
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Good Friend International Holdings Inc., you should at once hand this circular and the accompanying proxy form to the purchaser or 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.

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

GOOD FRIEND INTERNATIONAL HOLDINGS INC.**友佳國際控股有限公司***(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 2398)****CONTINUING CONNECTED TRANSACTIONS****(1) RENEWAL OF FRAMEWORK AGREEMENT****FOR THE PURCHASE AND SUPPLY OF COMPONENTS****(2) RENEWAL OF EXCLUSIVE FRAMEWORK AGREEMENT****FOR THE PURCHASE OF DESIGNATED CNC MACHINE TOOLS****Independent Financial Adviser****to the Independent Board Committee and the Independent Shareholders****ALTUS CAPITAL LIMITED**

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

A letter from Altus Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 40 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 35th Floor, Central Plaza, 18 Harcourt Road, Wanchai, Hong Kong on Friday, 27 June 2014 at 11:00 a.m. is set out on pages 45 to 46 of this circular. A form of proxy for use at the aforesaid extraordinary general meeting is enclosed with this circular. Whether or not you propose to attend the meeting or any adjournment thereof, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's Branch Share Registrar 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 proxy form will not preclude you from attending and voting in person at the meeting if you so wish.

6 June 2014

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	5
Background	6
Components Agreement	6
Machine Tools Agreement	11
Information on the Group and Taiwan FF Group	16
Listing Rules implications	16
EGM and action to be taken	17
Voting by way of poll	18
Recommendation	18
General	18
Letter from the Independent Board Committee	19
Letter from Altus Capital	20
Appendix – General information	41
Notice of EGM	45

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 Components Agreement and the 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 22 May 2014
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors
“CKD”	acronym for Complete, Knock Down
“CNC Machine Tools”	CNC is the short form and acronym for Computer Numerical Control, a numerical control system that utilizes a dedicated, storage-program computer and has the functions to perform some or all of the basic numerical control. CNC Machine Tools refer to those machine tools with CNC systems installed
“Company”	Good Friend International Holdings Inc., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Components Agreement”	the conditional framework agreement entered into between the Group and the Taiwan FF Group on 22 May 2014, in relation to the purchase and supply of CKD components between the Company and Taiwan FF
“Components Buyer(s)”	the buyer designated by the Company or Taiwan FF under the Components Agreement
“Components Seller(s)”	the seller designated by the Company or Taiwan FF under the Components Agreement
“connected person”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Designated CNC Machine Tools”	the CNC Machine Tools agreed to be sold pursuant to the Machine Tools Agreement and as mentioned under paragraphs (iii) and (iv) of section (F) headed “Others” in the summary of principal terms for the Machine Tools Agreement herein
“Directors”	the directors of the Company
“Effective Date”	the date on which the condition precedent of the Components Agreement and the Machine Tools Agreement is fulfilled
“EGM”	the extraordinary general meeting to be held to consider and, if thought fit, approve, among others, the Agreements, the Transactions and Proposed Caps thereunder
“Former Components Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 19 May 2011, in relation to the supply and sale of CKD components between the Company and Taiwan FF, which will expire on 22 June 2014
“Former Machine Tools Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 19 May 2011, in relation to the purchase and exclusive sale of designated CNC Machine Tools in Sales Region from Taiwan FF by the Company, which will expire on 14 June 2014
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong GF”	Good Friend (H.K.) Corporation Limited, a company incorporated in Hong Kong with limited liability, beneficial owner of 232,000,000 Shares (representing approximately 57.54% of the issued share capital of the Company) and is owned as to approximately 99.99% by Taiwan FF

DEFINITIONS

“Independent Board Committee”	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, 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
“Latest Practicable Date”	4 June 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machine Tools Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 22 May 2014, in relation to the exclusive sale of Designated CNC Machine Tools by the Taiwan FF Group to the Group
“Machine Tools Purchaser(s)”	the Company and its designated parties under the Machine Tools Agreement
“Machine Tools Seller(s)”	Taiwan FF and its designated parties under the Machine Tools Agreement
“Mr. Chu”	Mr. CHU Chih-Yaung, an executive Director and the chairman of the Company, who was beneficially interested in 24,243,347 shares in Taiwan FF (representing approximately 15.40% of the entire issued capital thereof) and, through Sunward Gold Global Investments Limited, a company held as to approximately 72.22% by him, 20,000,000 Shares (representing approximately 4.96% of the entire issued capital of the Company)
“Non-Compete Deed”	the non-competition deed entered into among Taiwan FF, Hong Kong GF and Mr. Chu on 22 December 2005, as set out in the listing document of the Company dated 30 December 2005

DEFINITIONS

“percentage ratios”	has the meaning as ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Caps”	the proposed ceiling for the annual amounts payable or receivable by the Group in the relevant financial periods for the respective Transaction(s) under the Components Agreement or the Machine Tools Agreement (as the case may be)
“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
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“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 subsidiaries, excluding the Group
“Transaction(s)”	the continuing connected transactions under the Components Agreement and/or the Machine Tools Agreement (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

Independent non-executive Directors:–

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

Registered Office:–

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

Principal Place of Business

in Hong Kong:–

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

Principal Place of Business

in the PRC:–

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

6 June 2014

To the Shareholders

Dear Sir or Madam,

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

1. INTRODUCTION

Reference is made to the Announcement whereby it was announced that, among others, on 22 May 2014, the Company and Taiwan FF entered into a conditional Components Agreement, pursuant to which the Group may supply CKD components to the Taiwan FF Group on a

LETTER FROM THE BOARD

non-exclusive basis and the Taiwan FF Group may supply CKD components to the Group on a non-exclusive basis for a period of three years from the Effective Date. Furthermore, on 22 May 2014, the Company and Taiwan FF entered into a conditional Machine Tools Agreement, pursuant to which the Group may purchase from the Taiwan FF Group the Designated CNC Machine Tools for a period of three years from the Effective Date, and has the rights to sell such machine tools in the Sales Region on an exclusive basis, and upon the request of the Group, the Taiwan FF Group shall supply such machine tools to the Group on an exclusive basis and authorize the Group to sell such 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 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 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 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 Caps thereunder, and (iv) to provide you with the notice of EGM.

2. BACKGROUND

Reference is made to the announcement dated 19 May 2011 and the circular dated 24 May 2011 of the Company respectively in relation to, among others, the continuing connected transactions under the conditional Former Components Agreement for the purchase and supply of CKD components and the conditional Former Machine Tools Agreement for the purchase and sale of CNC machine tools, both entered into between the Company and Taiwan FF on 19 May 2011 respectively. The Former Components Agreement and the Former Machine Tools Agreement will expire on 22 June 2014 and 14 June 2014 respectively. As the Company and Taiwan FF intend to continue to carry out the relevant transactions, the Components Agreement and the Machine Tools Agreement were entered into on 22 May 2014 to renew the above arrangements.

3. COMPONENTS AGREEMENT

(A) Date

22 May 2014

LETTER FROM THE BOARD

(B) Parties

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

Summary of principal terms:

(A) Condition precedent

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

(B) Term of the Components Agreement

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

(C) Details of the Transactions

(a) Supply of CKD components to the Taiwan FF Group

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

The components to be supplied by the Company to the Taiwan FF Group under the Components Agreement mainly comprise castings, including the base, cradle and column, which form the outer surface of the CNC Machine Tools products.

(b) Purchase of CKD components from the Taiwan FF Group

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

LETTER FROM THE BOARD

The components to be supplied by Taiwan FF Group to the Company under the Components Agreement mainly comprise the integral components and parts of the CNC Machine Tools products including spindle head and table.

The Company may designate its subsidiaries and Taiwan FF may designate its subsidiaries to be the Components Buyer or the Components Seller to enter into the Transactions under the Components Agreement. The Company and Taiwan FF shall undertake and be responsible for the fulfillment of such Transactions entered into by its respective designated parties. The Company or Taiwan FF shall obtain the prior consent of the other party if the designated parties are non-members of the Group or of the Taiwan FF Group.

(D) Delivery and payment arrangements

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

(E) Price determination

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

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

LETTER FROM THE BOARD

For the avoidance of doubt, the Group will only purchase or sell the relevant products from the Components Sellers or Components Buyers on terms no less favourable to the Group than those the Group would have obtained from independent third party suppliers, in that the Group will not confirm any price quotation which does not meet such criteria. As part of the Group's selection process, at least two quotations will be sought from independent third party suppliers for comparison and only quotations with the most favourable terms will be selected.

Historical transaction amounts and Proposed Caps

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

Relevant financial periods	Historical transaction amounts			
	23 June 2011 to 31 December 2011	1 January 2012 to 31 December 2012	1 January 2013 to 31 December 2013	1 January 2014 to 22 June 2014 (up to 31 March 2014)
For the purpose of supplying CKD components to the Taiwan FF Group	0.72	1.00	0.84	0.40
For the purpose of purchasing CKD components from the Taiwan FF Group	<u>132.33</u>	<u>105.42</u>	<u>97.77</u>	<u>15.91</u>

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

Relevant financial periods	Projected Proposed Caps			
	Effective Date to 31 December 2014	1 January 2015 to 31 December 2015	1 January 2016 to 31 December 2016	1 January 2017 to 3 years from the Effective Date
For the purpose of supplying CKD components to the Taiwan FF Group	2.42	3.26	2.22	1.11
For the purpose of purchasing CKD components from the Taiwan FF Group	<u>58.07</u>	<u>129.05</u>	<u>165.32</u>	<u>86.31</u>

LETTER FROM THE BOARD

Basis of determining the Proposed Caps

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

- (i) the Group's view on the positive market outlook of the CNC Machine Tools industry during the term of the Components Agreement;
- (ii) the potential fluctuations in respect of the estimated costs of purchasing CKD components;
- (iii) the recovery of the CNC Machine Tools market observed in early 2014 based on the increase in the revenue generated from the sales of CNC Machine Tools by the Group as compared with the corresponding period in 2013;
- (iv) the projected breakdown of orders for CKD components from Taiwan FF for each of the 3 years commencing from the Effective Date;
- (v) in respect of the Proposed Caps for the provision of CKD components to the Taiwan FF Group by the Group, the production capacity of the Group; and
- (vi) the historical transaction amounts for the relevant Transactions.

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

Reasons for and benefits of entering into the Components Agreement

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

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

LETTER FROM THE BOARD

4. MACHINE TOOLS AGREEMENT

(A) Date

22 May 2014

(B) Parties

(1) the Company; and

(2) Taiwan FF

Summary of principal terms:

(A) Condition precedent

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

(B) Term of the Components Agreement

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

(C) Details of the Transactions

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

The Company may designate any members of the Group as Machine Tools Purchaser, and Taiwan FF may designate any member of Taiwan FF Group as Machine Tools Seller to perform and procure those parties to perform such Transactions according to the terms of the Machine Tools Agreement. The Company or Taiwan FF shall obtain the prior consent of the other party if the designated parties are non-members of the Group or of the Taiwan FF Group.

LETTER FROM THE BOARD

(D) Delivery and payment arrangements

For the purpose of any Transaction under the Machine Tools Agreement, the Machine Tools Purchaser shall send the purchase notice to the Machine Tools Seller specifying the quantity of the Designated CNC Machine Tools required 90 days prior to the requested delivery date. Upon receipt of the purchase notice, the Machine Tools Seller shall issue a price quotation to the Machine Tools Purchaser within 7 days. The quotation will become effective and binding upon the confirmation of the Machine Tools Purchaser. The Machine Tools Purchaser shall settle 90% of the payment before delivery of the relevant Designated CNC Machine Tools, with the remaining 10% to be settled within 6 months after the relevant Designated CNC Machine Tools arrived at the port designated by the Machine Tools Purchaser.

(E) Price determination

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

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

For the avoidance of doubt, the Group will only purchase the relevant products from the Machine Tools Seller(s) on terms no less favourable to the Group than those the Group would have obtained from independent third party manufacturers, and the Group will not confirm any sale quotation which does not meet such criteria. As part of the Group's selection process, at least two quotations will be sought from independent third party manufacturers for comparison and only quotations with the most favourable terms will be selected.

LETTER FROM THE BOARD

(F) Others

Taiwan FF has agreed under the Machine Tools Agreement that:

- (i) any Designated CNC Machine Tools, which are designated by the Machine Tools Purchaser to purchase from the Machine Tools Seller under the Machine Tools Agreement, are produced and sold under the designated brands which are owned or permitted to be used by the Group from time to time;
- (ii) it will procure or assist with any possible application for tariff reductions with the relevant regulatory authorities in respect of the Designated CNC Machine Tools upon receipt of the relevant purchase requests from the Machine Tools Purchaser;
- (iii) in the event that Taiwan FF Group has sufficient production capacity, it will assist the Group by producing and supplying other CNC Machine Tools (not being Designated CNC Machine Tools on the date of signing the Machine Tools Agreement) to the Group in accordance with the reasonable instructions and designated production specifications of the Group. The Group shall request Taiwan FF Group to produce such CNC Machine Tools specified under this provision on its behalf if the Group reasonably considers that the capacity of its own production of the relevant machine tools is insufficient or requesting Taiwan FF Group to produce on its behalf is more beneficial to the Group. The machine tools supplied pursuant to this provision shall constitute Designated CNC Machine Tools and subject to the relevant terms and conditions applicable thereto;
- (iv) the Group is entitled to request Taiwan FF Group to supply the Group with any other CNC Machine Tool products sold by Taiwan FF Group (not being Designated CNC Machine Tools on the date of signing the Machine Tools Agreement) for sale in the Sales Region. Taiwan FF shall use its best endeavour to procure the supply of relevant products by the Machine Tools Seller to the Group and the Group shall have priority in acquiring the relevant products from the Machine Tools Seller over other customers of the Machine Tools Seller. The Group shall purchase such CNC Machine Tools specified under this provision if the Group reasonably considers that the capacity of its own production of the relevant machine tools is insufficient or requesting Taiwan FF Group to supply is more beneficial to the Group. The machine tool products supplied pursuant to this provision shall constitute Designated CNC Machine Tools and subject to the relevant terms and conditions applicable thereto;

LETTER FROM THE BOARD

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

Historical transaction amounts and Proposed Caps

The historical transaction amounts in respect of the purchase of CNC machine tools between the Group and Taiwan FF under the Former Machine Tools Agreement were as follows (in RMB million):

	15 June 2011 to 31 December 2011	1 January 2012 to 31 December 2012	1 January 2013 to 31 December 2013	1 January 2014 to 14 June 2014 (up to 31 March 2014)
Relevant financial periods				
Historical transaction amounts	27.12	101.49	84.41	18.35

LETTER FROM THE BOARD

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

Relevant financial periods	Effective Date to 31 December 2014	1 January 2015 to 31 December 2015	1 January 2016 to 31 December 2016	1 January 2017 to 3 years from the Effective Date
Projected Proposed Caps	62.68	138.93	153.19	75.67

Basis of determining the Proposed Caps

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

- (i) the Group's view on the market outlook of the Designated CNC Machine Tools industry during the term of the Machine Tools Agreement;
- (ii) the potential fluctuations in the estimated costs of producing the Designated CNC Machine Tools;
- (iii) the recovery of the CNC Machine Tools market observed in early 2014; and
- (iv) the historical transaction amounts for the relevant Transactions.

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

Reasons for and benefits of entering into the Machine Tools Agreement

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

LETTER FROM THE BOARD

The Directors consider that entering into the 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 from under the Machine Tools Agreement or other third party suppliers in accordance with its procurement procedures. Under the Machine Tools Agreement, Taiwan FF can only supply CNC Machine Tools to the Group or those designated by the Group at the Group's request and shall not approach any customers in the Sales Region directly.

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

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.

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 constitute continuing connected transactions of the Company respectively under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As both Agreements are entered into with Taiwan FF, the Transactions under the Components Agreement and the Machine Tools Agreement will be aggregated for consideration under the Listing Rules and will be classified according to the larger of the supply transaction or the procurement transactions. For the supply transaction with Taiwan FF under the Components Agreement, the highest applicable percentage ratio based on the Proposed Caps thereof is between 0.1% and 5% with an annual consideration of over HK\$1 million. For the two procurement transactions with Taiwan FF under the Agreements, the highest applicable percentage ratio based on the Proposed Caps thereof, on an aggregated basis, exceeds 25% with an annual consideration of over HK\$10 million, which is larger than the supply transaction. Accordingly, the Transactions under the Agreements will be classified according to the higher percentage ratio in the procurement transactions and all of the Agreements, the Transactions and the Proposed Caps thereunder will be subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Hong Kong GF will and Sunward Gold Global Investments Limited, a company held as to approximately 72.22% by Mr. Chu, will voluntarily and any of their respective associates will abstain from voting in relation to the resolutions approving the Agreements, the Transactions and the Proposed Caps thereunder at the EGM. Other than Mr. Chu, an executive Director and the chairman of the Company, who is beneficially interested in 24,243,347 shares in Taiwan FF (representing approximately 15.40% of the entire issued capital thereof), 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.

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

7. EGM AND ACTION TO BE TAKEN

The EGM will be held at 35th Floor, Central Plaza, 18 Harcourt Road, Wanchai, Hong Kong on Friday, 27 June 2014 at 11:00 a.m. to consider and, if thought fit, to approve, among others, the Agreements, the Transactions and the Proposed Caps thereunder. A notice convening the EGM is set out on pages 45 to 46 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.

LETTER FROM THE BOARD

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 will and Sunward Gold Global Investments Limited, a company held as to approximately 72.22% by Mr. Chu, will voluntarily 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 the Listing Rules, the resolutions to be proposed at the EGM to approve the Agreements, the Transactions and the Proposed Caps thereunder, are required to be voted upon by way of poll.

9. RECOMMENDATION

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

10. GENERAL

Your attention is drawn to 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)

6 June 2014

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
(1) RENEWAL OF FRAMEWORK AGREEMENT
FOR THE PURCHASE AND SUPPLY OF 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 Caps thereunder, details of which are set out in the circular issued by the Company to the Shareholders on 6 June 2014 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and letter of advice from Altus Capital set out on pages 5 to 18 and pages 20 to 40 of the Circular respectively.

Having considered the terms of the Agreements and the Proposed Caps 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 the entering into of the Agreements is in the ordinary and usual course of business of the Company, on normal commercial terms, the terms of the Agreements, the Transactions and the Proposed Caps thereunder are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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

Yours faithfully,

For and on behalf of the Independent Board Committee

KOO Fook Sun, Louis

CHIANG Chun-Te

YU Yu-Tang

Independent non-executive Directors

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from the Altus Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions, which has been prepared for the purpose of incorporation in this Circular.

ALTUS CAPITAL LIMITED

21 Wing Wo Street
Central, Hong Kong

6 June 2014

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 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 Caps relating thereto. Details of the Transactions and the terms of the Components Agreement and the Machine Tools Agreement are set out in the Letter from the Board contained in the circular of the Company dated 6 June 2014 (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 Independent Board Committee has been established to give advice and recommendation to the Independent Shareholders in relation to the Transactions and the Proposed Caps relating thereto. The Independent Board Committee comprises Mr. Koo Fook Sun, Louis, Mr. Chiang Chun-Te and Mr. Yu Yu-Tang, all being independent non-executive Directors. We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Components Agreement and the Machine Tools Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (“**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 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 Circular and/or provided to us by the Company, the Directors and 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 continuing connected transactions, we have considered the following principal factors and reasons:

1. Background

On 22 May 2014, the Company and Taiwan FF entered into a conditional Components Agreement pursuant to which, (i) the Group may supply CKD components to the Taiwan FF Group on a non-exclusive basis; and (ii) the Taiwan FF Group may supply CKD components to the Group on a non-exclusive basis, for a period of three years from the Effective Date. In

LETTER FROM ALTUS CAPITAL

addition, on 22 May 2014, the Company and Taiwan FF entered into a conditional Machine Tools Agreement pursuant to which the Group may purchase from the Taiwan FF Group the Designated CNC Machine Tools for a period of three years from the Effective Date, and has the rights to sell such machine tools in the Sales Region on an exclusive basis, and 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 Group to sell such machine tools in the Sales Region on an exclusive basis.

Taiwan FF is an associate of Hong Kong GF, the controlling shareholder of the Company and therefore, Taiwan FF is a connected person of the Company under the Listing Rules. The Transactions contemplated under the Agreements will accordingly constitute continuing connected transactions of the Company respectively under Chapter 14A of the Listing Rules.

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

2. Business perspective of the Agreements

The Former Components Agreement and the Former Machine Tools Agreement will expire on 22 June 2014 and 14 June 2014 respectively. As the Company and Taiwan FF intend to continue to carry out the relevant transactions, the Components Agreement and the Machine Tools Agreement were entered into to renew the above arrangements for a term of another three years.

LETTER FROM ALTUS CAPITAL

The Group is principally engaged in the design and production of CNC Machine Tools, design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks. The supply and purchase of CKD components are transactions carried out in the usual and ordinary course of the business activities of the Group. From a business perspective, the purchase of CKD components from the Taiwan FF Group under the Components Agreement will provide an alternative source of CKD components supply and allow the Group to manage its production schedules and customer orders more efficiently. Meanwhile, the sales of CKD components to the Taiwan FF Group under the Components Agreement will provide the Group with an additional income source and allow the Group to more efficiently utilise its production capacity.

We have reviewed the Group's production capacity and its utilisation rate during the years ended 31 December, 2011, 2012 and 2013. Despite the slowdown of the CNC Machine Tools market in 2012 and 2013 due to the slowdown in the PRC's economic growth as further discussed below, we note that the Group had maintained more than 90% 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 market as observed in early 2014 continues.

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

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

LETTER FROM ALTUS CAPITAL

3. Terms of the Agreements

Components Agreement

Under the 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 and these mainly comprise castings, including the base, cradle and column, which form the outer surface of the CNC Machine Tools products. Meanwhile the Group may where necessary purchase CKD components from the Taiwan FF Group for the Group's production of CNC Machine Tools on a non-exclusive basis and these mainly comprise the integral components and parts of the CNC Machine Tools products including spindle head and table. The CKD components proposed to be sourced from and those proposed to be sold to the Taiwan FF Group are therefore of different types. Detailed terms of the Components Agreement, such as delivery and payment arrangements, can be found in the "Letter from the Board" of the Circular.

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

Pricing mechanism

The unit price of CKD components to be supplied by the Components Seller (in this case being the Company and its designated parties under the Components Agreement) to the Components Buyer (in this case being Taiwan FF and its designated parties under the Components Agreement) is set principally with reference to:

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

LETTER FROM ALTUS CAPITAL

- (b) failing (a) above, the price of similar products offered by third party manufacturers independent of the Components Seller.

The Components Agreement also provides that the Group will only supply CKD components to the Components Buyer(s) on terms no less favourable to the Group than those the Group would have obtained from independent third parties customers, in that the Group will not confirm any price quotation which does not meet such criteria. As part of its internal control process, the Group will periodically review prices of similar CKD components which it supplies to independent third party customers. At least two quotations will be sought for this purpose. We believe the above procedures can effectively ensure that the pricing terms of any individual transaction under the Components Agreement are in accordance with the aforesaid pricing principle.

We note 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. We also note that the Group did not supply CKD components to independent third party customers during the years ended 31 December 2011, 2012 and 2013 and the three months ended 31 March 2014. Therefore, direct comparison of supply transactions with the Taiwan FF Group and independent third party customers is unavailable. Upon our review of historical sales records on CKD components supplied to the Taiwan FF Group under the Former Components Agreement, we note that the transactions in respect of supplying CKD components to Taiwan FF were RMB1.00 million and RMB0.84 million, which accounted for only 0.06% and 0.06% of the Group's revenue (RMB1,540.86 million, and RMB1,350.27 million respectively) for the years ended 31 December 2012 and 2013. We have also reviewed samples of the previous sale orders of CKD components supplied to the Taiwan FF Group and noted that the selling prices for the CKD components were determined on cost-plus basis and were made reference to the prevailing market price of similar components. Given the pricing mechanism of cost-plus basis, it is not likely that the Group will incur losses on such supply to the Taiwan FF Group. Therefore, we are of the view that the pricing mechanism is fair and reasonable and the sale of CKD components to the Taiwan FF Group can provide an additional and low-risk source of revenue to the Group and is thus beneficial to the Group.

LETTER FROM ALTUS CAPITAL

Order placing

It is stipulated in the Components Agreement that the supply of CKD components is on a non-exclusive basis. We understand from the Management that the Group shall only supply CKD components to the Taiwan FF Group when the supply will not unacceptably affect the manufacturing arrangement or schedule of the Group. In this respect, each time when such supply to Taiwan FF is to be conducted, the sales department is required to obtain written acknowledgement from the manager of the production department that the Group is, at that time, maintaining sufficient CKD components for its own operations and that the supply of such CKD components to the Taiwan FF Group will not affect the Group's prevailing manufacturing schedule. Considering that 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 Components Agreement relating to the sale of CKD components to the Taiwan FF Group are on normal commercial terms and are fair and reasonable.

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

Pricing mechanism

The unit price of CKD components to be purchased by the Components Buyer (in this case being the Company and its designated parties under the Components Agreement) from the Components Seller (in this case being Taiwan FF and its designated parties under the Components Agreement) is set principally with reference to:

- (i) the price quotation of same type of products updated quarterly and publicly made available by the Components Seller to its independent third party customers; or

LETTER FROM ALTUS CAPITAL

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

The Components Agreement provides that the Group will only purchase CKD components from the Components Seller(s) on terms no less favourable to the Group than those the Group would have obtained from independent third party suppliers, in that the Group will not confirm any price quotation which does not meet such criteria. As part of the Group's selection process, at least two quotations will be sought from independent third party suppliers for comparison and only quotations with the most favourable terms will be selected. We believe the above procedures can effectively ensure that the pricing terms of any individual transaction under the Components Agreement are in accordance with the aforesaid pricing principle.

We understand from the Management that the Group normally sources its CKD components requirements from independent third party suppliers locally and only purchases from the Taiwan FF Group CKD components which specifications cannot be obtained from independent third party suppliers. These mainly consist of spindle head and table for CNC Machine Tools. In this respect, we note that the Group did not purchase from independent third party suppliers CKD components which have the same specifications as those purchased from the Taiwan FF Group during the years ended 31 December 2011, 2012 and 2013 and the three months ended 31 March 2014. Therefore, direct comparison of purchase transactions with the Taiwan FF Group and independent third party suppliers is unavailable. We have meanwhile reviewed the historical CKD components purchase record of the Group from the Taiwan FF Group and noted that the historical purchase prices of the CKD components from the Taiwan FF Group are in accordance with the quarterly publicly published price quotation of same type of products by the Taiwan FF Group to its independent third party customers. We are of the view that the pricing mechanism in relation to purchase of CKD components by the Group from the Taiwan FF Group is fair and reasonable and can provide an additional sourcing channel for the Group.

LETTER FROM ALTUS CAPITAL

Order placing

It is stipulated in the Components Agreement that the purchase of CKD components by the Group from the Taiwan FF Group is on a non-exclusive basis. We understand from the Management that the Group shall only purchase CKD components from the Taiwan FF Group when the Directors consider it beneficial to the Group. The Components Agreement does not preclude the Group from purchasing CKD components from independent third party suppliers, if those of similar specifications are available.

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

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

Machine Tools Agreement

Under the Machine Tools Agreement, the Group can purchase from the Taiwan FF Group Designated CNC Machine Tools and has the right to sell such machine tools in the Sales Region on an exclusive basis, and at the request of the Group, the Taiwan FF Group shall supply such machine tools to the Group and authorise the Group to sell such machine tools in the Sales Region on an exclusive basis. Detailed terms of the Machine Tools Agreement, such as delivery and payment arrangements, can be found in the “Letter from the Board” of the Circular.

LETTER FROM ALTUS CAPITAL

Pricing mechanism

The unit price of the Designated CNC Machine Tools to be charged by the Machine Tools Seller (being Taiwan FF and its designated parties under the Machine Tools Agreement) to the Machine Tools Purchaser (being the Company and its designated parties under the Machine Tools Agreement) is to be determined with reference to:

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

The Machine Tools Agreement provides that the Group will only purchase the relevant products from the Machine Tools Seller(s) on terms no less favourable to the Group than those the Group would have obtained from independent third party manufacturers, in that the Group will not confirm any price quotation which does not meet such criteria. As part of the Group's selection process, at least two quotations will be sought from independent third party manufacturers for comparison and only quotations with the most favourable terms will be selected.

LETTER FROM ALTUS CAPITAL

In practice, 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 Machine Tools Agreement to the pricing of similar products obtainable from independent suppliers before placing orders. In this respect, we have reviewed sample quotations from such independent suppliers. Order will be placed with the Taiwan FF Group only if it is beneficial to the Group to do so, for example, the Group can generate a reasonable profit margin from the trade, or such order is necessary for the Group's timely fulfillment of customers' orders in order to maintain customer relationship. We are of the view that the pricing mechanism in relation to the purchase of Designated CNC Machine Tools by the Group from Taiwan FF as described above is fair and reasonable and can provide an additional sourcing channel for the Group.

Order placing

In addition to the Designated CNC Machine Tools, for other CNC Machine Tools which are not designated under the Machine Tools Agreement, the Group has the right to request Taiwan FF to supply such CNC Machine Tools and the Group will purchase such CNC Machine Tools if the Group reasonably considers that the Group's production capacity is insufficient to meet the demand or the Group finds it more beneficial to purchase rather than produce. Under the Machine Tools Agreement, Taiwan FF can only supply the Designated CNC Machine Tools to the Group or those designated by the Group at the Group's request but not any customers in the Sales Region directly.

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

LETTER FROM ALTUS CAPITAL

The Management will only source CNC Machine Tools from external suppliers for the purpose of fulfilling customers' orders. For the CNC Machines Tools which are manufactured by both the Group and the Taiwan FF Group, the Group has an established internal ordering procedures according to which the relevant department of the Group is required to obtain written acknowledgement from the production manager that either (i) the current production capacity of the Group is insufficient to meet customers' demand; or (ii) the Group's production facilities do not have the technical capability in producing such CNC Machines Tools, before placing any purchase order for such CNC Machine Tools from other suppliers. The procurement team, which is responsible for sourcing the CNC Machine Tools from external suppliers (including the Taiwan FF Group), will make the purchase decision based on various factors such as the price quotation, quality of the finished products and timeliness of order delivery. The Group will purchase Designated CNC Machine Tools only if the offer from Taiwan FF is comparable to or more favourable than other independent third party suppliers.

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

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

LETTER FROM ALTUS CAPITAL

4. The Group's recent operating performance

The table below set outs key financial figures of the Group during the three years ended 31 December 2013 as extracted from the Group's annual reports:

	Year ended 31 December		
	2013	2012	2011
Revenue (<i>RMB million</i>)	1,350.3	1,540.9	1,884.1
Gross profit (<i>RMB million</i>)	309.8	308.9	439.2
Profit attributable to equity holders (<i>RMB million</i>)	36.9	42.0	153.7
Gross profit margin	22.9%	20.1%	23.3%
CNC machine tools sales revenue (<i>RMB million</i>)	1,001.9	1,220.3	1,501.8
CNC machine tools sales volume	2,073 units	2,360 units	3,542 units
CNC machine tools gross profit margin	25.8%	22.1%	27.1%

CNC machine tools remained the major source of the Group's revenue during the three years ended 31 December 2013. As shown above, the Group's revenue had been on a declining trend in the past three years. Having recorded a historical high of RMB1,884.1 million in the year ended 31 December 2011, revenue declined by 18.2% and 12.4% in the two years ended 31 December 2013, mainly affected by the continued slowdown in the economic growth of the PRC, which is the Group's main CNC Machine Tools market. In particular, sales volume had declined from 3,542 units to 2,073 units from 2011 to 2013; while sales revenue decreased from RMB1,501.8 million to RMB1,001.9 million over the same period.

Gross profit recorded decline of 29.7% to RMB308.9 million during the year ended 31 December 2012 due to lower revenue and a drop in gross profit margin as a result of increase in raw material prices in the PRC. The Group's overall gross profit margin increased to 22.9% during the year ended 31 December 2013 compared to 20.1% in the previous year, driven mainly by improved margin of CNC Machine Tools from 22.1% to 25.8% as raw material prices stabilised.

LETTER FROM ALTUS CAPITAL

Despite the continued slowdown in the PRC's economic growth, the Group's high-end CNC Machine Tools products recorded satisfactory sales revenue during the two years ended 31 December 2013. The Directors believe that these high-end products could optimise the product portfolio of the Group and strengthen its core competitiveness. In this respect, the Group had made investments in (i) Jobs Automazione S.p.A, a well-known Italian machine tools manufacturer with over 30 years history in January 2012; and (ii) a company which had acquired several renowned machine tools brands from the industrial equipment division of a leading manufacturing technology group in Germany, in October and December 2013.

The Group had observed an improvement in its CNC Machine Tools business during the four months ended 30 April 2014 where it sold 707 units (with value of RMB382.2 million) compared to 650 units (with value of RMB325.3 million) in the same period the previous year, representing an increase of about 17.0%.

The Management is hopeful that the formulation of the 12th Five Year Plan (2011-2015) by the central government of the PRC will stimulate demand of machine tools, especially those high-end ones, from industries such as high-speed railway, aerospace, motor vehicle and energy. It is optimistic with the Group's long term development prospects.

Apart from the CNC Machine Tools manufactured by the Group, the Group has been receiving enquiries from potential customers regarding CNC Machine Tools manufactured in Taiwan, including those by the Taiwan FF Group. Having considered the above, we are of the view that the transactions contemplated under the Components Agreement (in respect of the Group's purchases of CKD components) and the Machine Tools Agreements are favorable to the Group as long as the prices of the CKD components and the Designated CNC Machines Tools from the Taiwan FF Group are competitive and their delivery lead-time is comparable to the independent third party suppliers.

5. Proposed Caps

Table 1 and 2 below set out (i) the approved annual caps for transactions for the period from 15 June 2011 or 23 June 2011 (as the case may be) to 31 December 2011, the two years ended 31 December 2012 and 2013 respectively and the period from 1 January 2014 to 22 June 2014; (ii) the historical amount of annual caps used in the respective periods for transactions under the Former Components Agreement, the Former Machine Tools Agreement and their relevant utilisation rates; and (iii) the Proposed Caps for the Components Agreement and Machine Tools Agreement.

LETTER FROM ALTUS CAPITAL

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

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

	Approved caps <i>(RMB million)</i>	Historical amount <i>(RMB million)</i>	Utilisation rate	Proposed Caps <i>(RMB million)</i>
For the period 23 June 2011 to 31 December 2011	1.35	0.72	53%	–
For the year ended 31 December 2012	2.60	1.00	38%	–
For the year ended 31 December 2013	3.15	0.84	27%	–
For the period 1 January 2014 to 22 June 2014	1.30	0.40 (up to 31 March 2014)	31% (up to 31 March 2014)	–
From Effective Date to 31 December 2014				2.42
For the year 1 January 2015 to 31 December 2015				3.26
For the year 1 January 2016 to 31 December 2016				2.22
For the period 1 January 2017 to 3 years from the Effective Date				1.11

As shown in Table 1 above, the Group had utilised approximately 53%, 38%, 27% and 31% of the approved annual caps for supply of CKD components for the period 23 June 2011 to 31 December 2011, for the two years ended 31 December 2012 and 2013, and for the three months ended 31 March 2014 respectively.

The relatively low level of supply of CKD components to the Taiwan FF Group was mainly due to (i) the weak market demand for the Taiwan FF Group's machine tools which was in line with the Group's own experiences with the CNC machine tools industry; and (ii) the fact that the Taiwan FF Group was able to source CKD components for its production needs from third party suppliers during the period.

LETTER FROM ALTUS CAPITAL

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

- (i) the Group's view on the positive market outlook of the CNC Machines Tools industry during the term of the Components Agreement;
- (ii) the potential fluctuations in the estimated costs of producing CKD components for supplying to the Taiwan FF Group;
- (iii) the recovery of the CNC Machine Tools market observed in early 2014 based on the increase in the revenue generated from the sales of CNC Machine Tools by the Group as compared with the corresponding period in 2013;
- (iv) the projected breakdown of orders for CKD components from the Taiwan FF Group for each of the three years commencing from the Effective Date;
- (v) the production capability of the Group; and
- (vi) the historical transaction amounts for the relevant transactions.

The Management advised that the Proposed Caps in respect of the Group's supply of CKD components to the Taiwan FF Group under the Components Agreement are based on the historical quantity and pricing of orders placed by the Taiwan FF Group with the Group, and taking into account the possible recovery of the CNC Machine Tools market as observed in recent months as described in the paragraph headed "The Group's recent operating performance" above, which in turn may increase the production and sale of CNC Machine Tools by the Taiwan FF Group in its target markets. The Management expects demand of CKD components from the Taiwan FF Group will be relatively higher in the second half of 2014 and during the year ending 31 December 2015 due to certain specific orders for CKD components by the Taiwan FF Group which the Group is currently already in discussion with. Thereafter, demand from the Taiwan FF Group is expected to normalise.

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. In view of the above, we are of the view that the Proposed Caps for supply of CKD components by the Group to the Taiwan FF Group under the Components Agreement are fair and reasonable.

LETTER FROM ALTUS CAPITAL

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

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

	Approved caps (RMB million)	Historical amount (RMB million)	Utilisation rate	Proposed Caps (RMB million)
For the period 23 June 2011 to 31 December 2011	197.00	132.33	67%	–
For the year ended 31 December 2012	404.20	105.42	26%	–
For the year ended 31 December 2013	516.80	97.77	19%	–
For the period 1 January 2014 to 22 June 2014	235.60	15.91 (up to 31 March 2014)	7% (up to 31 March 2014)	–
From Effective Date to 31 December 2014				58.07
For the year 1 January 2015 to 31 December 2015				129.05
For the year 1 January 2016 to 31 December 2016				165.32
For the period 1 January 2017 to 3 years from the Effective Date				86.31

As shown in Table 2 above, the Group had utilised approximately 67%, 26%, 19% and 7% of the approved annual caps for purchase of CKD components for the period 23 June 2011 to 31 December 2011, for the two years ended 31 December 2012 and 2013, and for the three months ended 31 March 2014 respectively.

LETTER FROM ALTUS CAPITAL

This decline in utilisation rate is in line with the decline in revenue as a result of lower market demand for CNC Machine Tools as discussed in the paragraph headed “The Group’s recent operating performance” above. In particular, revenue had declined by 18.2% and 12.4% in the two years ended 31 December 2013. Notwithstanding, the Group had observed an improvement in its CNC Machine Tools business during the four months ended 30 April 2014.

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

- (i) the Group’s view on the positive market outlook of the CNC Machines Tools industry during the term of the Components Agreement;
- (ii) the potential fluctuations in the estimated costs of purchasing CKD components;
- (iii) the recovery of the CNC Machine Tools market observed in early 2014 based on the increase in the revenue generated from the sales of CNC Machine Tools by the Group as compared with the corresponding period in 2013; and
- (iv) the historical transaction amounts for the relevant transactions.

Having considered the slowdown in the CNC Machine Tools market in 2012 and 2013, the Directors have significantly reduced the Proposed Caps for the purchase of CKD components by the Group from Taiwan FF as compared to the previously approved caps. As discussed above, the Group had however observed an improvement in its CNC Machine Tools business during the four months ended 30 April 2014 where sales revenue during this four-month period has increased by approximately 17% compared to the same period in 2013. The Management is cautiously optimistic of a recovery of the CNC Machine Tools market and has accordingly assumed moderate annual growth in demand for CKD components from the Effective Date to three years thereafter when determining the Proposed Caps based on the expected increase in CNC Machine Tools production of the Group. For this purpose, the Group has estimated that, during the period from the Effective Date to three years thereafter,

LETTER FROM ALTUS CAPITAL

CNC Machine Tools production may increase at annualised growth rates ranging between 5% and 28%, having made reference to the 17% increase observed during the four months ended 30 April 2014; and the Group has assumed that prices of CKD components will remain stable during this period. We believe such basis of estimation is reasonable.

Based on the above, we are of the view that the Proposed Caps for purchase of CKD components by the Group from the Taiwan FF Group under the 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 Caps for 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	Proposed Caps <i>(RMB million)</i>
For the period 15 June 2011 to 31 December 2011	74.50	27.12	36%	–
For the year ended 31 December 2012	156.54	101.49	65%	–
For the year ended 31 December 2013	201.96	84.41	42%	–
For the period 1 January 2014 to 14 June 2014	91.70	18.35 (up to 31 March 2014)	20% (up to 31 March 2014)	–
From Effective Date to 31 December 2014				62.68
For the year 1 January 2015 to 31 December 2015				138.93
For the year 1 January 2016 to 31 December 2016				153.19
For the period 1 January 2017 to 3 years from the Effective Date				75.67

LETTER FROM ALTUS CAPITAL

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

- (i) the Group's view on the positive market outlook of the Designated CNC Machines Tools industry during the term of the Machine Tools Agreement;
- (ii) the potential fluctuations in the estimated costs of producing the Designated CNC Machine Tools;
- (iii) the recovery of the CNC Machine Tools market observed in early 2014 based on the increase in the revenue generated from the sales of CNC Machine Tools by the Group as compared with the corresponding period in 2013; and
- (iv) the historical transaction amounts for the relevant transactions.

As discussed in section 4 above, the Group had experienced a slowdown in the CNC Machine Tools market in 2012 and 2013. Consequently, the number of Designated CNC Machine Tools purchased by the Group was lower than expected, thereby affecting the utilisation rate under the previous approved caps. Having considered the slowdown in the CNC Machine Tools market in 2012 and 2013, the Directors have reduced the Proposed Caps for the purchase of Designated CNC Machine Tools by the Group from the Taiwan FF Group as compared to the previously approved caps.

The Group had however observed an improvement in its CNC Machine Tools business during the four months ended 30 April 2014. The Management is cautiously optimistic of a recovery of the CNC Machine Tools market and has accordingly assumed moderate growth in demand for Designated CNC Machine Tools from the Effective Date to three years thereafter when determining the Proposed Caps.

We have reviewed the calculation of the Proposed Caps in respect of the purchase of the Designated CNC Machine Tools under the Machine Tools Agreement. We noted that they are made primarily with reference to the average price of the Designated CNC Machine Tools in the past.

Given an expected recovery of the CNC Machine Tools market, the Management expects that the utilisation rate of the Group's production capacity will increase and it is beneficial for the Group to arrange alternative supply source of CNC Machine Tools from the Taiwan FF Group to meet any possible production shortfall. The Management further advised that the quantity of Designated CNC Machines Tools to be sourced from Taiwan FF is expected to be less than 5% of the number of CNC Machine Tools to be produced by the Group in the coming three years.

LETTER FROM ALTUS CAPITAL

In this connection, we are of the view that the Proposed Caps for the purchase of the Designated CNC Machine Tools under the Machine Tools Agreement are fair and reasonable.

6. Further safeguards under the Machine Tools Agreement

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

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

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the transactions under the Components Agreement and Machine Tools Agreement are conducted in the ordinary and usual course of business; (ii) the terms and conditions of the Components Agreement and Machine Tools Agreement are on normal commercial terms; and (iii) the Components Agreement and 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 continuing connected transactions and the Proposed Caps thereof at the EGM.

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

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. INTERESTS OF DIRECTORS

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

(a) Interests in the Company

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

Note: These Shares were held by Mr. Chu through Sunward Gold Global Investments Limited, a company held as to approximately 72.22% by Mr. Chu.

(b) Interests in the 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	24,243,347 shares	15.40%
Mr. Chu (Note 1)	Taiwan FF	Spouse interest	4,281,925 shares	2.72%
Mr. Chen Hsiang-Jung	Taiwan FF	Beneficial owner	2,994,841 shares	1.90%
Mr. Chu	友迦工業股份有限公司 (Fairseq (Taiwan) Co., Ltd.) (Note 3)	Beneficial owner	21,988 shares	0.22%
Mr. Chu (Note 2)	友迦工業股份有限公司 (Fairseq (Taiwan) Co., Ltd.) (Note 3)	Spouse interest	21,988 shares	0.22%
Mr. Chu	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) (Note 3)	Beneficial owner	1,000 shares	0.01%
Mr. Chu (Note 4)	佑泰興實業股份有限公司 (Yu Thai Xin Ent. Co., Ltd.) (Note 3)	Spouse interest	1,000 shares	0.01%
Mr. Chu (Note 5)	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 3)	Spouse interest	14,700 shares	0.59%
Mr. Chen Hsiang-Jung	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 3)	Beneficial owner	2,940 shares	0.12%
Mr. Chu	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 3)	Beneficial owner	750 shares	0.03%
Mr. Chen Hsiang-Jung	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 3)	Beneficial owner	750 shares	0.03%

Notes:

1. Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) (“Ms. Wang”), the spouse of Mr. Chu, held 2.72% 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.
2. Ms. Wang held 0.22% of the issued share capital of Fairseq (Taiwan) Co., Ltd.. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Fairseq (Taiwan) Co., Ltd. under the SFO.
3. These companies are non-wholly-owned subsidiaries of Taiwan FF and are therefore associated corporations of the Company for the purpose of the SFO.

4. Ms. Wang held 0.01% of the issued share capital of Yu Thai Xin Ent. Co., Ltd.. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Yu Thai Xin Ent. Co., Ltd. under the SFO.
5. Ms. Wang held 0.59% of the issued share capital of Decaview Asia Corporation. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Decaview Asia Corporation under the SFO.

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

(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 2013, 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 2013, 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 was not beneficially interested in the share capital of any member of the Group, nor had any right (whether legitimate or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Altus Capital did not have any direct or indirect interest in any asset which had been, since 31 December 2013, 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 6 June 2014 (as set out on pages 20 to 40 of and made for incorporation in this circular) and references to its name in the form and context in which they respectively appear.

7. 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:

- Former Components Agreement
- Former Machine Tools Agreement
- Components Agreement
- Machine Tools Agreement

8. GENERAL

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

NOTICE OF EGM

GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2398)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Good Friend International Holdings Inc. (the “**Company**”) will be held at 35th Floor, Central Plaza, 18 Harcourt Road, Wanchai, Hong Kong on Friday, 27 June 2014 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 components agreement (the “**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 22 May 2014 in relation to the supply and purchase of CKD components and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;
- (b) the proposed annual caps in respect of the Components Agreement (“**Components Proposed Caps**”), details of which are set out in the circular of the Company dated 6 June 2014 (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 Components Agreement, the transactions contemplated thereunder and the Components Proposed Caps;
2. (a) the entering into of the machine tools agreement (the “**Machine Tools Agreement**”) (a copy of which marked “B” has been produced to the Meeting and initialed by the chairman of the Meeting for the purpose of identification) by the Company and Fair Friend Enterprise Company Limited on 22 May 2014 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 Machine Tools Agreement (“**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 Machine Tools Agreement, the transactions contemplated thereunder and the Machine Tools Proposed Caps.

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

Hong Kong, 6 June 2014

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.