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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**

The Board is pleased to announce that the Company and Taiwan FF entered into a conditional Framework Agreement on 21 May 2008 pursuant to which the Company agrees to supply CKD components and CNC machine tools to Taiwan FF and Taiwan FF agrees to supply CKD components to the Company in each of the three years commencing from the Commencement Date.

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.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the Framework Agreement and the Proposed Caps. CIMB-GK has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

A circular containing details on (i) the terms of the Framework Agreement and the Transactions; (ii) the Proposed Caps; (iii) the respective letter of advice from the Independent Board Committee and CIMB-GK; and (iv) a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

### **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.

**(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 guarantee and be responsible 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 sale 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 sale of CNC machine tools, the Purchaser shall settle the amount of purchase price by the issue of irrevocable letter of credit.

***(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.

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.

## The Proposed Caps

During the term of the Framework Agreement, for the three years commencing from 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                                  |                                      |
|---|---|--------------------------------------|---|--------------------------------------|---|--------------------------------------|
| Relevant financial periods:                                 | 23 June 2008<br>to<br>31 December<br>2008 | 1 January 2009<br>to<br>22 June 2009 | 23 June 2009<br>to<br>31 December<br>2009 | 1 January 2010<br>to<br>22 June 2010 | 23 June 2010<br>to<br>31 December<br>2010 | 1 January 2011<br>to<br>22 June 2011 |
|   | Year 2008                                 | Year 2009                            | Year 2010                                 | Year 2010                            | Year 2011                                 | 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*:   | 21.2                                      |                                      | 53.6                                      |                                      | 86.5                                      |                                      |
| Periodic breakdowns*:                                       | 11.15                                     | 10.05                                | 28.2                                      | 25.4                                 | 45.5                                      | 41.0                                 |
| <b>Proposed Caps:</b>                                       | <b>11.15</b>                              | <b>38.25</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                                     |                                      | 205.77                                    |                                      |
| Periodic breakdowns*:                                       | 91.8                                      | 82.7                                 | 91.1                                      | 82.1                                 | 108.24                                    | 97.53                                |
| <b>Proposed Caps:</b>                                       | <b>91.8</b>                               | <b>173.8</b>                         | <b>190.34</b>                             |                                      | <b>97.53</b>                              |                                      |

\* For illustration purpose.

### Basis of determining the Proposed Caps

The 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.

## **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.

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

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

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.

## **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.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the Framework Agreement and the Proposed Caps. CIMB-GK has been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. The Directors (except for the independent non-executive Directors, who will express their views in the circular together with the opinion of CIMB-GK) are of the view that the terms of the Framework Agreement, as arrived at after arm's length negotiation between the Company and Taiwan FF, are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole.

A circular containing details on (i) the terms of the Framework Agreement and the Transactions; (ii) the Proposed Caps; (iii) the respective letter of advice from the Independent Board Committee and CIMB-GK; and (iv) a notice convening the EGM will be despatched to the Shareholders as soon as practicable.

## DEFINITIONS

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

|                           |  |
|---------------------------|--|
| “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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), 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 in this announcement   |
| “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   |
| “Directors”               | the directors of the Company   |
| “EGM”                     | the extraordinary general meeting of the Shareholders 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 sale 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  |
| “Listing Rules”               | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Overseas Markets”            | being places other than the PRC, Hong Kong and the Macau Special Administrative Region of the PRC   |
| “PRC”                         | the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan   |
| “Proposed Caps”               | the proposed ceiling for the 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 announcement in 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  |
| “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  |
| “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 |
| “HK\$”            | Hong Kong dollars, the lawful currency of Hong Kong  |
| “RMB”             | Reminbi, the lawful currency of the PRC  |
| “%”               | per cent   |

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

Hong Kong, 21 May 2008

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