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**FOREFRONT GROUP LIMITED**

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

**福方集團有限公司\***

**(Stock Code: 0885)**

**CONNECTED TRANSACTION**

The Company wishes to announce that the Purchaser has on 11 October, 2007 entered into the Sale and Purchase Agreement with the Vendor in relation to the sale and purchase of the Sale Share. The Sale Share represents the entire issued share capital of Leapfly, which in turn holds the entire issued share capital of Suntrend. On Completion, Suntrend will hold 50% of the registered capital of Tianjin JV. The consideration for the Sale Share is HK\$20,000,000. Subject to Completion, the Purchaser may advance the Loan to Leapfly if required by Leapfly.

The Company is acquiring an interest in Leapfly which upon completion of the Acquisition will indirectly hold 50% of the equity interest in Tianjin JV where its substantial shareholder (JV shareholder) is an associate of a controller (director) of the Company (Mr. Zhuang) hence the Acquisition falls with Rule 14A.13(1)(b) and is a connected transaction for the Company. As the relevant percentage ratios in respect of the Acquisition are less than 2.5%, the Acquisition requires disclose by way of this announcement under Rule 14A.32 and is subject to reporting requirements under Rule 14A.45 to 47.

\* For identification only

The JV Shareholder is wholly-owned by Mr. Zhuang, a director of the Company. Hence, Tianjin JV is an associate of Mr. Zhuang, so Tianjin JV is a connected person of the Company. The Loan if advanced will constitute financial assistance given by the Company to a connected person. The Loan will not be made in the ordinary course of business of the Company but is made on normal commercial terms. As the percentage ratios for the Loan are less than 2.5%, the Loan only requires disclosure pursuant to Rule 14A.66(2) of the Listing Rules.

## **THE ACQUISITION**

On 11 October, 2007, the Purchaser entered into the Sale and Purchase Agreement with the Vendor in relation to the sale and purchase of the Sale Share for HK\$20,000,000 the whole sum of which will be payable by the Purchaser to the Vendor by cheque on Completion. The consideration will be funded by internal resources of the Company. The Sale Share represents the entire issued share capital of Leapfly, which in turn holds Suntrend. On Completion, Suntrend will hold 50% of the registered capital of Tianjin JV and Leapfly will be an indirect wholly-owned subsidiary of the Company.

### **Conditions Precedent**

Completion of the Sale and Purchase Agreement is conditional upon:

- (i) the Purchaser undertaking a due diligence review on Leapfly, Suntrend and the Tianjin JV Group and being satisfied in its sole discretion with such review in all respects; and
- (ii) a reorganisation of the capital of Tianjin JV having been completed such that Suntrend is the holder of 50% of the registered capital of Tianjin JV, the obtaining of all necessary approvals and consents from the relevant authorities in the PRC for such reorganisation and the issue by a PRC lawyer appointed by the Purchaser with confirmations to that effect.

If the conditions set out above are not fulfilled or waived by the Purchaser, on or before 5:00 p.m. on 31 December, 2007, or such later date as may be agreed between the Vendor and the Purchaser, the Sale and Purchase Agreement shall terminate and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise (save in respect of any prior breach of the Sale and Purchase Agreement). The Company has no present intention to waive any of the above conditions.

The consideration for the Acquisition was determined based on an valuation on the market value of Leapfly in the approximate amount of RMB20,500,000 conducted by an independent valuer using the asset-based approach. As the consideration is at a discount to this valuation, the Directors (including the independent non-executive directors) are of the view that the terms of the Acquisition are fair and reasonable and in the interest of the shareholders as a whole.

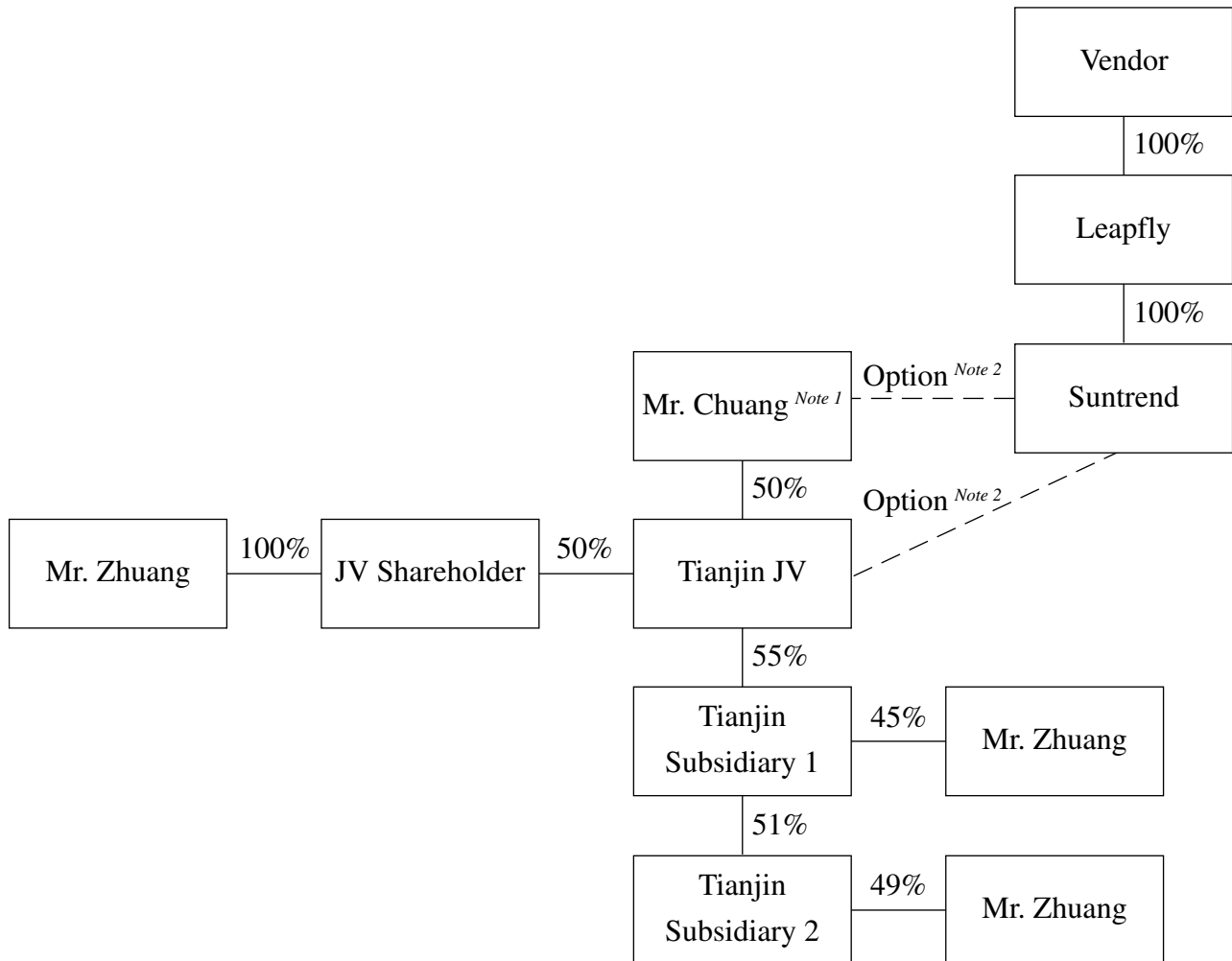
Based on the unaudited financial statements of Leapfly for the year ended 31 December, 2006, the net profits before and after taxation and minority interests of Leapfly was HK\$7,148,309 and HK\$7,148,309 respectively arising from a waiver by a lender of repayment of a loan made to Leapfly and Leapfly had no revenue for the year ended 31 December, 2006. The net asset value of Leapfly was HK\$7,142,857 as at 31 December, 2006. Based on the unaudited financial statements of Leapfly for the year ended 31 December, 2005, the net loss of Leapfly was HK\$5,460 and Leapfly had no revenue for the year ended 31 December, 2005. The net liabilities of Leapfly was HK\$5,452 as at 31 December, 2005.

Based on the unaudited consolidated financial statements of the Tianjin JV for the year ended 31 December, 2006, the net loss before and after taxation and minority interests of the Tianjin JV was RMB5,404,869 and RMB5,412,504 respectively and the revenue of the Tianjin JV for the year ended 31 December, 2006 was RMB229,742,261. The net asset value of the Tianjin JV was RMB18,244,879 as at 31 December, 2006. As Tianjin JV was incorporated in 2005, no financial statements were prepared for that year.

The Company is acquiring an interest in Leapfly which upon completion of the Acquisition will indirectly hold 50% of the equity interest in Tianjin JV where its substantial shareholder (JV shareholder) is an associate of a controller (director) of the Company (Mr. Zhuang) hence the Acquisition falls with Rule 14A.13(1)(b) and is a connected transaction for the Company. As the relevant percentage ratios in respect of the Acquisition are less than 2.5%, the Acquisition requires disclose by way of this announcement under Rule 14A.32 and is subject to reporting requirements under Rule 14A.45 to 47.

## Shareholding in the Tianjin JV Group

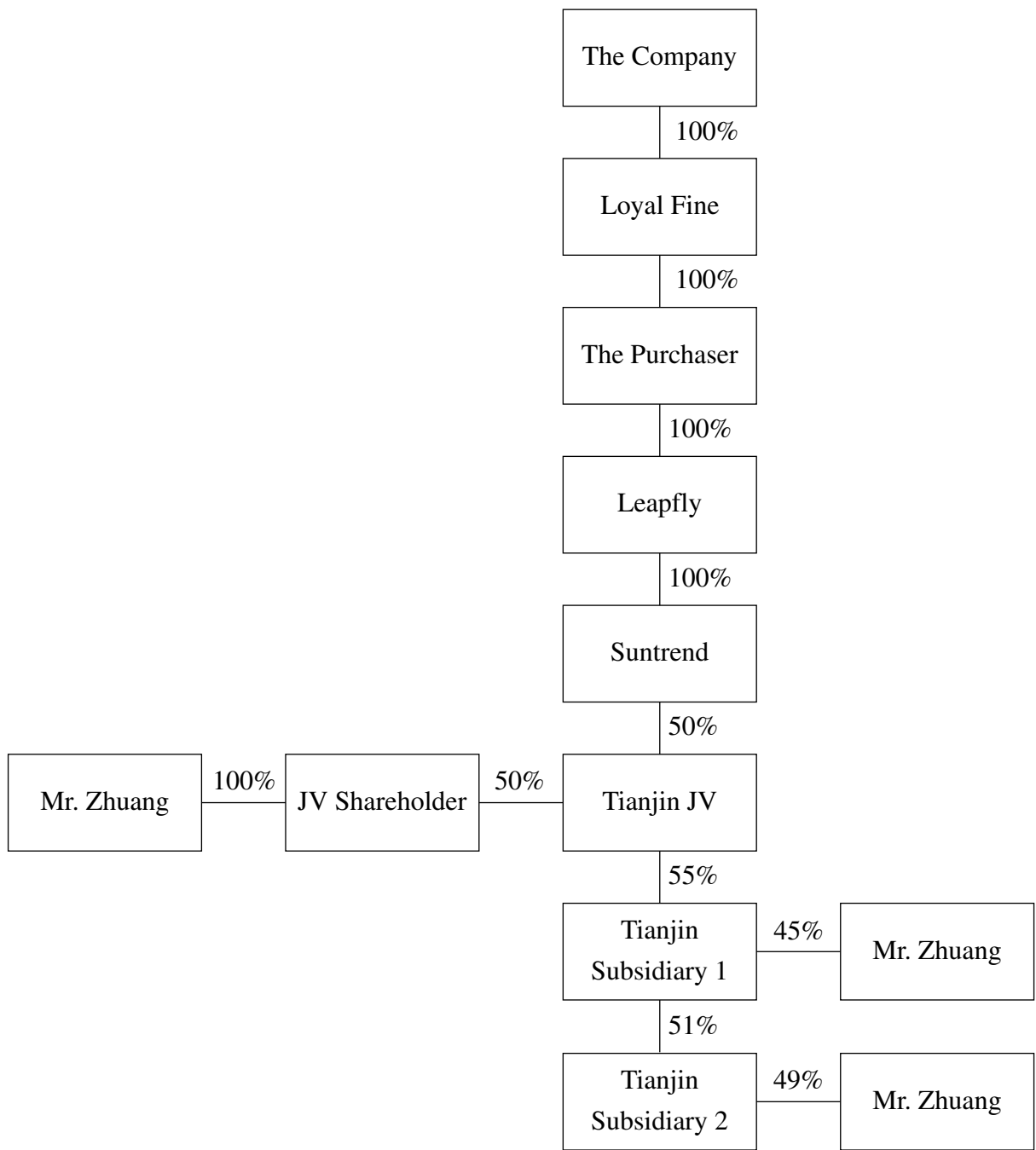
Set out below is a diagram showing the structure of the Tianjin JV Group as at the date of this announcement:–



*Note 1:* Mr. Chuang is Mr. Zhuang’s cousin. Mr. Chuang is not a connected person of the Company as defined under the Listing Rules.

*Note 2:* Leapfly has exercised an option granted to it by Mr. Chuang to purchase Mr. Chuang’s interest in 50% of the registered capital of Tianjin JV (“Interest”), which Interest is in the process of being registered in the name of Suntrend.

Set out below is diagram showing the structure of the Group's interest in the Tianjin JV Group upon Completion:-



## THE LOAN

Subject to Completion, the Purchaser may if requested by Leapfly (but is not committed to under the Agreement) advance the Loan to Leapfly.

The proposed principal terms of the Loan:–

Lender	:	The Purchaser
Borrower	:	Leapfly, an indirect wholly-owned subsidiary of the Company upon Completion
Purpose	:	to finance the operation of Tianjin JV
Principal Amount	:	HK\$5,000,000
Nature	:	unsecured revolving credit facility
Term	:	2 years
Interest	:	prime + 2% per annum
Condition	:	The financial position of Leapfly and the Tianjin JV Group being to the satisfaction of the Company.

The Purchaser will enter into appropriate documents with Leapfly if and when the Loan is advanced.

The Board is of the view that the terms of the Loan as proposed above are on normal commercial terms by reference to prevailing market borrowing rates of prime plus 1-3% per annum quoted by commercial banks in Hong Kong. The JV Shareholder is wholly-owned by Mr. Zhuang, a director of the Company. Hence, Tianjin JV is an associate of Mr. Zhuang, so Tianjin JV is a connected person of the Company. The Loan if advanced will constitute financial assistance given by the Company to a connected person. The Loan will not be made in the ordinary course of business of the Company but is made on normal commercial terms. As the percentage ratios for the Loan are less than 2.5%, the Loan only requires disclosure pursuant to Rule 14A.66(2) of the Listing Rules.

This announcement is made to satisfy the Company's obligation under Rule 14A.66(2), so if and when the Loan is advanced, no further announcements will be made provided that the Loan is made on the above terms. If the terms of the Loan if and when advanced are different from that set out above, a further announcement will be made and the Company will comply with the Listing Rules when applicable.

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, the Vendor and its ultimate beneficial owners, namely Chu See Ming Bonnie, Au Yeung Kai Wah and Chan Chak Kai Kenneth are (i) third parties independent of the Company and connected persons of the Company and (ii) are not connected persons of Mr. Zhuang and Mr. Chuang.

The Vendor is an investment holding company.

## **FURTHER INFORMATION ON LEAPFLY AND TIANJIN JV**

Leapfly is an investment holding company and has no operation apart from holding the entire issued share capital in Suntrend. Suntrend is also an investment holding company set up solely to hold Tianjin JV on Completion. On Completion, Tianjin JV will be equity accounted for in the financial statements of Leapfly and Leapfly will be consolidated into the financial statements of the Company.

Tianjin JV Group operates an automobile repair and sales centre in Tianjin providing repair and after-sale services under the authorisations of General Motor Asia, Inc. and 中冀斯巴魯 (北京) 汽車銷售有限公司 (Zhong Ji Subaru (Beijing) Vehicles Sales Co. Ltd) which is a sale agent of Subaru; and operates a 4-S (including sales and after-sales services) shop for automobiles in the brand name of Zhengzhou Nissan under the authorisation granted by Zhengzhou Nissan Automobile Sales Company Limited. Apart from the above, Tianjin JV also provides repairing services for imported automobiles under the brand names of Benz, BMW, Toyota, Honda, Ford, Chrysler, etc.

## **REASONS AND BENEFITS FOR THE GRANT OF THE LOAN AND THE ACQUISITION**

The Group is principally engaged in trading and distribution of Scania motor trucks, coaches and vehicle accessories, provision of heavy motor vehicle repair and maintenances services; investing in development, management and operation of an e-ticketing system in PRC and investing in logistics and logistics related business.

The Board would like to seize this opportunity to widen its business in the PRC and further develop its automobile business. The present acquisition of the Tianjin JV Group is expected to expand the existing business of the Group to the PRC market which is expected to provide the Group with ample market opportunities. The provision of the Loan will provide readily available finance to Tianjin JV to develop its business in the PRC market.

The Directors (including the independent non-executive directors) are of the view that the terms of the Loan are fair and reasonable, and in the interests of the Company and shareholders as a whole.

## **NOTIFICATION OF TERMINATION OF DISTRIBUTORSHIP**

The Company has entered into two distributor agreements dated 23 December, 2005 between Forefront International (Hong Kong) Limited (“FIHK”) an indirect wholly-owned subsidiary of the Company and Scania giving the FIHK exclusive distributor rights for Scania truck, buses and related parts in relation to Hong Kong and Macau region. The Company has received a letter dated 1 October, 2007 from Scania stating the distributor agreements for Hong Kong region and Macau region will expire and cease to apply after 26 October, 2008. Such unilateral termination of the distributor agreements does not constitute a disposal of distribution business by the Company and the Company is still engaged in the distribution business with Scania in the Hong Kong and Macau region until 26 October, 2008. On 12 June, 2007, Scania Sales (China) Co., Ltd. (“Scania China”) and Forefront Automotive Services (Shenzhen) Co., Ltd. (“FAS”) an indirect wholly-owned subsidiary of the Company entered into a dealer agreement whereby FAS was appointed as exclusive dealer for Scania tractors and related parts in Shenzhen and Zhuhai, PRC for an undefined period subject to six months notice for termination. Pursuant to the dealer agreement, Scania (China) agreed to supply its products for resale or use in Shenzhen and Zhuhai to FAS only and FAS agrees to maintain an efficient and first-rate sales and service organisation in Shenzhen and Zhuhai for Scania’s products. There are also on going negotiations between the Company and Scania as to the treatment of the auto parts, accessories, service centers, training of technicians and workers as well as the ways of conducting business in the PRC. Such negotiations when they materialize may or may not constitute a notifiable transaction for the Company. If the outcome of such negotiations constitute a notifiable transaction for the Company, it will comply with the Listing Rules to the extent applicable.

The termination of the above mentioned distributor agreements is not expected to have any material adverse financial impact to the Group as it is a loss making business. The Group maintains a healthy financial position after a series of fund-raising activities in the past six months and currently has approximately HK\$501 million cash in hand and deposited at the bank.



The Company will continue to develop its existing business, such as investing in development, management and operation of an e-ticketing system in PRC and investing in logistics and logistics related business, as well as the automobile business in PRC after the Acquisition.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition by the Purchaser of the Sale Share from the Vendor under the Sale and Purchase Agreement
“Company”	Forefront Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Completion”	completion of the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	a party who to the best of the Director’s knowledge, information and belief having made all reasonable enquiry is a third party independent of the Company and the connected persons of the Company
“JV Shareholder”	天津市寧發進口汽車維修服務中心 (Tian Jin Ning Fa Automobiles Service Center)
“Leapfly”	Leapfly Limited, a company incorporated in the British Virgin Islands with limited liability

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	the loan in the principal amount of HK\$5,000,000 proposed to be advanced by the Purchaser to Leapfly
“Loyal Fine”	Loyal Fine Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company
“Mr. Chuang”	Mr. Chuang Yue-chien
“Mr. Zhuang”	Mr. Zhuang You Dao, an executive director of the Company
“Purchaser”	Crown Creation Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 11 October, 2007 entered into between the Vendor and the Purchaser in relation to the sale and purchase of the Sale Share
“Sale Share”	1 share of US\$1.00 each in the share capital of Leapfly
“Scania”	Scania CV Aktiebolag
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Suntrend”	Suntrend China Limited, a company incorporated in Hong Kong with limited liability
“Tianjin JV”	天津市凱聲汽車有限公司(Tianjin Kai Sheng Automobile Service Co., Ltd.), currently a sino-foreign equity joint venture
“Tianjin JV Group”	Tianjin JV, Tianjin Subsidiary 1 and Tianjin Subsidiary 2

- “Tianjin Subsidiary 1” 天津津日汽車銷售服務有限公司(Tianjin Jinri Automobile Sale & Service Co., Ltd.), a company incorporated in the PRC and held as to 55% by Tianjin JV and 45% by Mr. Zhuang
- “Tianjin Subsidiary 2” 天津津月汽車銷售有限公司(Tianjin Jinyue Automobile Sale Co., Ltd.), a company incorporated in the PRC and held as to 51% by Tianjin Subsidiary 1 and 49% by Mr. Zhuang
- “Vendor” Z & Z International Limited, a company incorporated in the British Virgin Islands

By Order of the Board of  
**Forefront Group Limited**  
**Yeung Ming Kwong**  
*Executive Director*

Hong Kong, 18 October, 2007

*As at the date of this announcement, the Board comprises eight executive Directors, namely, Ms. Yau Shum Tek, Cindy, Mr. Yeung Ming Kwong, Ms. Lo Oi Kwok, Sheree, Mr. Ting Wing Cheung, Sherman, Mr. Lam Kwan Sing, Mr. Louis Wen, Mr. Zhou Qi Jin and Mr. Zhuang You Dao; and four independent non-executive Directors, namely Mr. Chung Yuk Lun, Mr. Kwong Wai Tim, William, Ms. Lam Yan Fong, Flora and Ms. Kristi L Swartz.*