
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2398)

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

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

ALTUS CAPITAL LIMITED

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

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

A letter from Altus Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 62 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 31 August 2020 at 3:00 p.m. is set out on pages 67 to 69 of this circular. A form of proxy for use at the aforesaid extraordinary general meeting is enclosed with this circular. Whether or not you propose to attend the meeting or any adjournment thereof, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 1 of this circular for the measures to be implemented at the EGM by the Company to safeguard the health and safety of the attendees and to prevent the spreading of the Novel Coronavirus ("COVID-19") pandemic, including:

- (1) compulsory body temperature check
- (2) compulsory wearing of surgical face mask
- (3) no refreshments or drinks will be served

Attendees who do not comply with the precautionary measures (1) and (2) above may be denied entry into the EGM venue, at the absolute discretion of the Company as permitted by law. The Company wishes to advise the Shareholders that they may appoint the Chairman of the meeting as their proxy to vote on the relevant resolutions at the EGM as an alternative to attend the EGM in person.

14 August 2020

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread, the Company will implement necessary preventive measures at the EGM to protect attending Shareholders, Directors, proxies and other attendees from the risk of infection, including:

- (1) Compulsory body temperature check will be conducted on every Shareholder, proxy and other attendees at the entrance of the EGM venue. Any person with a body temperature of over 37.2 degrees Celsius, or is exhibiting flu-like symptoms may be denied entry into the EGM venue or be required to leave the EGM venue.
- (2) Attendees are required to wear surgical face masks inside the EGM venue at all times, and to maintain a safe distance between seats and as such, the Company may limit the number of attendees at the EGM as may be necessary to avoid over-crowding.
- (3) No refreshments or drinks will be served.

Attendees who do not comply with the precautionary measures (1) and (2) above may be denied entry into the EGM venue, at the absolute discretion of the Company as permitted by law, or be required to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all attendees' health and safety, the Company wishes to advise all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using forms of proxy with voting instructions duly completed, the Shareholders may appoint the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM instead of attending the EGM in person.

The form of proxy is attached to this circular and can be downloaded from the Company's website (<http://www.goodfriend.hk>). If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

DEFINITIONS

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

“Agreements”	the CKD Components Agreement and the CNC Machine Tools Agreement
“Altus Capital”	Altus Capital Limited, a corporation licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“Announcement”	the announcement of the Company dated 10 July 2020
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors
“CKD Components”	CKD is the short form and acronym for Complete Knock Down, and CKD components are the major components required to assemble and manufacture CNC Machine Tools
“CKD Components Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 10 July 2020, in relation to the purchase and supply of CKD Components between the Company (or the CKD Components Purchaser and/or the CKD Components Supplier designated by the Company) and Taiwan FF (or the CKD Components Purchaser and/or CKD Components Supplier designated by Taiwan FF) for a period of three years commencing from the Effective Date
“CKD Components Purchaser(s)”	the purchaser(s) designated by the Company or Taiwan FF (as the case may be) to purchase CKD Components under the CKD Components Agreement, which may be any member(s) of the Group or the Taiwan FF Group (as the case may be), or controlled associate(s) of the Company or Taiwan FF (as the case may be) if with the written consent of the other party

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“CKD Components Supplier(s)”	the supplier(s) designated by the Company or Taiwan FF (as the case may be) to supply CKD Components under the CKD Components Agreement, which may be any member(s) of the Group or the Taiwan FF Group (as the case may be), or controlled associate(s) of the Company or Taiwan FF (as the case may be) if with the written consent of the other party
“CNC Machine Tools”	CNC is the short form and acronym for Computer Numerical Control, a numerical control and computer storage system that utilizes a dedicated, storage-program computer and has the functions to perform some or all of the basic numerical control. CNC Machine Tools refer to those machine tools with CNC systems installed
“CNC Machine Tools Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 10 July 2020, in relation to the exclusive sale of Designated CNC Machine Tools by the CNC Machine Tools Seller to the CNC Machine Tools Purchaser, and the rights to exclusive sale of Designated CNC Machine Tools by the CNC Machine Tools Purchaser in the Sales Region for a period of three years commencing from the Effective Date
“CNC Machine Tools Purchaser(s)”	the Company and/or the purchaser(s) designated by the Company to purchase Designated CNC Machine Tools under the CNC Machine Tools Agreement, which may be any member(s) of the Group, or controlled associate(s) of the Company if with the written consent of Taiwan FF
“CNC Machine Tools Seller(s)”	Taiwan FF and/or the seller(s) designated by Taiwan FF to sell Designated CNC Machine Tools under the CNC Machine Tools Agreement, which may be any member(s) of the Taiwan FF Group, or controlled associate(s) of Taiwan FF if with the written consent of the Company
“Company”	Good Friend International Holdings Inc., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Designated CNC Machine Tools”	include (i) the CNC Machine Tools agreed to be sold and purchased under the CNC Machine Tools Agreement, the models and production specifications of which were specified under the CNC Machine Tools Agreement; and (ii) other CNC Machine Tools as mentioned under paragraphs (ii) and (iii) of the section headed “ <i>Letter from the Board – (2) CNC Machine Tools Agreement – Summary of principal terms – (F) Others</i> ”
“Directors”	the directors of the Company
“Effective Date”	the date on which all the conditions precedent under each of the CKD Components Agreement and the CNC Machine Tools Agreement (as set out in the sections headed “ <i>Letter from the board – (3) CKD Components Agreement – Summary of principal terms – (A) Condition precedent</i> ” and “ <i>Letter from the board – (4) CNC Machine Tools Agreement – Summary of principal terms – (A) Condition precedent</i> ”) are fulfilled
“EGM”	the extraordinary general meeting of the Company to be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 31 August 2020 at 3:00 p.m. to consider and, if thought fit, approve, among others, the Agreements, the Transactions and the Proposed Annual Caps thereunder
“Former CKD Components Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 26 May 2017, in relation to the purchase and supply of CKD Components between the Company (or persons designated by the Company) and Taiwan FF (or persons designated by Taiwan FF) for a period of three years commencing from 13 July 2017 and expiring on 12 July 2020

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“Former CNC Machine Tools Agreement”	the conditional framework agreement entered into between the Company and Taiwan FF on 26 May 2017, in relation to the exclusive sale of Designated CNC Machine Tools by Taiwan FF (or persons designated by Taiwan FF) to the Company (or persons designated by the Company), and the rights to exclusive sale of Designated CNC Machine Tools by the Company (or persons designated by the Company) in the Sales Region for a period of three years commencing from 13 July 2017 and expiring on 12 July 2020
“Group”	the Company and its then subsidiaries at any time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong GF”	Good Friend (H.K.) Corporation Limited, a company incorporated in Hong Kong with limited liability, beneficial owner of 232,000,000 Shares (representing approximately 57.56% of the issued share capital of the Company) and is owned as to approximately 99.99% by Taiwan FF as at the Latest Practicable Date
“Independent Board Committee”	the committee established by the Board, comprising the three independent non-executive Directors
“Independent Shareholders”	Shareholders (other than Hong Kong GF, Sunward Gold Global Investments Limited (a company held as to approximately 72.22% by Mr. Chu as at the Latest Practicable Date) and any of their respective associates and, if any, any other Shareholders who have a material interest and are required to abstain from voting at the EGM pursuant to the Listing Rules) who do not have to abstain from voting in the EGM under the Listing Rules
“Latest Practicable Date”	11 August 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Mr. Chu”	Mr. CHU Chih-Yaung, an executive Director and the chairman of the Company, who as at the Latest Practicable Date was beneficially interested in 15,527,255 shares in Taiwan FF (representing approximately 15.16% of the entire issued capital thereof) and, through Sunward Gold Global Investments Limited, a company held as to approximately 72.22% by him, interested in 20,000,000 Shares (representing approximately 4.96% of the entire issued capital of the Company)
“percentage ratios”	has the meaning as ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Annual Caps”	the proposed annual caps for the annual amounts payable or receivable by the Group in the relevant financial periods for the respective Transaction(s) under the CKD Components Agreement or the CNC Machine Tools Agreement (as the case may be)
“RMB”	Renminbi, the lawful currency of PRC
“Sales Region”	the PRC, Hong Kong and the Macau Special Administrative Region
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Taiwan FF”	Fair Friend Enterprise Company Limited, a limited liability company incorporated in Taiwan on 15 March 1979
“Taiwan FF Group”	Taiwan FF and its then subsidiaries at any time (excluding members of the Group)

DEFINITIONS

“Transaction(s)” the continuing connected transactions contemplated under the CKD Components Agreement and/or the CNC Machine Tools Agreement respectively (as the case may be)

“%” per cent

LETTER FROM THE BOARD

GOOD FRIEND INTERNATIONAL HOLDINGS INC.
友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2398)

Executive Directors:–

Mr. Chu Chih-Yaung (*Chairman*)

Mr. Chen Min-Ho

Mr. Wen Chi-Tang

Independent non-executive Directors:–

Mr. Koo Fook Sun, Louis

Mr. Yu Yu-Tang

Mr. Kao Wen-Cheng

Registered Office:–

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P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal Place of Business

in Hong Kong:–

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317-319 Des Voeux Road Central

Hong Kong

Principal Place of Business

in the PRC:–

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Xiaoshan Economic and Technological

Development Zone

Xiaoshan District

Hangzhou City

Zhejiang Province

The PRC

14 August 2020

To the Shareholders

Dear Sir or Madam,

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

1. INTRODUCTION

Reference is made to the Announcement whereby it was announced that, among others, on 10 July 2020, the Company and Taiwan FF entered into a conditional CKD Components Agreement, pursuant to which (i) the Company (or the CKD Components Supplier designated by

LETTER FROM THE BOARD

the Company) may supply CKD Components to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF) for the production of CNC Machine Tools on a non-exclusive basis and (ii) Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) may supply CKD Components to the Company (or the CKD Components Purchaser designated by the Company) for the production of CNC Machine Tools on a non-exclusive basis, for a period of three years commencing from the Effective Date. Furthermore, on 10 July 2020, the Company and Taiwan FF entered into a conditional CNC Machine Tools Agreement, pursuant to which the CNC Machine Tools Purchaser may purchase from the CNC Machine Tools Seller, which shall, upon receiving the former's request, sell the Designated CNC Machine Tools to it on an exclusive basis, for a period of three years commencing from the Effective Date. Pursuant to the CNC Machine Tools Agreement, the CNC Machine Tools Purchaser has the right to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis, and the CNC Machine Tools Seller shall authorize the CNC Machine Tools Purchaser to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis. The Directors will seek the Independent Shareholders' approval for the Agreements, the Transactions and the Proposed Annual Caps thereunder at the EGM.

The purposes of this circular are, among others, (i) to provide you with, among other things, details of the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder; (ii) to set out the letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in relation to the terms of Agreements, the Transactions and the Proposed Annual Caps thereunder; (iii) to set out the recommendation and advice of the Independent Board Committee after taking into consideration of the advice from Altus Capital in relation to the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder, and (iv) to provide you with the notice of EGM.

2. BACKGROUND

Reference is made to the announcement dated 26 May 2017 and the circular dated 27 June 2017 of the Company respectively in relation to, among others, the continuing connected transactions under the Former CKD Components Agreement for the purchase and supply of CKD Components between the Company (or persons designated by the Company) and Taiwan FF (or persons designated by Taiwan FF) and the Former CNC Machine Tools Agreement for the exclusive sale of CNC Machine Tools by Taiwan FF (or persons designated by Taiwan FF) to the Company (or persons designated by the Company), and the rights to exclusive sale of Designated CNC Machine Tools by the Company (or persons designated by the Company) in the Sales Region, both entered into between the Company and Taiwan FF on 26 May 2017 respectively. The Former CKD Components Agreement and the Former CNC Machine Tools Agreement both expired on 12 July 2020. As the Company and Taiwan FF intend to continue to carry out the relevant transactions, the CKD Components Agreement and the CNC Machine Tools Agreement were entered into on 10 July 2020 to renew the above arrangements.

LETTER FROM THE BOARD

3. CKD COMPONENTS AGREEMENT

Date:

10 July 2020

Parties:

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

Summary of principal terms:

(A) Condition precedent

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

In case where the condition precedent cannot be fulfilled on or before 31 August 2020 (or a later date as agreed between the Company and Taiwan FF), the CKD Components Agreement shall be terminated, and, except in relation to any default occurred prior to such termination, none of the parties shall have any rights or remedies against the other thereunder.

(B) Term of the CKD Components Agreement

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

LETTER FROM THE BOARD

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

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

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

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

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

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

The CKD Components proposed to be sourced from and those proposed to be sold to Taiwan FF (or the CKD Components Supplier and/or the CKD Components Purchaser designated by Taiwan FF) are of different types and are not expected to overlap with each other. The CKD Components to be supplied by Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) to the Company (or the CKD Components Purchaser designated by the Company) under the CKD Components Agreement mainly comprise the integral components and parts of the CNC Machine Tools including spindle head and table.

LETTER FROM THE BOARD

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

(D) Delivery and payment arrangements

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

LETTER FROM THE BOARD

(E) Price determination

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

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

provided that reasonable adjustments may be made to such price quotation taking into account factors including the difference in the sales region of the CKD Components, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

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

LETTER FROM THE BOARD

Historical transaction amounts and Proposed Annual Caps

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

Relevant financial periods	Historical transaction amounts			
	13 July 2017 to 31 December 2017	1 January 2018 to 31 December 2018	1 January 2019 to 31 December 2019	1 January 2020 to 31 May 2020
For the purpose of supplying CKD Components to Taiwan FF (or persons designated by Taiwan FF)	0.107	0.718	–	0.254
For the purpose of purchasing CKD Components from Taiwan FF (or persons designated by Taiwan FF)	27.331	60.786	38.609	10.915

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

Relevant financial periods	Projected Proposed Annual Caps			
	Effective Date to 31 December 2020	1 January 2021 to 31 December 2021	1 January 2022 to 31 December 2022	1 January 2023 to 3 years from the Effective Date
For the purpose of supplying CKD Components to Taiwan FF (or persons designated by Taiwan FF)	1.075	2.225	2.400	1.250
For the purpose of purchasing CKD Components from Taiwan FF (or persons designated by Taiwan FF)	28.627	58.840	61.968	31.757

LETTER FROM THE BOARD

Basis of determining the Proposed Annual Caps

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

- (i) the Group's positive view on the market outlook of the CNC Machine Tools industry;
 - CKD Components are the major components required to assemble and manufacture CNC Machine Tools. In the second quarter of 2020, as the economy of the PRC gradually recovers from the COVID-19 outbreak, there was an approximately 61% year-on-year increase in the orders for CNC Machine Tools produced by the Group. The Group anticipates that the demand for CNC Machine Tools would increase during the term of the CKD Components Agreement.
- (ii) the projected breakdown of orders for CKD Components from Taiwan FF (or persons designated by Taiwan FF) for each of the 3 years commencing from the Effective Date, which is based partly on the historical transaction amounts as a base and partly to cater for any potential increase in demand for CNC Machine Tools; and
- (iii) in respect of the Proposed Annual Caps for the provision of CKD Components to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF) by the Company (or the CKD Components Supplier designated by the Company), the production capacity of the Company (or the CKD Components Supplier designated by the Company).

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

LETTER FROM THE BOARD

Reasons for and benefits of entering into the CKD Components Agreement

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

Internal control measures

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

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

In addition, all individual contracts for the sale and purchase of the CKD Components will be notified to the finance department of the Group, which keeps a record of connected party transactions and controls the amount of such transactions. Periodic inspections of the internal control system of the Group will also be conducted by the management of the Company to ensure that the Transactions conducted under the CKD Components Agreement will be conducted in accordance with the terms of the CKD Components Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company.

LETTER FROM THE BOARD

4. CNC MACHINE TOOLS AGREEMENT

Date:

10 July 2020

Parties:

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

Summary of principal terms:

(A) Condition precedent

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

In case where the condition precedent cannot be fulfilled on or before 31 August 2020 (or a later date as agreed between the Company and Taiwan FF), the CNC Machine Tools Agreement shall be terminated, and, except in relation to any default occurred prior to such termination, none of the parties shall have any rights or remedies against the other thereunder.

(B) Term of the CNC Machine Tools Agreement

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

LETTER FROM THE BOARD

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

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

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

(D) Delivery and payment arrangements

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

LETTER FROM THE BOARD

Purchaser) by telegraphic transfer or other methods as agreed by the CNC Machine Tools Purchaser and CNC Machine Tools Supplier or as specified under the individual price quotation.

(E) Price determination

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

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

provided that reasonable adjustments may be made to such price quotation taking into account factors including the difference in the sales region of the Designated CNC Machine Tools, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

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

LETTER FROM THE BOARD

(F) Others

Taiwan FF has agreed that:

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

LETTER FROM THE BOARD

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

Other CNC Machine Tools under this section are CNC Machine Tools of a different specification from those specified under the CNC Machine Tools Agreement, that are purchased by the CNC Machine Tools Purchasers due to specific business needs that may arise from time to time. These CNC Machine Tools offer the level of precision and functions that are not available on the CNC Machine Tools that are specified under the CNC Machine Tools Agreement.

For the avoidance of doubt, the price of other CNC Machine Tools (not being specified under the CNC Machine Tools Agreement) to be purchased by the CNC Machine Tools Purchaser under the CNC Machine Tools Agreement is to be determined by reference to terms under the section “(E) Price determination” above.

LETTER FROM THE BOARD

Historical transaction amounts and Proposed Annual Caps

The historical transaction amounts in respect of the purchase of the Designated CNC Machine Tools between the CNC Machine Tools Purchaser and the CNC Machine Tools Seller under the Former CNC Machine Tools Agreement were as follows (in RMB million):

Relevant financial periods	13 July 2017 to 31 December 2017	1 January 2018 to 31 December 2018	1 January 2019 to 31 December 2019	1 January 2020 to 31 May 2020
Historical transaction amounts	31.206	20.301	5.781	28.537

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

Relevant financial periods	Effective Date to 31 December 2020	1 January 2021 to 31 December 2021	1 January 2022 to 31 December 2022	1 January 2023 to 3 years from the Effective Date
Projected Proposed Annual Caps	40.000	90.000	112.500	62.500

Basis of determining the Proposed Annual Caps

Each of the projected Proposed Annual Caps in relation to the Transactions under the CNC Machine Tools Agreement was determined after taking into account factors that include the Group's positive view on the market outlook of the Designated CNC Machine Tools industry during the term of the CNC Machine Tools Agreement. The Group anticipates that the PRC will continue to be the largest machine tools consuming country and the demand of machine tools would increase during the term of the CNC Machine Tools Agreement based on:

- the historical transaction amounts in respect of the purchase of the Designated CNC Machine Tools between the CNC Machine Tools Purchaser and the CNC Machine Tools Seller under the Former CNC Machine Tools Agreement, which show strong uptick trend in demand for machine tools in recent months brought by the demand for mass market CNC Machine Tools; and

LETTER FROM THE BOARD

- the growing demand for mass market CNC Machine Tools which is estimated based on results from market research conducted by the Company and customer indications received.

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

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

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

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

Internal control measures

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

LETTER FROM THE BOARD

When there is a need to purchase CNC Machine Tools, a committee comprising, among others, experienced staff from the sales teams and the production department, will identify and recommend suitable suppliers, and evaluate the price quotation issued by the CNC Machine Tools Seller. Wherever practicable, at least two quotations will be sought from independent third party manufacturers for comparison and only the quotation with the most favourable terms will be selected. Where no relevant quotations can be obtained from independent third party manufacturers, the quotation from CNC Machine Tools Seller will be evaluated against and information for the same type of CNC Machine Tools sold by the CNC Machine Tools Seller to its independent third party customers and/or historical purchases of comparable CNC Machine Tools for which independent quotations were obtained.

In addition, all individual contracts for the sale and purchase of the CNC Machine Tools will be notified to the finance department of the Group, which keeps a record of connected party transactions and controls the amount of such transactions. Periodic inspections of the internal control system of the Group will also be conducted by the management of the Company to ensure that the Transactions conducted under the CNC Machine Tools Agreement will be conducted in accordance with the terms of the CNC Machine Tools Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company.

5. INFORMATION ON THE GROUP AND TAIWAN FF GROUP

The Company is an investment holding company and its subsidiaries are principally engaged in the design and production of CNC Machine Tools, design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks.

Taiwan FF Group is a conglomerate in Taiwan and has investments in a wide range of businesses such as the production of CNC Machine Tools, three-dimensional car parking garage structures, electric forklift trucks, construction machinery, power tools, elevators, door drums, printed circuit boards, aviation parts, conducting pastes for solar cell, laser equipment for solar cell, magnesium alloy machining, testing equipment for PCB touch-sensing panels and testing equipment for semiconductor LED wafer.

From the information available to the Company, there are a large number of shareholders of Taiwan FF, which include employees of the Taiwan FF Group, individual investors and corporate investors. Mr. Chu and his associates is the largest group of shareholders of Taiwan FF, ultimately holding 17.64% of the issued share capital thereof as at the Latest Practicable Date. To the best of the Company's knowledge, other shareholders are parties independent of the Company.

LETTER FROM THE BOARD

6. LISTING RULES IMPLICATIONS

Taiwan FF is an associate of Hong Kong GF, the controlling shareholder of the Company, and therefore, Taiwan FF is a connected person of the Company under the Listing Rules. The Transactions under the Agreements will be carried out in the ordinary and usual course of business of the Group and are expected to continue and extend over a period of time. The Transactions therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As both Agreements are entered into by the Company with Taiwan FF, the continuing connected transactions contemplated under the CKD Components Agreement and the CNC Machine Tools Agreement will be aggregated for consideration under the Listing Rules and will be classified according to the larger of the supply transaction or the procurement transactions. For the supply transaction with Taiwan FF under the CKD Components Agreement, the highest applicable percentage ratio based on the Proposed Annual Caps thereof is less than 5%. For the two procurement transactions with Taiwan FF under the Agreements, the highest applicable percentage ratio based on the Proposed Annual Caps thereof, on an aggregated basis, exceeds 25% with an annual consideration of over HK\$10 million, which are larger than the supply transaction. Accordingly, the Transactions under the Agreements will be classified according to the higher applicable percentage ratio of the procurement transactions, and all of the Agreements, the Transactions and the Proposed Annual Caps thereunder will be subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Hong Kong GF (held as to 232,000,000 Shares, representing approximately 57.56% of the issued share capital of the Company as at the Latest Practicable Date), Sunward Gold Global Investments Limited (a company held as to approximately 72.22% by Mr. Chu as at the Latest Practicable Date, which held as to 20,000,000 Shares, representing approximately 4.96% of the issued capital of the Company as at the Latest Practicable Date) and any of their respective associates will abstain from voting in relation to the resolutions approving the Agreements, the Transactions and the Proposed Annual Caps thereunder at the EGM.

Other than Mr. Chu, an executive Director and the chairman of the Company, who is interested in 15,527,255 shares in Taiwan FF (representing approximately 15.16% of the entire issued capital thereof) as at the Latest Practicable Date, and had abstained from voting, no Director had a material interest in the Agreements which would require him to abstain from voting on the relevant Board resolutions.

LETTER FROM THE BOARD

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

7. EGM AND ACTION TO BE TAKEN

The EGM will be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 31 August 2020 at 3:00 p.m. to consider and, if thought fit, approve, among others, the Agreements, the Transactions and the Proposed Annual Caps thereunder. A notice convening the EGM is set out on pages 67 to 69 of this circular. A form of proxy for use at the aforesaid extraordinary general meeting is enclosed with this circular. Whether or not you intend to attend the EGM or any adjournment thereof, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited at Lever 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof if you so wish.

Any connected person of the Company with a material interest in the Transactions, and any Shareholder with a material interest in the Transactions and its associates, shall not vote upon the proposed resolutions in respect of the Agreements, the Transactions and the Proposed Annual Caps thereunder at the EGM. Accordingly, Hong Kong GF, Sunward Gold Global Investments Limited (a company held as to approximately 72.22% by Mr. Chu) and any of their respective associates will abstain from voting in relation to the relevant proposed resolutions at the EGM. Hong Kong GF, Sunward Gold Global Investments Limited and their respective associates control and are entitled to exercise control over the voting right in respect of their respective Shares.

8. VOTING BY WAY OF POLL

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

LETTER FROM THE BOARD

9. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 28 of this circular which contains its recommendation to the Independent Shareholders. The Independent Board Committee, having considered the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder, as well as the advice of Altus Capital set out in the “Letter from Altus Capital” on pages 29 to 62 of this circular, concurs with the opinion of Altus Capital that (i) the terms of the Agreements and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and (ii) the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

10. GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on page 28 of this circular, the letter from Altus Capital set out on pages 29 to 62 of this circular, and the general information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

GOOD FRIEND INTERNATIONAL HOLDINGS INC.

友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2398)

14 August 2020

To the Independent Shareholders

Dear Sir or Madam,

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

We have been appointed to form this Independent Board Committee to consider and advise you on the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder, details of which are set out in the circular issued by the Company to the Shareholders on 14 August 2020 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We wish to draw your attention to the letter from the Board and letter of advice from Altus Capital set out on pages 8 to 27 and pages 29 to 62 of the Circular respectively.

Having considered the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder, and having taken into account the principal factors and reasons considered by Altus Capital, its conclusion and advice, we concur with the opinion of Altus Capital that (i) the terms of the Agreements and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and (ii) the terms of the Agreements, the Transactions and the Proposed Annual Caps thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

Yours faithfully,

For and on behalf of the Independent Board Committee

KOO Fook Sun, Louis

YU Yu-Tang

KAO Wen-Cheng

Independent non-executive Directors

LETTER FROM ALTUS CAPITAL

The following is the text of a letter of advice from Altus Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the CKD Components Agreement and CNC Machine Tools Agreement (including the Proposed Annual Caps), which has been prepared for the purpose of incorporation in this Circular.

ALTUS.

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

14 August 2020

The Independent Board Committee and Independent Shareholders

Good Friend International Holdings Inc.

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

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions and the Proposed Annual Caps relating thereto. Details of the Transactions and the terms of the CKD Components Agreement and the CNC Machine Tools Agreement are set out in the “Letter from the Board” contained in the circular of the Company dated 14 August 2020 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

LETTER FROM ALTUS CAPITAL

The Former CKD Components Agreement and Former CNC Machine Tools Agreement

Reference is made to the announcement dated 26 May 2017 and the circular dated 27 June 2017 of the Company in relation to the continuing connected transactions under the Former CKD Components Agreement for the non-exclusive purchase and supply of CKD Components between the Company (or persons designated by the Company) and Taiwan FF (or persons designated by Taiwan FF) and the Former CNC Machine Tools Agreement for the exclusive sale of CNC Machine Tools by Taiwan FF (or persons designated by Taiwan FF) to the Company (or persons designated by the Company), and the rights to exclusive sale of Designated CNC Machine Tools by the Company (or persons designated by the Company) in the Sales Region, both entered into between the Company and Taiwan FF on 26 May 2017 respectively. The Former CKD Components Agreement and the Former CNC Machine Tools Agreement both expired on 12 July 2020. As the Company and Taiwan FF intend to continue to carry out the relevant transactions, the CKD Components Agreement and the CNC Machine Tools Agreement were entered into on 10 July 2020 to renew the above arrangements. For details of the CKD Components Agreement and the Former CNC Machine Tools Agreement, please refer to the paragraph headed “2. Background of the Agreements” in this letter.

LISTING RULES IMPLICATION

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

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

LETTER FROM ALTUS CAPITAL

Hong Kong GF (held as to 232,000,000 Shares, representing approximately 57.56% of the issued share capital of the Company as at the Latest Practicable Date), Sunward Gold Global Investments Limited (a company held as to approximately 72.22% by Mr. Chu as at the Latest Practicable Date, which held as to 20,000,000 Shares, representing approximately 4.96% of the issued capital of the Company as at the Latest Practicable Date) and any of their respective associates will abstain from voting in relation to the resolutions approving the Agreements, the Transactions and the Proposed Annual Caps thereunder at the EGM. Hong Kong GF, Sunward Gold Global Investments Limited and their respective associates control and are entitled to exercise control over the voting right in respect of their respective Shares.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been established to advise the Independent Shareholders on (i) whether the terms and conditions of the CKD Components Agreement and the CNC Machine Tools Agreement are fair and reasonable; (ii) whether the Proposed Annual Caps are fair and reasonable; (iii) whether the Transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and are in the interests of the Company and its Shareholders as a whole; and (iv) to advise the Independent Shareholders on how to vote at the EGM, taking into account the recommendation of the independent financial adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the CKD Components Agreement and the CNC Machine Tools Agreement are on normal commercial terms and are fair and reasonable; (ii) whether the Proposed Annual Caps are fair and reasonable; (iii) whether the Transactions will be conducted in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of independent third parties, and are in the interests of the Company and its Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the resolutions to be proposed at the EGM for the approval of the Transactions.

We have not acted as the independent financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the CKD Components Agreement and the CNC Machine Tools Agreement is at market level and not conditional upon successful passing of the resolutions to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of the Company.

LETTER FROM ALTUS CAPITAL

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the annual reports of the Group for the three years ended 31 December 2019, the circular dated 27 June 2017 of the Company in relation to the Former CKD Components Agreement and the Former CNC Machine Tools Agreement, the CKD Components Agreement and the CNC Machine Tools Agreement and the Circular provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

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

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the annual reports of the Company for the three years ended 31 December 2019, the circular dated 27 June 2017 of the Company, the CKD Components Agreement and the CNC Machine Tools Agreement and the Circular provided to us by the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background information of the Group and the Taiwan FF Group

The Company is an investment holding company and its subsidiaries are principally engaged in the design and production of CNC Machine Tools, design and construction of three-dimensional car parking garage structures and design and assembling of forklift trucks. The Group had traditionally procured CNC Machine Tools from European high-end CNC Machine Tools manufacturers such as those associates of Taiwan FF in Germany and Italy. The Management advised that the Group has recently been exploring the market demand in relation to mass market CNC Machine Tools supplied by Korean and Japanese associates of Taiwan FF. Going forward, the Management believes that the demand for Korean and Japanese manufactured mass market CNC Machine Tools will increase.

LETTER FROM ALTUS CAPITAL

Taiwan FF Group is a conglomerate in Taiwan and has investments in a wide range of businesses such as the production of CNC Machine Tools, three-dimensional car parking garage structures, electric forklift trucks, construction machinery, power tools, elevators, door drums, printed circuit boards, aviation parts, conducting pastes for solar cell, laser equipment for solar cell, magnesium alloy machining, testing equipment for PCB touch-sensing panels and testing equipment for semiconductor LED wafer.

2. Background of the Agreements

The Former CKD Components Agreement and the Former CNC Machine Tools Agreement both expired on 12 July 2020. As the Company and Taiwan FF intend to continue to carry out the relevant transactions, the CKD Components Agreement and the CNC Machine Tools Agreement were entered into to renew the arrangements for a term of another three years.

On 10 July 2020, the Company and Taiwan FF entered into a conditional CKD Components Agreement pursuant to which, (i) the Group (or the CKD Components Supplier designated by the Company) may supply CKD Components to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF) for the production of CNC Machine Tools on a non-exclusive basis; and (ii) Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) may supply CKD Components to the Group (or the CKD Components Purchaser designated by the Company) for the production of CNC Machine Tools on a non-exclusive basis for a period of three years commencing from the Effective Date.

Furthermore, on 10 July 2020, the Company and Taiwan FF entered into a conditional CNC Machine Tools Agreement, pursuant to which the CNC Machine Tools Purchaser may purchase from the CNC Machine Tools Seller, which shall, upon receiving the former's request, sell the Designated CNC Machine Tools to it on an exclusive basis, for a period of three years commencing from the Effective Date. Pursuant to the CNC Machine Tools Agreement, the CNC Machine Tools Purchasers has the right to sell such Designated Machine Tools in the Sale Region on an exclusive basis, and the CNC Machine Tools Seller shall authorise the CNC Machine Tools Purchaser to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis.

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3. Terms of the Agreements

3.1 CKD Components Agreement

Under the CKD Components Agreement, the Company (or the CKD Components Supplier designated by the Company) may, on a non-exclusive basis, supply CKD Components to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF) for their production of CNC Machine Tools, which mainly comprise castings, including the counter balance that form the outer surface of the CNC Machine Tools. Meanwhile, the Company (or the CKD Components Purchaser designated by the Company) may also, on a non-exclusive basis, purchase CKD Components from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) for the Company (or the CKD Components Purchaser designated by the Company)'s production of the CNC Machine Tools and these mainly consist of the integral components and parts of the CNC Machine Tools including the spindle head and table. In addition, the CKD Components proposed to be sourced from and those proposed to be sold to Taiwan FF (or the CKD Components Supplier and/or the CKD Components Purchaser designated by Taiwan FF) are of different types and are not expected to overlap with each other. The Company (or its designated CKD Components Purchaser and/or the CKD Components Supplier) shall have the sole discretion to determine, according to actual circumstances, whether to source from or supply to Taiwan FF (or its designated CKD Components Supplier and/or the CKD Components Purchaser) any CKD Components or the quantity of which to be so sourced or supplied. The CKD Components proposed to be sourced from and those proposed to be sold to Taiwan FF (or the CKD Components Supplier and/or the CKD Components Purchaser designated by Taiwan FF) are of different types.

The Company may designate any members of the Group or controlled associates of the Company and Taiwan FF may designate any members of the Taiwan FF Group or controlled associates of Taiwan FF as the CKD Components Purchaser or the CKD Components Supplier to perform and shall procure those parties to perform the Transactions under the CKD Components Agreement in accordance with its terms. The Company and Taiwan FF shall undertake and be responsible for the performance of any such Transactions entered into by its respective designated parties. The Company or Taiwan FF shall obtain the prior written consent of the other party if the designated parties are non-members of the Group or of the Taiwan FF Group. The CKD Components Agreement is for a term of three years commencing from the Effective Date.

For detailed terms of the CKD Components Agreement, please refer to the sectioned headed "3. CKD Components Agreement" in the "Letter from the Board" of this Circular.

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- (1) *Supply of CKD Components by the Company (or the CKD Components Supplier designated by the Company) to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF)*

Pricing mechanism

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

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

provided that reasonable adjustments may be made to such price quotation taking into account factors including the difference in the sales region of the CKD Components, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

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The CKD Components Agreement provides that the Company and the CKD Components Supplier designated by the Company will only supply the relevant CKD Components to the CKD Components Purchasers on terms no less favourable to the Group than those which the Group would have obtained from independent third party purchasers. The Company and the CKD Components Supplier designated by the Company will not confirm any price quotation which does not meet such criteria. In this regard, we noted that the Group has internal control policy to confirm that the selling prices for the CKD Components are determined in accordance with the Company's pricing policy and will also make reference to the market price offered by industry counterparts for similar type of products.

In addition, all individual contracts for the sale of the CKD Components will be notified to the finance department of the Group, which keeps a record of connected transactions and controls the amount of such transactions. Periodic inspections of the internal control system of the Group will also be conducted by the Management to ensure that the Transactions conducted under the CKD Components Agreement will be conducted in accordance with the terms of the CKD Components Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company.

We note that the Group currently does not regularly supply CKD Components to its customers as this is not the Group's main business strategy, hence the Group does not have a regularly published list of price quotations for CKD Components. During the period under the Former CKD Components Agreement, we noted the Group did not supply CKD Components to independent third party customers, except for providing CKD Components as aftersales services to its CNC Machine Tools customers. In this respect, we have reviewed five invoices of CKD Components supplied to Taiwan FF (and the CKD Components Purchaser designated by Taiwan FF) during the period between 2017 and 2018 while there was no transaction for the year ended 31 December 2019. We believe the selected invoices are a fair and representative sample as (i) the selected invoices represent all historical transactions between the Group and Taiwan FF during this period; and (ii) the invoices were cross checked against the master transaction list provided by the Company. In addition, we noted that the selling prices of the CKD Components were determined on a cost-plus basis, which the sales department would determine the sales margin with reference to the prevailing market price of similar CKD Components provided by independent third parties, which is consistent within the market and the production manager would be responsible to confirm the figures (i.e. the cost) on the price quotation. In assessing whether the sales margin determined by the Group is fair and reasonable, we have selected reviewed four price quotations of similar CKD Components provided by independent third parties to Taiwan FF on a random

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sample basis for the period under the Former CKD Components Agreement. We confirmed that the sales margin determined by the Group of approximately 30% for the transaction under the Former CKD Components Agreement is comparable and not less favorable than the market norm, and as such we believe the sales margin determined by the Group is fair and reasonable.

On the basis of a cost-plus pricing mechanism, the Management believes and we concur that the Group will be protected from incurring any loss on the supply of CKD Components to Taiwan FF (and the CKD Components Purchaser designated by Taiwan FF) and therefore we are of the view that the cost-plus pricing mechanism in relation to the supply of CKD Components by the Company (or the CKD Components Suppliers designated by the Company) to Taiwan FF (or the CKD Components Purchasers designated by Taiwan FF) is fair and reasonable.

In addition, we have also reviewed five contracts entered into between the Group and independent third party purchasers and noted the payment terms of the CKD Components Agreement were similar and comparable to and no less favorable than that with the independent third parties.

Order placing

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

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In view of the pricing mechanism, payment terms and order placing procedures above, we are of the view that the terms of transaction contemplated under the CKD Components Agreement relating to the sale of CKD Components to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF) are fair and reasonable.

- (2) *Purchase of CKD Components by the Company (or the CKD Components Purchaser designated by the Company) from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF)*

Pricing mechanism

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

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

provided that reasonable adjustments may be made to such price quotation taking into account factors including the difference in the sales region of the CKD Components, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

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The CKD Components Agreement provides that the Company and the CKD Components Purchaser designated by the Company will only purchase the relevant CKD Components from the CKD Components Suppliers on terms no less favourable to the Group than those which the Group would have obtained from independent third party suppliers. The Company and the CKD Components Purchaser designated by the Company will not confirm any price quotation which does not meet such criteria. In this regard, in accordance with the internal control policy of the Group, the Group's selection committee comprising, amongst others, staff from planning and production department will be responsible for identifying and recommending suitable suppliers of CKD Components to the Group. Furthermore, as part of the selection and procurement process, at least two quotations will be sought from independent third party manufacturers for comparison and only the quotation with the most favourable terms will be selected.

In addition, all individual contracts for the purchase of the CKD Components will be notified to the finance department of the Group, which keeps a record of connected transactions and controls the amount of such transactions. Periodic inspections of the internal control system of the Group will also be conducted by the Management to ensure that the Transactions conducted under the CKD Components Agreement will be conducted in accordance with the terms of the CKD Components Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company.

During the period under the Former CKD Components Agreement, we noted that the Company (or the CKD Components Purchaser designated by the Company) had obtained price quotations from independent third party suppliers on certain CKD Components which were similar to those sourced from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF). We compared 16 sample invoices for purchases made by the Company (or the CKD Components Purchaser designated by the Company) from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) against the equivalent published price quotations of similar products that Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) had sold to independent third parties, and we noted that the prices provided to the Company were comparable and no less favorable than those provided to independent third party purchasers. The sample invoices were randomly selected from and cross checked against the master transaction list provided by the Company, and we believe they are a fair and representative sample. In addition, we have also reviewed 14 contracts entered into between the Company (or the CKD Components Purchaser designated by the Company) and independent third party suppliers and noted the terms under the CKD Components Agreement were similar and comparable to and no less favorable than those. As such, we are of the view that (i) the pricing

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mechanism in relation to purchase of CKD Components by the Company (or the CKD Components Purchaser designated by the Company) from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF); and (ii) the payment terms under the CKD Components Agreement are fair and reasonable.

Order placing

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

To assess the reasonableness of the terms under the CKD Components Agreement relating to the purchase of CKD Components by the Group from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF), we have reviewed the relevant contracts entered into between the Group and independent third party suppliers and noted that the payment terms offered by Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) were comparable to those of independent third party suppliers. The Management also confirmed that the procurement department will choose to purchase CKD Components from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) only when its price, quality of product and the time of delivery are comparable to or more favourable than independent third party suppliers.

In view of the pricing mechanism, payment terms and order placing procedures above, we are of the view that the terms of transactions contemplated under the CKD Components Agreement relating to the purchase of CKD Components from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) are on normal commercial terms and are fair and reasonable.

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3.2 CNC Machine Tools Agreement

Under the CNC Machine Tools Agreement, the CNC Machine Tools Purchaser may purchase from the CNC Machine Tools Seller, which shall, upon receiving the former's request, sell the Designated CNC Machine Tools to it on an exclusive basis. Further, the CNC Machine Tools Purchaser has the right to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis, and the CNC Machine Tools Seller shall authorise the CNC Machine Tools Purchaser to sell such Designated CNC Machine Tools in the Sales Region on an exclusive basis. The CNC Machine Tools Purchaser shall have the sole discretion to determine, according to actual circumstances, whether to source from the CNC Machine Tools supplier any CNC Machine Tools and determine the quantity of CNC Machine Tools to be sourced. The CNC Machine Tools Agreement is for a term of three years commencing from the Effective Date.

For detailed terms of the CNC Machine Tools Agreement, please refer to the section headed "4. CNC Machine Tools Agreement" in the "Letter from the Board" of this Circular.

Pricing mechanism

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

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

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- (b) failing (a) above, the price quotation of similar Designated CNC Machine Tools offered by third party manufacturers independent of the CNC Machine Tools Seller;

provided that reasonable adjustments may be made to such price quotation taking into account factors including the difference in the sales region of the Designated CNC Machine Tools, whether aftersales services would be provided and whether discounts would be offered due to increase in sales volume.

The CNC Machine Tools Purchasers may purchase CNC Machine Tools of a different specification from those specified under the CNC Machine Tools Agreement due to specific business needs that may arise from time to time. These CNC Machine Tools offer the level of precision and functions that are not available on the CNC Machine Tools that are specified under the CNC Machine Tools Agreement. For the avoidance of doubt, the price of other CNC Machine Tools (not being specified under the CNC Machine Tools Agreement) to be purchased by the CNC Machine Tools Purchaser under the CNC Machine Tools Agreement is to be determined by reference to terms under the paragraph headed “Pricing mechanism” above.

Under the CNC Machine Tools Agreement, the CNC Machine Tools Purchaser will only purchase the relevant Designated CNC Machine Tools from the CNC Machine Tools Sellers on terms no less favourable to the Group than those which the Group would have obtained from independent third party manufacturers. The CNC Machine Tools Purchaser will not confirm any price quotation which does not meet such criteria. With regard to the Group’s internal control policy, a committee of the Group comprising, amongst others, experienced staff from the sales team and the production department will identify and recommend suitable suppliers, and evaluate the price quotation issued by the CNC Machine Tools Seller. The Group has to obtain at least two price quotations from independent third party manufacturers for comparison (if practicable) and only the quotation with the most favourable terms will be selected. Where no relevant quotation can be obtained from independent third party manufacturers, the quotation from CNC Machine Tools Seller will be evaluated against information of the same type of CNC Machine Tools sold by the CNC Machine Tools Seller to its independent third party customers and/or historical purchases of comparable CNC Machine Tools for which independent quotations were obtained.

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In addition, all individual contracts for the sale and purchase of the CNC Machine Tools will be notified to the finance department of the Group, which keeps a record of connected transactions and controls the amount of such transactions. Periodic inspections of the internal control system of the Group will also be conducted by the Management to ensure that the Transactions conducted under the CNC Machine Tools Agreement will be conducted in accordance with the terms of the CNC Machine Tools Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company.

We understand from the Management that the Group will compare the pricing of Designated CNC Machine Tools from Taiwan FF under the CNC Machine Tools Agreement to the pricing of similar products from independent third party suppliers. In this regard, we have reviewed 18 sample invoices provided by Taiwan FF to the Group, which were randomly selected from and cross checked against the master transaction list provided by the Company, and we believe they are a fair and representative sample. We noticed that the Group will only place an order with Taiwan FF if it is beneficial to the Group, an example being that the Group can generate reasonable profit from trading the CNC Machine Tools, or if there is a requirement from customers demanding specific models of CNC Machine Tools which the Group may not be able to manufacture. We have also compared 18 sample invoices of the Group's purchases from the CNC Machine Tools Sellers against four price quotations of similar products that the CNC Machine Tools Sellers had sold to independent third parties and noted the prices are comparable and no less favourable to the Group.

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Commencing from June 2019, the Group started to purchase mass market CNC Machine Tools from Korean subsidiaries of Taiwan FF. We noted from the Management that since there are limited manufacturers of such kind of CNC Machine Tools, the Group is unable to obtain price quotations from independent third party manufacturers for comparison purpose. In addition, the Management further advised that since these regular CNC Machine Tools are tailor-made in nature based on specific customers' requirement, published price quotations for other mass market CNC Machine Tools may not be applicable for comparison purposes. We have reviewed the Group's operational mechanism in relation to purchase of mass market CNC Machine Tools and noted the Group will review and compare the production capability and capacity of independent third party manufacturers identified by the sales department before requesting for price quotation from the Korean manufacturing subsidiaries of Taiwan FF. For the mass market CNC Machine Tools, the Group will only place an order with Taiwan FF if (i) there is a requirement from customers demanding specific models of CNC Machine Tools which the Group may not be able to manufacture; and (ii) the Group can generate reasonable profit from trading the CNC Machine Tools. Having reviewed and compared (i) two sample invoices between the Group and its clients; and (ii) two related contracts between the Company and Taiwan FF which represented all of the mass market CNC Machine Tools transactions for the period under the Former CNC Machine Tools Agreement, we noted (i) the models and specifications of the CNC Machine Tools were specifically requested by the clients; and (ii) the Group had generated reasonable profit from trading the CNC Machine Tools as the selling price of the Korean manufactured CNC Machine Tools supplied by the Group to its clients is reasonably higher than the purchase price offered by Taiwan FF to the Group. Taking into account the above, as the historical price quotations of Designated CNC Machine Tools (except for mass market CNC Machine Tools) provided by Taiwan FF are comparable and no less favorable to the Group than those to independent third party manufacturers; and the Group will only place an order with Taiwan FF if (i) the models and specifications of the CNC Machine Tools were specifically requested by the clients; and (ii) the Group can generate reasonable profit from trading the CNC Machine Tools, we are of the view that the pricing mechanism in relation to the purchase of Designated CNC Machine Tools from the CNC Machine Tools Sellers is fair and reasonable.

Having (i) reviewed and compared the CNC Machine Tools Agreement with four contracts of similar CNC Machine Tools sold by Taiwan FF to independent third parties; and (ii) discussed with Management on the market norm in relation to payment terms within the machine tools industry, we conclude that the payment terms by Taiwan FF are comparable with market norm and no less favorable than those offered by independent third parties and therefore are fair and reasonable.

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Order placing

In addition to the Designated CNC Machine Tools, for other CNC Machine Tools which are not designated under the CNC Machine Tools Agreement, the CNC Machine Tools Purchaser has the right to request the CNC Machine Tools Seller to supply such CNC Machine Tools for the purpose of sale by the CNC Machine Tools Purchaser of such CNC Machine Tools in the Sales Region. The CNC Machine Tools Purchaser shall have priority in acquiring such CNC Machine Tools from the CNC Machine Tools Seller over other customers of the CNC Machine Tools Seller. However, the CNC Machine Tools Purchaser shall only purchase such products if it considers that the capacity of its own production is insufficient or it is reasonably beneficial to the CNC Machine Tools Purchaser to request the CNC Machine Tools Seller to supply the same.

According to the Management, the CNC Machine Tools Purchaser will only source CNC Machine Tools from external manufacturers for the purpose of fulfilling customers' orders. The Group has internal control policy that before placing a purchase order from any suppliers for CNC Machine Tools, the procurement team of the Group would be required to obtain written acknowledgement from the production department to confirm whether either one of the following scenarios has occurred: (i) the production capacity of the CNC Machine Tools Purchaser at the time is insufficient to meet the demand from potential customers; or (ii) the CNC Machine Tools Purchaser's production facilities does not have the technical capability to produce such CNC Machine Tools as requested by potential customers.

Having reviewed the terms under the Former CNC Machine Tools Agreement, we noted the Company only encountered the latter scenario and in this regard, we have further reviewed samples of the written acknowledgement and noted the manager of the Group's production department would provide confirmation on a case-by-case basis for each transaction. After receiving such confirmation from the production department, the procurement team will make the purchase decision based on various factors such as price quotation, quality of finished products and timeliness of order delivery. Our observation is consistent with the Management's view that the CNC Machine Tools Purchaser will only purchase CNC Machine Tools from the CNC Machine Tools Sellers if the offer is comparable to or more favourable than independent third party manufacturers.

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

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4. Reasons for and benefits of entering into the Agreements

According to the Company's annual report for the year ended 31 December 2019, approximately 81.2% of the Group's revenue was derived from the CNC Machine Tools segment in 2019, representing a significant portion of the Group's business in terms of revenue. Therefore, entering into the CKD Components Agreement and CNC Machine Tools Agreement is in the usual and ordinary course of business activities of the Group.

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

4.1 CKD Components Agreement

The sales of CKD Components to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF) under the CKD Components Agreement will provide the Group with an additional source of income and allow the Group to more efficiently utilise its production capacity and resources from time to time. Taking into account the pricing mechanism, order placing procedures, internal control policy of the Group and the corresponding procedures carried out by the Group as discussed under the paragraph headed "3. Terms of the Agreements" of this letter, the Management believes and we concur that the sale of CKD Components to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF) under the CKD Components Agreement can provide the Group with an additional source of income without potentially causing disruptions to its business operations. It is thus beneficial to the Group.

The purchase of CKD Components from Taiwan FF (or the CKD Components Supplier designated by Taiwan FF) under the CKD Components Agreement will provide an additional source of supply of CKD Components for the Group's manufacture of CNC Machine Tools. Taking into account the pricing mechanism, order placing procedures, internal control policy of the Group as well as corresponding procedures carried out by the Group as discussed under the paragraph headed "3. Terms of the Agreements" of this letter, the Management believes and we concur that the purchase of CKD Components arrangements with Taiwan FF (or the CKD Components Supplier designated by Taiwan FF), which provides the Group with an additional supply source of CKD Components, enables the Group to manage its manufacturing arrangements and customer orders more efficiently.

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4.2 CNC Machine Tools Agreement

We have reviewed the Group's production capacity and historical utilisation rate during the three years ended 31 December 2019 and five months ended May 2020 and noted the Group had a relatively low utilisation rate for its CNC Machine Tools production facilities during such period. Despite the current slowdown, the Management is of the view that the utilisation of the Group's production capacity may improve significantly in the following years when there is a recovery of the CNC Machine Tools market from the Sino-U.S. trade war and the outbreak of the coronavirus (“**COVID-19**”).

The purchase of Designated CNC Machine Tools from the CNC Machine Tools Sellers under the CNC Machine Tools Agreement provides the Group with an alternative source of CNC Machine Tools, which enables the Group to capture new business opportunities and expand its ability to meet customers' demand when orders from potential customers exceed the Group's production capacity or capability from time to time.

In particular, the Management has observed that since mid-2019, there is a growing demand for mass market CNC Machine Tools supplied by Korean subsidiaries of Taiwan FF, replacing the traditional demand for high-end CNC Machine Tools. Despite the periodic drop in demand for CNC Machine Tools in 2019 due to the Sino-U.S. trade war, as well as the suspension of CNC Machine Tools production in the PRC and dampened global market sentiment caused by COVID-19 pandemic, the Management has observed that the demand for CNC Machine Tools has started to recover since March 2020, partly driven by the increasing demand for mass market CNC Machine Tools. Having reviewed historical purchase orders and future confirmed purchase orders from customers of the Group for the period under the CNC Machine Tools Agreement, we are of the view that demand for CNC Machine Tools, in particular mass market CNC Machine Tools from Korean subsidiaries of Taiwan FF, will increase incrementally, which is in line with the Management's expectation of a steady recovery and growth in the CNC Machine Tools industry.

Taking into account the pricing mechanism, order placing procedures, and internal control policy of the Group as discussed under the paragraph headed “3. Terms of the Agreements” of this letter, we are of the view that the purchase of Designated CNC Machine Tools from the CNC Machine Tools Sellers under the CNC Machine Tools Agreement can broaden the Group's product range which are readily available for sale to customers, and can further enhance the Group's ability to satisfy and meet potential increase in demand from existing as well as new customers. The abovementioned business strategy corresponds with the Group's vision to continuously strengthen its position as a major supplier of CNC Machine Tools through expansion of its customer base and product range.

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4.3 Section summary

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

5. Operating performance

The table below sets out the key financial information of the Group during the three years ended 31 December 2019 as extracted from the Company's annual reports for the three years ended 31 December 2019:

	For the year ended 31 December		
	2017	2018	2019
	RMB	RMB	RMB
	million	million	million
Revenue	1,294.8	1,090.7	910.7
Gross profit	312.5	290.7	209.1
Profit/(loss) attributable to equity holders	65.7	(57.7)	12.2
Gross profit margin	24.1%	26.7%	23.0%
CNC Machine Tools sale revenue	1,009.4	928.3	739.1
CNC Machine Tools sale volume (in units)	2,067	2,028	1,527

During the three years ended 31 December 2019, the Group recorded revenue of approximately RMB1,294.8 million, RMB1,090.7 million and RMB910.7 million respectively, representing a decrease of approximately 15.76% and 16.50% respectively for the two years ended 31 December 2019 compared with previous periods. The CNC Machine Tools business remained as the major contributor to the Group's revenue, representing approximately 78.0%, 85.1% and 81.2% of the total revenue for the three years ended 31 December 2019 respectively. The Group's financial performance deteriorated slightly for the year ended 31 December 2019, mainly due to the decrease in demand of CNC Machine Tools from the PRC region (being the Group's main sales jurisdiction) as a result of the Sino-U.S. trade war. In particular, the sales revenue from the Group's CNC Machine Tools segment amounted to approximately RMB1,009.4 million, RMB928.3 million and RMB739.1 million respectively for the three years ended 31 December 2019, representing a decrease of approximately 8.0% and 20.4% for the two years ended 31 December 2019 compared with previous periods.

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Despite a further decline in demand for high-end CNC Machine Tools products in early 2020 due to the outbreak of COVID-19, the Management maintained a positive outlook on the CNC Machine Tools industry as China's GDP experienced a year-on-year growth rate of approximately 6.1% in 2019 according to the National Bureau of Statistics of China, representing a generally stable economic development in China despite the periodic negative impact of the Sino-U.S. trade war. Furthermore, the Management also observed the uptake of demand in mass market CNC Machine Tools which indicated a recovery of the CNC machine market in PRC and a shift in customers' demand to adapt to the current economic environment. The Management will continue to strengthen the core competitiveness of the Group's business and remains optimistic on the long-term development prospects of the Group.

According to the sales announcement published by the Group dated 10 July 2020, the Group recorded sales revenue from CNC Machine Tools business amounted to approximately RMB293.5 million (sale volume amounted to 680 units) for the six months ended 30 June 2020, representing an decrease of approximately 28.3% from approximately RMB409.2 million (sale volume amounted to 838 units) during the same period in 2019.

The Management will continue to explore and capture various opportunities for the Group's development and strategic operation so as to increase the competitive edge of the Group. The Management is optimistic regarding the long-term development prospects of the Group.

6. Proposed caps

Tables 1, 2 and 3 below set out (i) the historical approved annual caps for transactions for the period from 13 July 2017 to 31 December 2017, years ended 31 December 2018 and 2019 and 1 January 2020 to 31 May 2020; (ii) the historical transaction amount under the Former CKD Components Agreement, the Former CNC Machine Tools Agreement and their relevant utilisation rates; and (iii) the Proposed Annual Caps for the CKD Components Agreement and the CNC Machine Tools Agreement.

LETTER FROM ALTUS CAPITAL

(1) Supply of CKD Components by the Company (or persons designated by the Company) to Taiwan FF (or persons designated by Taiwan FF)

Table 1(a) – Historical approved caps, historical transaction amount, and utilisation rate of the historical approved caps for the supply of CKD Components by the Company (or persons designated by the Company) to Taiwan FF (or persons designated by Taiwan FF)

Relevant financial periods	Historical approved caps <i>RMB million</i>	Historical transaction amount <i>RMB million</i>	Utilisation rate <i>%</i>
13 July 2017 to 31 December 2017	1.600	0.107	6.7
For the year ended 31 December 2018	3.360	0.718	21.4
For the year ended 31 December 2019	3.850	–	–
For the period from 1 January 2020 to 31 May 2020	1.900	0.254	13.4

Table 1(b) – Proposed Annual Caps for the supply of CKD Components by the Company (or persons designated by the Company) to Taiwan FF (or persons designated by Taiwan FF)

Relevant financial periods	Proposed Annual Caps <i>RMB million</i>
Effective Date to 31 December 2020	1.075
For the year ending 31 December 2021	2.225
For the year ending 31 December 2022	2.400
For the period from 1 January 2023 to 3 years from the Effective Date	1.250

As shown in Table 1(a) above, the Group had utilised approximately 6.7%, 21.4%, 0% and 13.4% of the historical approved caps for the supply of CKD Components by the Company (or persons designated by the Company) to Taiwan FF (or persons designated by Taiwan FF) for the period 13 July 2017 to 31 December 2017, for the two years ended 31 December 2018 and 2019 and the five months ended 31 May 2020 respectively.

LETTER FROM ALTUS CAPITAL

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

The Management has determined the Proposed Annual Caps in respect of the supply of CKD Components to Taiwan FF (or persons designated by Taiwan FF) under the CKD Components Agreement based on the production capacity of the Company (or the CKD Components Supplier designated by the Company).

The Management advised that the Proposed Annual Caps in respect of the supply of CKD Components to Taiwan FF under the CKD Components Agreement are determined based on the historical quantity and pricing of orders, in particular, the transaction amount placed by Taiwan FF (or persons designated by Taiwan FF) with the Company (or persons designated by Company) from 1 January 2020 up to 31 May 2020, which amounted to approximately RMB 0.254 million, while taking into account the steady recovery of the CNC Machine Tools market despite the negative impact of COVID-19. The demand for CNC Machine Tools declined inevitably during January and February 2020 due to travelling restrictions and temporary suspension of business of manufacturing plants in the PRC. Nevertheless, the Management advised that as indicated by Taiwan FF, the demand for their CNC Machine Tools has been recovering since March 2020 and the total transaction amount under the Former CNC Machine Tools Agreement in April and May 2020 exceeded the same period in 2019 by approximately 1.29 and 1.65 times respectively. Such demand is expected to remain steady during the term of the CKD Components Agreement due to the potential recovery of CNC Machine Tools market. As CKD Components are the major components required to assemble and manufacture CNC Machine Tools, the Group anticipates that the demand for CKD components would increase accordingly during the term of the CKD Components Agreement.

In assessing the reasonableness of the Proposed Annual Caps for the supply of CKD Components, we have made reference to (i) the historical transaction amounts between the Company (or persons designated by Company) and Taiwan FF (or persons designated by Taiwan FF) from 13 July 2017 to 31 May 2020, which was approximately RMB0.107 million, RMB0.718 million, nil and RMB0.254 million for the relevant financial periods under the Former CKD Components Agreement; and (ii) forecasted sales report prepared by the Management after discussion with Taiwan FF for the relevant financial periods of the Transactions under of the CKD Components Agreement. The forecasted demand for CKD Components for the relevant financial periods under the CKD Components Agreement is approximately RMB0.88 million, RMB2.01 million, RMB2.19 million and RMB1.25 million respectively.

LETTER FROM ALTUS CAPITAL

We have reviewed underlying calculations of the forecasted sales report which represented Taiwan FF's indicated demand of the CKD Components based on discussions in relation to their business plans. We also cross checked the forecasted sales report against the estimated residual production capacity of the Group for the relevant financial periods of the Transactions under of the CKD Components Agreement. Taking into account the above, we are of the view that the forecasted sales report for the relevant financial periods of the Transactions under of the CKD Components Agreement is prepared on a fair and reasonable basis.

As mentioned in the paragraph headed "Pricing mechanism" under the section headed "3. Terms of the Agreements", the CKD Components Agreement provides that the Company (or the CKD Components Supplier designated by the Company) will only supply the relevant CKD Components to the CKD Components Purchasers on terms no less favourable to the Group than those which the Group would have obtained from independent third party purchasers. As a result, the selling price for the CKD Components proposed by the Company (or the CKD Components Supplier designated by the Company) to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF) will not be lower than the selling price proposed to other independent third party purchasers. In this regard, we noted that the Group has internal control policy to confirm that the selling prices for the CKD Components are determined in accordance with the Group's pricing policy and will also make reference to the market price for similar CKD Components offered by industry counterparts. Having interviewed the Management and reviewed the Group's internal control policy, we are of the view that the Group has in place sufficient internal control measures to safeguard the above practice as discussed under the paragraph headed "3. Terms of the Agreements" of this letter. Furthermore, with the continuing effects of the Sino-U.S. trade war, the Management expects the costs of production for CKD Components to rise, which will lead to a potential increase in estimated selling price of CKD Components.

As show in Table 1(b) above, the annualised Proposed Annual Caps involved a slight year-on-year increase of approximately 3.5%, 7.9% and 4.2% as the Management has also taken into account factors such as the potential increase in selling price backed by the anticipated demand for CKD Components as well as anticipated inflation during the term of the CKD Components Agreement to allow room for flexibility.

LETTER FROM ALTUS CAPITAL

In addition, as mentioned above, the supply of CKD Components will depend on whether the Group has residual capacity to produce the CKD Components as requested by Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF). The Group would have to satisfy its own production schedule for manufacturing CNC Machine Tools before utilising its production capacity to supply the CKD Components to Taiwan FF (or the CKD Components Purchaser designated by Taiwan FF).

In light of the above, we are of the view that the Proposed Annual Caps for supply of CKD Components by the Company (or persons designated by the Company) to Taiwan FF (or persons designated by Taiwan FF) under the CKD Components Agreement are fair and reasonable.

(2) *Purchase of CKD Components by the Company (or persons designated by the Company) from Taiwan FF (or persons designated by Taiwan FF)*

Table 2(a) – Historical approved caps, historical transaction amount, utilisation rate of the historical approved caps for purchase of CKD Components by the Company (or persons designated by the Company) from Taiwan FF (or persons designated by Taiwan FF)

Relevant financial periods	Historical approved caps RMB million	Historical transaction amount RMB million	Utilisation rate %
13 July 2017 to 31 December 2017	45.269	27.331	60.4
For the year ended 31 December 2018	98.213	60.786	61.9
For the year ended 31 December 2019	114.028	38.609	33.9
For the period from 1 January 2020 to 31 May 2020	67.020	10.915	16.3

LETTER FROM ALTUS CAPITAL

Table 2(b) – Proposed Annual Caps for the purchase of CKD Components by the Company (or persons designated by the Company) to Taiwan FF (or persons designated by Taiwan FF)

Relevant financial periods	Proposed Annual Caps RMB million
Effective Date to 31 December 2020	28.627
For the year ended 31 December 2021	58.840
For the year ended 31 December 2022	61.968
1 January 2023 to 3 years from the Effective Date	31.757

As shown in Table 2(a) above, the Group had utilised approximately 60.4%, 61.9%, 33.9% and 16.3% of the historical approved caps for purchase of CKD Components by the Company (or persons designated by the Company) from Taiwan FF (or persons designated by Taiwan FF) for the period from 13 July 2017 to 31 December 2017, the two years ended 31 December 2018 and 2019, and the five months ended 31 May 2020 respectively.

The historical utilisation rate of CKD Components from Taiwan FF (or persons designated by Taiwan FF) increased slightly from approximately 60.4% during the period of 13 July 2017 to 31 December 2017 to approximately 61.9% for the year ended 31 December 2018. From 2018 onwards, the utilisation rates decreased and remained comparatively low up to 31 May 2020, where it decreased from approximately 61.9% to approximately 33.9% from 2018 to 2019 and further declined to approximately 16.3% for the period from 1 January 2020 up to 31 May 2020. According to the Management, the declining utilisation rates for the purchase of CKD Components from Taiwan FF (or persons designated by Taiwan FF) from 2018 to 2019 was mainly due to the decrease in demand for CNC Machine Tools and price pressure as a result of the Sino-U.S. trade war. The demand for CKD Components contracted further following the outbreak of COVID-19 in the first half of 2020 in light of travel restrictions and temporary closure of factories in the PRC, which disrupted the supply of CNC Machine Tools to end customers. The uncertainties of the CNC Machine Tools market amidst the slowdown in the global economy led to a significant decline in purchase orders for CNC Machine Tools, and in turn, declining historical utilisation rates for the purchase of CKD Components from Taiwan FF (or persons designated by Taiwan FF) by the Company (or persons designated by the Company) since 2018.

LETTER FROM ALTUS CAPITAL

The decrease in historical utilisation rate of purchasing CKD Components from Taiwan FF (or persons designated by Taiwan FF) is also in line with the Group's strategy to localise the sourcing of CKD Components, considering the time and cost when sourcing from overseas. During the period under the Former CKD Components Agreement, the Group had sourced several CKD Components locally, for example, acrylic and adjust gib, which was previously purchased from Taiwan FF (or persons designated by Taiwan FF). The combination of factors above led to the decrease in historical utilisation rates.

The Management has determined the Proposed Annual Caps in respect of the purchase of CKD Components by the Company (or persons designated by the Company) from Taiwan FF (or persons designated by Taiwan FF) under the CKD Components Agreement based on the following factors:

- (i) the Group's positive view on the market outlook of the CNC Machine Tools industry; and
 - CKD Components are the major components required to assemble and manufacture CNC Machine Tools. In the second quarter of 2020, as the economy of the PRC gradually recovers from the COVID-19 outbreak, there was an approximately 61% year-on-year increase in the orders for CNC Machine Tools produced by the Group. The Group anticipates that the demand for CNC Machine Tools would increase during the term of the CKD Components Agreement.
- (ii) the projected breakdown of orders for CKD Components from Taiwan FF (or persons designated by Taiwan FF) for each of the 3 years commencing from the Effective Date, which is based partly on the historical transaction amounts as a base and partly to cater for any potential increase in demand for CNC Machine Tools.

LETTER FROM ALTUS CAPITAL

Having considered (i) the decline in utilisation rates in the purchase of CKD Components from Taiwan FF (or persons designated by Taiwan FF) of the Former CKD Components Agreement during 31 July 2017 to 31 March 2020 as presented in Table 2(a); and (ii) the overall strategy of the Group to localise and diversify the sourcing of CKD Components, the Management has significantly reduced the Proposed Annual Caps in relation to the purchase of CKD Components by the Company (or persons designated by the Company) from Taiwan FF (or persons designated by Taiwan FF) as compared to the historical annual caps. As mentioned in our above analysis, the Management observed an improvement in its CNC Machine Tools business since March 2020, they are generally optimistic of a potential recovery of the CNC Machine Tools market and anticipates a steady increase in demand for CKD Components from Taiwan FF during the term of the CKD Components Agreement.

As show in Table 2(b) above, the Proposed Annual Caps involved a slight year-on-year annualised increase of approximately 2.8%, 5.3% and 2.5% as the Management has also taken into account factors such as an anticipated increase in demand for CKD Components from Taiwan FF (or persons designated by Taiwan FF) and potential inflation during the term of the CKD Components Agreement to provide for flexibility.

To assess the reasonableness of the Proposed Annual Caps, we have reviewed (i) historical transaction amounts purchased from Taiwan FF (or persons designated by Taiwan FF) in relation to CKD Components from 13 July 2017 to 31 May 2020, which was approximately RMB27.331 million, RMB60.786 million, RMB38.609 million and RMB10.915 million for the relevant financial periods under the Former CKD Components Agreement; (ii) the confirmed purchase orders from the Group's customers of approximately RMB3.13 million from April to July 2020 which have been/are expected to be delivered during the second half of 2020; and (iii) the forecasted sales report prepared by the Management. The forecasted demand for CKD Components for the relevant financial periods under the CKD Components Agreement is approximately RMB21.60 million, RMB51.30 million, RMB54.0 million and RMB27.0 million respectively. We noted the forecasted sales are projected with reference to the Company's estimated production of approximately 800, 1,900, 2,000 and 1,000 units of CNC Machine Tools multiplied by the estimated average price of raw materials from Taiwan FF of approximately RMB 27,000 required to produce one unit of CNC Machine Tool for the relevant financial periods of the Transactions under the CKD Components Agreement. Taking into account the above, we are of the view that the forecasted sales report is prepared on a fair and reasonable basis.

LETTER FROM ALTUS CAPITAL

We concur with the Management that despite the historically low utilisation rate, it is reasonable to expect potential growth in demand for CKD Components from its customers during the period of the CKD Components Agreement. Further, we noted the Proposed Annual Caps in relation to the purchase of CKD Components in the CKD Components Agreement are significantly reduced compared to the historical annual caps and is in line with the historical utilisation amounts as disclosed in Table 2(a). Additionally, as mentioned above, we considered the recovery of the CNC Machine market as indicated by the increase in the transaction amount under the Former CNC Machine Tools Agreement in April and May 2020 as compared to the same period in 2019.

Taking into account the above, we are of the view that the Proposed Annual Caps for purchase of CKD Components by the Company (or persons designated by the Company) from Taiwan FF (or persons designated by Taiwan FF) under the CKD Components Agreement are fair and reasonable.

(3) *Purchase of CNC Machine Tools by the CNC Machine Tools Purchasers from the CNC Machine Tools Sellers*

Table 3(a) – Historical approved caps, historical transaction amounts, utilisation rate of the historical approved caps for the purchase of the Designated CNC Machine Tools by the CNC Machine Tools Purchasers from the CNC Machine Tools Sellers

Relevant financial periods	Historical approved caps RMB million	Historical transaction amount RMB million	Utilisation rate %
13 July 2017 to 31 December 2017	311.750	31.206	10.0
For the year ended 31 December 2018	596.845	20.301	3.4
For the year ended 31 December 2019	809.087	5.781	0.7
For the period from 1 January 2020 to 31 May 2020	582.593	28.537	4.9

LETTER FROM ALTUS CAPITAL

Table 3(b) -Proposed Annual Caps for the purchase of the Designated CNC Machine Tools by the CNC Machine Tools Purchasers to the CNC Machine Tools Sellers

Relevant financial periods	Proposed Annual Caps RMB million
Effective Date to 31 December 2020	40.00
For the year ending 31 December 2021	90.00
For the year ending 31 December 2022	112.50
For the period from 1 January 2023 to 3 years from the Effective Date	62.50

As shown in Table 3(a) above, the Group had utilised approximately 10.0%, 3.4%, 0.7% and 4.9% of the historical approved caps for the purchase of Designated CNC Machine Tools by the CNC Machine Tools Purchasers from the CNC Machine Tools Sellers for the period from 13 July 2017 to 31 December 2017, the two years ended 31 December 2019 and five months ended 31 May 2020 respectively.

The historical utilisation rates for the purchase of Designated CNC Machine Tools from the CNC Machine Tools Sellers decreased significantly from approximately 10.0% for the period from 31 July 2017 to 31 December 2017, to approximately 0.7% for the period from 1 January 2020 to 31 May 2020. In 2017, the Group mainly relied on the CNC Machine Tools Sellers for the supply of its CNC Machine Tools in order to satisfy its customers' demand for high-end CNC machine tools, such as those manufactured in Europe. However, such demand for high-end CNC machine tools contracted significantly as the Sino-U.S. trade war has put significant pressure onto the business of end customers. Furthermore, in light of the outbreak of COVID-19 pandemic, businesses of end customers specialising in export have been severely affected, leading to further weakened demand for high-end European CNC machine tools supplied by the CNC Machine Tools Sellers.

Nevertheless, the historical utilisation recovered slightly for the period from 1 January 2020 to 31 May 2020, which comprised mostly purchase of mass market CNC Machine Tools. According to the Management, the upcoming demand for Designated CNC Machine Tools from the CNC Machine Tools Sellers comprises mostly mass market CNC Machine Tools.

LETTER FROM ALTUS CAPITAL

The majority of the Proposed Annual Caps in relation to the CNC Machine Tools Agreement represents the expected transaction amount for Korean manufactured mass market CNC Machine Tools, which has been estimated based on results from market research conducted by the Company and customer indications of approximately RMB5.34 million received. This growing demand for mass market CNC Machine Tools produced by Korean manufacturers since June 2019 are underpinned by the lower production costs and time, as well as reduced delivery costs due to closer proximity to end-customers compared to European manufacturers. The Management believes the trend of shift in demand from high-end to mass market CNC Machine Tools manufactured mainly in China and Korea will likely continue in light of the unstable geopolitical climate resulting from the Sino-U.S. trade war.

The Management has determined the Proposed Annual Caps in respect of the purchase of CNC Machine Tools from the CNC Machine Tools Sellers under the CNC Machine Tools Agreement as shown in Table 3(b) above based on the Group's positive view on the outlook of the Designated CNC Machine Tools industry during the term of the CNC Machine Tools Agreement. The Group anticipates that the PRC will continue to be the largest machine tools consuming country and the demand of machine tools would increase during the term of the CNC Machine Tools Agreement based on:

- (a) the historical transaction amounts in respect of the purchase of the Designated CNC Machine Tools between the CNC Machine Tools Purchaser and the CNC Machine Tools Seller under the Former CNC Machine Tools Agreement, which show strong uptick trend in demand for machine tools in recent months brought by the demand for mass market CNC Machine Tools; and
- (b) the growing demand for mass market CNC Machine Tools which is estimated based on results from market research conducted by the Company and customer indications received.

LETTER FROM ALTUS CAPITAL

Having considered (i) the declining utilisation rates for the approved caps for purchase of Designated CNC Machine Tools from the CNC Machine Tools Sellers during 31 July 2017 to 31 May 2020 as presented in Table 3(a); (ii) in particular, the actual historical utilisation for the period from 1 January 2020 to 31 May 2020 of approximately RMB28.5 million, which comprised mostly mass market CNC Machine Tools; and (iii) the expected growth in demand for mass market CNC Machine Tools, the Management determined the Proposed Annual Caps for the period from the Effective Date to 31 December 2020 to be RMB40.0 million, and anticipated a year-on-year annualised increase of approximately 12.5%, 25.0% and 11.1% in Proposed Annual Caps for the purchase of Designated CNC Machine Tools by the CNC Machine Tools Purchasers from the CNC Machine Tools Sellers.

In assessing the reasonableness of the Proposed Annual Caps, we have considered (i) the historical transaction amounts between the CNC Machine Tools Purchasers and the CNC Machine Tools Sellers from 13 July 2017 up to 31 May 2020, which was approximately RMB31.206 million, RMB20.301 million, RMB5.781 million and RMB28.537 million for the relevant financial periods under the Former CNC Machine Tools Agreement; (ii) confirmed purchase orders of approximately RMB 5.9 million which are expected to be delivered during the second half of 2020; (iii) forecasted sales report prepared by the Management, for the relevant financial periods of the Transactions under the CNC Machine Tools Agreement where such figures were prepared with reference to (a) the indicated demand of the CNC Machine Tools by the clients of the Company confirmed through discussions of their business plans; and (b) breakdown of expected purchases between Korean manufactured CNC Machine Tools and Taiwan manufactured CNC Machine Tools for the period of the CNC Machine Tools Agreement. The forecasted demand for CNC Machine Tools for the relevant financial periods under the CNC Machine Tools Agreement is approximately RMB34.90 million, RMB85.20 million, RMB92.90 million and RMB62.50 million respectively. We noted the forecasted sales report is based on the Company's (a) expected purchase of approximately 23,000, 55,800, 69,400 and 43,000 units of Taiwan manufactured CNC Machine Tools with an estimated purchase price of approximately RMB1.0 million for each unit; and (b) expected purchase of approximately 17,000, 42,000, 47,000 and 28,000 units of Korean manufactured CNC Machine Tools with an estimated purchase price of approximately RMB 0.7 million for each unit for the relevant financial periods of the Transactions under the CNC Machine Tools Agreement; (iv) market research carried out by the Company to indicate the anticipated growth of the CNC Machine Tools market in particular regarding the mass market CNC Machine Tools, and (v) feedback from customers that indicated a shift of demand to mass market CNC machine. Taking into account the above, we are of the view that the forecasted sales report is prepared on a fair and reasonable basis.

LETTER FROM ALTUS CAPITAL

In view of the above, we are of the view that the Proposed Annual Caps for the purchase of Designated CNC Machine Tools by the CNC Machine Tools Purchasers from the CNC Machine Tools Sellers under the CNC Machine Tools Agreement are fair and reasonable.

7. Further safeguards under the CNC Machine Tools Agreement

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

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

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

RECOMMENDATION

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

LETTER FROM ALTUS CAPITAL

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

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

*Mr. Chang Sean Pey (“**Mr. Chang**”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities); Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investment Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 20 years of experience in banking, corporate finance and advisory, and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

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

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

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

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

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

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate percentage of shareholding
Mr. Chu	Taiwan FF	Beneficial owner	15,527,255 shares	15.16%
Mr. Chu <i>(Note 1)</i>	Taiwan FF	Spouse interest	2,540,969 shares	2.48%
Mr. Chu	Fair Fine (Hangzhou) Industrial Co., Ltd. <i>(Note 2)</i>	Beneficial owner	750 shares	0.03%

Notes:

1. Ms. Wang Tz-Ti (formerly known as Wang Jin-Zu) (“Ms. Wang”), the spouse of Mr. Chu, held 2.48% of the issued share capital of Taiwan FF. Mr. Chu was deemed to be interested in all the shares held by Ms. Wang in Taiwan FF under the SFO.
2. Fair Fine (Hangzhou) Industrial Co., Ltd. is a non-wholly-owned subsidiary of Taiwan FF and is therefore an associated corporation of the Company for the purpose of the SFO.

3. SERVICE CONTRACTS

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

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was considered to have any interest in a business which competed or may compete with the business of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were of the view that there was no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

6. EXPERT AND CONSENT

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

Name	Qualification
Altus Capital	a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, Altus Capital did not have any shareholding in any member of the Group, nor had any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Altus Capital did not have any direct or indirect interest in any asset which had been, since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Altus Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 14 August 2020 (as set out on pages 29 to 62 of and made for incorporation in this circular) and references to its name in the form and context in which they respectively appear.

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

As at the Latest Practicable Date, none of the Directors and proposed Directors had any direct or indirect interest in any assets which had been, since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

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

8. DOCUMENTS AVAILABLE FOR INSPECTION

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

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

9. GENERAL

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and the principal place of business of the Company in Hong Kong is at Room 2003, 20th Floor, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (c) The company secretary of the Company is Mr. Lo Tai On.
- (d) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

NOTICE OF EGM

GOOD FRIEND INTERNATIONAL HOLDINGS INC. 友佳國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2398)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Good Friend International Holdings Inc. (the “**Company**”) will be held at 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Monday, 31 August 2020 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications the following as ordinary resolutions of the Company:-

ORDINARY RESOLUTIONS

“**THAT:-**

1. (a) the entering into of the CKD components agreement (the “**CKD Components Agreement**”) (a copy of which marked “A” has been produced to the Meeting and initialed by the chairman of the Meeting for the purpose of identification) by the Company and Fair Friend Enterprise Company Limited on 10 July 2020 in relation to the supply and purchase of CKD components and the transactions contemplated thereunder, be and are hereby confirmed, approved and ratified;
- (b) the proposed annual caps in respect of the CKD Components Agreement (“**CKD Components Proposed Caps**”), details of which are set out in the circular of the Company dated 14 August 2020 (the “**Circular**”), be and are hereby approved;
- (c) any one or more director(s) of the Company be and are hereby authorized for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and deeds as such director(s) may consider necessary, expedient or desirable to give effect to or otherwise in connection with the CKD Components Agreement, the transactions contemplated thereunder and the CKD Components Proposed Caps;

NOTICE OF EGM

2. (a) the entering into of the CNC machine tools agreement (the “**CNC Machine Tools Agreement**”) (a copy of which marked “B” has been produced to the Meeting and initialed by the chairman of the Meeting for the purpose of identification) by the Company and Fair Friend Enterprise Company Limited on 10 July 2020 in relation to the purchase of 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 CNC Machine Tools Agreement (“**CNC Machine Tools Proposed Caps**”), details of which are set out in the Circular, be and are hereby approved;
- (c) any one or more director(s) of the Company be and are hereby authorized for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and deeds as such director(s) may consider necessary, expedient or desirable to give effect to or otherwise in connection with the CNC Machine Tools Agreement, the transactions contemplated thereunder and the CNC Machine Tools Proposed Caps.”

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

Hong Kong, 14 August 2020

Principal Place of Business in Hong Kong:
Room 2003, 20th Floor
Kai Tak Commercial Building 317-319
Des Voeux Road Central
Hong Kong

NOTICE OF EGM

Notes:

1. A member of the Company entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or, if he holds two or more shares, more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, not less than 48 hours before the time for holding the Meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the Meeting or any adjournment thereof if the shareholder of the Company so desires, and in such event, the form of proxy will be deemed to be revoked.
4. In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holders, seniority being determined by the order in which names stand in the register of members.
5. As at the date of this notice, the board of directors of the Company comprises Mr. Chu Chih-Yaung, Mr. Chen Min-Ho and Mr. Wen Chi-Tang, all being the executive directors and Mr. Koo Fook Sun, Louis, Mr. Yu Yu-Tang and Mr. Kao Wen-Cheng, all being the independent non-executive directors.