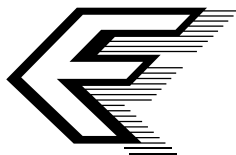


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## **FOREFRONT INTERNATIONAL HOLDINGS LIMITED**

**福方國際控股有限公司\***

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

**(Stock Code: 885)**

### **TAIWAN OPERATIONS AND SCANIA DISTRIBUTION AND ASSEMBLY AGREEMENTS**

This announcement is made to further inform the Company's shareholders and the public about certain matters regarding the Group's operations in Taiwan and the Group's agreements with Scania in relation to the distribution and assembly of Scania Products.

FIAL is a wholly owned subsidiary of the Company and contributed to approximately 64% of the Group's consolidated turnover in 2003. The Group is reviewing certain arrangements FIAL has entered into and issues impacting the Group's control over its operations in Taiwan.

Scania is the principal supplier to the Group and is also a shareholder in the Company with an interest in approximately 4.8% of the Shares. On 19 April 2005 Scania served notice on the Group of the termination of all existing licensing arrangements with the Group to take effect from 26 April 2006. In the event that new licensing arrangements are not entered into prior to 26 April 2006, the termination of the existing licences will have a material adverse impact on the operations and financial performance of the Group. Based on continuing discussions with Scania, the Group is confident that it retains the support of Scania and that new arrangements will be in place prior to 26 April 2006 when the existing licences will expire.

Trading in the shares of the Company on the Stock Exchange was suspended from 9:30 a.m. on 14 May 2004 at the request of the Company.

\* *For identification purposes only*

**Shareholders of the Company and potential investors should exercise caution when dealing in the shares of the Company.**

## **BACKGROUND**

Shareholders of the Company will be aware that a number of changes have taken place in the composition of the Board and the boards of directors of the Company's subsidiaries. Since the resignation of Mr. Selwyn Mar from the Board on 16 September 2004 there has been no change to the constitution of the Board. Reference is made to the Company's announcements dated 21 July 2004, 14 September 2004 and 22 September 2004 respectively for further details in relation to the above.

A priority of the New Board was to obtain the full support of Scania and to reconstitute the boards of directors of the Company's subsidiaries, in order to better reflect the composition of the New Board. This process was accomplished quickly and effectively throughout the majority of the Group's subsidiaries.

A further priority of the New Board was to investigate various transactions entered into by the Group concerning the Group's operations in Taiwan. The findings of these investigations are described below. In reviewing these matters the New Board engaged the services of RSM Nelson Wheeler. Details of the engagement of RSM Nelson Wheeler were set out in the Company's announcement dated 27 January 2005.

The New Board wishes to advise the Company's shareholders and the public concerning certain issues impacting the Group's operations in Taiwan arising principally out of issues reported to the New Board by RSM Nelson Wheeler as a result of its investigations.

## **SALE OF 51% INTEREST HELD BY FIAL IN FAI TO NEO CHINA**

The New Board continues to investigate the Disposal. Having conducted initial investigations the New Board has formed a preliminary view that the Disposal was completed at undervalue and that subsequent arrangements entered into between FIAL Taiwan and FAI on 20 July 2004, pursuant to which FAI was granted the right to assemble Scania Products in Taiwan for supply to FIAL Taiwan, are uncommercial. The New Board is in the process of engaging financial advisers in Taiwan to prepare an expert opinion as to whether the Disposal was for proper value.

The New Board has made a number of requests to re-negotiate the pricing terms pursuant to which FAI supplies assembled Scania Products to FIAL Taiwan for supply in Taiwan. To-date FAI has refused to meet to discuss these and other related issues despite the pricing terms being subject to review on 31 December 2004. The New Board is of the view that the existing arrangements between FIAL Taiwan and FAI are prejudicial to the interests of FIAL Taiwan and the Group. The New Board is considering alternative arrangements for the assembly of Scania Products in Taiwan.

## **CONTROL OF THE GROUP'S TAIWAN OPERATIONS**

The New Board has procured the replacement of the directors of the Group's Taiwanese subsidiaries and, on 18 February 2005, Mr. Adam Lee was appointed as the legal representative of FIAL Taiwan in place of Mr. Lee Mao Fang (an appointee of the former Board).

The Group's attempts to work consensually with senior management in Taiwan have been unsuccessful. Repeated requests by the New Board for RSM Nelson Wheeler to be allowed access to the Group's premises in Taiwan have been denied, and requests for information have been denied or only partially met. FIAL Taiwan continues to confront obstacles in taking control of the Group's Taiwan operations, examples of which include:

- The relocation by FAI of FIAL Taiwan's finance and administration personnel from FIAL Taiwan's premises to FAI's premises. The Group's representatives have been prevented from contacting FIAL Taiwan's former finance and administration personnel;
- Lack of access to the books and records of the Group's Taiwanese subsidiaries (as noted in the Company's 2004 Annual Report);
- The transfer of employment contracts of all FIAL Taiwan's personnel to Infinix. It is understood by the New Board that Mr. James Yang is a director of Infinix; and
- The cancellation of FIAL Taiwan's leases of premises used as repair and maintenance centers in Taiwan. RSM Nelson Wheeler has been advised by FAI and Infinix's legal advisors that on 1 October 2004 FAI entered into head-lease agreements directly with the landlords of such premises and sub-leased the relevant premises to FIAL Taiwan. Neither the New Board nor FIAL have been provided with any supporting documentation in relation to the termination or granting of such new leases and / or sub-leases. The Group's Taiwanese legal advisors are liaising with the landlords of the relevant premises to determine the validity of the termination and granting of such new leases and/or sub-leases.

The New Board is concerned that FAI is acting beyond the scope of its existing arrangements with FIAL Taiwan and instead of merely assembling Scania Products and supplying them to FIAL Taiwan, FAI is also distributing and servicing such vehicles directly and thereby infringing on the exclusive right to distribute and service such vehicles granted by Scania to FIAL Taiwan. The New Board is taking steps to resume control of the distribution and servicing of Scania Products in Taiwan and continues to keep Scania informed of all developments. The New Board is currently taking legal advice in relation to the actions of FAI and all claims it may have in respect of such actions.

In light of the above matters, the New Board has taken the following steps:

- (a) FIAL Taiwan has issued legal proceedings in Taiwan against FIAL's former directors and FIAL Taiwan's former legal representative, as well as various FIAL Taiwan employees, to assert FIAL's rights over its assets, books, records and trading rights;
- (b) FIAL Taiwan's bankers and major customers have been formally notified of the above developments and the appointment of Mr. Adam Lee as the new legal representative of FIAL Taiwan;
- (c) The New Board has kept Scania fully informed of the current issues in Taiwan, and of the efforts being made to restore control over the Taiwanese operations;
- (d) The New Board has identified a new management team to take management control of the Group's Taiwanese operations as part of a strategic plan to restore stability to the Group's operations.

## **CLAIM BY FAI**

As shown in the Interim Report, the Company's consolidated balance sheet includes an amount of approximately HK\$82,315,000 due to FAI as at 30 June 2004. On 14 October 2004, FAI issued a demand against FIAL for an amount of approximately NT\$400 million (approximately HK\$100 million) allegedly in respect of the cost of assembled units supplied by FAI to FIAL under the sub-assembly agreement. The New Board is currently reviewing this demand and the possible impact on the Group's operations and relationship with FAI.



“Circular”	the circular issued by the Company dated 5 July 2004 in relation to the Disposal;
“Company”	Forefront International Holdings Limited, a company incorporated in the Cayman Islands on 10 September 1998 with limited liability, the shares of which are listed on the Stock Exchange;
“Disposal”	the disposal of FIAL of a 51% equity interest in FAI to Neo China as referred to in the announcement of the Company made on 11 June 2004, the Circular and the Interim Report;
“FAI”	福方汽車工業股份有限公司 (Forefront Automobile Industry Limited*), a company incorporated in Taiwan;
“FIAL”	Forefront International Automotive Limited, a company incorporated in the British Virgin Islands with limited liability and being a wholly-owned subsidiary of the Company;
“FIAL Taiwan”	Forefront International Automotive Limited, Taiwan Branch;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Infinix”	Infinix International Incorporated, a company incorporated in Taiwan;
“Interim Report”	the Company’s interim report for the six months ended 30 June 2004;
“Mr. Adam Lee”	Mr. Lee Ching Yan, Adam – the Group’s new legal representative for FIAL Taiwan;
“Mr. James Yang”	Mr. Yang Chien Nan, James, former Chairman of the Group;

“Neo China”	Neo China Group Limited, a company incorporated in the British Virgin Islands with limited liability being, as disclosed to the Company at the time of the Disposal, wholly and beneficially owned by Mr. Chiang Chao-Nan;
“New Board”	the Board as it has been constituted on and from 17 September 2004;
“NT\$”	New Taiwanese dollars, the lawful currency of Taiwan, and for the purpose of this announcement converted at an exchange rate of NT\$4 to each HK\$1;
“PRC”	The People’s Republic of China;
“RSM Nelson Wheeler”	RSM Nelson Wheeler Corporate Advisory Services Limited;
“Scania”	Scania CV AB, Sweden;
“Scania Products”	Scania-brand heavy trucks, tractors and coaches, as well as related spare parts and accessories
“Shares”	issued shares in the capital of the Company; and
“Taiwan”	Taiwan, Republic of China.

*As at the date of this announcement, the Board comprises Mr. Kelvin Edward Flynn as sole executive director, Mr. Paul Gerard Davies and Mr. Cosimo Borrelli as non-executive directors, and Mr. Lau Siu Ki, Kevin, Mr. Cheong Ying Chew, Henry and Mr. Alistair Macleod as independent non-executive Directors.*

By Order of the Board  
**Kelvin Edward Flynn**  
*Executive director*

Hong Kong, 5 May 2005

Please also refer to the published version of this announcement in The Standard.