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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)**

**PROPOSED ACQUISITION OF RIGHTS TO  
FOREST LAND AND FOREST TREE OWNERSHIP RIGHT BEING  
A DISCLOSEABLE TRANSACTION**

Regent Square, an indirect wholly-owned subsidiary of the Company, entered into the Agreement on 9 April 2010 with Mascotte, pursuant to which Regent Square has conditionally agreed to purchase or procure to purchase and Mascotte has conditionally agreed to sell or procure to sell, the Sale Shares at an aggregate consideration of HK\$79,200,000, which will be satisfied by the issue of the Consideration Shares to Mascotte (or its nominee).

The Sale Shares represent the entire issued share capital of Richful Zone. Richful Zone, through its wholly-owned subsidiary, Allied Loyal, owns 50% of the Concession Rights and Interests in respect of the Forest Land, which is located in Simao District, Puer City, Yunnan Province, the PRC, with a total site area of approximately 36,735 Chinese Mu.

\* For identification purpose only

As certain applicable percentage ratios (as defined in the Listing Rules) are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

**As Completion is subject to the fulfillment of a number of conditions precedent, the transactions contemplated under the Agreement may or may not proceed. The Shareholders and potential investors should exercise caution when dealing in the Shares.**

Set out below is a principal summary of the terms of the Agreement.

## **AGREEMENT**

**Date:** 9 April 2010

### **Parties**

**Vendor:** Mascotte

**Purchaser:** Regent Square

Mascotte and its subsidiaries, are principally engaged in securities trading, manufacture and sale of photographic, electrical and multimedia accessories and property investment. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mascotte and its ultimate beneficial owner are third parties independent of the Company and the connected persons of the Company. As at the date of this announcement, Ms. Lo Oi Kwok, Sheree, who is an executive Director, holds 9,392,000 shares in Mascotte and Mr. Pak William Eui Won, who is an Independent Non-executive Director, holds options exercisable into 1,000,000 shares in Mascotte. There is no common director between Mascotte and the Company.

### **Assets to be Acquired**

Pursuant to the Agreement, Regent Square has agreed to acquire or procure to acquire, and Mascotte has agreed to sell or procure to sell, the Sale Shares. The Sale Shares represents the entire issued share capital of Richful Zone. Richful Zone is an investment holding company and its principal asset is its 100% shareholding interest in Allied Loyal.

## **Consideration**

The consideration for the acquisition of the Sale Shares shall be HK\$79,200,000, which will be satisfied by the issue of the Consideration Shares at the price of HK\$0.24 per Share by the Company to Mascotte (or its nominees) upon Completion. There are no restrictions relating to the disposal of the Consideration Shares.

The Consideration was determined after arm's length negotiations between the Company and Mascotte with reference to, among other things, the market value of the Forest Land in its existing state being approximately HK\$165 million as at 31 March 2010 and the unaudited net assets of the Target Group being approximately HK\$129.09 million as at 31 December 2009.

The Directors are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **Consideration Shares**

The Consideration Shares are proposed to be issued at HK\$0.24 which:

- (i) is the same as the closing price of the Shares of HK\$0.24 per Share as quoted on the Stock Exchange on 9 April 2010; and
- (ii) represents a discount of approximately 1.23% to the closing price of the Shares of HK\$0.243 per Share as quoted on the Stock Exchange for the 5 consecutive trading days immediately preceding the date of the Agreement.

The 330,000,000 Consideration Shares represent approximately 16.60% of the issued share capital of the Company as at the date of this announcement and approximately 14.24% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and assuming no change in the share capital between the date of this announcement and date of issue of the Consideration Shares.

The Consideration Shares are proposed to be issued under the existing general mandate granted to the Directors on 23 March 2010. As at the date of this announcement, such general mandate has not been utilized. Under the existing general mandate, the Directors are allowed to allot and issue up to 390,988,080 Shares.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares. The Consideration Shares when issued will rank pari passu with all existing Shares then in issue with regard to dividend and voting rights.

### **Conditions Precedent**

Completion shall be conditional upon the fulfilment (or waiver, as the case may be) of the following conditions:

- (i) a due diligence investigation on the Target Group and its assets (including but not limited to the Concession Contract, the Concession Rights and Interests, the Forest Land and the Forestry Contracts) having been completed to the reasonable satisfaction of Regent Square in its sole discretion;
- (ii) the approval of the Agreement and transactions contemplated hereunder by shareholders of Mascotte who are permitted to vote in accordance with the Listing Rules, if required;
- (iii) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
- (iv) the receipt by Regent Square of legal opinion(s) to be issued by a firm of PRC lawyers on matters including but not limited to title of the Forest Land, ownership of Concession Rights and Interests and validity of transactions contemplated under the Agreement;
- (v) if applicable, the obtaining of all consents by Mascotte from government or regulatory authorities or third parties which are necessary in connection with the execution and performance of the Agreement and any of the transaction contemplated hereunder; and
- (vi) there having been no breach by Mascotte of any obligation, undertakings, representations and warranties under the Agreement.

Regent Square may waive the above conditions (i), (iv) and (vi). If the above conditions are not fulfilled or waived (as the case may be) on or before 5 July 2010 or such other date as Regent Square and Mascotte may agree in writing, the Agreement will be terminated, and all obligations of Regent Square and Mascotte under the Agreement will cease save in respect of antecedent breaches and claims.

## Completion

Completion of the Agreement shall take place on the Completion Date, being the third Business Day after the day on which the last conditions precedent are fulfilled or waived or such other date as Regent Square and Mascotte may agree, subject to the conditions precedent being fulfilled or waived in accordance with the Agreement.

## EFFECT ON THE SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has granted options which will entitle their holders to subscribe for convertible securities of up to an aggregate amount of HK\$82.5 million. The conversion price of such convertible securities will not be adjusted upon Completion. Upon full conversion of the aforementioned convertible securities at a conversion price of HK\$0.339 per Share, 243,362,820 Shares will be issued, representing approximately 12.25% of the issued share capital of the Company as at the date of this announcement.

To the best of the Directors' knowledge, information and belief, based on public information, the following table sets out the effects of the issue of the Consideration Shares on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the date of this announcement and assuming Completion having taking place, without taken into account issue of new Shares, if any, after the date of this announcement and prior to Completion:

	As at the date of this announcement		Upon Completion and issue of the Consideration Shares	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Mr. Yeung Ming Kwong (Note 1)	4,421,047	0.22	4,421,047	0.19
Mr. Wen Louis (Note 2)	7,500	0.00	7,500	0.00
Willie International Holdings Limited (Note 3)	80,711,000	4.06	80,711,000	3.48
Mascotte	–	–	330,000,000	14.24
Other public Shareholders	<u>1,902,249,230</u>	<u>95.72</u>	<u>1,902,249,230</u>	<u>82.09</u>
Total	<u><u>1,987,388,777</u></u>	<u><u>100.00</u></u>	<u><u>2,317,388,777</u></u>	<u><u>100.00</u></u>

*Notes:*

1. Mr. Yeung Ming Kwong is the acting chairman of the Company and an executive Director.
2. This represents the interest, being 7,500 Shares, held by the spouse of Mr. Wen Louis, an executive Director.
3. As announced by the Company on 24 March 2010, the Company entered into the sale and purchase agreement in relation to acquiring sale share and the shareholder's loan of Perfect Time Investments Limited from Grace Shine Investments Limited (a non-wholly owned subsidiary of Willie International Holdings Limited) at a consideration of HK\$100 million to be satisfied by the issue and allotment of 400 million Shares (the "Perfect Time Consideration Shares"). Completion of the acquisition and the issue of the Perfect Time Consideration Shares is conditional upon, among other things, the Shareholders' approval at the upcoming extraordinary general meeting of the Company. As the acquisition and the issue of the Perfect Time Consideration Shares may or may not proceed and therefore, for simplicity purposes, the above calculation does not take into account the potential effects of the Perfect Time Consideration Shares. Details of the acquisition can be referred to in the Company's announcement dated 24 March 2010.

## **INFORMATION ON THE TARGET GROUP**

### **Richful Zone**

Richful Zone is a company incorporated under the laws of the British Virgin Islands with limited liability on 8 January 2007. The principal business of Richful Zone is investment holding and its principal assets is its 100% shareholding interest in Allied Loyal. Based on the representation of Mascotte, save for the holding of the entire issued share capital of Allied Loyal, Richful Zone has no other material assets, nor does it have any material liabilities.

### **Allied Loyal**

Allied Loyal is a wholly-owned subsidiary of Richful Zone. It was incorporated in the British Virgin Islands with limited liability on 2 January 2007. Based on representation of Mascotte, the sole asset of Allied Loyal is its 50% interest in the Concession Rights and Interests in respect of the Forest Land, which is located in Simao District, Puer City, Yunnan Province, the PRC, with a total site area of approximately 36,735 Chinese Mu.

In January 2007, the People's Government granted the forest land use right ( 林地使用權 ) and forest tree ownership right ( 林木所有權 ) of the Forest Land to China Capital Strategy for a term of 50 years. On 13 June 2007, by way of a concession contract, China Capital Strategy sold 50% of the Concession Rights and Interests in respect of the Forest Land to Amerinvest International at a consideration of US\$1.00 and under such concession contract, China Capital Strategy pays 50% of the attributable profit in relation to the Concession Rights and Interests in respect of the Forest Land to Amerinvest International.

On 18 June 2007, pursuant to the Concession Contract, Allied Loyal acquired 50% of the Concession Rights and Interests in respect of the Forest Land from Amerinvest International. Pursuant to the Concession Contract, China Capital Strategy is responsible for the operation and management of the Forest Land under the Forestry Contracts, and Allied Loyal agrees to pay to China Capital Strategy an annual management fee at the lower of the attributable profits distributed to Allied Loyal or 8% of the annual turnover generated by the Forest Land under the Forestry Contracts. No management fee will be charged by China Capital Strategy in the event that the operation of the Forest Land under the Forestry Contracts recorded no distributable profits during the relevant year. Allied Loyal is not required to make any capital commitment for operation of the Forest Land. Upon Completion, the terms of the Concession Contract (including the payment term of management fee) will continue to subsist and China Capital Strategy will continue to be responsible for the operation and management of the Forest Land under the Forestry Contracts. Pursuant to the Concession Contract, Allied Loyal is obliged to pay China Capital Strategy an annual management fee only if there is attributable profit distributed to Allied Loyal. No profit has ever been distributed since the original acquisition of 50% of the Concession Rights and Interests by Richful Zone. As such, no management fee has been charged by China Capital Strategy in the operation of the Forest Land under the Forestry Contracts as at the date of this announcement.

The Forest Land is currently planted with pine trees and mixed broad leave woods and such pine trees and mixed broad leave woods will be processed into furniture and various construction materials.

The market value of the Forest Land in its existing state as appraised by B.I. Appraisals Limited, an independent professional valuer not connected with any of the directors, chief executive and substantial shareholders of the Company and its subsidiaries and associates is approximately HK\$165 million as at 31 March 2010, to which Regent Square will own 50% of the Concession Rights and Interests upon completion of the Acquisition.

## Financial information of the Target Group

Based on the unaudited consolidated management accounts of the Target Group, the consolidated financial information of the Target Group for the two years ended 31 December 2009 are as follows:

	<b>Year ended 31 December 2008 (unaudited) <i>HK\$'000</i></b>	<b>Year ended 31 December 2009 (unaudited) <i>HK\$'000</i></b>
Loss before taxation	2,797	2,769
Loss after taxation	<u>2,797</u>	<u>2,769</u>
Net (Liabilities)/Assets	<u><u>(4,474)</u></u>	<u><u>129,094</u></u>

Upon Completion, Richful Zone and Allied Loyal will become indirect wholly-owned subsidiaries of the Company. The results and assets and liabilities of both companies will be consolidated in the accounts of the Group.

## INFORMATION ON THE COMPANY AND REGENT SQUARE AND REASONS FOR THE ACQUISITION

The Group is principally engaged in the business of selling and distribution of Nissan motor vehicles, operating of the Nissan 4S shops, provision of heavy motor vehicle repair and maintenance services in PRC, provision of logistic services in Hong Kong and the PRC, manufacturing of carbon fiber in the PRC, properties investments, securities trading and money lending business. Regent Square is an indirect wholly-owned subsidiary of the Company and its principal business activities is investment holding.



The Directors consider that investment in the Target Group will provide a good opportunity for the Company to participate in forest harvesting and timber processing. The Directors also consider that the investment in the Target Group will allow the Company to diversify from its existing business. By investing in the Target Group and taking into account that the Consideration represents a discount of approximately 4% to 50% of the market value of the Forest Land as at 31 March 2010 and represents a discount of approximately 38.65% to the net book value of the Target Group being HK\$129,093,708.14 as recorded in the unaudited consolidated balance sheet of the Target Group as at 31 December 2009. Though the Target Group had incurred losses for the two years ended 31 December 2009, the Directors believe that as there are signs that the economic recovery in global markets, the Concession Rights and Interests in respect of the Forest Land will eventually bring attractive return, both in terms of capital gain and future recurring income from timber harvesting and processing, to the Group in the medium to long term spectrum.

**As the Directors have no expertise or previous experience in the investment of forestry business, Shareholders and the public are reminded to exercise caution when dealing in the Shares.** The Directors consider that it would be beneficial to the Group to cooperate with China Capital Strategy under the Forestry Contracts. China Capital Strategy is experienced in the operation and management of forestry business through its experienced management team. Under the Forestry Contracts, the Company can leverage on China Capital Strategy's expertise on forestry industry and China Capital Strategy would be responsible for the operation and management of the Forest Land. Although the Company has never invested in forestry business, the Directors consider that the forestry industry is rapidly developing and investment in the Target Group is fair and reasonable since China Capital Strategy has a management team which is experienced in the operation and management of forestry industry.

The Forest Land is situated in Yunnan where the climate and soil are suitable for the planting of pine trees and mixed broad leaf woods. The Forest Land has started logging in 2008. Although the current scale of logging is still small, given that pine trees can be logged at different growing stage for different purposes, it is anticipated that the logging scale will gradually increase and it is expected that the Forest Land will generate profit in long term. Taking into account the steady and growing demand for pine trees and mixed broad leaf woods due to the growing economy in the PRC, which can be processed into furniture and various construction materials, the Directors believe that the Acquisition will provide good investment prospects and return to the Company in the long term, and thereby broaden the Company's earning base in the long run.

The Directors believe that the terms of the Agreement (including the Consideration) are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Directors consider the issue of Consideration Shares as Consideration is fair and reasonable and in the best interest of the Shareholders as a whole as it is the best financing method for the Company given that the Company would not need to use its existing cash resources to fund the Acquisition.

## **LISTING RULES IMPLICATIONS**

As certain applicable percentage ratios (as defined in the Listing Rules) are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

**As Completion is subject to the fulfillment of a number of conditions precedent, the transactions contemplated under the Agreement may or may not proceed. The Shareholders and potential investors should exercise caution when dealing in the Shares.**

## **DEFINITIONS**

Unless otherwise stated, the terms in this announcement have the following meanings:

“Acquisition”	the proposed acquisition by Regent Square of the Sale Shares pursuant to the Agreement
“Agreement”	the share purchase agreement dated 9 April 2010 entered into between Regent Square and Mascotte in respect of the Sale Shares
“Allied Loyal”	Allied Loyal International Investments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly-owned subsidiary of Richful Zone
“Amerinvest International”	Amerinvest International Forestry Group Limited, a company incorporated under the laws of British Virgin Islands with limited liability

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors
“Business Day”	a day (other than Saturday or Sunday) on which banks are generally open for banking business in Hong Kong
“China Capital Strategy”	China Capital Strategy Limited, a company incorporated under the laws of Hong Kong with limited liability
“Company”	Forefront Group Limited, a company incorporated under the laws of the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares
“Completion Date”	the date on which Completion will take place, being the third Business Day after the day or which the last condition precedent is fulfilled or waived or such other date as Regent Square and Mascotte may agree in writing
“Concession Contract”	the concession contract dated 18 June 2007 entered into among China Capital Strategy, Amerinvest International and Allied Loyal
“Concession Rights and Interests”	the economic gains including future capital gains and future cash flow profit accrued under the Forestry Contracts in respect of the Forest Land
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration of HK\$79,200,000 for the Acquisition
“Consideration Shares”	the 330,000,000 Shares to be issued by the Company to Mascotte or its nominee at HK\$0.24 each in satisfaction of the Consideration
“Directors”	directors of the Company

“Forest Land”	three parcels of forest land located in (i) Forest No. 92, Nan Xian He Ying Pan Mountain, Liu Shun Village, Simao District, Puer City, Yunnan Province (雲南省普洱市思茅區六順鄉南線河營盤山) with a site area of approximately 10,182 Chinese Mu; (ii) Forest No. 104, Gan Niu Zhai Mountain, Yi Xiang Town, Simao District, Puer City, Yunnan Province (雲南省普洱市思茅區倚象鎮趕牛寨大山) with a site area of approximately 16,344 Chinese Mu; and (iii) Forest No. 104, Gan Niu Zhai Mountain, Yi Xiang Town, Simao District, Puer City, Yunnan Province (雲南省普洱市思茅區倚象鎮趕牛寨大山) with a site area of approximately 10,209 Chinese Mu
“Forestry Contracts”	the contracts entered into between the People’s Government and China Capital Strategy in respect of the granting of the forest land use right (林地使用權) and forest tree ownership right (林木所有權) of the Forest Land by the People’s Government to China Capital Strategy;
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mascotte”	Mascotte Holdings Limited, a company incorporated under the laws of Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“People’s Government”	The People’s Government of Simao District, Puer City, Yunnan Province (雲南省普洱市思茅區人民政府)
“PRC”	the People’s Republic of China

“Regent Square”	Regent Square Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and which is an indirect wholly-owned subsidiary of the Company
“Richful Zone”	Richful Zone International Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	the 17,478,973 ordinary shares of US\$1.00 each in the share capital of Richful Zone, representing the entire issued share capital of Richful Zone
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Group”	Richful Zone and Allied Loyal
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent.

By Order of the Board of  
**FOREFRONT GROUP LIMITED**  
**Yeung Ming Kwong**  
*Executive Director*

Hong Kong, 9 April 2010

*As at the date of this announcement, the Board comprises Mr. Yeung Ming Kwong, Ms. Lo Oi Kwok, Sheree, Mr. Ting Wing Cheung, Sherman, Mr. Wen Louis and Mr. Zhuang You Dao as executive Directors, and Mr. Chung Yuk Lun, Ms. Lam Yan Fong, Flora and Mr. Pak William Eui Won as independent non-executive Directors.*