMB1.7 million for the period from the Effective Date to 31 December 2017, the year ended 31 December 2018, the year ended 31 December 2019 and the period from 1 January 2020 to 3 years from the Effective Date; and
- (v) in respect of the Proposed Annual Caps for the provision of CKD Components to the Taiwan FF Group (or the CKD Components Purchaser designated by Taiwan FF) by the Group (or the CKD Components Supplier designated by the Company), the production capacity of the Group taking into account the Group's utilisation of its manufactures in meeting its own production schedule, which serves as a necessary ceiling of supply of CKD Components to the Taiwan FF Group (or the CKD Components Purchaser designated by Taiwan FF) when determining the Proposed Annual Caps.

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

LETTER FROM THE BOARD

Reasons for and benefits of entering into the CKD Components Agreement

The Directors (including the independent non-executive Directors) consider that the entering into of the CKD Components Agreement provides the Group with an alternative source of CKD Components and an additional income source, and that (i) the terms of the CKD Components Agreement and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and (ii) the terms of the CKD Components Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps are fair and reasonable and in the interests of the Shareholders as a whole.

Internal control measures

To ensure that the Transactions contemplated under the CKD Components Agreement will be conducted in accordance with the terms of the CKD Components Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company, the Group has adopted the following internal control measures to monitor the Transactions contemplated under the CKD Components Agreement:

A selection committee comprising, among others, staff from the planning and the production department, has been set up by the Company to identify and recommend suitable suppliers of CKD Components to the Company. As part of the selection process, when the Group procures CKD Components, at least two quotations will be sought from independent third party manufacturers for comparison and only the quotation with the most favourable terms will be selected. Whereas for supply transactions, the Group's sales team will make sure that the selling prices for the CKD Components are determined in accordance with the Group's pricing policy and also make reference to the market price offered by industry counterparts for similar type of products.

In addition, all individual contracts for the sale and purchase of the CKD Components will be notified to the finance department of the Group, who keeps a record of connected party transactions and controls the amount of such transactions. Quarterly inspections of the internal control system of the Group will also be conducted by the management of the Company to ensure that the Transactions conducted under the CKD Components Agreement will be conducted in accordance with the terms of the CKD Components Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company. The independent non-executive Directors and the auditors of the Company will review and confirm the continuing connected transactions contemplated under the CKD Components Agreement in accordance with the Listing Rules on an annual basis.

LETTER FROM THE BOARD

4. CNC MACHINE TOOLS AGREEMENT

Date:

26 May 2017

Parties:

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

Summary of principal terms:

(A) *Condition precedent*

The CNC Machine Tools Agreement is subject to and conditional upon the approval of the CNC Machine Tools Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps by the Independent Shareholders at the EGM in accordance with the Listing Rules.

In case where the condition precedent cannot be fulfilled on or before 14 July 2017 (or a later date as agreed between the Company and Taiwan FF), the CNC Machine Tools Agreement shall be terminated, and, except in relation to any default occurred prior to such termination, none of the parties shall have any rights or remedies against the other thereunder.

(B) *Term of the CNC Machine Tools Agreement*

The CNC Machine Tools Agreement is for a term of three years commencing from the Effective Date unless (i) earlier terminated by either party by providing to the other party with two months' prior termination notice provided that such termination notice shall not be given within the six months prior to the expiry of the term of the CNC Machine Tools Agreement, and (ii) in case a party is in breach of any provision of the CNC Machine Tools Agreement, and fails to remedy such breach within a reasonable grace period allowed by the non-defaulting party as stipulated under the written notice of such breach given by the non-defaulting party, the latter may terminate the CNC Machine Tools Agreement or any Transactions thereunder, without prejudice to its rights to other compensations and legal remedies.

LETTER FROM THE BOARD

(C) Details of the Transactions under the CNC Machine Tools Agreement

Pursuant to the terms of the CNC Machine Tools Agreement, the Group (or the CNC Machine Tools Purchaser designated by the Company) may purchase from the Taiwan FF Group (or the CNC Machine Tools Seller designated by Taiwan FF), which shall, upon receiving the former's request, sell the Designated CNC Machine Tools to it on an exclusive basis. Further, the Group (or the CNC Machine Tools Purchaser designated by the Company) has the right to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis, and the Taiwan FF Group (or the CNC Machine Tools Seller designated by Taiwan FF) shall authorize the CNC Machine Tools Purchaser to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis.

The Company may designate any member of the Group as the CNC Machine Tools Purchaser, and Taiwan FF may designate any member of Taiwan FF Group as the CNC Machine Tools Seller to perform and shall procure those parties to perform the Transactions under the CNC Machine Tools Agreement in accordance with its terms. The Company and Taiwan FF shall undertake and be responsible for the performance of any such Transactions entered into by its respective designated parties. The Company or Taiwan FF shall obtain the prior written consent of the other party if the designated parties are non-members of the Group or of the Taiwan FF Group. The Company (or its designated CNC Machine Tools Purchaser) shall have the sole discretion to determine, according to actual circumstances, whether to source from Taiwan FF (or its designated CNC Machine Tools Supplier) any CNC Machine Tools or the quantity of which to be so sourced.

(D) Delivery and payment arrangements

For the purpose of any Transactions under the CNC Machine Tools Agreement, the CNC Machine Tools Purchaser shall send the purchase notice to the CNC Machine Tools Seller specifying, among others, the quantity and delivery time of the Designated CNC Machine Tools required 90 days prior to the requested delivery date. Upon receipt of the purchase notice, the CNC Machine Tools Seller shall issue a price quotation to the CNC Machine Tools Purchaser, which shall conform with the pricing policies as agreed under the CNC Machine Tools Agreement, within 7 days. The price quotation will become effective and binding upon the written confirmation of the CNC Machine Tools Purchaser. All Transactions under the CNC Machine Tools Agreement shall be made in accordance with the terms of the CNC Machine Tools Agreement and the aforesaid price quotation. Where there are conflicts between the terms of the CNC Machine Tools Agreement and the terms of the price quotation, the former shall prevail. In accordance with market norm in the machine tools industry and similar to the Group's transactions with independent third parties, the CNC Machine Tools Purchaser shall settle 90% of the relevant payment for the Designated CNC Machine Tools before delivery of the same, with the remaining 10% to be settled after completion of inspection of the relevant Designated CNC Machine Tools by the CNC Machine Tools Purchaser (but in any event no later than 6 months after the relevant Designated CNC Machine Tools arrived at the port designated by the CNC Machine Tools Purchaser).

LETTER FROM THE BOARD

(E) Price determination

The price of the Designated CNC Machines Tools to be purchased by the CNC Machine Tools Purchaser under the CNC Machine Tools Agreement is to be determined by reference to:

- (i) the price quotation for the same type of Designated CNC Machine Tools (to be updated quarterly during the term of the CNC Machine Tools Agreement, or to be updated in other reasonable intervals as agreed between the Company and Taiwan FF) publicly provided by the CNC Machine Tools Seller to its third party customers independent of the CNC Machine Tools Seller; or
- (ii) in the event that the CNC Machine Tools Seller is unable to determine the price quotation of the Designated CNC Machine Tools on the basis stipulated in (i) above for any reason, the reasonable costs incurred by the CNC Machine Tools Seller in producing the relevant Designated CNC Machine Tools plus the sales margin adjusted or determined with reference to (a) or (b) below:
 - (a) the historical price quotation of the same type of Designated CNC Machine Tools previously provided by the CNC Machine Tools Seller to its third party customers independent of the CNC Machine Tools Seller; or
 - (b) failing (a) above, the price quotation of similar Designated CNC Machine Tools offered by third party manufacturers independent of the CNC Machine Tools Seller provided that reasonable adjustments may be made to such price quotation taking into account factors including the difference in the sales region of the Designated CNC Machine Tools, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

For the avoidance of doubt, the Group (or the CNC Machine Tools Purchaser designated by the Company) will only purchase the relevant Designated CNC Machine Tools from the CNC Machine Tools Sellers designated by Taiwan FF on terms no less favourable to the Group (or the CNC Machine Tools Purchaser designated by the Company) than those which the Group (or the CNC Machine Tools Purchaser designated by the Company) would have obtained from independent third party manufacturers. The Group will not confirm any price quotation which does not meet such criteria.

LETTER FROM THE BOARD

(F) Others

Taiwan FF has agreed that:

- (i) any Designated CNC Machine Tools requested and purchased by the CNC Machine Tools Purchaser from the CNC Machine Tools Seller under the CNC Machine Tools Agreement are to be sold under the designated brands owned or permitted to be used by the Group from time to time;
- (ii) where the Taiwan FF Group has sufficient production capacity, it will assist the Group by producing and supplying other CNC Machine Tools (not being specified under the CNC Machine Tools Agreement on the date of signing of the CNC Machine Tools Agreement) to the Group in accordance with the reasonable instructions and designated production specifications provided by the Group, for the purpose of sale by the Group of such CNC Machine Tools to the Sales Region. However, the Group shall only request Taiwan FF Group to produce such CNC Machine Tools specified under this provision on its behalf in case where the Group reasonably considers that the capacity of its own production of the relevant CNC Machine Tools is insufficient or requesting the Taiwan FF Group to produce the same on its behalf is more beneficial to the Group.
- (iii) the Group is entitled to request the Taiwan FF Group to supply the Group with any other CNC Machine Tools sold by Taiwan FF Group (not being specified under the CNC Machine Tools Agreement on the date of signing of the CNC Machine Tools Agreement) for the purpose of sale by the Group of such CNC Machine Tools in the Sales Region. Taiwan FF shall use its best endeavour to procure the supply of such CNC Machine Tools by the CNC Machine Tools Seller to the Group in accordance with the terms of the CNC Machine Tools Agreement, and the Group shall have priority in acquiring such CNC Machine Tools from the CNC Machine Tools Seller over other customers of the CNC Machine Tools Seller. However, the Group shall only purchase such CNC Machine Tools specified under this provision in case where the Group reasonably considers that the capacity of its own production of the relevant CNC Machine Tools is insufficient or requesting the Taiwan FF Group to supply the same is more beneficial to the Group.

LETTER FROM THE BOARD

- (iv) the CNC Machine Tools Seller will not at any time supply or sell any Designated CNC Machine Tools to any parties within the Sales Region other than the CNC Machine Tools Purchaser. In the event that the CNC Machine Tools Seller receives requests from any parties other than the CNC Machine Tools Purchaser for the CNC Machine Tools Seller to supply or sell any Designated CNC Machine Tools in the Sales Region, Taiwan FF shall notify and procure the CNC Machine Tools Seller to notify the CNC Machine Tools Purchaser. The CNC Machine Tools Seller shall not enter into or agree to any supply or sales arrangements or agreements in respect of these sales requests. The Group is entitled to request and Taiwan FF shall procure the CNC Machine Tools Seller to notify the parties which intend to purchase the Designated CNC Machine Tools in the Sales Region to consider purchasing such CNC Machine Tools from the Group directly. This undertaking will continue in effect after the termination of the CNC Machine Tools Agreement; and
- (v) for the avoidance of doubt, the CNC Machine Tools Seller shall not request, require, direct, induce or compel the CNC Machine Tools Purchaser to purchase any Designated CNC Machine Tools from it by any means, and the CNC Machine Tools Seller shall supply the Designated CNC Machine Tools to the CNC Machine Tools Purchaser only upon the receipt of purchase notices issued by the CNC Machine Tools Purchaser under the CNC Machine Tools Agreement.

Historical transaction amounts and Proposed Annual Caps

The historical transaction amounts in respect of the purchase of the Designated CNC Machine Tools between the Group (or persons designated by the Company) and the Taiwan FF Group (or persons designated by Taiwan FF) under the Former CNC Machine Tools Agreement were as follows (in RMB million):

Relevant financial periods	27 June 2014 to 31 December 2014	1 January 2015 to 31 December 2015	1 January 2016 to 31 December 2016	1 January 2014 to 31 March 2017
Historical transaction amounts	9.499	30.384	97.588	54.986

LETTER FROM THE BOARD

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

Relevant financial periods	Effective Date to 31 December 2017	1 January 2018 to 31 December 2018	1 January 2019 to 31 December 2019	1 January 2020 to 3 years from the Effective Date
Projected Proposed Annual Caps	311.750	596.845	809.087	582.593

Basis of determining the Proposed Annual Caps

Each of the projected Proposed Annual Caps in relation to the Transactions under the CNC Machine Tools Agreement was determined after taking into account factors that include the following:

- (i) the positive performance of the Group's CNC Machine Tools business during 2016;

For the year ended 31 December 2016, the Group's sales revenue from the CNC Machine Tools business increased by approximately 13.1% as compared to 2015.

- (ii) the Group's view on the positive market outlook of the Designated CNC Machine Tools industry during the term of the CNC Machine Tools Agreement;
- Sales revenue of the Group's CNC Machine Tools business recorded a remarkable growth of 70% during the first quarter of 2017 compared to the same period in 2016.
 - During 2015, the Group has acquired interests in companies which principally engaged in the development, manufacturing and/or sale of high-end machine tools (the "Associates"), allowing the Group to advance in the areas of high-quality machine tools production and intelligent manufacturing. During the year ended 2016, sales of high-end CNC Machine Tools accounted for approximately 8.7% of the sales revenue from the Group's CNC Machine Tools business. It is currently expected that there will be a strong market demand for high-end CNC Machine Tools during the term of the CNC Machine Tools Agreement.

LETTER FROM THE BOARD

- The Group anticipates that the PRC will continue to be the largest machine tools consuming country and the demand of machine tools, especially high-end CNC Machine Tools, would continue to increase during the term of the CNC Machine Tools Agreement.
- (iii) the volume of demand indicated by historical transactions; and
- The Group's actual transaction amount under the Former CNC Machine Tools Agreement for the three months ended 31 March 2017 has reached approximately 73% of the half-year annual cap for the six months ending 30 June 2017. As the demand for the CNC Machine Tools is high and it is believed that such demand will continue to rise, a larger annual cap is necessary.
- (iv) the potential fluctuations in the estimated costs of the Taiwan FF Group (or persons designated by Taiwan FF) producing the Designated CNC Machine Tools, which may be caused by the fluctuations in the costs of the raw materials sourced by the Taiwan FF Group (or persons designated by Taiwan FF), their costs of production, etc..

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

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

The Directors (including the independent non-executive Directors) consider that the entering into of the CNC Machine Tools Agreement provides the Group with an alternative source of CNC Machine Tools and may enlarge the Group's customer base in the Sales Region. The Group will have the choice of sourcing under the CNC Machine Tools Agreement or other third party suppliers in accordance with its procurement procedures. Under the CNC Machine Tools Agreement, Taiwan FF can only supply CNC Machine Tools to the Group or the CNC Machine Tools Purchasers designated by the Company at the Group's request and shall not approach any customers in the Sales Region directly.

The Directors (including the independent non-executive Directors) consider that (i) the terms of the CNC Machine Tools Agreement and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and (ii) the terms of the CNC Machine Tools Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Internal control measures

To ensure that the Transactions contemplated under the CNC Machine Tools Agreement will be conducted in accordance with the terms of the CNC Machine Tools Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company, the Group has adopted the following internal control measures to monitor the Transactions contemplated under the CNC Machine Tools Agreement:

When there is a need to purchase CNC Machine Tools, the selection committee comprising, among others, staff from the sales teams and the production department, will identify and recommend suitable suppliers to the Company. As part of the selection process, at least two quotations will be sought from independent third party manufacturers for comparison and only the quotation with the most favourable terms will be selected.

In addition, all individual contracts for the sale and purchase of the CNC Machine Tools will be notified to the finance department of the Group, who keeps a record of connected party transactions and controls the amount of such transactions. Quarterly inspections of the internal control system of the Group will also be conducted by the management of the Company to ensure that the Transactions conducted under the CNC Machine Tools Agreement will be conducted in accordance with the terms of the CNC Machine Tools Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company. The independent non-executive Directors and the auditors of the Company will review and confirm the continuing connected transactions contemplated under the CNC Machine Tools Agreement in accordance with the Listing Rules on an annual basis.

5. 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, door drums, printed circuit boards, aviation parts, conducting pastes for solar cell, laser equipment for solar cell, LED lighting, magnesium alloy machining, testing equipment for PCB touch-sensing panels and testing equipment for semiconductor LED wafer.

LETTER FROM THE BOARD

6. 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 are expected to continue and extend over a period of time. The Transactions therefore respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As both Agreements are entered into by the Company with Taiwan FF, the continuing connected transactions contemplated under the CKD Components Agreement and the CNC 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 CKD Components Agreement, the highest applicable percentage ratio based on the Proposed Annual Caps thereof is less than 5%. For the two procurement transactions with Taiwan FF under the Agreements, the highest applicable percentage ratio based on the Proposed Annual Caps thereof, on an aggregated basis, exceeds 25% with an annual consideration of over HK\$10 million, which are larger than the supply transaction. Accordingly, the Transactions under the Agreements will be classified according to the higher applicable percentage ratio of the procurement transactions and all of the Agreements, the Transactions and the Proposed Annual Caps thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Hong Kong GF (held as to 232,000,000 Shares, representing approximately 57.54% of the issued share capital of the Company as at the Latest Practicable Date), Sunward Gold Global Investments Limited (a company held as to approximately 72.22% by Mr. Chu as at the Latest Practicable Date, which held as to 20,000,000 Shares, representing approximately 4.96% of the issued capital of the Company as at the Latest Practicable Date) and any of their respective associates will abstain from voting in relation to the resolutions approving the Agreements, the Transactions and the Proposed Annual Caps thereunder at the EGM. Hong Kong GF, Sunward Gold Global Investments Limited and their respective associates control and are entitled to exercise control over the voting right in respect of their respective Shares.

Other than Mr. Chu, an executive Director and the chairman of the Company, who is interested in 18,352,181 shares in Taiwan FF (representing approximately 17.92% of the entire issued capital thereof) as at the Latest Practicable Date, had abstained from voting, no Director had a material interest in the Agreements which would require him to abstain from voting on the relevant Board resolutions.

LETTER FROM THE BOARD

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 Annuals Caps thereunder. Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in this respect.

7. EGM AND ACTION TO BE TAKEN

The EGM will be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 13 July 2017 at 11:00 a.m. to consider and, if thought fit, approve, among others, the Agreements, the Transactions and the Proposed Annual Caps thereunder. A notice convening the EGM is set out on pages 57 to 58 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, Tricor Investor Services Limited at Lever 22, 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, the Transactions and the Proposed Caps thereunder at the EGM. Accordingly, Hong Kong GF, Sunward Gold Global Investments Limited (a company held as to approximately 72.22% by Mr. Chu) and any of their respective associates will abstain from voting in relation to the relevant proposed resolutions at the EGM.

8. VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the EGM will exercise his power under article 66 of the articles of association of the Company to put the ordinary resolutions to be proposed at the EGM to be voted by way of poll. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

LETTER FROM THE BOARD

9. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 27 of this circular which contains its recommendation to the Independent Shareholders. The Independent Board Committee, having considered the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder, as well as the advice of Altus Capital set out in the “Letter from Altus Capital” on pages 28 to 51 of this circular, concurs with the opinion of Altus Capital that (i) the terms of the Agreements and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and (ii) the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

10. GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on page 27 of this circular, the letter from Altus Capital set out on pages 28 to 51 of this circular, and the general information set out in the appendix to 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)

27 June 2017

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(1) RENEWAL OF FRAMEWORK AGREEMENT
FOR THE PURCHASE AND SUPPLY OF CKD COMPONENTS
(2) RENEWAL OF 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, the Transactions and the Proposed Annual Caps thereunder, details of which are set out in the circular issued by the Company to the Shareholders on 27 June 2017 (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 7 to 26 and pages 28 to 51 of the Circular respectively.

Having considered the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder, and 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 (i) the terms of the Agreements and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and (ii) the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder are fair and reasonable 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, the Transactions and the Proposed Annual 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, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the CKD Components Agreement and CNC Machine Tools Agreement (including the Proposed Annual Caps), which has been prepared for the purpose of incorporation in this Circular.

ALTUS .

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

27 June 2017

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 THE PURCHASE AND SUPPLY OF CKD COMPONENTS
(2) RENEWAL OF 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 and the Proposed Annual Caps relating thereto. Details of the Transactions and the terms of the CKD Components Agreement and the CNC Machine Tools Agreement are set out in the “Letter from the Board” contained in the circular of the Company dated 27 June 2017 (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.

LETTER FROM ALTUS CAPITAL

The Former CKD Components Agreement and Former CNC Machine Tools Agreement

Reference is made to the circular dated 6 June 2014 of the Company in relation to the continuing connected transactions under the Former CKD Components Agreement and the Former CNC Machine Tools Agreement entered into between the Group and Taiwan FF on 22 May 2014 respectively. The Former CKD Components Agreement and the Former CNC Machine Tools Agreement will both expire on 26 June 2017. As the Company and Taiwan FF intend to continue to carry out the relevant transactions, the CKD Components Agreement and the CNC Machine Tools Agreement were entered into on 26 May 2017 to renew the above arrangements.

LISTING RULES IMPLICATION

As at the Latest Practicable Date, 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 Chapter 14A of the Listing Rules. The Transactions under the Agreements will be carried out in the ordinary and usual course of business of the Group and are expected to continue and extend over a period of time. The Transactions therefore respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As both Agreements are entered into by the Company with Taiwan FF, the continuing connected transactions contemplated under the CKD Components Agreement and the CNC 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 CKD Components Agreement, the highest applicable percentage ratio based on the Proposed Annual Caps thereof is less than 5%. For the two procurement transactions with Taiwan FF under the Agreements, the highest applicable percentage ratio based on the Proposed Annual Caps thereof, on an aggregated basis, exceeds 25% with an annual consideration of over HK\$10 million, which are larger than the supply transaction. Accordingly, the Transactions under the Agreements will be classified according to the higher applicable percentage ratio of the procurement transactions, and all of the Agreements, the Transactions and the Proposed Annual Caps thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Hong Kong GF (held as to 232,000,000 Shares, representing approximately 57.54% of the issued share capital of the Company as at the Latest Practicable Date), Sunward Gold Global Investments Limited (a company held as to approximately 72.22% by Mr. Chu as at the Latest Practicable Date, which held as to 20,000,000 Shares, representing approximately 4.96% of the issued share capital of the Company as at the Latest Practicable Date) and any of their respective associates will abstain from voting in relation to the resolutions approving the Agreements, the Transactions and the Proposed Annual Caps thereunder at the EGM.

LETTER FROM ALTUS CAPITAL

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee consisting of Mr. Koo Fook Sun, Louis, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang, being all the independent non-executive Directors has been established to advise the Independent Shareholders on (i) whether the terms and conditions of the CKD Component Agreement and the CNC Machine Tools Agreement are fair and reasonable; (ii) whether the Proposed Annual Caps are fair and reasonable; (iii) whether the Transactions will be conducted in the ordinary and usual course of business of the Company and its subsidiaries and are in the interests of the Company and its Shareholders as a whole; and (iv) to advise the Independent Shareholders on how to vote at the EGM, taking into account the recommendation of the independent financial adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the CKD Components Agreement and the CNC Machine Tools Agreement are on normal commercial terms and are fair and reasonable; (ii) whether the Proposed Annual Caps are fair and reasonable; (iii) whether the Transactions will be conducted in the ordinary and usual course of business of the Company and its subsidiaries and are in the interests of the Company and its Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the resolutions to be proposed at the EGM for the approval of the Transactions.

We had acted as the independent financial adviser to the Company with regards to (i) the discloseable and connected transactions in relation to the proposed acquisition of 25.5% equity interest in FFG Werke GmbH, details of which are set out in the “Letter from Altus Capital” contained in the circular dated 7 September 2015 of the Company; (ii) the major and connected transaction in relation to the provision of financial assistance, details of which are set out in the “Letter from Altus Capital” contained in the circular dated 28 October 2015 of the Company; and (iii) the major transaction and connected transaction in relation to the formation of joint venture and capital injection, details of which are set out in the “Letter from Altus Capital” contained in the circular dated 4 December 2015 of the Company. Save for the aforesaid engagements, we have not acted as the independent financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the CKD Components Agreement and the CNC Machine Tools Agreement is at market level and not conditional upon successful passing of the resolutions to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of the Company.

LETTER FROM ALTUS CAPITAL

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the annual reports of the Group for the three years ended 31 December 2016, the circular dated 6 June 2014 of the Company in relation to the Former CKD Components Agreement and the Former CNC Machine Tools Agreement, the CKD Components Agreement and the CNC Machine Tools Agreement and the Circular provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the EGM, and that the Shareholders will be informed of any material change of information in the Circular.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the annual reports of the Group for the three years ended 31 December 2016, the circular dated 6 June 2014 of the Company in relation to the Former CKD Components Agreement and the Former CNC Machine Tools Agreement, the CKD Components Agreement and the CNC Machine Tools Agreement and the Circular provided to us by the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the Group and the 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. In 2015, in view of the market demand in the PRC, the Group had undergone a series of actions to enhance its supplying ability of high end CNC Machine Tools, which is of more sophisticated in nature (please refer to the section headed “Operating performance” in this letter for further details). Amongst these actions, the Group’s investment in FFG Werke GmbH (“**FFG Werke**”) had indirectly increased the shareholding of Taiwan FF in FFG Werke, which had subsequently become a subsidiary of Taiwan FF. Therefore, the transaction amount between the Group and

LETTER FROM ALTUS CAPITAL

FFG Werke was counted under the annual caps in relation to the purchase of CNC Machine Tools from the Taiwan FF Group. The Management advised that in recent years, the Group had been exploring the level of market acceptance in relation to the products supplied by those European subsidiaries of Taiwan FF, and in view of the results (as further discussed under the section headed “Operating performance” in this letter), the Management believe the demand going forward for these European high end machines would continue to rise and be strong.

Taiwan FF Group is a conglomerate in Taiwan and have 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, door drums, printed circuit boards, aviation parts, conducting pastes for solar cell, laser equipment for solar cell, LED lighting, magnesium alloy machining, testing equipment for PCB touch-sensing panels and testing equipment for semiconductor LED wafer.

2. Background of the Agreements

The Former CKD Components Agreement and the Former CNC Machine Tools Agreement will both expire on 26 June 2017. As the Company and Taiwan FF intend to continue to carry out the relevant transactions, the CKD Components Agreement and the CNC Machine Tools Agreement were entered into to renew the arrangements for a term of another three years.

On 26 May 2017, the Company and Taiwan FF entered into a conditional CKD Components Agreement pursuant to which, (i) the Group (or the CKD Components Supplier designated by the Company) may supply CKD Components to the Taiwan FF Group (or the CKD Components Purchaser designated by Taiwan FF) on a non-exclusive basis; and (ii) the Taiwan FF Group (or the CKD Components Supplier designated by Taiwan FF) may supply CKD Components to the Group (or the CKD Components Purchaser designated by the Company) on a non-exclusive basis for a period of three years commencing from the Effective Date.

Further, on 26 May 2017, the Company and Taiwan FF entered into a conditional CNC Machine Tools Agreement, pursuant to which the Group (or the CNC Machine Tools Purchaser designated by the Company) may purchase from the Taiwan FF Group (or the CNC Machine Tools Seller designated by Taiwan FF) for a period of three years commencing from the Effective Date, and has the rights to sell such machine tools in the Sales Region on an exclusive basis. Upon the request of the Group, the Taiwan FF Group shall supply such machine tools to the Group on an exclusive basis and authorise the CNC Machine Tools Purchaser to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis.

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3. Terms of the Agreements

3.1 CKD Components Agreement

Under the CKD Components Agreement, the Group may, on a non-exclusive basis, supply CKD Components to the Taiwan FF Group for their production of CNC Machine Tools, which mainly comprise castings, including the counter balance that form the outer surface of the CNC Machine Tools. Meanwhile, the Group may also, on a non-exclusive basis, purchase CKD Components from the Taiwan FF Group for the Group's production of CNC Machine Tools and these mainly consist of the integral components and parts of the CNC Machine Tools including the spindle head and table. The Company (or its designated CKD Components Purchaser and/or the CKD Components Supplier) shall have the sole discretion to determine, according to actual circumstances, whether to source from or supply to Taiwan FF (or its designated CKD Components Supplier and/or the CKD Components Purchaser) any CKD Components or the quantity of which to be so sourced or supplied. For detailed terms of the CKD Components Agreement, please refer to the "Letter from the Board" of this Circular.

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

Pricing mechanism

The price of the CKD Components to be supplied under the CKD Components Agreement is to be determined by reference to:

- (i) the price quotation for the same type of CKD Components, which would be updated quarterly or in other reasonable intervals as agreed between the Company and Taiwan FF and publicly provided by the CKD Components Supplier to its third party customers independent of the CKD Components Supplier; or
- (ii) in the event that the CKD Components Supplier is unable to determine the price quotation of the CKD Components on the basis stipulated in (i) above for any reason, the reasonable costs incurred by the CKD Components Supplier in producing the relevant CKD Components plus the sales margin adjusted or determined with reference to (a) or (b) below:
 - (a) the historical price quotation of the same type of CKD Components previously provided by the CKD Components Supplier to its third party customers independent of the CKD Components Supplier; or

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- (b) failing (a) above, the price quotation of similar CKD Components offered by third party manufacturers independent of the CKD Components Supplier, which reasonable adjustments may be made to such price quotation, taking into account factors including the difference in the sales region of the CKD Components, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

The CKD Components Agreement provides that the Group will only supply the relevant CKD Components to the CKD Components Purchasers on terms no less favourable to the Group than those which the Group would have obtained from independent third party customers. The Group will not confirm any price quotation which does not meet such criteria. In this regard, we noted from the Management that the Group will periodically review prices of similar CKD Components sold to independent third party customers (if any) and has internal control policy to determine the price quotations on a cost plus basis. In addition, all individual contracts for the sale of the CKD Components will be notified to the finance department of the Group, who keeps a record of connected party transactions and controls the amount of such transactions. Quarterly inspections of the internal control system of the Group will also be conducted by the Management to ensure that the Transactions conducted under the CKD Components Agreement will be conducted in accordance with the terms of the CKD Components Agreement, on normal or better commercial terms, and in accordance with the pricing policy of the Company.

We noted that the Group currently does not regularly supply CKD Components to its customers as this is not its business focus, and hence the Group does not have a regularly published list of price quotations for CKD Components. During the period under the Former CKD Components Agreement, we noted the Group did not supply CKD Components to independent third party customers, except providing CKD Components as aftersales services to CNC Machine Tools customers. In this respect, we had reviewed samples of previous sales orders of CKD Components supplied to the Taiwan FF Group and noted the selling price was determined on a cost-plus basis, which the sales department would determine the sales margin with reference to the prevailing market price of similar CKD Components and the production manager would be responsible to confirm the figures (i.e. the cost) on the price quotation. On the basis of a cost-plus pricing mechanism, the Management believes and we concur that the Group will be protected from incurring any loss on the supply of CKD Components to the Taiwan FF Group, which is fair and reasonable to the Group.

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Order placing

It is stipulated in the CKD Components Agreement that the supply of CKD Components is on a non-exclusive basis. The Group shall only supply CKD Components to the Taiwan FF Group when such supply will not adversely affect the manufacturing arrangement or schedule of the Group. In this regard, the Group has internal control policy stating that when supplying CKD Components to the Taiwan FF Group, the sales department of the Group is required to obtain a written acknowledgement from the production department that, at the time of transaction, the Group retains sufficient levels of CKD Components for its operation, and such sales would not affect the Group's manufacturing schedule. We have reviewed samples of such written acknowledgement and noted the manager of the production department would be required to provide such confirmation. Considering the above order placing procedures do not give preferential treatment to the Taiwan FF Group'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 CKD Components Agreement relating to the sale of CKD Components to the Taiwan FF Group are fair and reasonable.

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

Pricing mechanism

The price of the CKD Components to be purchased under the CKD Components Agreement is to be determined by reference to:

- (i) the price quotation for the same type of CKD Components, which would be updated quarterly or in other reasonable intervals as agreed between the Company and Taiwan FF and publicly provided by the CKD Components Supplier to its third party customers independent of the CKD Components Supplier; or

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- (ii) in the event that the CKD Components Supplier is unable to determine the price quotation of the CKD Components on the basis stipulated in (i) above for any reason, the reasonable costs incurred by the CKD Components Supplier in producing the relevant CKD Components plus the sales margin adjusted or determined with reference to (a) or (b) below:
- (a) the historical price quotation of the same type of CKD Components previously provided by the CKD Components Supplier to its third party customers independent of the CKD Components Supplier; or
 - (b) failing (a) above, the price quotation of similar CKD Components offered by third party manufacturers independent of the CKD Components Supplier, which reasonable adjustments may be made to such price quotation, taking into account factors including the difference in the sales region of the CKD Components, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

The CKD Components Agreement provides that the Group will only purchase the relevant CKD Components from the CKD Components Suppliers on terms no less favourable to the Group than those which the Group would have obtained from independent third party suppliers. The Group will not confirm any price quotation which does not meet such criteria. In this regard, the Group has internal control policy to obtain quotations from independent third party suppliers for comparison before placing a purchase order, and only quotations with which are on more favourable terms would be selected. In addition, all individual contracts for the purchase of the CKD Components will be notified to the finance department of the Group, who keeps a record of connected party transactions and controls the amount of such transactions. Quarterly inspections of the internal control system of the Group will also be conducted by the Management to ensure that the Transactions conducted under the CKD Components Agreement will be conducted in accordance with the terms of the CKD Components Agreement, on normal or better commercial terms, and in accordance with the pricing policy of the Company.

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During the period under the Former CKD Components Agreement, we noted that the Group had obtained price quotations from independent third party supplier on similar CKD Components to be sourced from the Taiwan FF Group, and we had reviewed the relevant price quotations and comparison documents provided by the Company. We had also compared the historical purchase record that the Group purchased from the Taiwan FF Group against published price quotations of similar products that the Taiwan FF Group sold to independent third parties and noted the prices are comparable. In addition, we had also reviewed relevant contracts entered into between the Group and independent third party suppliers and noted the terms were similar and comparable with those under the CKD Components Agreement. As such, we are of the view that the pricing mechanism in relation to the purchase of CKD Components by the Group from the Taiwan FF Group is fair and reasonable.

Order placing

It is stipulated in the CKD Components Agreement that the purchase of CKD Components is on a non-exclusive basis. We understand from the Management that the Group will only source CKD Components from the Taiwan FF Group when the Directors consider it beneficial to the Group, for example, when similar components cannot be obtained from independent third party suppliers, or when the sourcing from Taiwan FF Group is of better terms than those the Group could obtain from its independent third party suppliers. The CKD Components Agreement does not preclude the Group from purchasing CKD Components from independent third party suppliers.

To assess the reasonableness of the terms under the CKD Components Agreement relating to the purchase of CKD Components by the Group from the Taiwan FF Group, we had reviewed relevant contracts entered into between the Group and the independent third party suppliers and found that the terms such as payment terms were comparable. The Management also confirms that the procurement department will choose to purchase from the Taiwan FF Group only when its price, quality of product and the time of delivery are comparable to or more favourable 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 CKD Components Agreement relating to the purchase of CKD Components from the Taiwan FF Group are on normal commercial terms and are fair and reasonable.

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3.2 CNC Machine Tools Agreement

Under the CNC Machine Tools Agreement, the Group (or the CNC Machine Tools Purchaser designated by the Company) may purchase from the Taiwan FF Group (or the CNC Machine Tools Seller designated by Taiwan FF), which shall, upon receiving the former's request, sell the Designated CNC Machine Tools to it on an exclusive basis. Further, the Group (or the CNC Machine Tools Purchaser designated by the Company) has the right to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis, and the Taiwan FF Group (or the CNC Machine Tools Seller designated by Taiwan FF) shall authorise the CNC Machine Tools Purchaser to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis. The Company (or its designated CNC Machine Tools Purchaser) shall have the sole discretion to determine, according to actual circumstances, whether to source from the Taiwan FF Group (or its designated CNC Machine Tools supplier) any CNC Machine Tools or the quantity of which to be so sourced. For detailed terms of the CNC Machine Tools Agreement, please refer to the "Letter from the Board" of this Circular.

Pricing mechanism

The price of the Designated CNC Machines Tools to be purchased by the CNC Machine Tools Purchaser under the CNC Machine Tools Agreement is to be determined by reference to:

- (i) the price quotation for the same type of Designated CNC Machine Tools, which would be updated quarterly or in other reasonable intervals as agreed between the Company and Taiwan FF and publicly provided by the CNC Machine Tools Seller to its third party customers independent of the CNC Machine Tools Seller; or
- (ii) in the event that the CNC Machine Tools Seller is unable to determine the price quotation of the Designated CNC Machine Tools on the basis stipulated in (i) above for any reason, the reasonable costs incurred by the CNC Machine Tools Seller in producing the relevant Designated CNC Machine Tools plus the sales margin adjusted or determined with reference to (a) or (b) below:
 - (a) the historical price quotation of the same type of Designed CNC Machine Tools previously provided by the CNC Machine Tools Seller to its third party customers independent of the CNC Machine Tools Seller; or

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- (b) failing (a) above, the price quotation of similar Designated CNC Machine Tools offered by third party manufacturers independent of the CNC Machine Tools Seller, which reasonable adjustments may be made to such price quotation taking into account factors including the difference in the sales region of the Designated CNC Machine Tools, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

Under the CNC Machine Tools Agreement, the Group (or the CNC Machine Tools Purchaser designated by the Company) will only purchase the relevant Designated CNC Machine Tools from the CNC Machine Tools Sellers designated by Taiwan FF on terms no less favourable to the Group (or the CNC Machine Tools Purchaser designated by the Company) than those which the Group (or the CNC Machine Tools Purchaser designated by the Company) would have obtained from independent third party manufacturers. The Group will not confirm any price quotation which does not meet such criteria. In this regard, the Group has internal control policy to obtain price quotation from independent third party manufacturers of similar products as the Designated CNC Machine Tools obtainable from the Taiwan FF Group before placing a purchase order. In addition, all individual contracts for the sale and purchase of the CNC Machine Tools will be notified to the finance department of the Group, who keeps a record of connected party transactions and controls the amount of such transactions. Quarterly inspections of the internal control system of the Group will also be conducted by the Management to ensure that the Transactions conducted under the CNC Machine Tools Agreement will be conducted in accordance with the terms of the CNC Machine Tools Agreement, on normal or better commercial terms, and in accordance with the pricing policy of the Company.

We understand from the Management that the Group will compare the pricing of Designated CNC Machine Tools obtainable from the Taiwan FF Group under the CNC Machine Tools Agreement to the pricing of similar products obtainable from independent third party suppliers. In this regard, we had reviewed sample quotations from such independent manufacturers. The Group will only place an order with the Taiwan FF Group if it is beneficial to the Group, an example being that the Group can generate reasonable profit from trading the CNC Machine Tools, or if there is a requirement from customers demanding specific models of CNC Machine Tools which the Group may not be able to manufacture. We had also compared the historical purchase record that the Group purchased from the Taiwan FF Group against published price quotations of similar products that the Taiwan FF Group sold to independent third parties and noted the prices are comparable.

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Besides, commencing from 2015, the Group started to purchase high end CNC Machines Tools from European subsidiaries of Taiwan FF. We noted from the Management that since there are limited manufacturers of these kind of CNC Machine Tools, the Group is unable to obtain price quotations from independent third party manufacturers for comparison purpose. In addition, the Management further advised that since these high end CNC Machines Tools are tailor-made in nature based on customers' specific requirement, published price quotations are not available. Alternatively, we noted the Group has established internal control policy and procedures to ensure procurement team will only purchase the high end CNC Machine Tools from the Taiwan FF Group if it is beneficial to the Group, i.e. the Group can generate a reasonable profit margin from the trade. Taking into account the above, we are of the view that the pricing mechanism in relation to the purchase of Designated CNC Machine Tools by the Group from the Taiwan FF Group 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 CNC Machine Tools Agreement, the Group has the right to request the Taiwan FF Group to supply such CNC Machine Tools and the Group will purchase given the Group reasonably consider it is beneficial to the Group (to be further elaborated below).

The Management will only source CNC Machine Tools from external manufacturers for the purpose of fulfilling customers' orders. The Group has internal control policy stating that before placing a purchase order from any suppliers for CNC Machine Tools, the procurement team of the Group would be required to obtain written acknowledgement from the production department to confirm either one of the scenarios occurred: (i) the production capacity of the Group at the time is insufficient to meet the demand from potential customers; or (ii) the Group's production facilities do not have the technical capability in producing such CNC Machine Tools as requested by the potential customers. We noted during the terms under the Former CNC Machine Tools Agreement, the Company only encountered the latter scenario and in this regard, we had reviewed samples of written acknowledgement and noted the manager of the production department would provide the confirmation on a transaction basis. After receiving such confirmation from the production department, the procurement team will make the purchase decision based on various factors such as price quotation, quality of finished products and timeliness of order delivery etc. The Group will only purchase CNC Machine Tools from the Taiwan FF Group if the offer is comparable to or more favourable than other independent third party manufacturers.

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In view of the above pricing mechanism and order placing procedures, we are of the view that the terms contemplated under the CNC Machine Tools Agreement are on normal commercial terms and are fair and reasonable.

4. Reasons for and benefits of entering into the Agreements

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. According to the Group's annual report for the year ended 31 December 2016, approximately 70.2% of the Group's revenue was derived from the CNC Machine Tools segment, representing a significant portion of the Group's business in terms of revenue. Therefore, the entering into the CKD Components Agreement and CNC Machine Tools Agreement are in the usual and ordinary course of business activities of the Group.

4.1 CKD Components Agreement

The sales of CKD Components to the Taiwan FF Group under the CKD Components Agreement will provide the Group with an additional source of income and allow the Group to more efficiently utilise its production capacity and resources from time to time. Taking into account the pricing mechanism, order placing procedures, internal control policy of the Group and the corresponding procedures carried out by the Group as discussed under the paragraph headed "Terms of Agreements" of this letter, the Management believes and we concur that the sale of CKD Components to the Taiwan FF Group under the CKD Components Agreement can provide the Group with an additional source of income while without bringing potential disruption to the normal course of business, thus is beneficial to the Group.

The purchase of CKD Components from the Taiwan FF Group under the CKD Components Agreement will provide an additional supply source of CKD Components for the Group's manufacture of CNC Machine Tools. Taking into account the pricing mechanism, order placing procedures, internal control policy of the Group and the corresponding procedures carried out by the Group as discussed under the paragraph headed "Terms of Agreements" of this letter, the Management believes and we concur that the purchase of CKD Components from the Taiwan FF Group under the CKD Components Agreement enables the Group to more efficiently manage its manufacturing arrangements and customer orders.

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4.2 CNC Machine Tools Agreement

We had reviewed the Group's production capacity and historical utilisation rate during the three years ended 31 December 2016 and noted the Group had maintained over 80% utilisation of its CNC Machine Tools production facilities. The Management is of the view that the utilisation rate of the Group's production capacity will remain high in the coming years if the recovery of the CNC Machine Tools market as observed in 2016 and early 2017 continues.

The purchase of Designated CNC Machine Tools from the Taiwan FF Group under the CNC Machine Tools Agreement provides the Group with alternative source of CNC Machine Tools. This enables the Group to capture business opportunities and meet customers' demand where orders from potential customers exceed the Group's production capacity or capability from time to time. In particular, the Management advised that commencing from 2015, the purchase of high end CNC Machine Tools from European subsidiaries of Taiwan FF provides the Group with valuable increment in terms of product range since there were increasing demand in the Sales Region but with limited supply. In this regard, the Management further advised that during recent years, there were increasing customers requesting CNC Machine Tools supplied by the Taiwan FF Group, in particular those high-end CNC Machine Tools.

Taking into account the pricing mechanism, order placing procedures, internal control policy of the Group and the corresponding procedures carried out by the Group as discussed under the paragraph headed "Terms of Agreements" of this letter, we are of the view that the purchase of Designated CNC Machine Tools from the Taiwan FF Group under the CNC Machine Tools Agreement can broaden the Group's product range which are readily available for sale to customers, and to enhance the Group's ability to satisfy and meet the demand from existing as well as potential customers. This could then be beneficiary for the Group to position itself as a major supplier of CNC Machine Tools through continuing to expand its customer base.

4.3 Section summary

In view of the above, the Management believes and we concur that it is in the interests of the Company and the Shareholders as a whole to enter into the CKD Components Agreement and the CNC Machine Tools Agreement with Taiwan FF.

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5. Operating performance

The table below sets out the key financial information of the Group during the three years ended 31 December 2016 as extracted from the Group's annual reports for the three years ended 31 December 2016:

	For the year ended		
	31 December		
	2014	2015	2016
Revenue (<i>in RMB million</i>)	1,300.1	990.2	1,082.3
Gross profit (<i>in RMB million</i>)	344.9	267.9	295.2
Profit attributable to equity holders (<i>in RMB million</i>)	101.3	46.1	60.7
Gross profit margin	26.5%	27.1%	27.3%
CNC Machine Tools sale revenue (<i>in RMB million</i>)	964.8	671.9	760.0
CNC Machine Tools sale volume (<i>in units</i>)	2,102	1,587	1,611

During the three years ended 31 December 2016, the Group recorded revenue of approximately RMB1,300.1 million, RMB990.2 million and RMB1,082.3 million respectively, representing a decrease of approximately 23.8% and an increase of approximately 9.3% respectively for the two years ended 31 December 2016 compared with the previous periods. The CNC Machine Tools business remained to be the major contributor to the Group's revenue, representing approximately 74.2%, 67.9% and 70.2% of the total revenue for the three years ended 31 December 2016 respectively. The Group displayed a recovery in its financial performance for the year ended 31 December 2016, mainly due to the increase in demand of CNC Machine Tools from the PRC region (being the Group's main sales jurisdiction), despite the further slowdown of economic growth in 2016. In particular, the Group recorded sales revenue from its CNC Machine Tools segment amounted to approximately RMB964.8 million, RMB671.9 million and RMB760.0 million respectively for the three years ended 31 December 2016, representing an initial decrease of approximately 30.4% and an increase of approximately 13.1% for the two years ended 31 December 2016 compared with the previous periods.

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In particular, the Management advised that the demand for high end CNC Machine Tools from the PRC remained strong for the year ended 31 December 2016, with customers mainly deriving from industries such as high-speed railway, transit rails, aerospace and energy. The Directors believe these high end products could optimise the Group's product portfolio and strengthen its core competitiveness. In this regard, during the year ended 31 December 2015, the Group had (i) made investment in FFG Werke GmbH ("**FFG Werke**"), an entity principally engaged in the development, manufacturing and sale of high end CNC Machine Tools; (ii) incorporated a wholly-owned entity in Shanghai, the PRC, which mainly involved in exploring and selling of high end CNC Machine Tools brands of FFG Werke to the PRC; and (iii) together with other joint venture partners, established FFG European Holding GmbH ("**FFG Europe**"), which acts as a platform for potential acquisitions of machine tools manufacturers, and had acquired MAG Group (a machine tools manufacturer owing high-end machine tools brand) by the end of 2015.

The Group had continued to display improvement during the four months ended 30 April 2017. According to the sales announcement published by the Group dated 10 May 2017, the Group recorded sales revenue from CNC Machine Tools business amounted to approximately RMB353.7 million (sale volume amounted to 604 units) for the four months ended 30 April 2017, representing an increase of approximately 33.7% from approximately RMB264.6 million (sale volume amounted to 514 units) during the same period in 2016.

The Management will continue to explore and capture various opportunities for the Group's development and strategic operation so as to increase the competitive edge of the Group. According to the annual report for the year ended 31 December 2016 of the Group, the Group is committed to becoming an international CNC Machine Tools manufacturer, and the Management is optimistic regarding the long-term development prospects of the Group.

6. Proposed caps

Tables 1,2 and 3 below set out (i) the approved annual caps for transactions for the period from 27 June 2014 to 31 December 2014, 1 January 2015 to 31 December 2015, 1 January 2016 to 31 December 2016 and 1 January 2017 to 26 June 2017; (ii) the historical amount of annual caps used in the respective periods for transactions under the Former CKD Components Agreement, the Former CNC Machine Tools Agreement and their relevant utilisation rates; and (iii) the Proposed Annual Caps for the CKD Components Agreement and the CNC Machine Tools Agreement.

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

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

	Approved caps <i>RMB million</i>	Historical amount <i>RMB million</i>	Utilisation rate <i>RMB million</i>	Proposed Annual Caps <i>RMB million</i>
For the period from 27 June 2014 to 31 December 2014	2.42	0.10	4.1%	N/A
For the year ended 31 December 2015	3.26	1.48	45.4%	N/A
For the year ended 31 December 2016	2.22	0.21	9.5%	N/A
For the period from 1 January 2017 to 26 June 2017	1.11	0.08 <i>(up to 31 March 2017)</i>	7.2% <i>(up to 31 March 2017)</i>	N/A
Effective Date to 31 December 2017				1.60
For the year ending 31 December 2018				3.36
For the year ending 31 December 2019				3.85
For the period from 1 January 2020 to 3 years from the Effective Date				1.90

As shown in Table 1 above, the Group had utilised approximately 4.1%, 45.4%, 9.5% and 7.2% of the approved annual caps for the supply of CKD Components by the Group to the Taiwan FF Group for the period from 27 June 2014 to 31 December 2014, for the two years ended 31 December 2016 and for the three months ended 31 March 2017 respectively.

The low supply level of CKD Components to the Taiwan FF Group during the terms under the Former CKD Components Agreement was mainly due to (i) the Group had a relatively high utilisation rate for its manufacture of CKD Components and CNC Machine Tools in meeting its production schedule, resulting in limited residual capacity for the Group to produce CKD Components requested by the Taiwan FF Group; and (ii) the fact that the Taiwan FF Group was able to source CKD Components for its own production needs from third party suppliers during the period.

The Management has determined the Proposed Annual Caps in respect of the Group's supply of CKD Components to the Taiwan FF Group under the CKD Components Agreement based on the following factors:

- (i) the positive performance of the Group's CNC Machine Tools business during 2016;

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- (ii) the Group's view on the positive market outlook of the CNC Machine Tools industry;
- (iii) the potential fluctuations in the estimated costs of producing CKD Components;
- (iv) the projected breakdown of orders for CKD Components from Taiwan FF for each of the 3 years commencing from the Effective Date; and
- (v) the production capacity of the Group.

The Management advised that the Proposed Annual Caps in respect of the Group's supply of CKD Components to the Taiwan FF Group under the CKD Components Agreement are based on the historical quantity and pricing of orders, in particular, first half of 2015 which transaction amount exceeded RMB1 million, placed by the Taiwan FF Group with the Group, and taking into account the recovery of CNC Machine Tools market as observed during the year ended 31 December 2016 and the four months ended 30 April 2017. In this regard, the Proposed Annual Caps in relation to the supply of CKD Components to the Taiwan FF Group has been adjusted upwards. The Management advised that as indicated by the Taiwan FF Group, the demand for their CNC Machine Tools was recovering and is expected to be strong during the terms of the CKD Components Agreement due to the potential recovery of CNC Machine Tools market, thus expecting an increasing demand on the Group's CKD Components. In accessing the reasonableness of the upward adjustment, we have referenced to the historical transaction amounts and noted the purchase of CKD Components from Taiwan FF Group could be very volatile, such that, the transaction amount in the second half of 2014 was slightly below RMB100,000, whilst in the first half of 2015, it had then increased by more than 10 times to exceeding RMB1 million.

In addition, 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 the Taiwan FF Group. The Group would have to satisfy its own production schedule for manufacturing CNC Machine Tools before utilising its production capacity to supply the CKD Components to the Taiwan FF Group. The Group has internal control policy to safeguard the above practice as discussed under the paragraph headed "Reasons for and benefits of entering into the Agreements" of this letter. In view of the above, we are of the view that the Proposed Annual Caps for the supply of CKD Components by the Group to the Taiwan FF Group under the CKD 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 Annual Caps for the purchase of CKD Components by the Group from the Taiwan FF Group.

	Approved caps <i>RMB million</i>	Historical amount <i>RMB million</i>	Utilisation rate <i>RMB million</i>	Proposed Annual Caps <i>RMB million</i>
For the period from 27 June 2014 to 31 December 2014	58.07	23.95	41.2%	N/A
For the year ended 31 December 2015	129.05	37.33	28.9%	N/A
For the year ended 31 December 2016	165.32	27.37	16.6%	N/A
For the period from 1 January 2017 to 26 June 2017	86.31	10.35 <i>(up to 31 March 2017)</i>	12.0% <i>(up to 31 March 2017)</i>	N/A
Effective Date to 31 December 2017				45.27
For the year ending 31 December 2018				98.21
For the year ending 31 December 2019				114.03
For the period from 1 January 2020 to 3 years from the Effective Date				67.02

As shown in Table 2 above, the Group had utilised approximately 41.2%, 28.9%, 16.6% and 12.0% of the approved annual caps for the purchase of CKD Components by the Group from the Taiwan FF Group for the period from 27 June 2014 to 31 December 2014, for the two years ended 31 December 2016 and for the three months ended 31 March 2017 respectively.

The declining level of purchase of CKD Components from the Taiwan FF Group under the CKD Components Agreement was in line with the Group's strategy to localise the sourcing of CKD Components, considering the time and cost when sourcing from overseas. During the period under the Former CKD Components Agreement, the Group had sourced several CKD Components locally, for example, acrylic and adjust gib, which was previously purchased from the Taiwan FF Group, leading to the decrease in utilisation rate.

The Management has determined the Proposed Annual Caps in respect of the Group's purchase of CKD Components by the Group from the Taiwan FF Group under the CKD Components Agreement based on the following factors:

- (i) the positive performance of the Group's CNC Machine Tools business during 2016;
- (ii) the Group's view on the positive market outlook of the CNC Machine Tools industry; and

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- (iii) the potential fluctuations in respect of the estimated costs of purchasing CKD Components.

Having considered (i) the decline in utilisation rate in the purchase of CKD Components from the Taiwan FF Group of the Former CKD Components Agreement; and (ii) the overall strategy of the Group to localise the sourcing of CKD Components, the Management has reduced the Proposed Annual Caps for the purchase of CKD Components by the Group from the Taiwan FF Group as compared to the previously approved caps. However, the Group had observed an improvement in its CNC Machine Tools business during the year ended 31 December 2016 and the four months ended 30 April 2017 as abovementioned, and is optimistic of a potential recovery of the CNC Machine Tools market, thus expecting an increase in CNC Machine Tools production of the Group and has accordingly assumed moderate annual growth for CKD Components purchased from the Taiwan FF Group from the Effective Date to three years thereafter. Taking into account the above, we are of the view that the Proposed Annual Caps for purchase of CKD Components by the Group from the Taiwan FF Group under the CKD Components Agreement are fair and reasonable.

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

Table 3 – Historical approved caps, utilisation rate of the caps, and Proposed Annual Caps for the purchase of Designated CNC Machine Tools by the Group from the Taiwan FF Group.

	Approved caps <i>RMB million</i>	Historical amount <i>RMB million</i>	Utilisation rate <i>RMB million</i>	Proposed Annual Caps <i>RMB million</i>
For the period from 27 June 2014 to 31 December 2014	62.68	9.50	15.2%	N/A
For the year ended 31 December 2015	138.93	30.38	21.9%	N/A
For the year ended 31 December 2016	153.19	97.59	63.7%	N/A
For the period from 1 January 2017 to 26 June 2017	75.67	54.99 <i>(up to 31 March 2017)</i>	72.7% <i>(up to 31 March 2017)</i>	N/A
Effective Date to 31 December 2017				311.75
For the year ending 31 December 2018				596.85
For the year ending 31 December 2019				809.09
For the period from 1 January 2020 to 3 years from the Effective Date				582.59

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As shown in Table 3 above, the Group had utilised approximately 15.2%, 21.9%, 63.7% and 72.7% of the approved annual caps for the purchase of Designated CNC Machine Tools by the Group from the Taiwan FF Group for the period from 27 June 2014 to 31 December 2014, for the two years ended 31 December 2016 and for the three months ended 31 March 2017 respectively.

The increasing trend of purchase of CNC Machine Tools from the Taiwan FF Group under the CNC Machine Tools Agreement was mainly due to the increasing demand of high end CNC Machine Tools from the PRC region during recent years. As discussed under the paragraph headed “Reasons for and benefits of entering into the Agreements” of this letter, there appears to be an increasing demand for CNC Machine Tools supplied by the Taiwan FF Group, especially for high end CNC Machine Tools, from the Sales Region recently. In line with such trend, the Group had also undergone a series of activities to enhance its supplying ability of high end CNC Machine Tools as discussed under the paragraph headed “Operating performance” of this letter.

The Management has determined the Proposed Annual Caps in respect of the Group’s purchase of CNC Machine Tools from the Taiwan FF Group under the CNC Machine Tools Agreement as shown in Table 3 above based on the following factors:

- (i) the positive performance of the Group’s CNC Machine Tools business during 2016;
- (ii) the Group’s view on the positive market outlook of the Designated CNC Machine Tools industry during the term of the CNC Machine Tools Agreement;
- (iii) the volume of demand indicated by historical transactions; and
- (iv) the potential fluctuations in the estimated costs of producing the Designated CNC Machine Tools.

As shown in Table 3 above, the Group had experienced an increasing trend in the utilisation rate of the purchase of Designated CNC Machine Tools from the Taiwan FF Group from 27 June 2014 to 31 March 2017. As advised by the Management, such increase was mainly driven by the strong demand in high end CNC Machine Tools which the Taiwan FF Group is capable to manufacture. In this regard, we noted from the Management that there were customers specifically requesting for CNC Machine Tools manufactured by the Taiwan FF Group, and we had reviewed five samples of the relevant sales contracts showing such demand. The Management believed the increasing trend will continue given the development and opportunities in the PRC. We noted that the above is consistent with the recent utilisation rate, in particular, the fact that the actual usage for the three months ended 31 March 2017 had already occupied over 70.0% of the approved annual caps for the period from 1 January 2017 to 26 June 2017, and for this reason, the Management has adjusted upwards the Proposed Annual Caps in relation to the purchase of Designated CNC Machine

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Tools by the Group from the Taiwan FF Group as compared with previously approved caps. To assess the reasonableness of the extent of the upward adjustment, and considering that the historical utilisation was mainly due to the orders of high end CNC Machine Tools, in particular, starting from the second half of 2015, and that the significant adjustment is mainly due to strong demand from the PRC on high end CNC Machine Tools, which is also of comparatively higher pricing, we had reviewed samples of purchase orders based on certain criteria below. Our selection criteria, including amongst others, (i) contracts for high end CNC Machine Tools; (ii) orders placed to European subsidiaries of Taiwan FF, including amongst others, FFG Werke, which had been consolidated as a subsidiary of Taiwan FF in 2015 (for further details please refer to the paragraph headed “Background information of the Group and the Taiwan FF Group” of this letter); and (iii) orders which are expected to be delivered in the second half of 2017. In this respect, we have reviewed five purchase orders (which were outstanding as at the end of May 2017) and noted their aggregate contract sum has made up more than 50.0% of the Proposed Annual Caps.

In view of the above, as well as considering (i) the results of our review of purchase orders on hand support the representations from the Management as discussed above; and (ii) that there had been over 10 purchase orders in relation to CNC Machine Tools delivered in each of the first half and second half of 2016, we are of the view that the Proposed Annual Caps for the purchase of Designated CNC Machine Tools by the Group from the Taiwan FF Group under the CNC Machine Tool Agreement are fair and reasonable.

7. Further safeguards under the CNC Machine Tools Agreement

Taiwan FF has further agreed under the Machine Tools Agreement certain undertakings as detailed under the paragraph headed “(F) Others” in the section headed “4. CNC MACHINE TOOLS AGREEMENT” in the “Letter from the Board” of this Circular.

These undertakings provide the Group with full discretion as to the order placement and further safeguards the interests of the Group. We understand from the Management that control procedures as abovementioned are in place to ascertain that the Group will only source the Designated CNC Machine Tools from the Taiwan FF Group when it is beneficial for the Group to do so. Furthermore, the Management believes that entering into the CNC Machine Tools Agreement is mutually beneficial to both the Group and the Taiwan FF Group.

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

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RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the transactions under the CKD Components Agreement and the CNC Machine Tools Agreement will be conducted in the ordinary and usual course of business; (ii) the terms and conditions of the CKD Components Agreement and the CNC Machine Tools Agreement are on normal commercial terms; (iii) the Proposed Annual Caps are fair and reasonable; and (iv) the CKD Components Agreement and the CNC Machine Tools Agreement are in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions approving the CKD Components Agreement and the CNC Machine Tools Agreement and the Proposed Annual Caps thereof at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Chang Sean Pey
Executive Director

*Mr. Chang Sean Pey (“**Mr. Chang**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities); Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investment Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 15 years of experience in banking, corporate finance and advisory, and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

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) Divisions 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:

(a) Long positions in the shares, underlying shares and debentures of the Company

Name of Director	Number of Shares held as		Total	Approximate percentage of shareholding
	Beneficial owner	Interest in controlled corporation		
Mr. Chu	–	20,000,000 <i>(Note)</i>	20,000,000	4.96%

Note: These 20,000,000 shares were beneficially owned by Sunward Gold Global Investments Limited, a company in which Mr. Chu has an interest of approximately 72.22%.

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

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu	Taiwan FF	Beneficial owner	15,669,255 shares	15.30%
Mr. Chu <i>(Note 1)</i>	Taiwan FF	Spouse interest	2,682,926 shares	2.62%
Mr. Chen Hsiang-Jung	Taiwan FF	Beneficial owner	1,948,553 shares	1.90%
Mr. Chu	Fair Fine (Hongzhou) Industrial Co., Ltd. <i>(Note 2)</i>	Beneficial owner	750 shares	0.03%
Mr. Chen Hsiang-Jung	Fair Fine (Hongzhou) Industrial Co., Ltd. <i>(Note 2)</i>	Beneficial owner	750 shares	0.03%

Notes:

- Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) (“Ms. Wang”), the spouse of Mr. Chu, held 2.62% of the issued share capital of Taiwan FF. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.
- Fair Fine (Hongzhou) Industrial Co., Ltd. is a non-wholly-owned subsidiary of Taiwan FF and is therefore an associated corporation of the Company for the purpose of the SFO.

(c) 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 2016, 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 were 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 which is significant in relation to the business of the Group.

3. 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 did not expire or was not determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

Save as disclosed 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 competed or may compete with the business of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were of the view that there was no material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Company were made up.

6. 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	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 did not have any shareholding in any member of the Group, nor had any right (whether legally enforceable 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 2016, 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 were 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 27 June 2017 (as set out on pages 28 to 51 of and made for incorporation in this circular) and references to its name in the form and context in which they respectively appear.

7. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors and proposed Directors had any direct or indirect interest in any assets which had been, since 31 December 2016, 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, 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 which is significant in relation to the business of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents will be available for inspection at the office of the Company 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:

- (a) Former CKD Components Agreement;
- (b) Former CNC Machine Tools Agreement;
- (c) CKD Components Agreement;
- (d) CNC Machine Tools Agreement;
- (e) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (f) the letter from Altus Capital, the text of which is set out in this circular; and
- (g) the consent letter of Altus Capital referred to in the paragraph headed “6. Expert and consent” in this appendix.

9. GENERAL

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and the principal place of business of the Company in Hong Kong is at Room 2003, 20th Floor, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Mr. Lo Tai On.
- (d) 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 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 13 July 2017 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications the following as ordinary resolutions of the Company:-

ORDINARY RESOLUTIONS

“THAT: -

1. (a) the entering into of the CKD components agreement (the “CKD 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 26 May 2017 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 CKD Components Agreement (“CKD Components Proposed Caps”), details of which are set out in the circular of the Company dated 27 June 2017 (the “Circular”), 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 CKD Components Agreement, the transactions contemplated thereunder and the CKD Components Proposed Caps;
2. (a) the entering into of the CNC machine tools agreement (the “CNC 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 26 May 2017 in relation to the purchase of CNC machine tools and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;

NOTICE OF EGM

- (b) the proposed annual caps in respect of the CNC Machine Tools Agreement (“CNC Machine Tools Proposed Caps”), details of which are set out in the Circular, 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 CNC Machine Tools Agreement, the transactions contemplated thereunder and the CNC Machine Tools Proposed Caps.

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

Hong Kong, 27 June 2017

Principal Place of Business in Hong Kong:

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

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, Tricor Investor Services Limited at Level 22, 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 if 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 the 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.