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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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

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

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## GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2398)**

### CONTINUING CONNECTED TRANSACTIONS

*Independent Financial Adviser*

*to the Independent Board Committee and the Independent Shareholders*



**CIMB-GK Securities (HK) Limited**

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A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 13 of this circular.

A letter from CIMB-GK containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 27 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at Vinson Room, Pacific Place Conference Centre, Level 5 One Pacific Place, 88 Queensway, Hong Kong on Monday, 23 June 2008 at 2:30 p.m. (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company convened at the same place and date) is set out on pages 33 to 34 of this circular. A form of proxy for use at the aforesaid extraordinary general meeting is also enclosed. Whether or not you intend to attend the meeting or any adjournment thereof, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's Branch Share Registrar and Transfer Office in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof if you so wish.

3 June 2008

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 21 May 2008 in relation to, amongst others, the Framework Agreement and the Proposed Caps
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors
“CIMB-GK”	CIMB-GK Securities (HK) Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Framework Agreement and the Proposed Caps
“CKD”	acronym for Complete, Knock Down
“CNC”	acronym for Computer Numerical Control, a numerical control system that utilizes a dedicated, stored program computer to perform some or all of the basic numerical control functions
“Commencement Date”	the day on which the condition precedent of the Framework Agreement is completed, details of which are set out in section (A) headed “Condition Precedent” in the summary of terms of the Framework Agreement of this circular
“Company”	Good Friend International Holdings Inc., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Shareholders, the notice of which is set out on pages 33 to 34 of this circular, to be held to consider and, if thought fit, approve the Framework Agreement, the Transactions and the Proposed Caps
“Framework Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 21 May 2008 in relation to the supply and purchase of CKD components and CNC machine tools between the Company and Taiwan FF
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong GF”	means Good Friend (H.K.) Corporation Limited, a company incorporated in Hong Kong with limited liability, beneficial owner of 252,000,000 Shares (representing approximately 75% of the issued share capital of the Company) and is owned as to approximately 99.99% by Taiwan FF
“Independent Board Committee”	means the committee comprising the three independent non-executive Directors established by the Board
“Independent Shareholders”	Shareholders other than Taiwan FF and any of its associates
“independent third party”	in respect of an entity, a third party which is not a connected person of the entity
“Latest Practicable Date”	29 May 2008, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC

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## DEFINITIONS

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“Overseas Markets”	being places other than the PRC, Hong Kong and Macau
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
“Proposed Caps”	the proposed ceiling for the aggregate annual amounts payable or receivable by the Group under the Transactions for the relevant financial periods as detailed in the section headed “The Proposed Caps” in this circular in the respect of the three years commencing from the Commencement Date
“Purchaser”	the party designated by the Company or Taiwan FF as purchaser in a Transaction
“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
“Supplier”	the party designated by the Company or Taiwan FF as supplier in a Transaction
“Taiwan FF”	means Fair Friend Enterprise Company Limited, a limited liability company incorporated in Taiwan on 15 March 1979
“Taiwan FF Group”	Taiwan FF and its subsidiaries, excluding the Group
“Transaction(s)”	the supply of CKD components and/or CNC machine tools by the Company to Taiwan FF and the supply of CKD components by Taiwan FF to the Company as contemplated under the Framework Agreement

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## DEFINITIONS

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

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## LETTER FROM THE BOARD

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# GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2398)

*Executive Directors:*

Mr. Chu Chih-Yaung (*Chairman*)

Mr. Chen Hsiang-Jung

(*Chief Executive Officer*)

Mr. Chen Min-Ho

Mr. Wen Chi-Tang

Mr. Chiu Rung-Hsien

*Registered Office:*

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Independent non-executive Directors:*

Mr. Koo Fook Sun, Louis

Mr. Chiang Chun-Te

Mr. Yu Yu-Tang

*Principal Place of Business*

*in Hong Kong:*

Room 2003, 20th Floor

Kai Tak Commercial Building

317-319 Des Voeux Road Central

Hong Kong

*Principal Place of Business*

*in the PRC:*

No. 120 Shixin North Road

Xiaoshan Economic and

Technological Development Zone

Xiaoshan District

Hangzhou City

Zhejiang Province

The PRC

3 June 2008

*To the Shareholders*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

### 1. INTRODUCTION

Reference is made to the Announcement, on 21 May 2008, the Company and Taiwan FF has entered into a conditional Framework Agreement pursuant to which (i) the Company agrees to supply CKD components and CNC machine tools to Taiwan FF; and (ii) Taiwan FF agrees to supply CKD components to the Company in each of the three years commencing from the Commencement Date. The Directors propose to seek the Independent Shareholders' approval for the Transactions contemplated under the Framework Agreement and the Proposed Caps at the EGM.

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## LETTER FROM THE BOARD

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

### 2. THE FRAMEWORK AGREEMENT

**Date:**

21 May 2008

**Parties:**

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

Taiwan FF is an associate of Hong Kong GF, the controlling shareholder of the Company, and Taiwan FF is accordingly a connected person of the Company.

**Summary of principal terms:**

**(A) *Condition precedent***

The Framework Agreement is subject to and conditional upon the approval by the Independent Shareholders of the Framework Agreement, the Transactions and the Proposed Caps at the EGM to be held in accordance with the requirements of the Listing Rules.

**(B) *Period of the Framework Agreement***

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

**(C) *The Transactions***

**(a) *Supply of CKD components and/or CNC machine tools to Taiwan FF***

Pursuant to the terms of the Framework Agreement, the Company agrees to, on a non-exclusive basis, (i) supply CKD components to Taiwan FF for production of CNC machine tools; and (ii) supply CNC machine tools to Taiwan FF for sale in the Overseas Markets.



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## LETTER FROM THE BOARD

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*(b) Purchase of CKD components from Taiwan FF*

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

The Company may designate such of its subsidiaries and Taiwan FF may designate such of its subsidiaries or (with the prior approval by the Company) its associates to be the Suppliers and/or the Purchasers to enter into the Transactions. The Company and Taiwan FF shall respectively be responsible and liable for the fulfilment of such Transactions entered into by its respective designated entities.

*(D) Delivery and payment arrangement*

In respect of any of the Transactions, the Purchaser shall send the purchase notice to the Supplier specifying the quantity of CKD components or CNC machine tools required 90 days prior to the requested delivery date. Upon receipt of the purchase notice, the Supplier shall issue a price quotation within 7 days. Once the quotation is confirmed by the Purchaser, it will then become effective and binding. In respect of the supply and purchase of CKD components, the Purchaser shall settle the amount of purchase price within 90 days after the date the goods are in receipt. In respect of the supply of CNC machine tools, the Purchaser shall settle the amount of purchase price by the issue of irrevocable letter of credit.

The purchase price payable by the Group will be paid as part of its usual and ordinary expenses.

*(E) Pricing mechanism of CKD components and CNC machine tools*

The unit price of CKD components and CNC machines tools are to be determined by reference to:

- (i) the price of CKD components or CNC machine tools updated quarterly as offered by the Supplier to its independent third party customers; or
- (ii) failing (i) above, the reasonable cost incurred by the Supplier in producing the relevant CKD components or CNC machine tools plus a sales margin determined with reference to:
  - (a) the historical price of the same model of CKD components or CNC machine tools previously offered by the Supplier to its independent third party customer; or
  - (b) failing (a) above, the price of similar products offered by third party producers independent of the Supplier.

## LETTER FROM THE BOARD

For the avoidance of doubt, the Purchaser shall have the right not to confirm any particular quotation in the event it could obtain from independent third parties the same products on more favourable terms, and that the Company or any of its designated entities must refuse to confirm any quotation in respect of a Transaction if the terms of which are inferior to the terms which would otherwise be available to or obtainable by the Group from any independent third parties. The Company confirms that none of the Company and its designated entities will enter into any Transaction the terms of which are inferior to the terms which would otherwise be available to or obtainable by the Group from any independent third parties.

### 3. THE PROPOSED CAPS

During the term of the Framework Agreement, for each of the three years commencing the Commencement Date, it is anticipated 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. Details of which are as follows:

From Commencement Date:	1st year		2nd year		3rd year	
	23 June 2008 to 31 December 2008	1 January 2009 to 22 June 2009	23 June 2009 to 31 December 2009	1 January 2010 to 22 June 2010	23 June 2010 to 31 December 2010	1 January 2011 to 22 June 2011
Relevant financial periods:	Year 2008	Year 2009	Year 2010	Year 2010	Year 2010	Year 2011
<i>Estimated approximate amounts:</i>	<i>In RMB million</i>					
In respect of the supply of CKD components to Taiwan FF						
12 months total*:	20.3		31.5		57.6	
Periodic breakdowns*:	10.7	9.6	16.6	14.9	30.3	27.3
<b>Proposed Caps:</b>	<b>10.7</b>	<b>26.2</b>		<b>45.2</b>		<b>27.3</b>
In respect of the supply of CNC machine tools to Taiwan FF						
12 months total*:	21.3		53.6		86.5	
Periodic breakdowns*:	11.2	10.1	28.2	25.4	45.5	41.0
<b>Proposed Caps:</b>	<b>11.2</b>	<b>38.3</b>		<b>70.9</b>		<b>41.0</b>
In respect of the purchase of CKD components from Taiwan FF						
12 months total*:	174.5		173.2		205.7	
Periodic breakdowns*:	91.8	82.7	91.1	82.1	108.2	97.5
<b>Proposed Caps:</b>	<b>91.8</b>	<b>173.8</b>		<b>190.3</b>		<b>97.5</b>

\* For illustration purpose.

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## LETTER FROM THE BOARD

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### **Basis of determining the Proposed Caps**

The respective anticipated Proposed Caps in respect of each category of Transactions were determined by taking into account factors including the following:

1. the market outlook of the Group in the CNC machine tools industry with regard to the period of the Framework Agreement;
2. the potential fluctuations with regard to the estimated costs in procurement of CKD components and production of CNC machine tools;
3. with respect to the costs and payments by the Group under the Transaction for the supply of CKD components by Taiwan FF to the Group, to cater for any increased production demands on and production capacity of the Group in CNC machine tools production with reference to the increase in sales of relevant CNC machine tools of the Group in previous years;
4. the projected breakdown of orders for CKD components from Taiwan FF for each of the 3 years commencing from the Commencement Date;
5. the projected breakdown of orders for CNC machine tools from Taiwan FF for each of the 3 years commencing from the Commencement Date; and
6. with respect to the proposed cap amounts relating to the supply of CKD components and CNC machine tools to Taiwan FF by the Group, the production capacity of the Group.

### **4. INFORMATION ON THE GROUP AND TAIWAN FF GROUP**

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

### **5. REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENT**

The supply and purchase of CKD components and supply of CNC machine tools are transactions carried out as part of the usual and ordinary course of the business activities of the Group.

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## LETTER FROM THE BOARD

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The Directors consider that the entering into the Framework Agreement provides the Group with an alternative source of CKD components and enlarges its customer base for the Overseas Markets.

### 6. LISTING RULES IMPLICATIONS

Taiwan FF is an associate of Hong Kong GF, the controlling shareholder of the Company, and Taiwan FF is accordingly a connected person of the Company under the Listing Rules. The Transactions, which are to be carried out in the ordinary and usual course of business of the Group and expected to continue and extend over a period of time, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the highest of the applicable percentage ratios in respect of the Proposed Caps for the Transactions exceeds 25% and the remaining percentage ratios exceed 2.5% with the consideration thereof being over HK\$10 million on an annual basis, the Framework Agreement, the Transactions and the Proposed Caps will be subject to reporting, announcement and approval by the Independent Shareholders, voting by way of poll, at the EGM under the requirements of the Listing Rules.

Taiwan FF and any of its associates will abstain from voting in relation to the resolution approving the Framework Agreement, the Transactions and the Proposed Caps at the EGM. So far as was known to the Company as at the Latest Practicable Date, Hong Kong GF (being a 99.99% subsidiary of Taiwan FF), which holds and controls the voting rights in respect of 252,000,000 Shares representing 75% of all issued Shares as at the Latest Practicable Date, shall abstain from voting under the resolution to be proposed at the EGM approving the Framework Agreement, the Transactions and the Proposed Caps in respect of all of its holdings in Shares.

The Independent Board Committee has been established to advise the Independent Shareholders on whether or not the terms of the Framework Agreement and the Proposed Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. CIMB-GK has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### 7. EGM AND ACTION TO BE TAKEN

The EGM will be held at Vinson Room, Pacific Place Conference Centre, Level 5 One Pacific Place, 88 Queensway, Hong Kong on Monday, 23 June 2008 at 2:30 p.m. (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company convened at the same place and date) to consider and, if thought fit, approve, the Framework Agreement, the Transactions and the Proposed Caps. A notice convening the EGM is set out on pages 33 to 34 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM or any adjournment thereof, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's Branch Share Registrar and Transfer Office in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and

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## LETTER FROM THE BOARD

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in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

Any connected person of the Company with a material interest in the Transactions, and any Shareholder with a material interest in the Transaction and its associates, shall not vote upon the proposed resolution in respect of the Framework Agreement, the Transactions and the Proposed Caps at the EGM.

### **8. PROCEDURES TO DEMAND A POLL**

Pursuant to article 66 of the articles of association of the Company, a resolution put to the vote at a general meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the chairman of the meeting; or
- (b) at least three Shareholders present in person or in the case of a Shareholder being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or
- (e) if required by the Listing Rules, by any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at such meeting.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by the Shareholder.

Under the Listing Rules, the resolution to be proposed at the EGM to approve the Transactions contemplated under the Framework Agreement and the Proposed Caps is required to be voted upon by way of poll.

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## LETTER FROM THE BOARD

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### 9. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 13 of this circular which contains its recommendation to the Independent Shareholders. The Independent Board Committee concurs with the opinion of CIMB-GK that the entering into the Framework Agreement is in the ordinary course of business of the Group, on normal commercial terms and in the interests of the Group and Shareholders as a whole, the terms of the Framework Agreement and the Proposed Caps are fair and reasonable so far as the Shareholders are concerned. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the proposed resolution at the EGM.

### 10. GENERAL

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

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

**GOOD FRIEND INTERNATIONAL HOLDINGS INC.**

友佳國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2398)**

3 June 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We have been appointed to form this Independent Board Committee to consider and advise you on the terms of the Framework Agreement and the Proposed Caps, details of which are set out in the circular issued by the Company to the Shareholders dated 3 June 2008 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular will 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 CIMB-GK set out on pages 5 to 12 and pages 14 to 27 of the Circular respectively.

Having taken into account the principal factors and reasons considered by CIMB-GK, its conclusion and advice, we concur with the opinion of CIMB-GK that the Framework Agreement is in the ordinary and usual course of business of the Company, on normal commercial terms, the terms of the Framework Agreement and the Proposed Caps 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 resolution to be proposed at the EGM to approve the Framework Agreement, the Transactions contemplated thereunder and the Proposed Caps.

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*

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## LETTER FROM CIMB-GK

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 **CIMB**  
**CIMB-GK Securities (HK) Limited**

25/F Central Tower  
28 Queen's Road Central  
Hong Kong

3 June 2008

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

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the conditional Framework Agreement entered into between the Company and Taiwan FF and the Proposed Caps, details of which are set out in the circular of the Company (the “**Circular**”) to the Shareholders dated 3 June 2008, of which this letter forms part. Expressions used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

As set out in the Letter from the Board, the Company and Taiwan FF entered into a conditional Framework Agreement on 21 May 2008 pursuant to which (i) the Company agrees to supply CKD components to Taiwan FF for the production of CNC machine tools; (ii) the Company agrees to supply CNC machine tools to Taiwan FF for sale in the Overseas Markets; and (iii) Taiwan FF agrees to supply CKD components to the Company for the production of CNC machine tools in each of the three years commencing from the Commencement Date.

As at the Latest Practicable Date, Taiwan FF was an associate of Hong Kong GF, the controlling shareholder of the Company, and Taiwan FF was accordingly a connected person of the Company under the Listing Rules. The Transactions, which are to be carried out in the ordinary and usual course of business of the Group and expected to continue and extend over a period of time, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the highest of the applicable percentage ratios in respect of the Proposed Caps for the Transactions exceeds 25% and the remaining percentage ratios exceed 2.5% with the consideration thereof being over HK\$10 million on an annual basis, the Framework Agreement and the Proposed Caps will be subject to reporting, announcement and Independent Shareholders' approval, voting by way of poll, at the EGM under the requirements of the Listing Rules. Taiwan FF and its associates will abstain from voting in relation to the resolution to approve the Framework Agreement and the Proposed Caps at the EGM.

The Independent Board Committee comprising all independent non-executive Directors, namely Messrs. Koo Fook Sun, Louis, Chiang Chun-Te and Yu Yu-Tang, has been formed to advise the Independent Shareholders in relation to the terms of the Framework Agreement and the Proposed Caps.



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## LETTER FROM CIMB-GK

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### **BASIS AND ASSUMPTIONS OF THE OPINION**

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular, the information provided by the Company and our review of the relevant public information. The Directors have declared in a responsibility statement set out in the appendix to the Circular that they collectively and individually accept full responsibility for the accuracy of the information contained in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have also been advised by the Company and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company or Taiwan FF or any of their respective subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the terms of the conditional Framework Agreement and the Proposed Caps, we have considered the following principal factors and reasons:

#### **(I) Background and reasons for entering into the Framework Agreement**

The Group is principally engaged in the design and production of CNC machine tools, the design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks.

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

Having considered the principal businesses of each of the Group and Taiwan FF and the nature of the Transactions as set out in the section headed “Introduction”, we concur with the view of the Directors that the entering into of the Framework Agreement falls within the ordinary and usual course of business of the Group.

As set out in the Letter from the Board, the Group entered into the Framework Agreement with the intended benefit of (i) establishing an alternative source of supply of CKD components for the Group’s CNC machine tools manufacturing; and (ii) enlarging its customer base for the Overseas Markets.

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## LETTER FROM CIMB-GK

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We are advised by the Company that, certain CKD components to be supplied by Taiwan FF will be mainly used by the Company for manufacturing of double column machining center (“龍門”) (“**DCMC**”), a new model of machine tools, which represents a high end segment of the CNC machine tools market in the PRC and the supply of which currently mainly relies on imports from overseas. The Company currently expects the commercial production of DCMCs will commence by the end of 2008. In this connection, we concur with the view of the Directors that, with the support of Taiwan FF by providing alternative source of CKD components, the Group will enjoy an advantage to improve its product quality, to develop critical and generic technologies in particular relating to manufacturing high-end machine tools, to improve its profit margin and to enhance its market position.

Pursuant to the Framework Agreement, the Group also intends to supply CKD components and CNC machine tools to Taiwan FF. As advised by the Company, the Group supplies CKD components to independent third party customers at their occasional requests.

The Directors consider that the supply of CNC machine tools to Taiwan FF helps the Group to enlarge its customer base by expanding into the Overseas Markets through Taiwan FF’s international distribution network. We note from the Group’s 2006 and 2007 annual reports that (i) CNC machine tools remained the major source of the Group’s revenue, representing approximately 70% of the total revenue of the Group, for each of the two financial years of 2006 and 2007, and the sales of CNC machine tools during 2007 recorded an increase of approximately 30% as compared with that of 2006; and (ii) it is the Group’s strategy to expand its production capacity and enhance its research and development capacities for producing higher quality and high-end CNC machine tools, including but not limited to DCMCs. We have also reviewed information regarding the machine tools market in the PRC and note that the market has experienced a growth trend in the PRC in the past three years, details of which are set out in the section headed “Proposed Caps” below. In this connection, we concur with the view of the management of the Company that the supply of CNC machine tools by the Group to Taiwan FF is in line with the Group’s long term strategies to allocate more of its resources to explore the overseas market, to become an international CNC machine tools manufacturer and to further improve return to the Shareholders as stated in the 2007 interim report and the 2007 annual report of the Group.

Besides, we note from the Group’s 2007 annual report that the Group’s production base in Xiasha, Zhejiang province has commenced the first phase construction work at the end of 2007 and is expected to be completed in the second half of 2008, and the Group acquired a land use right in the Hangzhou Jiangdong Industrial Park, Zhejiang province in 2007 for the construction of another production plant, both of which will be utilized for the production of CNC machine tools as well as parts and components of CNC machine tools. In this regard, we concur with the view of the management of the Company that the supply of CKD components and CNC machine tools by the Group to Taiwan FF will enable the Group to make better use of its production capacity as well as to expand its revenue base.

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## LETTER FROM CIMB-GK

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Having considered the aforesaid, we concur with the view of the Directors that the entering into of the Framework Agreement is in the interests of the Group and its Shareholders as a whole.

### **(II) Terms of the Framework Agreement**

#### ***(i) Term of the Framework Agreement***

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

#### ***(ii) Major terms of the Transactions***

##### ***(a) Supply of CKD components and/or CNC machine tools by the Group to Taiwan FF***

Under the Framework Agreement, the Company agrees to, on a non-exclusive basis, supply CKD components to Taiwan FF for the production of CNC machine tools, and CNC machine tools to Taiwan FF for sale in the Overseas Markets.

In respect of the relevant pricing mechanism, the Framework Agreement stipulates that the unit prices of CKD components or CNC machine tools to be charged by the Group to Taiwan FF should be determined principally with reference to the respective average selling prices (updated on a quarterly basis) charged by the Group to its independent third party customers.

If the aforesaid average selling prices are not available, the unit prices of CKD components or CNC machine tools to be charged by the Group should be determined with reference to the Group's production cost of such CKD components or CNC machine tools plus a profit margin, which will be determined based on (i) the relevant historical prices of the same CKD components or CNC machine tools previously charged by the Group to its independent third party customers; or (ii) the relevant prices charged by third party manufacturers independent to the Group of the similar CKD components or CNC machine tools in the market, if the option (i) above is not applicable.

For the avoidance of doubt, the Framework Agreement provides that the Group will only supply CKD components or CNC machine tools to Taiwan FF on terms no less favorable to the Group than those available to its independent third party customers.

In this regard, we concur with the view of the Directors that the relevant pricing mechanism as set out in the Framework Agreement is on normal commercial terms and is fair and reasonable.

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## LETTER FROM CIMB-GK

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Besides, pursuant to the Framework Agreement, Taiwan FF shall send the purchase notice to the Company which shall specify the quantity of CKD components and/or CNC machine tools to be purchased 90 days prior to the requested delivery date. The Company shall issue a price quotation in accordance with the pricing mechanism as set out in the Framework Agreement to Taiwan FF for its written confirmation within 7 days upon receipt of the purchase notice. Once the quotation is confirmed by Taiwan FF, it will then become effective and binding. Payment in relation to the supply of CKD components by the Group to Taiwan FF shall be settled by Taiwan FF within 90 days after the receipt of the goods delivered by the Group, and the payment in relation to the supply of CNC machine tools by the Group to Taiwan FF shall be settled by Taiwan FF by the issue of irrevocable letter of credit.

To assess the reasonableness of the payment term under the Framework Agreement relating to the supply of CKD components and/or CNC machine tools by the Group to Taiwan FF, we have reviewed sample contracts entered into between the Group and its independent customers in 2007 in relation thereto. Based on our review, we concur with the view of the management of the Company that the payment term in relation to the supply of CKD components and/or CNC machine tools as set out in the Framework Agreement is fair and reasonable and on normal commercial terms.

In addition, the Framework Agreement stipulates that the Company may designate such of its subsidiaries and Taiwan FF may designate such of its subsidiaries or (with the prior approval by the Company) its associates to enter into the Transactions, while the Company and Taiwan FF shall respectively be responsible and liable for the fulfillment of such Transactions entered into by its respective designated entities.

Having considered the above, we consider the terms, including the pricing mechanism, relating to the supply of CKD components and/or CNC machine tools by the Group to Taiwan FF are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

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

Pursuant to the Framework Agreement, the Group agrees to purchase CKD components, on a non-exclusive basis, from Taiwan FF for its CNC machine tools production.

As stated in the Framework Agreement, the unit prices of CKD components to be charged by Taiwan FF to the Group should be determined with reference to the prices (updated on a quarterly basis) of the same CKD components charged by Taiwan FF to its independent third party customers.

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## LETTER FROM CIMB-GK

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If the aforesaid average selling prices are not available, the unit prices of CKD components to be charged by Taiwan FF should be determined with reference to its production cost of such CKD components plus a profit margin, which will be determined based on (i) the relevant historical prices of the same CKD components charged by Taiwan FF to its independent customers; or (ii) the relevant prices charged by third party manufacturers independent to Taiwan FF of the similar CKD components in the market, if the option (i) above is not applicable.

For the avoidance of doubt, the Framework Agreement provides that the Group will only purchase CKD components from Taiwan FF on terms no less favorable to the Group than those obtainable from its independent third party suppliers.

In this regard, we concur with the view of the Directors that the relevant pricing mechanism as set out in the Framework Agreement is on normal commercial terms and is fair and reasonable.

Besides, pursuant to the Framework Agreement, the Company shall send the purchase notice to Taiwan FF which shall specify the quantity of CKD components to be purchased 90 days prior to the requested delivery date. Taiwan FF shall issue a quotation in accordance with the pricing mechanism as set out in the Framework Agreement to the Company for its written confirmation within 7 days upon receipt of the purchase notice. Once the quotation is confirmed by the Group, it will then become effective and binding. Payment in relation to the purchase of CKD components by the Group from Taiwan FF shall be settled by the Group within 90 days after the receipt of the goods delivered by Taiwan FF.

To assess the reasonableness of the payment term under the Framework Agreement relating to the supply of CKD components by Taiwan FF to the Group, we have conducted a sample review of the contracts which the Group had entered into with its independent third party suppliers in 2007 in relation thereto. Based on our review, we concur with the view of the Directors that the payment term as set out in the Framework Agreement is fair and reasonable and on normal commercial terms.

In addition, the Framework Agreement stipulates that the Company may designate such of its subsidiaries and Taiwan FF may designate such of its subsidiaries or (with the prior approval by the Company) its associates to enter into the Transactions, while the Company and Taiwan FF shall respectively be responsible and liable for the fulfillment of such Transactions entered into by its respective designated entities.

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## LETTER FROM CIMB-GK

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Having considered the above, we consider the terms, including the pricing mechanism, relating to the supply of CKD components by Taiwan FF to the Group pursuant to the Framework Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

### *Our view*

Based on our review as explained above, we consider that the terms of the Framework Agreement entered into between the Group and Taiwan FF are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

### **(III) Proposed Caps**

Set out below are the Proposed Caps for each of the financial year end and, for illustration purpose, the twelve-month breakdown for the period of the Framework Agreement relating to each category of the Transactions:

**Table 1 – The Proposed Caps**

Financial period/ Year end	23 June 2008 to 31 December 2008 ("2H08") <i>RMB million</i>	Year ended 31 December 2009 ("FY09") <i>RMB million</i>	Year ended 31 December 2010 ("FY10") <i>RMB million</i>	1 January 2011 to 22 June 2011 ("1H11") <i>RMB million</i>
Supply of CKD components to Taiwan FF	10.7	26.2	45.2	27.3
Supply of CNC machine tools to Taiwan FF	11.2	38.3	70.9	41.0
Purchase of CKD components from Taiwan FF	91.8	173.8	190.3	97.5

## LETTER FROM CIMB-GK

As noted in the Letter from the Board, for illustration purpose, the following table set out the breakdown for each of the three years commencing from the Commencement Date relating to each category of the Transactions:

**Table 2 – Breakdown for each of the three years commencing from the Commencement Date**

	1st year (the “1st period”)		2nd year (the “2nd period”)		3rd year (the “3rd period”)		1H11
	1 January 2009 to 22 June 2009 2H08 <i>RMB million</i>	9.6	23 June 2009 to 31 December 2009 2H09 <i>RMB million</i>	1 January 2010 to 22 June 2010 1H10 <i>RMB million</i>	23 June 2010 to 31 December 2010 2H10 <i>RMB million</i>	27.3	
Supply of CKD components to Taiwan FF	10.7	9.6	16.6	14.9	30.3	27.3	
<b>Total</b>	<b>20.3</b>		<b>31.5</b>		<b>57.6</b>		
Supply of CNC machine tools to Taiwan FF	11.2	10.1	28.2	25.4	45.5	41.0	
<b>Total</b>	<b>21.3</b>		<b>53.6</b>		<b>86.5</b>		
Purchase of CKD components from Taiwan FF	91.8	82.7	91.1	82.1	108.2	97.5	
<b>Total</b>	<b>174.5</b>		<b>173.2</b>		<b>205.7</b>		

As stated in the Letter from the Board, the respective Proposed Caps in respect of each of the Transactions were determined by taking into account the following factors:

1. the market outlook of the Group in respect of the CNC machine tools industry under the term of the Framework Agreement;
2. the potential fluctuations with regard to the estimated costs in procurement of CKD components and production of CNC machine tools;
3. with respect to the relevant proposed cap amounts relating to the supply of CKD components to the Group by Taiwan FF under the Framework Agreement, an increase in the market demand and the Group’s production capacity of CNC machine tools, with reference to the increase in sales of the relevant CNC machine tools of the Group in previous years;
4. the projected breakdown of orders for CKD components from Taiwan FF for each of the three years commencing from the Commencement Date;

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## LETTER FROM CIMB-GK

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5. the projected breakdown of orders for CNC machine tools from Taiwan FF for each of the three years commencing from the Commencement Date; and
6. with respect to the proposed cap amounts relating to the supply of CKD components and CNC machine tools to Taiwan FF by the Group, the production capacity of the Group.

### *Our analysis*

In assessing the reasonableness of the Proposed Caps relating to the Transactions under the Framework Agreement, we have discussed with the management of the Company the basis of determining the Proposed Caps and understand that the following factors have been taken into account for the determination of the Proposed Caps:

#### *(i) Supply of CKD components by the Company to Taiwan FF*

As set out in the Letter from the Board, the Proposed Caps for the supply of CKD components by the Company to Taiwan FF pursuant to the Framework Agreement for each of 2H08, FY09, FY10 and 1H11 (together, the “**Relevant Periods**”) are RMB10.7 million, RMB26.2 million, RMB45.2 million and RMB27.3 million respectively; and the relevant indicative amounts for the three years commencing from the Commencement Date are RMB20.3 million, RMB31.5 million and RMB57.6 million respectively.

To assess the reasonableness of the relevant amounts, we have discussed with the management of the Company regarding the basis adopted by the Group in determining the same. We understand that the aforesaid amounts relating to the supply of CKD components to Taiwan FF are determined based on the projected orders from Taiwan FF for each of the three years commencing from the Commencement Date as well as the relevant production capacity of the Group. We have reviewed the order form compiled by Taiwan FF regarding the CKD components and consider that the relevant amounts are in line with the projected orders from Taiwan FF. We are advised by the Company that the Directors do not expect that such provision of CKD components by the Group to Taiwan FF under the Framework Agreement will affect the Group’s normal operation and manufacturing. In this regard, we consider that the supply of CKD components by the Group to Taiwan FF represents a new source of revenue for the Group and is in the interests of the Group and the Shareholders as a whole.

As noted in Table 1 and Table 2, the Proposed Cap for FY10 represents an increase of approximately 72.5% over that of FY09; and the indicative amount of the 2nd period represents an increase of approximately 55.2% as compared with that of the 1st period. We understand from the Company that the significant increase in the Proposed Cap for FY10 and the indicative amount of the 2nd period is mainly attributable to the fact that a new production plant of the Company, which



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## LETTER FROM CIMB-GK

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principally manufactures CNC machine tools as well as CKD components to be provided to Taiwan FF, will not commence its full operation until second half of 2009. The Proposed Cap for 1H11 represents an increase of approximately 83.2% over that of 1H10; and the indicative amount of the 3rd period represents an increase of approximately 82.9% as compared with that of the 2nd period, which, as advised by the Company, is mainly attributable to the increase in production capacity as a result of the commencement of operation of another new production plant in 2010 and the anticipated demand of additional CKD components for Taiwan FF's manufacturing of new machine tool models.

Having considered the aforesaid, we are of the view that the basis adopted by the Group to determine the Proposed Caps relating to the supply of CKD components by the Company to Taiwan FF pursuant to the Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

*(ii) Supply of CNC machine tools by the Company to Taiwan FF*

As set out in the Letter from the Board, the Proposed Caps for the supply of CNC machine tools by the Company to Taiwan FF pursuant to the Framework Agreement for each of the Relevant Periods are RMB11.2 million, RMB38.3 million, RMB70.9 million and RMB41.0 million respectively; and the relevant indicative amounts for the three years commencing from the Commencement Date are RMB21.3 million, RMB53.6 million and RMB86.5 million respectively.

To assess the reasonableness of the relevant amounts, we have discussed with the management of the Company regarding the basis adopted by the Group in determining the same. We understand that the relevant amounts relating to the supply of CNC machine tools to Taiwan FF are determined based on the projected amount of orders from Taiwan FF in each of the three years commencing from the Commencement Date. We have reviewed the order form compiled by Taiwan FF regarding the CNC machine tools, and consider that the relevant amounts are in line with the projected orders from Taiwan FF. We also note that the projected quantity of CNC machine tools to be supplied by the Company to Taiwan FF as stipulated in the aforesaid order form accounts for an insignificant percentage of the sales projection of the Group during the term of the Framework Agreement and, given the Group's production capacity of CNC machine tools, the Directors do not expect that such provision of CNC machine tools to Taiwan FF under the Framework Agreement will affect the Group's normal operation and manufacturing. In this regard, we consider that the supply of CNC machine tools by the Group to Taiwan FF also represents an additional source of revenue for the Group and is in the interests of the Group and the Shareholders as a whole.

As noted in Table 1 and Table 2, the Proposed Cap for FY10 represents an increase of approximately 85.1% over that of FY09; and the indicative amount of the 2nd period represents an increase of approximately 151.6% as compared with that

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## LETTER FROM CIMB-GK

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of the 1st period. We understand from the Company that the significant increase in the Proposed Cap for FY10 and the relevant indicative amount of the 2nd period is mainly attributable to the commencement of provision of DCMCs to Taiwan FF, the estimated transaction value of which represents approximately 39.4% of the relevant indicative amount of the 2nd period. The Proposed Cap for 1H11 represents an increase of approximately 61.4% over that of 1H10; and the relevant indicative amount of the 3rd period represents an increase of approximately 61.4% as compared with that of the 2nd period. As advised by the Company, such increase is mainly attributable to the increase in production capacity as a result of the targeted commencement of operation of another new production plant in 2010 and the projected orders for DCMCs from Taiwan FF, the estimated transaction value of which represents approximately 52.1% of the relevant indicative amount of the 3rd period.

Having considered the aforesaid, we are of the view that the basis adopted by the Group to determine the Proposed Caps relating to the supply of CNC machine tools by the Company to Taiwan FF pursuant to the Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

*(iii) Purchase of CKD components by the Company from Taiwan FF*

As set out in the Letter from the Board, the Proposed Caps for the purchase of CKD components by the Company from Taiwan FF pursuant to the Framework Agreement for each of the Relevant Periods are RMB91.8 million, RMB173.8 million, RMB190.3 million and RMB97.5 million respectively; and the relevant indicative amounts for each of the three years commencing from the Commencement Date are RMB174.5 million, RMB173.2 million and RMB205.7 million respectively.

As advised by the Company, CKD components to be sourced by the Company from Taiwan FF for the three years commencing from Commencement Date pursuant to the Framework Agreement will mainly be used for manufacturing of machine tools of both the existing models and DCMCs.

As noted in Table 1 and Table 2, the Proposed Cap for FY10 represents an increase of approximately 9.5% over that of FY09; and a slight decrease in the relevant indicative amount of the 2nd period as compared with that of the 1st period. We are advised by the Company that such slight decrease of the 2nd period is mainly attributable to the estimated decrease in imported components from Taiwan FF as a percentage of the total material cost incurred by the Group in the 2nd period as a result of the localized sourcing strategy implemented by the Group, which offsets the effect of the projected increased market demand for the machine tools manufactured by the Company during the 2nd period. On the other hand, as advised by the Company, the increase of FY10 represents an anticipated increase in demand for CKD components for the production of DCMCs, which has a relatively higher

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## LETTER FROM CIMB-GK

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reliance on imported CKD components as compared with existing models, and the commencement of the commercial production of DCMCs by the end of 2008 is expected to offset the effect of the Group's localized sourcing strategy as mentioned above.

The Proposed Cap for 1H11 represents an increase of approximately 18.8% over that of 1H10; and the relevant indicative amount of the 3rd period represents an increase of approximately 18.8 % as compared with that of the 2nd period. We understand from the Company that the relevant increase is mainly attributable to the projected increase of DCMCs in the Company's sales mix and the increase in market demand for machine tools manufactured by the Group.

To assess the reasonableness of the relevant amounts, we have discussed with the management of the Company regarding the basis adopted by the Group in determining the same. We understand that the relevant amounts for the purchase of CKD components from Taiwan FF are determined with reference to (i) the projected market demands for the machine tools manufactured by the Group of each period during the term of the Framework Agreement, which represented an increase of approximately 31% (as compared with that of 2007), 35% and 19% respectively (as compared with that of the preceding period); (ii) the historical imported CKD components as a percentage of the total material cost incurred by the Group, which was approximately 27% for 2007; and (iii) the historical ratio of the total material cost to the sales value of machine tools manufactured by the Group.

Regarding the Group's projection regarding the market demands for CNC machine tools manufactured by the Group for the Relevant Periods, we have reviewed information sourced from public domains in respect of the consumption of machine tools in the PRC, the historical sales of CNC machine tools of the Group in the past three years ended 31 December 2007, as well as the sales estimates compiled by the Company for the period from 2008 to 2012.

Based on our review, we note that China remains as the world's biggest market for machine tools in 2007, with a relevant consumption of approximately US\$15.4 billion in 2007, representing a year-on-year ("yoy") increase of approximately 17% as compared with that of 2006 and a compound annual growth rate of approximately 18.3% during the period from 2004 to 2007. Furthermore, we note from the Group's 2006 and 2007 annual reports that the number of CNC machine tools sold by the Group increased from 960 units in 2005 to 1,491 units in 2007, representing a yoy growth rate of approximately 20% and 30% as compared with that of the preceding year respectively. Having considered the aforesaid, we consider that the Directors' estimation on the market demand thereunder for each of the three years commencing from the Commencement Date is reasonable.

We have discussed with the Company regarding its estimation on the average unit prices applied in the cap calculation and reviewed relevant sales information provided by the Company. Based on our discussion and review, we understand that

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## LETTER FROM CIMB-GK

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(i) the average price for those traditional CNC machine tools applied in the cap calculation are determined with reference to the average unit price of CNC machine tools of the Group in 2007; and (ii) the assumption regarding the average prices of DCMCs are based on the Directors' market knowledge in relation thereto. Having considered the aforesaid, we consider the Group's assumption regarding the average unit prices for the cap calculation is not unjustifiable.

Regarding the cost of imported CKD components as a percentage of the total material cost, we have reviewed the relevant historical records provided by the Company for the period from 2003 to 2007. Based on our review, we note that such percentage remained relatively high for new models of machine tools manufactured by the Group while decreased gradually as a result of the Group's continual efforts in localising its raw material sourcing for more mature products. Having considered the aforesaid, we consider that the Group's assumption thereunder for the cap calculation is reasonable and in line with the historical records of the Group.

Finally, regarding the ratio of the total material cost to the sales value of machine tools manufactured by the Group, we have reviewed the information provided by the Company regarding its gross profit information for the year of 2007. Based on our review, we consider the assumption thereunder for the cap calculation adopted by the Company is reasonable.

Having considered the aforesaid factors, we are of the view that the basis adopted by the Group to determine the Proposed Caps relating to the purchase of CKD components by the Company from Taiwan FF pursuant to the Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

### *Our view*

Having considered the above, we consider that the terms of the Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the basis adopted by the Directors in determining the Proposed Caps in respect of the Transactions pursuant to the Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

However, Shareholders should note that the Proposed Caps in respect of the Transactions relate to future events and they do not represent a forecast of turnover or expenditure to be generated or incurred under the Transactions. Consequently, we express no opinion as to how closely the actual amounts to be generated or incurred under the above Transactions correspond with the Proposed Caps.

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## LETTER FROM CIMB-GK

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### RECOMMENDATION

Having considered the principal factors and reasons referred to the above, we consider that (i) the entering into of the Framework Agreement is in the ordinary course of business of the Group and in the interests of the Group and the Shareholders as a whole; (ii) the terms of the Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the basis for determining the Proposed Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the entering into of the Framework Agreement and the Proposed Caps.

Yours faithfully,

For and on behalf of

**CIMB-GK Securities (HK) Limited**

**Alex Lau**

*Director*

*Head of Corporate Finance*

**Heidi Cheng**

*Director*

## 1. RESPONSIBILITY STATEMENT

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

## 2. INTERESTS OF DIRECTORS

### (a) Interests in the Company and its associated corporations

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and 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 referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange:

Name of Director	Name of associated corporation	Number and class of shares held				Approximate percentage of shareholding
		Personal interest	Spouse interest	Family interest	Total	
Mr. Chu Chih-Yaung	Taiwan FF	24,452,401 shares (Note 1)	4,771,925 shares (Note 2)	514,283 shares (Note 3)	29,738,609 shares	18.89%
	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd) (Note 4)	21,988 shares (Note 1)	21,988 shares (Note 2)	–	43,976 shares	0.44%
	佑泰興業股份有限公司 (Yu Thai Xin Ent. Co., Ltd) (Note 4)	1,000 shares (Note 1)	1,000 shares (Note 2)	–	2,000 shares	0.02%

Name of Director	Name of associated corporation	Number and class of shares held				Approximate percentage of shareholding
		Personal interest	Spouse interest	Family interest	Total	
	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 4)	–	50,000 shares (Note 2)	–	50,000 shares	0.59%
	Fair Fine (Hongzhou) Industrial Co., Ltd. (Note 4)	750 shares	–	–	750 shares	0.03%
Mr. Chen Hsiang-Jung	Taiwan FF	4,815,841 shares	–	–	–	3.06%
	友嘉國際股份有限公司 (Decaview Asia Corporation) (Note 4)	10,000 shares	–	–	–	0.12%
	Fair Fine (Hongzhou) Industrial Co., Ltd (Note 4)	750 shares	–	–	750 shares	0.03%
Mr. Chen Min-Ho	友迦工業股份有限公司 (Fairskq (Taiwan) Co., Ltd) (Note 4)	43,976 shares	–	–	–	0.44%

## Notes:

1. These shares are held by the relevant Director as beneficial owner.
2. These shares are held by Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu), the spouse of Mr. Chu Chih-Yaung.
3. These shares are held by Mr. Chu Yi-Chia, the son of Mr. Chu Chih-Yaung under the age of 18.
4. These companies are non-wholly-owned subsidiaries of Taiwan FF and are therefore associated corporations of the Company for the purpose of the SFO.

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

**(b) Interests in contracts and assets**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

**3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS**

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors, there was no other person who had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of SFO) which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

**Interests in Shares**

Name of substantial shareholders	Nature of interest		Number of	Percentage
			Shares held	of issued share capital of the Company
Hong Kong GF	Beneficial owner	Long position	252,000,000 Shares (Note)	75%
		Short position	24,000,000 Shares	7.14%
Taiwan FF	Interest of controlled corporation	Long position	252,000,000 Shares (Note)	75%
		Short position	24,000,000 Shares	7.14%
Morgan Stanley	Beneficial owner	Long position	24,000,000 Shares	7.14%

*Note:* Hong Kong GF is owned as to approximate 99.99% by Taiwan FF. Taiwan FF is deemed to be interested in 252,000,000 Shares held by Hong Kong GF under the SFO.



#### 4. SERVICE CONTRACTS

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

#### 5. COMPETING INTERESTS

Save as 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 were considered to have any interest in a business which competes or may compete with the business of the Group.

#### 6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are of the view that there was no material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Company were made up.

#### 7. EXPERT AND CONSENT

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

<b>Name</b>	<b>Qualification</b>
CIMB-GK	a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

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

As at the Latest Practicable Date, CIMB-GK did not have any direct or indirect interest in any asset which had been, since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

CIMB-GK has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 3 June 2008 set out on pages 14 to 27 of and made for incorporation in this circular) and references to its name in the form and context in which they respectively appear.

**8. DOCUMENT AVAILABLE FOR INSPECTION**

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

- The Framework Agreement.

**9. GENERAL**

The English text of this circular shall prevail over the Chinese text in the event of inconsistency. The Proposed Caps and breakdown figures as shown in the Announcement shall be superseded by the figures in the table as included in the “Letter from the Board” section of this circular which contain slight adjustments as a result of rounding.

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## NOTICE OF EGM

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# GOOD FRIEND INTERNATIONAL HOLDINGS INC.

## 友佳國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2398)**

### 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 Vinson Room, Pacific Place Conference Centre, Level 5 One Pacific Place, 88 Queensway, Hong Kong on Monday, 23 June 2008 at 2:30 p.m. (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company convened at the same place and date) for the purpose of considering and, if thought fit, passing with or without modifications the following as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

**“THAT:**

- (a) the enter into of framework agreement dated 21 May 2008 (the “**Framework Agreement**”) entered into between the Company and Fair Friend Enterprise Company Limited (a copy of which has been produced to the Meeting marked “A” and initialed by the chairman of the Meeting for identification purpose) in relation to the supply and purchase of CKD components and CNC machine tools, and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;
- (b) the proposed annual caps in respect of the Framework Agreement as set out in the circular of the Company dated 3 June 2008 (marked in bold and defined as the “**Proposed Caps**”) 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 Framework Agreement, the transactions contemplated thereunder and the Proposed Caps.”

By Order of the Board  
**Good Friend International Holdings Inc.**  
**CHU Chih-Yaung**  
*Chairman*

Hong Kong, 3 June 2008

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## NOTICE OF EGM

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*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, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, not less than 48 hours before the time for holding the Meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting or any adjournment thereof 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 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.