ANNUAL REPORT 2007

FOREFRONT GROUP LIMITED

福方集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code：885

*For Identification Purpose Only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Yeung Ming Kwong#
Ms. Lo Oi Kwok, Sheree
Mr. Ting Wing Cheung, Sherman
Mr. Zhuang You Dao
Mr. Louis Wen
Mr. Zhou Qi Jin

Independent Non-Executive Directors

Mr. Chung Yuk Lun*#
Ms. Lam Yan Fong, Flora*#
Mr. Kwong Wai Tim, William*#
Ms. Kristi L Swartz

* Member of Audit Committee
\# Member of Remuneration Committee

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Chui Kark Ming

REGISTERED OFFICE

P.O. Box 309, Ugland House,
South Church Street, George Town,
Grand Cayman, Cayman Islands,
British West Indies.

PRINCIPLE PLACE OF BUSINESS

Room 1103, 11/F., China United Centre,
28 Marble Road, North Point,
Hong Kong

STOCK CODE

885

AUDITORS

Mazars CPA Limited

CAYMAN ISLANDS LEGAL ADVISERS

Maples and Calder Asia

PRINCIPLE BANKERS

Standard Chartered Bank
Hua Nan Commercial Bank
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

BRANCH REGISTRARS IN HONG KONG

Tricor Tengis Limited
26/F., Tesbury Centre,
28 Queen's Road East, Wan Chai
Hong Kong

WEBSITE

www.forefront.com.hk

To Shareholders

On behalf of the Board of Directors, I would like to present the annual report of the Group for the year ended 31 December 2007.

FINANCIAL RESULTS

The Group's consolidated loss for the year ended 31 December 2007 was HK$333,187,000 compared with last year's attributable loss of HK$24,752,000. The net assets value of the Group increased from HK$24,659,000 as at 31 December 2006 to HK$246,884,000 as at 31 December 2007.

Revenue for the year amounted to HK$756,527,000, of which HK$84,585,000 was classified under discontinued operations. Revenue for the year ended 31 December 2006 was HK$94,987,000, of which HK$91,201,000 was classified under discontinued operations.

The increase in turnover was mainly attributable to securities transaction at approximately HK$668,250,000.

Total expenses increase from HK$16,205,000 in year 2006 to HK$268,998,000 in year 2007 mainly due to unrealised loss on short term investment holding amounting to HK$139,420,000. General and administrative expenses increased from HK$15,919,000 in year 2006 to HK$129,241,000 in year 2007. The increase was mainly due to impairment of goodwill from acquisition of interest in an associate amounting to HK$12,000,000; impairment of goodwill regarding investment in China Railway e-ticketing system project of HK$55,000,000 with further recognition of impairment loss of HK$25,000,000 after subsequent reclassification as available for sale investment, and share based payment in respect of staff share option amounted to HK$14,762,000.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company resumed the trading of its shares in the Stock Exchange of Hong Kong Limited on 18 April 2007 since its suspension on 14 May 2004.

The Company changed its name from "Forefront International Holdings Limited" to "Forefront Group Limited" and adopt "福方集團有限公司" as its Chinese name after at an Extraordinary General Meeting on 29 June 2007.

The Group has the following major business activities during the year:

Scania Business

During the year, the trading of Scania motor trucks, coaches, vehicle accessories and provision of repairs and maintaining services remain approximately the same level as last year.

On 1 October 2007, the Group was informed by Scania CV Aktiebolag (the "**Scania**") their intention of not to renew distribution agreements after the expiry of such agreements on 26 October 2008. Discussions and negotiations were held with Scania representatives in which, agreements for sale of certain assets and spare parts and a memorandum of understanding (the "**MOU**") to sell a subsidiary in Shenzhen of the Company were signed on 15 February 2008. A contract for the sales of the Shenzhen subsidiary was finally signed on 1 April 2008 between the parties. According to the MOU, those distribution agreements were treated as expired on 31 March 2008 instead of 26 October 2008. The Group inevitably discontinued all related business regarding the Scania's distributionship since 31 March 2008.

Investment in e-ticketing system in PRC

On 21 August 2007, Great Journey Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to acquire the entire issued share capital of Natural Harvest Investments Limited. Natural Harvest Investment Limited effectively held 49% of equity interest in a PRC Joint Venture (China Railway Information and Technology Limited). China Railway Information and Technology Limited originally had planned for the development, management and operation of an e-ticketing system for railway passengers and related freight cargo services in the PRC by utilising the China Railway Web Portal. The acquisition was completed on 7 September 2007. After the completion of the sale and purchase agreement, the PRC partner refused to provide information of the financing positions, the situation of the injected funds as well as the status of the web portal projects. On the other hand, they requested immediate capital injection of an additional capital contribution HK$150 million pursuant to a joint venture agreement. The PRC partner has also commenced arbitration proceedings in PRC on the capital injection matter. The Group has obtained a PRC legal opinion and believes that the probability of being successfully claimed by the PRC partner is remote. Legal action against the PRC partner for redress by the Group has not been commenced as the Group is awaiting the result of a similar action by an independent party against the PRC partner. In view of the PRC legal opinion and actual situation, the Board made a full impairment on the investment.

Tianjin Motor Business

On 11 October 2007, an indirect wholly-owned subsidiary of the Company, Crown Creation Limited, entered into a sale and purchase agreement with Z & Z International Limited to acquire the entire issued share capital of Leapfly Limited. Leapfly Limited holds the entire issued share capital of Suntrend China Limited. Upon completion, Suntrend China will hold 50% of the equity interest in Tianjin Kai Sheng Automobiles Service Co., Ltd. ("**Tianjin Kai Sheng**"). Tianjin Kai Sheng and its subsidiaries operate automobile sale and repair centers in Tianjin. The centers provide repair and after-sale services under the authorisaton of General Motor Asia, Inc. and Zhong Ji Subaru (Beijing) Vehicles Sales Co., Ltd. In addition, Tianjin Kai Sheng and its subsidiaries also provide sales and after-sales services for Zhengzhou Nissan under the authorisation granted by Zhengzhen Nissan Automobiles Sales Company Limited. The sale and purchase agreement was completed on 23 November 2007. Tianjin Kai Sheng expects to generate profit after the carry out of its expension scheme into Zhengzhou.

Logistic Services

On 13 September 2007, an indirect wholly-owned subsidiary of the Company, Smart Oriental Limited, invested 40% of the enlarged issued share capital of Golden Fame International Investment Group Limited ("**GFIIGL**"). GFIIGL provides various logistic services in Hong Kong and PRC. GFIIGL has contributed profit of approximately HK$2 million to the Group's results for the year 2007.

Property Investment

On 3 August 2007, with the anticipated requirement of office spaces to accommodate the PRC partner to operate in Hong Kong on the e-ticketing project, Hostbest Limited an indirect wholly-owned subsidiary of the Company entered into two sales and purchase agreements to acquire Unit 1 to 3, 22/F., China United Centre, No 28 Marble Road, North Point, Hong Kong at a consideration of HK$15.8 million and Unit 5 to 9, 22/F., China United Centre, No. 28 Marble Road, North Point, Hong Kong at a consideration of HK$13.3 million. These purchase were completed on 27 August 2007. On 14 April 2008, the Group disposed of these two properties together with the mortgage loans through disposal of the entire issued share capital of Allied Well Development Limited, the immediate holding company of Hostbest Limited, in exchange for a consideration of 160,000,000 ordinary share of Willie International Holdings Limited at share price fixing at HK$0.126 per share. Willie International Holdings Limited is a company listed in the Stock Exchange of Hong Kong Limited.

Trading of securities

The Group invested its surplus cash in Hong Kong's listed securities as a short-term investment. The Hong Kong stock market underwent a severe correction as a result of the US subprime mortgage crisis. At the end of year the Group recorded a realised and unrealised loss of HK$52.2 million and HK$13.9 million respectively.

Prospect

The Group's outstanding convertibles notes have all been redeemed after the balance sheet date. The Group has successfully carry out a rights issue exercise and enhanced its capital base by approximately HK$172 million in February 2008. As at fiscal year end, the Group's cash resource stood at HK$162.9 million. The Group is in an advantageous position to take on new business opportunity as and when they arise.

FINANCIAL REVIEW

Liquidity, financial resources

The Group financed its operations largely through internal generated cash flows from its operations activities and fund raising activities through issue of shares and convertible notes. As at the balance sheet date, the Group maintained cash and cash equivalents of approximately HK$162.9 million (2006: HK$6.3 million). The increase came from the subscription of the Company's shares by Wealth Style Limited, placing of shares and issue of convertible notes during the year after resumption of trading of the Company's shares in the Stock Exchange of Hong Kong Limited.

As at 31 December 2007, investment properties of HK$30,065,000 were pledged to a bank to secure loan facilities granted to a indirect wholly owned subsidiary of the Group for the purchase of the investment properties. (2006: nil). The gearing ratio, calculated as total borrowings divided by total net assets stated at 97.23% (2006: 0%).

As at 31 December 2007, the Group's net asset value amounted to approximately HK$246.9 million (2006: HK$24.7 million) with total assets approximately HK$506.2 million (2006: HK$107.3 million). Net current assets were approximately HK$174.9 million (2006: HK$21.1 million) and the current ratio was 1.67 times (2006: 1.26 times). The existing available cash and bank balance are considered adequate liquidity and capital resources for the Group's operation requirements.

Capital structure

On 7 December 2006, the Company entered into a subscription agreement with Wealth Style Limited under which the Company agreed to allot and issue not less than 51% and not more than 53.22 % of the enlarged issued share capital of the Company, at a price per share of between HK$0.2130 and HK$0.2293, thereby raising between HK$100 million and HK$104 million. The subscription was completed on 18 April 2007 and 488,447,736 shares were issued at HK$0.213 per share. The Company received net proceeds of approximately HK$98.5 million form the subscription for the Group's general working capital, to development of service centers and exhibition halls in PRC and possible development of an auto-leasing business in the PRC.

On 17 April 2007, 10,894,300 option shares were granted to Mr. Jerry Liu, the former senior advisor of the Company. Mr. Liu exercised the option in fully on 6 August 2007 and the Company received net proceeds of approximately HK$2,300,000.

The grant of share option to Mr. Liu was approved by independent shareholders on 30 March 2007.

On 18 April 2007, the Company allotted 33,520,923 shares equivalent to 3.5% of the Company's issued share capital immediately prior to issuance to Alvarez & Marsal Asia Limited as part of the success fee for the resumption of trading of the Company' shares in the Stock Exchange of Hong Kong Limited.

On 23 May 2007, by top-up placing, the Company through a placing agent to place 191,548,000 shares to independent investors at the placing price of HK$0.26 per share, the placing was completed on 4 June 2007. The Company received a net proceed of approximately HK$48.4 million from the subscription which were intended to be used for working capital and settlement of remaining balance of investment cost to complete the incorporation of a subsidiary in Shenzhen.

At an Extraordinary General Meeting of the shareholders of the Company held on 29 June 2007, the shareholders of the Company approved the increase in the authorised share capital of the Company from HK$130,000,000 divided into 1,300,000,000 share to HK$1,000,000,000 shares by the creation of additional 8,700,000,000 unissued shares of HK$0.10 each. The increase is to accommodate future expansion and growth of the Group.

On 3 July 2007, the Company entered into a placing agreement on a fully underwritten basis, through a placing agent, to place 229,856,000 shares to independent investors at placing price of HK$0.38 per share. The 229,856,000 new shares were issued by the Company under the issue mandate. The subscription was completed on 12 July 2007. The Company received net proceed from the subscription of approximately HK$85 million and to be used for general working capital and/or development of mass transit transportation, logistics and related business investments.

On 9 July 2007, the Company entered into placing agreements through a placing agent to place, on underwritten basis, HK$150 million and on best effort basis to place HK$600 million convertible notes. The convertible notes mature date is on 3 December 2010 and at a conversion price of HK$0.50 per share. These placings were approved by an Extraordinary General Meeting of the Company held on 6 August 2007. The Company issued HK$150 million and HK$600 million convertible notes on 10 August 2007 and 16 August 2007 of which the HK$150 million had been converted into the Company's shares on 10 August 2007. For the HK$600 million convertible notes, the Company redeemed HK$280 million before the balance sheet date and redeemed all outstanding amount of HK$320 million on 29 January 2008.

On 10 July 2007, 95,774,065 share options were granted to certain employees of the Group. The options were fully exercised on the same day and the Company received net proceeds of approximately HK$46 million.

Pledge of Assets

As at 31st December 2007, the Group's two investment properties were pledge to a bank for mortgage loans of total amount of HK$14,885,000 to a subsidiary which holds the properties. Those mortgage loans were guaranteed by the Company.

As at 31 December 2007, the Group has deposits of approximately HK$558,000 (2006: HK$558,000) as collateral to satisfy contingent warranty and delivery obligations in relation to certain sales contracts.

EMPLOYMENT, TRAINING AND REMUNERATION POLICY

As at 31 December 2007, the Group had 111 employees, 102 of these employees were located in Hong Kong and 9 in Mainland China and Macau.

The policy of employee remuneration, bonus, share option scheme and training are commensurate with performance and comparable to the market rate. The Group is committed to staff training course to its employee. External training may be provided to individual employees as and when necessary according to their nature of work.

CONTINGENT LIABILITIES

Details of the Group contingent liabilities as of 31 December 2007 are set out in note 32 to the financial statement.

POST BALANCE SHEET EVENTS

Details of the Group's subsequent events after 31 December 2007 are set out in note 37 to the financial statements.

Yeung Ming Kwong
Executive Director

Hong Kong
25 April 2008

EXECUTIVE DIRECTORS

Mr. Yeung Ming Kwong, aged 49, was an Executive Director and CEO of Wah Lee Resources Holdings Limited. He was also an executive director of Goldwiz Holdings Limited form May 2006 to June 2006. Mr. Yeung has over 20 years of experience in import and export trading and investment business in the People's Republic of China.

Ms. Lo Oi Kwok, Sheree, aged 39, holds a Bachelor of Art Degree from York University, Toronto. She was an executive director of Goldwiz Holdings Limited from May 2006 to January 2007. Ms. Lo has over 10 years of extensive experience in business development and investment.

Mr. Ting Wing Cheung, Sherman, age 50, holds a Bachelor of Art Degree from the University of Windsor, Canada. He has over 20 years' experience as Managing Director of a sizable auto mobile accessories and consumer household product manufacturer. Mr. Ting also had extensive knowledge and experience in industrial safety design, managing and planning of large manufacturing facilities.

Mr. Louis Wen, aged 73, holds a Bachelor of Engineering degree from City University of New York He has extensive experience in engineering, marketing, and advertising in the United States where he held senior positions at J. Walter Thompson Co. and Dow Jones International Marketing Services. From 1993 to 1997, Mr. Wen served as an executive Director of Forefront International (Hong Kong) Limited ("FIHK"), an indirect wholly-owned subsidiary of the Company. He returned to FIHK to take up the position of General Manager in August 2005. Mr. Wen was instrumental in developing the Group's business in Taiwan, Thailand, China, and Hong Kong. Mr. Wen has over 25 years of experience in the distribution and services businesses relating to the products from the Group's principal supplier, Scania CV AB (publ) ("Scania").

Mr. Zhou Qi Jin, aged 47, holds a Bachelor Degree in Law from the Southwest University of Political Science and Law. He has over ten years experience in the advertising and promotion industry as well as automobile sales and marketing in People's Republic of China.

Mr. Zhuang You Dao, aged 55, graduated from The Institute of Operation Management of China（中國經營管理學院）majoring in corporate management. Mr. Zhuang is currently the Chairman of the Board of Tianjin Kai Sheng Automobile Service Co. Ltd.（天津凱聲汽車維修有限公司）and the general manager of Tianjin Jinri Automobile Sale & Service Company Limited（天津津日汽車銷售服務有限公司）. He is also a senior consultant specially appointed by Shenzhen Lan-you Technology Co., Ltd.（深圳聯友科技有限公司）for the development of management software for the automobile industry. Mr. Zhuang has over 30 years of experience in the automobile industry of China. Mr. Zhuang was a member of the 9th and 10th Sessions of Tianjin Committee of Chinese People's Political Consultative Conference and a representative of the 10th Session of People's Congress of Heping District of Tianjin Municipality. He is an executive of the Chamber of Industry and Commerce of Xiqing District, Tianjin, a special procurator of the First Branch of the People's Procuratorate of Tianjin Municipality and a representative of the 14th Session of People's Congress of Hedong District.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Yuk Lun, aged 47, is a fellow member of the Association of Chartered Certified Accountants, a member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He has over 23 years of experience in auditing, finance and accounting, investment and business management. He is currently the chairman of Radford Capital Investment Limited, executive director of Ming Fung Jewellery Group Limited and an independent non-executive director of Heritage International Holdings Limited.

Mr. Kwong Wai Tim, William, aged 51, holds a MBA degree from the University of Oregon, U.S.A.. Mr. Kwong has over 15 years of experience in banking and corporate finance gained with major international financial institutions including Citicorp, Bankers Trust, Credit Lyonnais Asia Limited and The New China Hong Kong Capital Limited. He is currently an executive director of Freeman Corporation Limited. He was a member of the Council of The Stock Exchange of Hong Kong Limited from 1995 to 1997 and a Director and Chairman of the Finance Committee of Hong Kong Securities Clearing Company Limited from 1996 to 1997. He was an Executive Director of 139 Holdings Limited from August 1998 to August 2000 and was a Director of IFTA Pacific Holdings Limited from July 1999 to March 2000. He was also a non-executive director of Goldwiz Holdings Limited from May 2006 to February 2007.

Ms. Lam Yan Fong, Flora, aged 32, holds a Bachelor Degree in Law from the University of Hong Kong in 1999 and a Postgraduate Certificate in Laws from the University of Hong Kong in 2001. Ms. Lam is a solicitor with practising experience over 3 years in Hong Kong and is currently working at Messrs. Andrew Lam & Co. as an Assistant Solicitor.

Ms. Kristi L Swartz, aged 38 is principal of Swartz Solicitors and is also acts as a consultant for the East Asia Tax Group. Ms. Swartz holds B.B.A., M.B.A. and LL.M. degrees, and is a member of the law societies of Hong Kong, England and Wales. She was previously the legal adviser to the Consulate of Uruguay, a solicitor at Sinclair Roche & Temperley and Head of Corporate Counsel at Henderson (China) Investment Co. Ltd.. Ms. Swartz has a wealth of knowledge on legal matters and corporate structuring, and is also well versed in PRC law, company formation and corporate litigation matters. Ms. Swartz is currently also acting as an Independent Non-executive Director for Mascotte Holdings Ltd. and Unity Investments Holdings Ltd. which are companies listed in Hong Kong.

The directors herein present their report together with the audited financial statements of the Company and the Group for the financial year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company, its subsidiaries are principally engaged in the trading and distribution of Scania motor trucks, coaches and vehicle accessories, provision of motor vehicle repair and maintenance services, provision of other motor vehicle related business; investing in development, management and operation of an e-ticking system in PRC; selling and distribution of Nissan motors, the operation of the Nissan 4S shops, provision of heavy motor vehicle repair and maintenances service in PRC; provision of logistics services in Hong Kong and PRC, property investments and securities trading. Other activities and particulars of the Group's subsidiaries are set out in Note 18 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the five largest customers accounted for approximately 39.25% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 82.6% of the Group's total purchases. The largest customer accounted for approximately 18.2% of the Group's turnover while the largest supplier accounted for approximately 96.3% of the Group's total purchases. The largest supplier of the Group was Scania.

Save as disclosed above, none of the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or five largest suppliers.

RESULT AND DIVIDENDS

The Group's loss for the financial year ended 31 December 2007 and the state of affair of the Company and of the Group at the date are set out in the financial statements on pages 28 to pages 90.

The directors do not recommend the payment of any dividend in respect of the financial year.

SUBSIDIARIES

Particulars of the Company' subsidiaries are set out in Note 18 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment during the year are set out in Note 12 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2007 are set out in Note 25 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share option scheme of the Company are set out in Notes 27, and 28 respectively to the financial statements.

CONVERTIBLE SECURITIES, OPTION, WARRANTS OR OTHER SIMILAR RIGHTS

Details of movements in convertible securities, option warrants or other similar rights of the Company are set out in Notes 23, 28 and respectively to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Article of Association and the laws in the Cayman Islands, which would oblige the Company to offer shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Movements in reserves of the Company during the year are set our in Note 29 to the financial statements. The deficit in distributable reserves of the Company as at 31 December 2007 amounted to approximately HK$77,549,000 (2006: HK$28,566,000.)

FIVE YEARS SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements is set out on page 91 to 92 .This summary does not form part of the audited financial statements.

PENSION SCHEMES

Details of the pension scheme are set out in Note 24 to the financial statements.

CONNECTED TRANSACTIONS

Certain related party transactions disclosed in note 34 to the financial statements constituted connected transactions under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Details of such a connected transaction is as follows:

(A) CONTINUING CONNECTED TRANSACTIONS

Distributor Agreements with Scania

Scania Trade Development AB, a wholly-owned subsidiary of Scania, increased its equity interest in the Company and became a substantial Shareholders of the Company in May 2005, thus making Scania is a connected person of the Company by virtue of it being an associate of Scania Trade Development, as such Scania's ongoing trading relationship with the Group therefore constitutes a continuing connected transaction as defined in the Listing Rules.

On 23 December 2005, the Group and Scania entered into the New Distributor Agreements for Hong Kong, Macau, Shenzhen and Zhuhai for an initial period of 30 months commencing from 27 April 2006 ("**Distribution Transactions**"). The New Distributor Agreements shall thereafter be automatically renewed for successive two-year periods unless terminated by at least 12 months' notice to expire on the last day of the Initial Period or any subsequent two-year period. As approved by independent shareholders of the Company on 17 March 2006, the annual aggregate value of the Distribution Transactions for the two years ending 31 December 2006, 31 December 2007 and the period from 1 January 2008 to 26 October 2008 (being the date on which the New Distributor Agreements will expire) will not exceed HK$160 million, HK$200 million and HK$220 million respectively.

The directors (including the independent non-executive directors) of the Company have reviewed the Continuing Connected Transactions and confirmed that:

(i) the aggregate values of the Distribution Transactions for the year ended 31 December 2007 were HK$24.4 million that did not exceed the caps allowed;

(ii) the Continuing Connected Transactions have been entered into in the usual and ordinary course of business of the Group;

(iii) the Continuing Connected Transactions have been conducted either (1) on normal commercial terms; or (2) if there is no available comparison, on terms no less favourable to the Group than terms available from independent third parties; and

(iv) the Continuing Connected Transactions have been entered into in accordance with the relevant agreements governing the terms that are in the interests of the Company and its shareholders as a whole.

On 4 June 2007, Scania Trade Development AB ceased to be a substantial Shareholders of the Group and therefore all transactions after the change were no longer constitutes a continuing connected transaction.

The auditors of the Company have reviewed the Continuing Connected Transactions and confirmed to the directors that the Continuing Connected Transactions:

1. have received the approval of the Group's board of directors;

2. are in accordance with the pricing policies of the Group;

3. have been entered into in accordance with the relevant agreement governing the transactions; and

4. have not exceeded the 2007 annual cap as approved by the shareholders.

(B) CONNECTED TRANSACTION

On 11 October 2007, an indirect wholly-owned subsidiary of the Company, Crown Creation Limited ("**Crown Creation**"), entered into a Sale and Purchase Agreement with Z & Z International Limited to purchase entire issued share capital of Leapfly Limited ("**Leapfly**"). Leapfly in turn its holds the entire issued share capital of Suntrend China Limited ("**Suntrend**"). Upon completion, Suntrend will hold 50% of the equity interest in Tianjin Kai Sheng Automobiles Co., Ltd ("**Tianjin Kai Sheng**"). The substantial shareholders of Tianjin Kai Sheng is Mr. Zhuang You Dao, who is an associate of a controller (director) of the Company, hence the acquisition falls with Rule 14A.13(1)(b) and is a connected transaction for the Company. After completion, Crown Creation may if requested by Leapfly advance a maximum of HK$5,000,000 loan to Leapfly to finance the operation and expansion of Tianjin Kai Sheng. The loan if advance will constitute financial assistance given by the Company to a connected person.

On 14 March 2008, Crown Creation, entered into a loan agreement with Leapfly. Pursuant to the loan agreement, Crown Creation would advance the loan in the principle of HK$5,000,000 to Leapfly at the terms as announced in the Announcement of the Company dated 18 October 2007. and Crown Creation will pass the loan to the guarantor of the loan to finance the operation and expansion of Tianjin Kai Sheng. Mr. Zhuang You Dao, being the director of the Company and substantial shareholder of Tianjin Kai Sheng, would be the guarantor of the loan together with the interest owed by the Leapfly and the due performance under the terms and conditions in the loan agreement.

Details of the above connected transaction is published in the Company's announcements dated 18 October 2007 and 14 March 2008.

These transactions also constitute related party transactions of the Group during the year and are set out in note 34 to the financial statements pursuant to the requirements under the Hong Kong Standard Accounting 24.

CHARITABLE CONTRIBUTIONS

The Group made a charitable nonation of HK$60,000 to ORBIS during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report were:

Executive directors

Ms. Yau Shum Tek, Cindy	(Appointed as Chairman on 24 April 2007 and Resigned on 27 February 2008)
Mr. Yeung Ming Kwong	(Appointed on 26 April 2008: re-designed as Acting Chairman on 27 February 2008)
Mr. Louis Wen	
Mr. Ting Wing Cheung, Sherman	(Appointed on 18th May 2007)
Ms. Lo Oi Kwok, Sheree	(Appointed on 26 April 2007)
Mr. Zhou Qi Jin	(Re-designed from Non-Executive Director on 18 April 2007)
Mr. Zhuang You Dao	(Appointed on 29 August 2007)
Mr. Lam Kwan Sing	(Appointed on 25 July 2007 and Resigned on 7 December 2007)
Ms. Huang Li	(Re-designated from Non-Executive Director on 18 April 2007 and Resigned on 18 May 2007)
Mr. Fung Kwok Leung	(re-designated from Non-Executive Director on 18 April 2007 and Resigned on 18 May 2007)
Mr. David Giles Maund	(Resigned on 18 April 2007)

Non Executive Directors

Mr. Alistair Macleod	(Resigned on 18 April 2007)
Mr. Kelvin Edward Flynn	(Resigned on 18 April 2007)
Mr. Arne Karlsson	(Resigned on 18 April 2007)

Independent Non-executive Directors

Mr. Cheong Ying Chew, Henry	(Resigned on 18 April 2007)
Mr. Lau Siu Ki, Kevin	(Resigned on 18 April 2007)
Mr. Sun Ka Ziang, Henry	(Appointed on 18 April 2007 and Resigned on 20 July 2007)
Mr. Wu Wing Kit	(Appointed on 18 April 2007 and Resigned on 18 May 2007)
Ms. Yang Xiao Feng	(Appointed on 18 April 2007 and Resigned on 18 May 2007)
Mr. Kwong Wai Tim, William	(Appointed on 26 April 2007)
Mr. Chung Yuk Lun	(Appointed on 26 April 2007)
Ms. Lam Yan Fong, Flora	(Appointed on 18 May 2007)
Ms. Kristi L Swartz	(Appointed on 20 July 2007)

In accordance with Article 116 of the Articles of Association of the Company, Mr. Louis Wen and Mr. Yeung Ming Kwong will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

In accordance with Article 99 of the Articles of Association of the Company, Mr. Ting Wing Cheung, Sherman and Mr. Zhuang You Dao, who were newly appointed by the Board as executive Directors and each of Ms. Lam Yan Fong, Flora and Ms. Kristi L Swartz, who were newly appointed by the Board as Independent Non-executive Directors will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

DIRECTORS' SERVICE CONTRACTS

None of the directors has an unexpired service contract with the Company, which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARE AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transaction by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Name of Director	Capacity	Number of shares held	% of the Company's issued share capital
Ms. Lo Oi Kwok, Sheree	Beneficial owner	20,000,000	1.11%
Mr. Ting Wing Cheung, Sherman	Beneficial owner	10,000,000	0.56%
Mr. Yeung Ming Kwong	Beneficial owner	14,900,000	0.83%
Mr. Louis Wen	Interest of spouse	150,000	0.01%

At 31 December 2007, Mr. Zhuang You Dao, executive directors the Company, is the ultimate beneficial owner of 50% interest in the registered share capital of Tianjin Kai Sheng Automotive Service Co., Ltd (天津凱聲汽車維修有限公司) which is an associated company of the Company.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, Details of the scheme are set out in Notes 28 to the financial statements. As at 31 December 2007, no option has been granted to the Company's directors under the share option schemes.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in the preceding paragraph, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the following persons (other than the Directors or Chief Executive of the Company) has interests or short position in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register required to be kept under Section 336 of the SFO and in accordance with information received by the Company.

Name	Number of shares (long position)	% of voting right (long position)	Number of shares (short position)	% of voting right (short position)
Willie International Holdings Limited (Note 1)	150,630,000	8.43%	–	–
Pearl Decade Limited (Note 1)	150,630,000	8.43%	–	–
China Railway Scientific Technology Development Company (中鐵科學技術開發公司) (Note 2)	140,000,000	7.84%	–	–
China Railway Investments Group Limited (中鐵多經投資集團有限公司) (Note 2)	140,000,000	7.84%	–	–
China Railway Investments Group (Hong Kong) Limited (中鐵開發投資集團(香港)有限公司) (Note 2)	140,000,000	7.84%	–	–
Scania AB (publ) (Note 3)	98,204,000	5.50%	–	–
Scania CV AB (publ) (Note 3)	98,204,000	5.50%	–	–
Scania Trade Development AB (Note 3)	98,204,000	5.50%	–	–
Heritage International Holdings Limited (Note 4)	90,832,000	5.09%	–	–
Coupeville Limited (Note 4)	90,832,000	5.09%	–	–
Dollar Group Limited (Note 4)	90,832,000	5.09%	–	–

Notes:

(1) Willie International Holdings Limited (Stock code :273), a company listed on the Stock Exchange, is interested in the share capital of the Company indirectly through its wholly-owned subsidiary, Pearl Decade Limited.

(2) China Railway Investments Group (Hong Kong) Limited (中鐵開發投資集團(香港)有限公司) is wholly-owned by China Railway Investments Group Limited (中鐵多經投資集團有限公司) which in turn wholly-owned by China Railway Scientific Technology Development Company (中鐵科學技術開發公司)

(3) The issued share capital of Scania Trade Development AB is wholly-owned by Scania CV AB (publ) which in turn is wholly-owned by Scania AB (pul)

(4) Dollar Group Limited is wholly-owned by Coupeville Limited which in turn is wholly-owned by Heritage International Holdings Limited. Mr. Chung Yuk Lun, an independent non-executive director of the Company, is also an independent non-executive director of Heritage International Holdings Limited.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and with the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

CODE OF BEST PRACTICE

Principle corporate governance practices adopted by the Company are set out in the Corporate Governance section on pages 20 to 25.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events are set out in the Note 37 to the financial statements.

AUDITORS

The former auditors, Moores Rowland (previously known as Moores Rowland Mazars), resigned as a result of their firm's reorganisation. Mazars CPA Limited, certified Public Accountants, were appointed as auditors by the board of directors of the Company to fill the casual vacancy until the next annual general meeting.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Mazars CPA Limited as auditors of the Company.

ON BEHALF OF THE BOARD OF DIRECTORS
Yeung Ming Kwong
Executive Director

Hong Kong
25 April 2008

The Company recognizes that good governance standards maintained throughout the Group serves as an effective risk management mechanism for the Company. The Board of Directors (the "**Board**") of the Company is firmly committed to ensuring a high level of corporate governance standards. Such commitment emphasizes transparency, accountability and independence, responsibility and fairness.

(1) CORPORATE GOVERNANCE PRACTICES

The Board of the Company had adopted its own code on corporate governance practices which incorporate all the code provision in the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the" **Listing Rules**").

The Company will continuously enhance the corporate governance standards throughout the Group and ensure further standards be put in place by reference to the recommended best practices whenever suitable and appropriate.

(2) CORPORATE MANAGEMENT

i. Board of Directors

Composition

As the date of this report, the Board comprised 10 members including 6 executive directors, 4 independent non-executive directors whose biographical details are set out on pages 10 to 11 of this report.

The Board is comprised of professionally qualified and widely experience personnel so as to bring in valuable contributions through different professional advises and consultancy for the development of the Company. More than one-half of the Board members have recognized professional securities, banking, accounting and financial management qualifications.

The executive directors is responsible for managing the Group's business, including the business development, corporate strategies and company policies.

The independent non-executive directors with diversified industry expertise serve an important function of advising the management on strategy development and ensuring that the Board maintains high standards of financial and other mandatory reporting standards of financial and other mandatory reporting standards as well as providing adequate checks and balance for safeguarding the interest of shareholders and the Company as a whole. During the year ended 31 December 2007, the number of independent non-executive directors at all times exceed one third of the Board membership.

Pursuant to the requirement in the Listing Rules, the Company has received a written confirmation from each independent non-executive directors of his/her independence to the Company. The Company considers all of the independent non-executive directors to be independent.

Nomination of Directors

The Board as a whole is responsible for the procedure of agreeing to the appointment of its own members and for nominating them for election by the shareholders on the first appointment and thereafter at regular intervals by rotation.

Board Process

The Board meets to discuss the overall strategy as well as the operational and financial performance of the Group when necessary. In 2007, the Board held 41 meetings and individual attendance records are set out on page 22 of this Annual Report.

Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution subject to certain exceptions set out in the Articles of Association of the Company.

The Company Secretary maintains the minutes of the Board meetings for inspection by directors.

All directors have access to the services of the Company Secretary who regularly updates the Board on corporate governance and regulatory matters. Any director, Audit Committee and Remuneration Committee of the Company may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

Board and Board Committee attendance

The following table indicates the number of meetings of the Board and each of its Committees held during the financial year and the number of those meetings that each of the Directors attended as a member:

	Board Meetings	Remuneration Committee Meetings	Audit Committee Meetings
Independent Non-executive Directors			
Mr. Lau Siu Ki, Kevin	5/5	–	1/1
Mr. Cheong Ying Chew, Henry	5/5	–	0/1
Mr. Sun Ka Ziang	1/11	–	–
Mr. Wu Wing Kit	0/1	–	–
Ms. Yang Xiao Feng	1/1	–	–
Mr. Kwong Wai Tim, William	1/35	1/1	2/2
Mr. Chung Yuk Lun	2/35	1/1	2/2
Ms. Lam Yan Fong, Flora	4/35	1/1	2/2
Ms. Kristi L Swartz	4/5	–	–
Non-executive Directors			
Mr. Arne Karlsson	4/5	–	–
Mr. Alistair Macleod	4/5	–	1/1
Mr. Kelvin Edward Flynn	5/5	–	–
Executive Director			
Ms. Yau Shum Tek, Cindy	33/39	–	–
Mr. Yeung Ming Kwong	35/35	1/1	–
Mr. Zhou Qi Jin	3/39	–	–
Mr. Ting Wing Cheung, Sherman	31/35	–	–
Ms. Lo Oi Kwok, Sheree	32/35	–	–
Mr. Zhuang You Dao	2/10	–	–
Mr. Lam Kwan Sing, Norman	10/21	–	–
Ms. Huang Li	4/5	–	1/1
Mr. Fung Kwok Leung	3/5	–	–
Mr. David Giles Maund	6/6	–	–
Mr. Louis Wen	32/41	–	–

Directors' Duties

The Board is charged with leadership and supervision of the Group's affairs and is collectively responsible for promoting the success of the Group. Each director has a duty to act in good faith in the best interests of the Company.

Matters that require decisions by the Board normally include overall group strategies, major acquisitions and disposals, annual budgets, annual and interim results, recommendation on directors' appointment or re-appointment and other significant operational and financial matters.

All directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations.

The Board acknowledges its responsibility to prepare the financial statements and have them audited. The Company has adopted the generally accepted accounting standards in Hong Kong in preparing financial statements. Reasonable and prudent judgment and estimates have been made. The Group announces its financial results on a timely basis.

During the year ended 31 December 2007, the Board reviewed the financial projections of the Group and the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Conduct on Share Dealings

The Company has adopted a code of conduct for securities transactions and dealings (the "**Code of Conduct**") based on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "**Model Code**"). The terms of Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all the relevant persons as defined therein. Specific enquiry has been made of all Directors of the Company who have confirmed in writing their compliance with the required standards set out in the Code of Conduct during the year under review.

ii. Chairman and Chief Executive Officer

The Company has no such title as the Chief Executive Officer but the daily operation and management of the Company is monitored by the executive directors.

On 27 February 2008, Ms. Yau Shum Tek, Cindy, resigned from her post as Chairman of the Company due to health reason. Mr. Yeung Ming Kwong, executive director of the Company, was appointed as acting Chairman of the Group.

iii. Board Committees

In 2007, the Board established an Audit Committee and a Remuneration Committee with defined terms of reference. Both committees are chaired by independent non-executive directors.

(a) Audit Committee

The Company has established an Audit Committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors of the Company.

The Audit Committee has reviewed with senior management and the Company's auditors the audit findings, the accounting principles and practices adopted by the Group, listing rules and statutory compliance, and to discuss auditing, internal control, risk management and financial reporting matters (including the interim and annual financial statements for each financial year before recommending them to the Board for approval).

(b) Remuneration Committee

The Company established a Remuneration Committee which is responsible to review and determine the remuneration policy and packages of the directors and management executives. The Remuneration Committee comprises the three independent non-executive directors and an Executive Director. The terms of reference of the Remuneration Committee follow the CG Code.

The Executive Director of the Group is responsible for reviewing all relevant remuneration data and market conditions as well as performance of individuals and the profitability of the Group, and proposing to the Remuneration Committee for consideration and approval, remuneration packages for executive directors and management executives. No director is involved in deciding his own remuneration.

iv. External Auditors

The fees payable to the Company's auditors, Mazars CPA Limited in respect of audit and review services for the year ended 31 December 2007 amounted to HK$970,000. In respect of non-audit services, the fees paid to the Company's auditors amounted to HK$30,500.

(3) INTERNAL CONTROL

The Board recognises its overall responsibility for the establishment maintenance and review of a system of internal control that provides reasonable assurance of the reliability and integrity of financial and operational information, effective and efficient operations, safeguarding the assets and compliance with laws and regulations. The system of internal control is designed to manage rather than eliminate all risks of failure while its goal is to provide reasonable, not absolute, assurance regarding the achievement of organisational objectives.

(4) INVESTOR RELATIONS AND COMMUNICATIONS

The Company continues to pursue a proactive policy of promoting investor relations and communication by maintaining regular meetings with institutional shareholders, fund managers and analysts through different means including meetings, presentations and correspondence to distribute information on the Group's latest developments and strategies. In an effort to enhance communications with shareholders and investors, the Company maintains a website (www.forefront.com.hk) to disseminate information relating to the latest business developments and all Company announcements.

The Company regards the Annual General Meeting (the "**AGM**") as an important event as it provides an opportunity for direct communication between the Board and its shareholders. All shareholders of the Company are given not less than 21 days notice of the date and venue of the AGM at which directors and Committee members are available to answer questions on the business. The Company supports the CG Code's principle to encourage shareholders' participation. The Board conducts the vote at the AGM by poll rather than by show of hands. The results of the Company voting are declared at the meeting, announced to the Hong Kong Stock Exchange and published on the Company website.

Independent Auditors' Report

MAZARS

MAZARS CPA LIMITED
馬賽會計師事務所有限公司
34th Floor, The Lee Gardens,
33 Hysan Avenue, Causeway Bay, Hong Kong
香港銅鑼灣希慎道33號利園廣場34樓

To the shareholders of
Forefront Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Forefront Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 90, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

(1) The auditors' report on the financial statements of the Group for the year ended 31 December 2006 was qualified because of a limitation of scope with regard to the Taiwan Subsidiaries. Details of the limitation are more fully explained in the 2006 annual report.

As further detailed in note 2 to the financial statements, the Group disposed of its entire interest in the Taiwan Subsidiaries during the year. Because of the matters leading to the qualification on the opening balance of the interests in the unconsolidated Taiwan Subsidiaries amounted to HK$48,174,000 remained unresolved, we had not been able to conduct the audit procedures we consider necessary to determine as to whether the gain on disposal of the Taiwan Subsidiaries for the year ended 31 December 2007 of HK$1,422,000 requires further adjustments. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the recorded gain on disposal was free from misstatements that may have an impact on the component of the Group's results for the year ended 31 December 2007.

(2) Because of the reason set out in paragraph (1), the results of the Taiwan Subsidiaries for the period from 1 January 2007 up to the date of disposal were excluded from the Group's consolidated income statement for the year ended 31 December 2007. Whilst the directors consider that the exclusion of these subsidiaries is the best way of presenting the Group's results for the year in the circumstances, the reason for the exclusion is not one of the reasons as provided in HKAS 27 "Consolidated and Separate Financial Statements" and, in this respect, the financial statements are not in compliance with HKAS 27. However, any adjustments to consolidate the results of the Taiwan Subsidiaries for the period up to the date of disposal would have no impact on the financial position of the Group as at 31 December 2007 and its net results for the year then ended.

Qualified opinion arising from limitation of audit scope

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2007 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. Except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the gain on disposal of the Taiwan Subsidiaries, the financial statements give a true and fair view of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

Mazars CPA Limited
Certified Public Accountants

Hong Kong
25 April 2008

Fung Shiu Hang
Practising Certificate number: P04793

Consolidated Income Statement

Year ended 31 December 2007

	Note	**2007 HK$'000**	2006 HK$'000 (Restated)
Continuing operations			
Turnover	3	**671,942**	3,786
Cost of investments held for trading sold		**(720,463)**	–
Gross (loss) profit		**(48,521)**	3,786
Other income	3	**18,540**	337
Distribution and selling expenses		**(337)**	(286)
General and administrative expenses		**(129,241)**	(15,919)
Changes in fair value of financial assets at fair value through profit or loss		**(139,420)**	–
Loss from operations		**(298,979)**	(12,082)
Finance costs	4	**(24,250)**	(290)
Share of profit of an associate		**1,860**	–
Loss before taxation	4	**(321,369)**	(12,372)
Taxation	7	**–**	–
Loss for the year from continuing operations		**(321,369)**	(12,372)
Discontinued operations			
Loss for the year from discontinued operations	8	**(11,818)**	(12,380)
Loss for the year		**(333,187)**	(24,752)
Attributable to:			
Equity holders of the parent		**(333,187)**	(24,752)
Minority interests		**–**	–
		(333,187)	(24,752)
Dividend		**–**	–
Basic loss per share:	10		
From discontinued operations (HK cents per share)		**(0.94)**	(2.68)
From continuing operations (HK cents per share)		**(25.54)**	(2.68)

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	**30,065**	–
Property, plant and equipment	12	**1,187**	3,524
Interests in associates	13	**32,754**	–
Goodwill	14	**8,000**	–
Available-for-sale financial assets	16	**–**	–
		72,006	3,524
Current assets			
Financial assets at fair value through profit or loss	17	**209,975**	–
Inventories	19	**32,625**	30,355
Trade and other receivables	20	**19,477**	18,414
Pledged deposits	21	**558**	558
Bank balances and cash		**24,610**	6,262
Cash balance maintained with broker		**138,303**	–
		425,548	55,589
Interests in a subsidiary held for sale	8(c)	**2,315**	–
Assets reclassified as held for sale	8(d)	**6,292**	–
Interests in unconsolidated subsidiaries held for sale		**–**	48,174
		434,155	103,763
Current liabilities			
Trade and other payables	22	**19,232**	30,089
Amounts due to unconsolidated subsidiaries held for sale		**–**	52,539
Interest-bearing borrowings	25	**14,885**	–
Zero coupon convertible notes	23	**225,160**	–
		259,277	82,628
Net current assets		**174,878**	21,135
Total assets less current liabilities		**246,884**	24,659

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
NET ASSETS		**246,884**	24,659
Equity and reserves			
Share capital	27	**178,581**	43,577
Reserves		**68,303**	(13,535)
Reserves attributable to interests in unconsolidated subsidiaries held for sale		**–**	(5,383)
Equity attributable to equity holders of the parent		**246,884**	24,659
Minority interests		**–**	–
Total equity		**246,884**	24,659

The financial statements on pages 28 to 90 were approved and authorised for issue by the Board of Directors on 25 April 2008 and are signed on behalf by:

Yeung Ming Kwong
Director

Lo Oi Kwok, Sheree
Director

Balance Sheet

At 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	18	**441,456**	52,373
Available-for-sale financial assets	16	**–**	–
		441,456	52,373
Current assets			
Interests in subsidiaries held for sale	15	**–**	40,389
Trade and other receivables	20	**36**	1,514
Pledged deposits	21	**558**	558
Bank balances and cash		**19,183**	211
		19,777	42,672
Current liabilities			
Other payables	22	**1,326**	7,528
Amounts due to subsidiaries	18	**32,702**	32,713
Amounts due to subsidiaries held for sale	15	**–**	38,620
Zero coupon convertible notes	23	**225,160**	–
		259,188	78,861
Net current liabilities		**(239,411)**	(36,189)
Total assets less current liabilities		**202,045**	16,184
NET ASSETS		**202,045**	16,184
Equity and reserves			
Share capital	27	**178,581**	43,577
Reserves	29	**23,464**	(27,393)
Total equity		**202,045**	16,184

The financial statements on pages 28 to 90 were approved and authorised for issue by the Board of Directors on 25 April 2008 and are signed on behalf by:

Yeung Ming Kwong
Director

Lo Oi Kwok, Sheree
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share Capital HK$'000	Share Premium HK$'000	Share Options Reserve HK$'000	Equity Component of Zero Coupon Convertible Notes HK$'000	Capital Reserve HK$'000	Capital Redemption Reserve HK$'000	Cumulative Translation Reserve HK$'000	Accumulated Deficit HK$'000	Total HK$'000	Minority Interest HK$'000	Total Equity HK$'000
At 1 January 2006	43,577	235,491	–	–	10,482	1,173	(5,383)	(235,931)	49,409	–	49,409
Translation adjustments	–	–	–	–	–	–	2	–	2	–	2
Loss for the year	–	–	–	–	–	–	–	(24,752)	(24,752)	–	(24,752)
At 31 December 2006	43,577	235,491	–	–	10,482	1,173	(5,381)	(260,683)	24,659	–	24,659
At 1 January 2007	43,577	235,491	–	–	10,482	1,173	(5,381)	(260,683)	24,659	–	24,659
Issue of new shares	90,985	150,202	–	–	–	–	–	–	241,187	–	241,187
Issuance cost	–	(12,914)	–	–	–	–	–	–	(12,914)	–	(12,914)
Zero coupon convertible notes	30,000	120,000	–	99,840	–	–	–	–	249,840	–	249,840
Share options granted	–	–	16,374	–	–	–	–	–	16,374	–	16,374
Exercise of share options	10,667	53,999	(16,374)	–	–	–	–	–	48,292	–	48,292
Issue of shares to A&M (note 4b(ii))	3,352	3,788	–	–	–	–	–	–	7,140	–	7,140
Disposal of unconsolidated subsidiaries held for sale	–	–	–	–	–	–	5,383	–	5,383	–	5,383
Translation adjustments	–	–	–	–	–	–	110	–	110	–	110
Loss for the year	–	–	–	–	–	–	–	(333,187)	(333,187)	–	(333,187)
At 31 December 2007	**178,581**	**550,566**	**–**	**99,840**	**10,482**	**1,173**	**112**	**(593,870)**	**246,884**	**–**	**246,884**

Note: Cumulative translation reserve as at 1 January 2007 included a debit amount of HK$5,383,000 which was attributable to interests in unconsolidated subsidiaries held for sale and a credit amount of HK$2,000 which was attributable to interest in a subsidiary incorporated in Mainland China.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Net cash used in operations	30	**(438,233)**	(11,083)
Interest paid		**(250)**	(290)
Net cash used in operating activities		**(438,483)**	(11,373)
Investing activities			
Proceed from disposal of property, plant and equipment		**84**	102
Interest received		**6,388**	105
Purchase of property, plant and equipment		**(1,909)**	(3,867)
Purchase of investment properties		**(30,234)**	–
Proceed on disposal of Taiwan subsidiaries		**707**	–
Acquisition of subsidiaries	31	**(100,000)**	–
Acquisition of an associate		**(26,650)**	–
Net cash used in investing activities		**(151,614)**	(3,660)
Financing activities			
Proceed from new bank borrowings		**15,000**	–
Repayment of bank borrowings		**(115)**	(9,366)
Proceeds from issue of convertible notes		**750,000**	–
Payments on convertible notes		**(16,510)**	–
Redemption of convertible notes		**(280,000)**	–
Repayment of convertible bonds		**–**	(33,860)
Proceeds from issue of new shares		**241,187**	–
Shares issue costs		**(9,164)**	–
Proceeds from issue of new shares based on staff option scheme		**45,972**	–
Proceeds from Jerry Liu Option		**2,320**	–
Increase in amounts due to unconsolidated subsidiaries		**–**	797
Net cash generated from (used in) financing activities		**748,690**	(42,429)
Effect on cumulative translation adjustments		**97**	3

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Net increase (decrease) in cash and cash equivalents		**158,690**	(57,459)
Cash and cash equivalents at beginning of year		**6,820**	64,279
Cash and cash equivalents at end of year		**165,510**	6,820
Analysis of cash and cash equivalents:			
Bank balances and cash		**24,610**	6,262
Pledged deposits		**558**	558
Cash balance maintained with broker		**138,303**	–
		163,471	6,820
Cash and cash equivalents included in subsidiary held for sale		**2,039**	–
		165,510	6,820

1. CORPORATION INFORMATION

Forefront Group Limited is a limited liability company incorporated in Cayman Islands and its shares are listed on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of the registered office, principal place of business, activities and particulars of the Company and its subsidiaries are set out in the Corporation Information and Report of the Directors.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual HKFRS and Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance except for the unconsolidation of Taiwan Subsidiaries as set out below. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. The measurement basis used in the preparation of these financial statements is historical cost, except for financial assets at fair value through profit or loss, which are measured at fair value.

Summary of the principal accounting policies adopted by the Group is set out below.

Adoption of new and revised HKFRS

The accounting policies adopted in the preparation of the financial statements of the current year are consistent with those of the previous year except for the adoption of HKAS 1 (Amendment): Capital disclosures and HKFRS 7: Financial instruments: Disclosures, which have become effective for the current year and management considers being most relevant to the Group's current operations.

HKAS 1 (Amendment): Capital disclosures

The amendment requires financial statements to provide additional disclosures in relation to the Group's objectives, policies and processes for managing capital. These new disclosures are showing note 35 to financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Adoption of new and revised HKFRS *(Continued)*

HKFRS 7: Financial instruments: Disclosures

HKFRS 7 superseded HKAS 30: Disclosures in the financial statements of banks and similar financial institution and incorporated all the disclosure requirements previously in HKAS 32, while the presentation requirements in HKAS 32 remain unchanged. HKFRS 7 requires financial statements to disclose information for the purpose of evaluating the significance of the Group's financial instruments, the nature and risks arising from those financial instruments to which the Group is exposed to and how the Group manages them. The new disclosures are included throughout the financial statements.

Both HKAS 1 (Amendment) and HKFRS 7 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

At the date of authorisation of these financial statements, the Group has not early adopted the new/revised standards and interpretations issued by the HKICPA that are not yet effective for the current year. The Group has already commenced an assessment of impact of these new/revised standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

At the balance sheet date, the Company's current liabilities exceed its current assets by HK$239,411,000. The sustainability of the Company as a going concern is dependent on its ability to raise sufficient funds through the fund raising activities subsequent to the balance sheet date as detailed in note 37. The directors are of the opinion that these fund raising activities can generate sufficient cashflows to meet its liabilities. Accordingly, the financial statements of the Company have been prepared on a going concern basis.

Taiwan Subsidiaries

As explained in previous interim reports and annual reports of the Company, the Group has lost control in the operation of its subsidiaries in Taiwan since early 2005, namely Forefront International Automotive Limited ("**FIAL**"), Sunshine Credit Limited and U-Drive Smart Card Company Limited (collectively referred to as "**Taiwan Subsidiaries**"). Although the Company has regained control in June 2005, the books and records of the Taiwan Subsidiaries were found not sufficient to prepare the financial statements and for consolidation into the consolidated financial statements of the Group for annual reports of year 2004, 2005, 2006 and for the period from January 2007 up to the date of disposals of Taiwan Subsidiaries as described below.

On 30 December 2006, the Company entered into a sale and purchase agreement with an independent third party to dispose of the entire interests in Taiwan Subsidiaries. The transaction was completed on 30 March 2007. Because of the reason mentioned above, it is not possible for the Group to ascertain the exact amount of assets and liabilities of the Taiwan Subsidiaries at disposal as well as their results for the period up to disposal. Further information was detailed in note 4b(i).

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceased.

Minority interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from equity holders of the parent. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Subsidiaries

A subsidiary is an entity, in which the Company has the power to govern the financial and operating policies so as to obtain benefits from activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary and associate. Goodwill on acquisition of subsidiary is recognised as a separate asset. Goodwill on acquisitions of associates is included in interests in associates. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of associates at the date of acquisition, after reassessment, is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the trade date basis, when the Group becomes a party to the contractual provisions of the instruments. The de-recognition of a financial asset takes place when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to third party. The Group de-recognises financial liability when, and only when the liability is extinguished.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not designated and effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited

Loans and receivables

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from de-recognition, impairment or through the amortisation process are recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to income statement. Reversal of impairment loss of available-for-sale equity instrument is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Bank borrowings

Bank borrowings are initially recognised at cost, being the fair value of the consideration received, net of transaction costs incurred and are subsequently measured at amortised cost using effective interest method.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Investment property

Investment property is property which is held under leasehold to earn rental income and/or for capital appreciation. Investment property is stated at cost less accumulated depreciation and accumulated impairment losses.

As the cost of the investment property cannot be allocated reliably between the land element and building element, the investment property is accounted for as if it is property held under finance lease and depreciated over its estimated useful live.

Depreciation is provided to write off the cost less accumulated impairment losses of investment property over its estimated useful lives of 75 years, using the straight-line method, after taking into account its estimated residual value.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repair and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvements	50%
Furniture and equipment	20%-50%
Motor vehicles	33%

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' or disposal groups' previous carrying amount and fair value less costs to sell.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. For motor vehicles, cost is determined on the specific identification basis, while for other inventories, cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether property, plant and equipment and intangible assets with useful life have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Service income is recognised when services are rendered.

Proceeds from disposal of trading securities are recognised on the transaction date when the relevant sale and purchase contract is entered into.

Convertible note

The component of the convertible note that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs. On the issue of the convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-cumulative bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of issue costs. The value of the conversion option is not changed in subsequent years.

Issue costs are apportioned between the liability and equity components of the convertible note based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using currency of the primary economic environment in which the entity operates ("**the functional currency**"). The consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency.

Transactions involving foreign currencies are translated into functional currency at the rates of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates prevailing on the balance sheet date. Translation differences are included in the income statement.

On consolidation, the balance sheets of overseas subsidiaries denominated in currencies other than Hong Kong dollars are translated at the rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. All exchange differences arising on consolidation are dealt with in the exchange reserve.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Cash equivalents

For the purpose the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts.

Operating lease

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms. Lease incentives received are recognised in the consolidated income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

Related parties

A party is related to the Group if (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group; (b) the party is an associate of the Group; (c) the party is a joint venture in which the Group is a venturer; (d) the party is a member of the key management personnel of the Group or its parent; (e) the party is a close member of the family of any individual referred to in (a) or (d); (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement schemes are recognised as expenses in the income statement as incurred. The assets of the schemes are held separately from those of the Group in an independently administered fund.

Long service payment

The Group's net obligation in respect of long service payment under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets, including retirement scheme benefit, is deducted.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share based payment transactions

Equity-settled transactions

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value at the transaction date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using the binomial model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company ("**market conditions**").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("**vesting date**"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the reserve within equity.

Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables, operating cash and investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the destination of shipment of merchandise and total assets and capital expenditure are where the assets are located.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Future changes in HKFRS

HKFRS 8: Operating segments

HKFRS 8 replaces *HKAS 14 Segment reporting* and shall be applied for periods beginning on or after 1 January 2009. It adopts a management approach to segment reporting. The segment information is based on internal information used by management to evaluate the performance of operating segments and allocating resources to those segments. *HKFRS 8* defines an operating segment as a component of an entity that (a) engages in business activities from which it may earn revenue or incur expenses, (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) discrete financial information is available.

HK(IFRIC)-Int 11: HKFRS 2 – Group and treasury share transactions

The interpretation specifies the classification and accounting treatment for certain group plan and shall be effective for annual periods beginning on or after 1 March 2007.

Critical accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of investments and receivables

The Group assesses annually if investment in subsidiaries/associates has suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and course the adjustments of their carrying amounts.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Details of the estimates used to calculate the recoverable amount are given in note 14. Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances

Allowance for inventories

The Group reviews an ageing analysis of inventories at each balance sheet date, and make allowance for obsolete and slow-moving inventory items identified that are no longer recoverable or suitable for use. The management estimates the net realised value for inventory based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowances for obsolete items.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the accounts receivables and on management's judgement. At the balance sheet date, the accounts receivables was stated net of provision. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

3. TURNOVER AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	2007 **HK$'000**	2006 HK$'000
(a) Turnover		
Continuing operations		
Proceeds from disposal of trading securities	**668,250**	–
Fuel commission and other income	**3,692**	3,786
	671,942	3,786
Discontinued operations		
Sale of motor trucks, coaches and vehicle accessories	**60,857**	65,762
Provision of motor vehicle repairs and maintenance services	**23,728**	25,439
	84,585	91,201

	2007			2006		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
(b) Other income						
Interest income	**6,388**	**–**	**6,388**	105	489	594
Gain on disposal of interests in unconsolidated subsidiaries	**1,422**	**–**	**1,422**	–	–	–
Negative goodwill recognised on acquisition of an associate	**4,244**	**–**	**4,244**	–	–	–
Gain on redemption of zero coupon convertible notes	**6,240**	**–**	**6,240**	–	–	–
Gain on disposal of property, plant and equipment	**1**	**82**	**83**	50	–	50
Others	**245**	**1,325**	**1,570**	182	1,055	1,237
	18,540	**1,407**	**19,947**	337	1,544	1,881

4. LOSS BEFORE TAXATION

This is stated after charging (crediting):

(a) Finance costs

	2007			2006		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations *HK$'000*	Discontinued operations *HK$'000*	Total *HK$'000*
Interest on interest-bearing borrowings wholly repayable within five years	–	–	–	117	–	117
Interest on interest-bearing borrowings wholly repayable after five years	**172**	**–**	**172**	–	–	–
Amortisation of effective interest on convertible notes/bonds	**24,000**	**–**	**24,000**	173	–	173
Interest paid to supplier and broker	**78**	**702**	**780**	–	142	142
	24,250	**702**	**24,952**	290	142	432

(b) Other items

	2007			2006		
	Continuing operations HK$'000	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations *HK$'000*	Discontinued operations *HK$'000*	Total *HK$'000*
Auditors' remuneration	**760**	**210**	**970**	790	210	1,000
Depreciation of investment properties and property, plant and equipment	**173**	**2,144**	**2,317**	55	548	603
Operating lease charges on premises	**254**	**5,255**	**5,509**	110	7,475	7,585
Gain on disposal of interests in unconsolidated subsidiaries held for sale (note (i))	**1,422**	**–**	**1,422**	–	–	–
Provision for success fee (note (ii))	**7,140**	**–**	**7,140**	3,500	–	3,500
Shared-based payment in respect of Jerry Liu option	**1,612**	**–**	**1,612**	–	–	–
Allowance for trade and other receivables written back	**(258)**	**(141)**	**(399)**	(604)	(1,358)	(1,962)
(Gain) Loss on exchange	**–**	**(3)**	**(3)**	(68)	42	(26)
Staff costs, including directors' emoluments:						
– Salaries and other allowances	**4,290**	**13,960**	**18,250**	3,995	14,563	18,558
– Contributions to pension schemes	**69**	**618**	**687**	45	614	659
– Share-based payment in respect of staff share options	**14,762**	**–**	**14,762**	–	–	–
Impairment loss on available-for-sale financial assets included in general and administrative expenses	**25,000**	**–**	**25,000**	–	–	–
Impairment of goodwill included in general and administrative expenses	**67,000**	**–**	**67,000**	–	–	–
Allowance on inventories	**–**	**1,932**	**1,932**	–	1,559	1,559

4. LOSS BEFORE TAXATION *(Continued)*

(b) Other items *(Continued)*

(i) Disposal of Taiwan subsidiaries

Reference is made to the Company's previous annual reports and certain related circulars and announcements. The Company had entered into an agreement with an independent third party to dispose of the interest in Taiwan Subsidiaries at a disposal consideration of HK$54,979,000. The disposal was approved by independent shareholders and was completed on 30 March 2007. The consideration to be received will be the aggregation of the estimated total cash proceeds of approximately HK$2,440,000 and the novation of debts due to Taiwan Subsidiaries of approximately HK$52,539,000.

Due to the reason explained in note 2, the Group is unable to ascertain the value of the liabilities and assets of Taiwan Subsidiaries at the date of disposal. The net gain of HK$1,422,000 is arrived at by deducting the carrying value of the Taiwan Subsidiaries of approximately HK$48,174,000 and foreign exchange reserve of approximately HK$5,383,000 relating to the Taiwan Subsidiaries recognised during 2006 from the disposal consideration.

(ii) A&M allotment

Reference is made to the Company's 2006 annual report and certain circulars and announcements. Pursuant to an engagement between the Company and Alvarez & Marsal Asia Limited ("**A&M**"), the Company agreed to pay A&M a success fee which includes a cash payment of HK$3.5 million and the issue of certain amount of new shares of the Company. A&M assisted the Company to submit a resumption proposal to the Stock Exchange in June 2006 and the Company successfully resumed trading on 18 April 2007. A provision of HK$3.5 million was accordingly made in June 2006 and was paid in April 2007. On 18 April 2007, new shares of 33,520,923 were granted to A&M. The directors consider the fair value of a share is HK$0.213 which is the price of allotment on 18 April 2007. Accordingly, the aggregate fair value of the A&M allotment of HK$7,140,000 has been charged to the income statement as general and administrative expenses.

5. DIRECTORS' EMOLUMENTS

The details of emoluments of the Company's directors is as follows:

			Year ended 31 December 2007				2006
Name of Director	Appointed during the year	Resigned during the year	Fees	Basic salaries, allowance and other benefits	Pension scheme contribution	Total	Total
			HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Alistair Macleod	–	18 April	90	–	–	90	300
Mr. Arne Karlsson	–	18 April	90	–	–	90	300
Mr. Cheong Ying Chew, Henry	–	18 April	90	–	–	90	300
Mr. David Giles Maund	–	18 April	–	–	–	–	–
Mr. Lau Siu Ki	–	18 April	90	–	–	90	300
Mr. Louis Wen	–	–	–	920	–	920	834
Mr. Kelvin Edward Flynn	–	18 April	90	–	–	90	75
Mr. Fung Kwok Leung	16 March	18 May	–	49	–	49	–
Ms. Huang Li	16 March	18 May	–	29	–	29	–
Mr. Wu Wing Kit	18 April	18 May	5	–	–	5	–
Ms. Yang Xiao Feng	18 April	18 May	5	–	–	5	–
Mr. Sun Ka Ziang, Henry	18 April	20 July	15	–	–	15	–
Ms. Yau Shum Tek, Cindy	16 March	–	–	422	9	431	–
Mr. Zhou Qi Jin	16 March	–	–	253	–	253	–
Ms. Lo Oi Kwok, Sheree	26 April	–	–	368	8	376	–
Mr. Yeung Ming Kwong	26 April	–	–	286	8	294	–
Mr. Kwong Wai Tim, William	26 April	–	137	–	–	137	–
Mr. Chung Yuk Lun	26 April	–	137	–	–	137	–
Mr. Ting Wing Cheung, Sherman	18 May	–	–	261	8	269	–
Ms. Lam Yan Fong, Flora	18 May	–	75	–	–	75	–
Ms. Kristi L Swartz	20 July	–	54	–	–	54	–
Mr. Lam Kwan Sing	25 July	7 Dec	–	155	5	160	–
Mr. Zhuang You Dao	29 August	–	–	102	–	102	–
			878	2,845	38	3,761	2,109

No directors waived any emoluments during the year. No incentive payment nor compensation for loss of office was paid or payable to any directors for the year ended 31 December 2007 (2006: Nil).

All directors' emoluments in year 2006 represented directors' fees except for basic salaries, allowance and other benefits to Mr. Louis Wen amounting to HK$834,000.

6. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none (2006: one) are directors whose emolument are included in the amounts disclosed in Note 5.

The emoluments paid to the five highest (2006: four) individuals during the year were as follows:

	2007 **HK$'000**	2006 HK$'000
Basic salaries and allowances	**6,443**	2,954
Pension scheme contributions	**24**	36
	6,467	2,990

The emoluments fell within the following band:

	Number of individuals	
	2007 **HK$'000**	2006 HK$'000
HK$Nil – HK$1,000,000	**0**	3
HK$1,000,001 – HK$1,500,000	**5**	1

During the year, no payments were paid to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

7. TAXATION

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands. Hong Kong Profits Tax has not been provided in the financial statements as the Company and its subsidiaries either have no assessable profits or have unutilised tax losses to set off against current year's assessable profits both for the years of 2007 and 2006.

Reconciliation of tax expenses

	2007	2006
	HK$'000	HK$'000
Loss before taxation from continuing and discontinued operations	**(333,187)**	(24,752)
Income tax at Hong Kong Profits Tax rate of 17.5% (2006: 17.5%)	**(58,308)**	(4,332)
Net effect of non-deductible expenses/tax-exempted revenue	**23,243**	2,889
Unrecognised temporary differences	**206**	–
Untilisation of previously unrecognised tax losses	**(495)**	(702)
Unrecognised deferred tax assets in respect of tax losses	**35,354**	2,145
Taxation as per income statement	**–**	–

8. DISCONTINUED OPERATIONS

(a) Termination of Scania distributorship

The Company has received a notice from Scania stating the distributor agreements between Scania and the Company for exclusive distributor rights for Scania trucks, buses and spare parts in relation to Hong Kong and Macau region will expire and cease to apply after 26 October 2008.

On 15 February 2008, the Company has entered into two Asset Sale Agreements and one Memorandum of Understanding in relation to the disposal of certain assets amounting to approximately HK$16.3 million and a subsidiary in PRC approximately amounting to HK$2.2 million to a subsidiary of Scania. These agreements were completed on 31 March 2008 and the distributor agreements of Hong Kong and Macau are treated as expired on the same date.

8. DISCONTINUED OPERATIONS *(Continued)*

(a) Termination of Scania distributorship *(Continued)*

HKFRS 5 "Non-current assets held for sales and discontinued operations" classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation. An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

Since the discontinuance of the motor trading and repairs and maintenance services is highly probable at the balance sheet date, the operations are treated as discontinued and the assets to be disposed of are reclassified as assets held for sale.

(b) Analysis of loss for the year from discontinued operations

The combined results of the discontinued operations (trading of motor trucks, coaches and vehicles accessories and provision of motor vehicle repairs and maintenance services) included in the income statement are set out below. The comparative information in relation to income and cash flows statement and to related notes attributable to discontinued operations have been restated as discontinued operations in the current year.

	2007 **HK$'000**	2006 HK$'000
Loss for the year from discontinued operations		
Turnover	**84,585**	91,201
Less: Cost of sales	**(73,930)**	(79,414)
Gross Profit	**10,655**	11,787
Other income	**1,407**	1,544
Expenses	**(23,880)**	(25,711)
Loss before taxation	**(11,818)**	(12,380)
Taxation	**–**	–
Loss for the year from discontinued operations	**(11,818)**	(12,380)
Cash flows form discontinued operations		
Net cash flows used in operations activities	**(21,651)**	(3,281)
Net cash flows used in investing activities	**(1,826)**	(3,860)
Net cash flows generated from (used in) financing activities	**23,549**	(31,900)
Net cash inflows (outflows)	**72**	(39,041)

8. DISCONTINUED OPERATIONS *(Continued)*

(c) Interests in a subsidiary held for sale

	2007 HK'000
Non-current assets	
Property, plant and equipment	**173**
Current assets	
Inventories	**151**
Trade receivables	**744**
Prepayments	**38**
Bank balances and cash	**2,039**
Current liabilities	
Trade payables	**(649)**
Other payables and accruals	**(56)**
Amount due to immediate holding company	**(125)**
	2,315

(d) Assets reclassified as held for sale

As more fully explained in note 8(a), the Group has reclassified the following property, plant and equipment and inventories to be disposed of to Scania as assets held for sale:

	2007 HK'000
Property, plant and equipment held for sale	**1,937**
Inventories held for sale	**4,355**
	6,292

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of approximately HK$364,058,000 (2006: HK$31,137,000) which has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders for the year of approximately HK$333,187,000 (2006: HK$24,752,000) and on the weighted average of 1,258,314,000 shares (2006 (restated): 461,406,000 shares) in issue during the year.

No dilutive loss per share is presented for the year 2007 as the effect of all potential ordinary shares is anti-dilutive. The weighted average number of ordinary shares adopted in the calculation of the basic loss per share for the years of 2007 and 2006 has been adjusted to reflect the impact of the rights issue effected subsequent to the balance sheet date.

No diluted loss per share is presented for year 2006, as the effect of conversion of the convertible bonds into ordinary shares is not considered since the average market price of the Company's shares was substantially lower than the conversion price during the year. As explained in the annual report for the year 2006, the necessary conditions for the award of the success fee to A&M were not met at 31 December 2006 and therefore no contingently issuable ordinary shares in respect of this success fee have been included in the calculation of diluted loss per share.

From continuing operations

The calculation of the basis and diluted loss per share from continuing operations attributable to shareholders is based on the following data:

Loss figures are calculated as follows:

	2007	2006
	HK$'000	HK$'000
Loss for the year attributable to shareholders	**333,187**	24,752
Less: Loss for the year from discontinued operations	**(11,818)**	(12,380)
Loss for the purposes of basic loss per share from continuing operations	**321,369**	12,372

From discontinued operations

Basic loss per share for the discontinued operations was HK$0.94 cents (2006: HK$2.68 cents) per share based on the loss for the year from the discontinued operations of HK$11,818,000 (2006: HK$12,380,000) and the denominators detailed above for basis loss per share.

11. INVESTMENT PROPERTIES

	2007	2006
	HK$'000	HK$'000
Carry amount		
Additions during the year	**30,234**	–
Depreciation	**(169)**	–
At balance sheet date	**30,065**	–
Cost	**30,234**	–
Accumulated depreciation	**(169)**	–
	30,065	–
Fair value	**35,000**	–

The Company's investment properties are situated in Hong Kong and held under long term leases. The fair value of the investment properties, including the leasehold land and the building portion at the balance sheet date were determined by B.I. Appraisals Limited, an independent professional qualified valuer based on current market price of similar properties.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At Cost				
At beginning of year 2006	–	289	24	313
Additions	2,867	561	439	3,867
Disposals	–	(52)	–	(52)
Depreciation charged for the year	(312)	(218)	(73)	(603)
Translation adjustments	–	(1)	–	(1)
At 31 December 2006	2,555	579	390	3,524
At 31 December 2006				
Cost	2,867	5,855	1,762	10,484
Accumulated depreciation	(312)	(5,276)	(1,372)	(6,960)
	2,555	579	390	3,524
At Cost				
At beginning of year 2007	2,555	579	390	3,524
Additions	453	843	613	1,909
Disposals	–	–	(1)	(1)
Reclassified as assets held for sale *(note 8(d))*	(1,106)	(662)	(169)	(1,937)
Reclassified as interest in a subsidiary held for sale *(note 8(c))*	–	(60)	(113)	(173)
Depreciation charged for the year	(1,615)	(316)	(217)	(2,148)
Translation adjustments	1	1	11	13
At 31 December 2007	288	385	514	1,187
At 31 December 2007				
Cost	781	1,831	1,160	3,772
Accumulated depreciation	(493)	(1,446)	(646)	(2,585)
	288	385	514	1,187

13. INTERESTS IN ASSOCIATES

Investment in a logistic group of companies

Smart Oriental Limited, an indirect wholly-owned subsidiary of the Company, has acquired 40% equity interest of Golden Fame International Investment Group Limited ("**Golden Fame**") on 13 September 2007 at a consideration cost of HK$26.65 million. Golden Fame is a logistic group of companies which provides logistics business in Hong Kong, PRC and Canada.

Acquisition of Tianjin Kai Sheng

On 23 November 2007, the Group entered into a sale and purchase agreement with Z & Z International Limited, to acquire the entire share capital of Leapfly Limited at a consideration of HK$20 million. Leapfly owns 50% equity interest in Tianjin Kai Sheng Automobile Service Co. Ltd ("**Tianjin Kai Sheng**"). Tianjin Kai Sheng was established in the PRC and its scope of business includes the provision of repair services for automobile and the sales and distribution of Nissan motor vehicles.

The interests of the Group in the associates is set out below:

	Golden Fame	**Tianjin Kai Sheng**	**Total**
	HK$'000	HK$'000	HK$'000
Share of net assets	32,754	–	32,754

Details of the principal associates at the balance sheet date are as follows:

Name of associates	**Form of business**	**Principal place of operation/ Place of incorporation**	**Proportion of registered capital and voting power held by the Group**	**Principal activities**
Tianjin Kai Sheng Automobile Service Co. Limited	Incorporate	PRC	50%	Provision of repair service for automobile
Tianjin Jinri Automobile Sale & Service Co., Limited	Incorporate	PRC	27.5%	Provision of repair service for automobile and distribution of Nissan motor vehicles
Tianjin Jinyue Automobile Sale & Service Co., Limited	Incorporate	PRC	14.03%	Provision of repair service for automobile and distribution of Nissan motor vehicles
Golden Fame International Investment Group Limited	Incorporate	Hong Kong	40%	Logistic business

13. INTERESTS IN ASSOCIATES *(Continued)*

Acquisition of Tianjin Kai Sheng *(Continued)*

Summary of financial information of associates are as follows:

	Golden Fame		Tianjin Kai Sheng		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$	**HK$**	HK$
Share of associates' assets and liabilities						
Non-current assets	**23,028**	–	**6,379**	–	**29,407**	–
Current assets	**78,450**	–	**37,212**	–	**115,662**	–
Non-current liabilities	**(11,489)**	–	**–**	–	**(11,489)**	–
Current liabilities	**(57,235)**	–	**(48,047)**	–	**(105,282)**	–
Share of associates' revenue and profit						
Revenue	**39,779**	–	**17,301**	–	**57,080**	–
Profit (Loss)	**1,860**	–	**(229)**	–	**1,631**	–

Tianjin Kai Sheng had net liabilities at the date of acquisition. As a result, goodwill amounted to HK$20,000,000 has been recognised. Therefore, the Group has not recognised the losses in Tianjin Kai Sheng and its subsidiaries since the group's share of losses of the associates has exceed the Group's interests in these associates. The unrecognised share of losses of the associate is set out below:

The Group has assessed the recoverable amount of goodwill and determined that goodwill associated with the Group's interests in Tianjin Kai Sheng were impaired by HK$12,000,000 (2006: Nil).

	2007	2006
	HK$'000	HK$'000
Unrecognised loss of Tianjin Kai Sheng for the year.	**229**	–
Accumulated unrecognised share of loss of Tianjin Kai Sheng	**229**	–

14. GOODWILL

	Leapfly Limited HK$'000	Natural Harvest HK$'000	Total HK$'000
Carrying value			
Acquisition of subsidiaries	20,000	55,000	75,000
Impairment loss	(12,000)	(55,000)	(67,000)
At balance sheet date	8,000	–	8,000
	(Note 14(b))	(Note 16(a))	

Notes:

(a) The goodwill arose on the Group's acquisition of Leapfly Limited and Natural Harvest Investment Limited during the year.

(b) The recoverable amounts of the cash generating units containing goodwill have been determined based on a value in use calculation. The value in use is calculated based on discounted cash flow projections, which are prepared on the basis of financial budgets approved by management covering a 5-year period and a discount rate of 9% per annum. The directors believes that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amount of the goodwill to exceed its aggregate recoverable amount.

15. INTERESTS IN UNCONSOLIDATED SUBSIDIARIES HELD FOR SALE

	2007 HK$'000	2006 HK$'000
Interest in unconsolidated subsidiaries	–	149,054
Impairment loss	–	(100,880)
	–	48,174

As explained in note 2 to the financial statements, the financial statements of the Group's Taiwan Subsidiaries have not been included in the consolidated financial statements of the Group in accordance with the Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements " issued by the HKICPA and the Hong Kong Companies Ordinance as in the opinion of the Directors, the inclusion of these financial statements may result in an inaccurate picture of the Group's financial position and performance for the year.

16. AVAILABLE-FOR-SALE-FINANCIAL ASSETS

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At cost less impairment loss				
Unlisted equity interest in Taiwan, at cost	**6,908**	6,908	**6,908**	6,908
Unlisted equity interest in Hong Kong at cost (note 16(a))	**25,000**	–	**–**	–
Impairment loss recognised	**(31,908)**	(6,908)	**(6,908)**	(6,908)
	–	–	**–**	–

The unlisted investments represented long-term investments in unlisted equity securities issued by private entities.

(a) Acquisition of interest in unlisted equity interest in Hong Kong

On 21 August 2007, the Group entered into a sale and purchase agreement with Mr. Tsang Kai Ming, an independent third party, for acquisition of the entire share capital of Natural Harvest Investments Limited, which holds 61.25% in Talenteam Development Limited ("**Talenteam**") and on completion of the transaction, Talenteam holds 80% in China Railway Information and Technology Limited (collectively referred to as the "China Railway" or "Project"). Upon the completion of this acquisition, the Group's effective interest in China Railway is 49%. However, these entities were treated as subsidiaries of the Company as the Company has the right to appoint directors to these subsidiaries as to exercise the control of these companies.

The consideration is HK$80,000,000 which had been fully paid on 7 September 2007. The registered capital of China Railway is HK$200,000,000 of which HK$50,000,000 has been paid up. Under a joint venture agreement, Talenteam is committed to pay an additional capital contribution requirement of HK$150,000,000.

Since the Group's effective interest in China Railway is 49%, the equity interest attributable to the Group is approximately HK$25 million. Upon acquisition, the excess of HK$55,000,000, representing the excess of the HK$80,000,000 consideration paid over the Group's share of the interest in China Railway of HK$2,500,000, is recognised as goodwill.

16. AVAILABLE-FOR-SALE-FINANCIAL ASSETS *(Continued)*

(a) Acquisition of interest in unlisted equity interest in Hong Kong *(Continued)*

After completion of the sale and purchase agreement, the directors have endeavoured to communicate with the PRC partner in relation to the development of the Project. The Group subsequently discover that the management cannot have the concensus with the PRC partner in relation to the development of the Project. Despite taken all reasonable steps, the directors has failed to obtain those previous development information and considered the Group had lost control over these entities. As a result, a director reported to the Criminal Crime Bureau ("**CCB**") in Hong Kong in November 2007. The CCB is still investigating the said complaint and no prosecution has yet been taken.

The directors consider that the development of the Project as suspended and the goodwill of HK$55,000,000 recognised will not generate future economic benefit to the Group. A full impairment loss has been recognised immediately, leaving a net carrying amount of HK$25,000,000 of interest in China Railway.

The directors consider the lost of control occurred in November 2007. As a result, the remaining interest in China Railway of HK$25,000,000 has been reclassified as available for sale financial instrument.

The directors have sought advice from a PRC legal counsel in order to assist them to assess the value of these investments. According to the legal opinion, it is probable that the Group will win if the Company files a lawsuit. However, even the Company can eventually obtain a court order, it is still in doubt whether the court order can be successfully enforceable. In addition, the PRC investment partner has submitted a arbitration proceedings in PRC against Talenteam demanding the remaining HK$150,000,000 additional capital injection plus related interests of RMB 2,250,000 and pecuniary loss of HK$150,000,000. A defence to deny has been filed against the claim and it is probable that it would be supported by the China International Economic and Trade Arbitration Commission according to the legal opinion. The directors believe at this early stage the probability of being successfully claimed is low and no provision is considered necessary. Also, taken the above into consideration, the chance of recovering the Project is considered as remote and the Group has made a further impairment loss of HK$25,000,000 against the remaining interest in China Railway. Since the contract in relation to the matter was dragged and concluded in Hong Kong, the Group is going to obtain a legal opinion from a Hong Kong lawyer regarding the matter.

According to HKAS 27, the results of subsidiaries up to the date of lost of control should be consolidated into the Group's financial statements. However, since the directors could not obtain the financial information of China Railway after taken all reasonable steps, no results had been consolidated into the Group's financial statements. Although the reason for such non-consolidation is not one of the reasons for exclusion provided for in HKAS 27, the directors believe that the results of the Project during the three months period up to the date of lost of control would not be material to the financial statements as it would have just started the relevant registration procedures without any business operations. Furthermore, it would only affect the classification of the components within the income statement since the whole interest in China Railway has been impaired in the income statement without any impact on the balance sheet as at 31 December 2007. The directors consider there would be no material impact on the overall presentation of the financial statements in this regard.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007 **HK$'000**	2006 HK$'000
At fair value:		
Equity securities listed in Hong Kong	**209,975**	–
	209,975	–

As at 31 December 2007, the carrying amount of the Group's shareholding in the following company exceeded 10% of the total assets of the Group.

Name	**Place of incorporation**	**Principal activities**	**Particulars of issued share capital**	**Interest held**
Mascotte Holdings Limited	Bermuda	Manufacture and sale of accessories for photographic, electrical and multimedia products, and property investment	Ordinary share of HK$0.1 each	4.97%

The fair value of listed equity securities is based on quoted market value prices in active markets at the balance sheet date.

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2007 **HK$'000**	2006 HK$'000
(a) Unlisted shares, at cost	–	22,568
Amounts due from subsidiaries	**952,381**	248,505
	952,381	271,073
Less: Provision for amounts due from subsidiaries	**(510,925)**	(218,700)
	441,456	52,373
(b) Unlisted shares of subsidiaries held for sale, at cost	–	52,366
Less: Impairment loss	–	(11,977)
	–	40,389

The amounts due from / to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries at 31 December 2007 were as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Continuing operations					
Allied Well Development Limited	British Virgin Islands	US$1	–	100%	Investment holdings
Crown Creation Limited	British Virgin Islands	US$1	–	100%	Investment holding
Forefront Finance Co Limited	Hong Kong	HK$2,000,000	–	93.7%	Provision of hire purchase financing
Forefront (Macau) Automotive Limited	Macau	MOP25,000	–	100%	Trading of coaches and vehicle accessories and provision of motor vehicle repairs and maintenance service
Great Journey Limited	British Virgin Islands	US$1	–	100%	Investment holding
Hostbest Limited	British Virgin Islands	US$1	–	100%	Property investment
Leapfly Limited	British Virgin Islands	US$1	–	100%	Investment holding
Loyal Fine Ltd	British Virgin Islands	US$1	–	100%	Investment holding
Sino Wealthy Ltd	British Virgin Islands	US$1	–	100%	Trading of securities
Smart Oriental Limited	British Virgin Islands	US$1	–	100%	Investment holding
Suntrend China Ltd	Hong Kong	HK$1	–	100%	Investment holding
U-Drive Company Limited	Hong Kong	HK$1,000	–	93.7%	Provision of chain services to vehicle customers
V-Guard Technology Limited	Hong Kong	HK$100	–	93.7%	Provision of telematics services

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activities
Discontinued operations					
Allen Motor Co, Limited	Hong Kong	HK$2	–	93.7%	Provision of agency services for insurance and financing of motor vehicles
Forefront Automotive Services Company Limited	Hong Kong	HK$20	–	100%	Trading of motor vehicle accessories and provision of motor vehicle repairs and maintenance
Forefront International (Hong Kong) Limited	Hong Kong	HK$100,000 Ordinary share HK$6,000,000 Non-voting deferred shares (i)	–	100%	Trading of motor trucks and coaches
福方汽車服務(深圳)有限公司	Mainland China	HK$3,500,000(ii)	–	100%	Trading of motor Trucks, coaches and vehicle Accessories

Notes

(i) Holders of deferred shares have no rights to vote at general meetings or receive any dividend. Upon winding up, they are entitled to one half of the balance of the company's assets after HK$100,000,000,000 has been distributed to holders of ordinary shares.

(ii) 福方汽車服務(深圳)有限公司 is a wholly foreign owned enterprise established in Mainland China to operate for a period of 30 years up to June 2036. The assets and liabilities of the company are recorded as interest in subsidiary held for sale.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2007.

19. INVENTORIES

	2007 HK$'000	2006 HK$'000
Motor trucks and coaches	**32,833**	24,843
Vehicle accessories	**4,241**	8,029
	37,074	32,872
Less: Provision for obsolete and slow-moving inventories	**(4,449)**	(2,517)
	32,625	30,355

At 31 December 2007, the amount of inventories included in above carried at net realisable value totalled approximately HK$700,000 (2006: HK$2,497,000) and the balance of approximately HK$31,925,000 (2006: HK$27,858,000) was stated at cost.

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Trade receivables	**9,460**	10,265	**–**	–
Other receivables				
Deposits, prepayments and other debtors	**10,017**	8,149	**36**	1,514
	19,477	18,414	**36**	1,514

20. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group grants to its customers credit terms ranging from 1 to 3 months. The ageing analysis of the trade receivables at the balance sheet date is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
0 to under 3 months	**9,190**	10,257
3 to under 6 months	**268**	61
6 to under 9 months	**104**	–
9 to under 12 months	**–**	56
Over 12 months	**5,453**	5,623
	15,015	15,997
Less: Impairment loss on trade receivables	**(5,555)**	(5,732)
	9,460	10,265

Movement in the allowance for doubtful debts is listed below:

	2007	2006
	HK$'000	HK$'000
At beginning of year 2007	**5,732**	8,165
Reversal of impairment loss previously recognised	**(177)**	(2,433)
	5,555	5,732

20. TRADE AND OTHER RECEIVABLES *(Continued)*

The analysis of trade receivables that were past due but not impaired is as follows:

	2007 HK$'000	2006 HK$'000
Neither past due nor impaired	**8,223**	8,728
Past due but not impaired		
1-90 days	**1,136**	1,409
91-180 days	**55**	–
181-360 days	**46**	128
	9,460	10,265

The Group's neither past due nor impaired trade receivables represent sales made to recognised and creditworthy customers.

21. PLEDGED DEPOSITS

As at 31 December 2007, the Group and the Company deposited approximately HK$558,000 (2006: HK$558,000) as collateral to satisfy contingent warranty and delivery obligations in relation to certain sales contracts.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Trade payables	**12,066**	14,991	**–**	–
Other payables				
Accrued charges and other creditors	**7,166**	15,098	**1,326**	7,528
	19,232	30,089	**1,326**	7,528

22. TRADE AND OTHER PAYABLES *(Continued)*

The ageing analysis of the trade payables at the balance sheet date is as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
0 to under 3 months	**10,772**	13,686
3 to under 6 months	**1,043**	1,027
6 to under 9 months	**5**	–
9 to under 12 months	**–**	–
Over 12 months	**246**	278
	12,066	14,991

23. ZERO COUPON CONVERTIBLE NOTES

	The Group and the Company	
	2007	2006
	HK$'000	HK$'000
Liability component		
Fair value at inception	**408,000**	–
Issuing costs	**(10,200)**	–
Amortisation of effective interest	**24,000**	–
Redemption	**(196,640)**	–
At balance sheet date	**225,160**	–
Equity component		
Fair value at inception	**192,000**	–
Issuing costs	**(4,800)**	–
Redemption	**(87,360)**	–
At balance sheet date	**99,840**	–
Liability and equity components	**325,000**	–

23. ZERO COUPON CONVERTIBLE NOTES *(Continued)*

On 10 August 2007 and 16 August 2007, the Company had issued certain zero coupon convertible notes (the "**Notes**") to certain independent third parties at an aggregate principal amount of HK$750 million bearing no interest. The Notes are convertible into ordinary shares of the Company, the whole or any part of the principal amount outstanding, at conversion price of HK$0.5 per share and be matured on 3 December 2010.

The fair value of the liability component and the equity conversion component were determined at issuance of the New Convertible Notes. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible notes. The residual amount represents the value of the equity conversion component.

On 10 August 2007, the Company has received six conversion notices from the Notes holders to request for the conversion of the Notes issued. The Company has then issued a total of 300,000,000 shares at the conversion price of HK$0.5.

In December 2007, Notes of HK$280 million was redeemed upon received of redemption notice from Notes holders. The remaining balance of HK$320 million was subsequently redeemed in January 2008 also upon receipt of redemption notice in the same month.

24. DEFINED CONTRIBUTION PLANS

The group companies in Hong Kong participate in the Mandatory Provident Fund (the "**MPF Scheme**") which is a defined contribution scheme managed by independent trustees. The assets of the fund are hold separately from those of the group companies and are managed by independent professional fund managers. Under the MPF Scheme, each of the Group (the employer) and its employees make monthly contributions to the MPF Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the employees are subject to a cap of HK$1,000 and thereafter contributions are voluntary.

Contributions of approximately HK$118,000 (2006: HK$106,000) were payable to the fund at 31 December 2007.

25. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Secured bank loan	**14,885**	–	**–**	–

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
The maturity of the bank borrowings is as follows				
Repayable in one to two years	**1,493**	–	**–**	–
Repayable after two years but within five years	**2,498**	–	**–**	–
Repayable after five years	**10,894**	–	**–**	–
	14,885	–	**–**	–

Interest is charged on the outstanding balances at floating rate of 4.35% (2006: Nil) per annum.

Two properties were pledged for mortgage loans granted to a subsidiary which loan is guaranteed by the Company to the extent of HK$14,885,000 (2006: Nil). The subsidiary holding the properties is a disposed of after year end (note 37).

26. DEFERRED TAXATION

The Group has not recognised deferred tax asset in respect of unused tax loss of HK$322,295,000 (2006: HK$123,100,000) relating to certain Hong Kong incorporated subsidiaries. The tax losses have no expiry date under current tax legislation. The deferred tax asset has not been recognised due to uncertainty of its recoverability.

27. SHARE CAPITAL

	2007 No. of shares '000	**2007** HK$'000	2006 No. of shares '000	2006 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At beginning of year	**1,000,000**	**100,000**	1,000,000	100,000
Increase in authorised share capital	**9,000,000**	**900,000**	–	–
At end of the year	**10,000,000**	**1,000,000**	1,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At beginning of year	**435,772**	**43,577**	435,772	43,577
Issue of new shares	**909,852**	**90,985**	–	–
A&M Allotment (note 4b(ii))	**33,521**	**3,352**	–	–
Exercise of employee share options (note 28)	**95,774**	**9,578**	–	–
Shares issued on conversion of zero coupon convertible notes (note 23)	**300,000**	**30,000**	–	–
Exercise of share option granted to Mr. Jerry Liu (note 28(b))	**10,894**	**1,089**	–	–
At balance sheet date	**1,785,813**	**178,581**	435,772	43,577

The Company had increased the authorised share capital to 10,000,000,000 shares by 300,000,000 shares on 30 March 2007 and 8,700,000,000 shares on 29 June 2007.

On 18 April, 2007, 4 June, 2007 and 12 July. 2007, the Company had allotted and issued to independent third parties respectively 488,447,736, 191,548,000 and 229,856,000 shares at cash consideration of HK$0.213, HK$0.260 and HK$0.38 per share.

28. SHARE OPTIONS

(a) New share option scheme

A new share option scheme was approved by shareholders on 6 August 2007 which will remain in force for a period of 10 years commencing on 6 August 2007.

Under the new share option scheme, the Company may grant to Directors and employees of the Group and any other persons who, in the sole discretion of the Board, have contributed or will contribute to the Group. The maximum of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the new share option scheme and any other share option scheme of the Company must not in aggregate exceed 30% of the total number of shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the new share option scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the shares in issue, the General Scheme Limit, at the date of the passing of the relevant ordinary resolution. If any options is to be granted to connected person(s), it must be approved by independent non-executive directors or independent shareholders as the case may be.

(b) Movement in share option scheme during the year:

On 17 April 2007, a share option was granted to Mr. Jerry Liu, the former senior advisor of the Company to subscribe for 10,894,300 new shares at an exercise price HK$0.213. The share price at the date of grant is HK$0.57 per share. The share price at the date of grant is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The share option was fully exercised on 6 August 2007.

On 10 July 2007, 95,774,065 option shares were granted to certain employees of the Group. The options were fully exercised on the same date and the Company received proceeds of HK$45.9 million.

The aggregate fair value of the share options granted to Mr. Jerry Liu and employees of HK$1,612,000 and HK$14,762,000 respectively have been charged to the income statement as general and administrative expenses.

(c) Fair value of share options and assumptions

The fair value of share option granted to Mr. Jerry Liu and certain staff under the share option scheme at the grant date were HK$0.148 and HK$0.154 per share, both of which are calculated using the Binomial option pricing model with the following inputs:

	Jerry Liu Option	Staff option
Average share price	HK$0.213	HK$0.48
Weighted average exercise price	HK$0.213	HK$0.48
Expected volatility	110%	130%
Expected life	1,164 days	1,825 days
Risk free rate	4%	5%

29. RESERVES

The Company

	Share Premium HK$'000	Share option reserve HK$'000	Zero coupon convertible notes HK$'000	Contributed Surplus HK$'000	Capital Reserve HK$'000	Capital Redemption Reserve HK$'000	Accumulated Deficit HK$'000	Total HK$'000
At 1 January 2006	235,491	–	–	16,692	4,492	1,173	(254,104)	3,744
Loss for the year	–	–	–	–	–	–	(31,137)	(31,137)
At 31 December 2006	235,491	–	–	16,692	4,492	1,173	(285,241)	(27,393)
At 1 January 2007	235,491	–	–	16,692	4,492	1,173	(285,241)	(27,393)
Issue of new shares	150,202	–	–	–	–	–	–	150,202
Issuance costs	(12,914)	–	–	–	–	–	–	(12,914)
Share options granted	–	16,374	–	–	–	–	–	16,374
Issued of shares to A&M (note 4b(ii))	3,788	–	–	–	–	–	–	3,788
Zero coupon convertible notes	120,000	–	99,840	–	–	–	–	219,840
Exercise of share options	53,999	(16,374)	–	–	–	–	–	37,625
Loss for the year	–	–	–	–	–	–	(364,058)	(364,058)
At 31 December 2007	**550,566**	**–**	**99,840**	**16,692**	**4,492**	**1,173**	**(649,299)**	**23,464**

30. CASH USED IN OPERATIONS

	2007 HK$'000	2006 HK$'000
Loss before taxation	**(321,369)**	(12,372)
Interest on bank and other borrowings	**250**	290
Interest income	**(6,388)**	(105)
Negative goodwill in acquiring an associate	**(4,244)**	–
Share of profit of an associate	**(1,860)**	–
Impairment on available for sale investment	**25,000**	–
Impairment loss on goodwill	**67,000**	–
Gain on redemption of zero coupon convertible notes	**(6,240)**	–
Amortisation of effective interest of convertible notes	**24,000**	–
Loss from discontinued operations	**(11,818)**	(12,380)
Gain on disposal of interest in Taiwan subsidiaries	**(1,422)**	–
Depreciation of investment property and property, plant and equipment	**2,317**	603
Gain on disposal of property, plant and equipment	**(83)**	(50)
Option granted to Mr. Jerry Liu	**1,612**	–
Option granted to staff	**14,762**	–
A&M allotment	**7,140**	–
Changes in working capital:		
Fair value of financial assets through profit or loss	**(209,975)**	–
Inventories	**(2,270)**	3,753
Trade and other receivables	**(1,063)**	9,002
Trade and other payables	**(10,857)**	176
Inventories classified as held for sale	**(4,506)**	–
Trade and other receivables of a subsidiary held for sale	**1,077**	–
Trade and other payables of a subsidiary held for sale	**704**	–
Cash used in operations	**(438,233)**	(11,083)

31. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired the entire equity interests of the following companies.

Acquisition date	Name of acquired companies	Place of incorporation	Principal activities	Cash consideration
				HK$'000
21 August 2007	Natural Harvest Investments Limited	British Virgin Islands	Investment holding	80,000
23 November 2007	Leapfly Limited	British Virgin Islands	Investment holding	20,000

The aggregate fair value of the identifiable assets and liabilities of the acquired subsidiaries as at the dates of acquisition and their carrying value determined immediately before combination are as follows:

	Carrying value and fair value
	HK$'000
Goodwill	25,000
Goodwill arising on acquisition	75,000
Total consideration, satisfied by cash	100,000
Net cash outflow on acquisition	
Cash paid for share costs	(100,000)
Bank balances and cash acquired	–
Net cash outflow	(100,000)

Since the acquisition, the acquired subsidiaries made no significant contribution to the revenue and results of the Group.

The goodwill was attributable to the profitability and the synergies expected to arise from the acquisition.

32. CONTINGENT LIABILITIES

In addition to the information disclosed elsewhere in the financial statements, the Group had the following contingent liabilities at the balance sheet date.

Alleged agreement on investment in a customer

Mr. Lo Chia Yu ("**Mr. Lo**") has allegedly claimed a verbal agreement was entered into on 12 March 2002 between Mr. Lo and Forefront Automotive Services Company Limited ("**FAS**"), a wholly owned subsidiary of the Company, whereby FAS has agreed to purchase and Mr. Lo has agreed to sell 13% of the share capital of Global Travel Holdings Limited ("Globel Travel") at a consideration of HK$7,800,000. FAS position is that the agreement was subject to it conducting due diligence on Global Travel to its satisfaction. As requested, FAS paid a deposit of HK$2,000,000 to Mr. Lo. Subsequently, the accountant firm employed by the FAS reported unsatisfactory due diligence, therefore FAS did not elect to proceed with the alleged agreement. Mr. Lo has filed proceedings claiming HK$7,800,000 together with alternative damage and FAS has lodged a counter claim to Mr. Lo for return of the HK$2,000,000 paid as deposit. A contingent liability netting off the counter claims as set out above amounting to HK$5,800,000 are alleged to be due from FAS to Global Travel. The matter has not progressed after an initial hearing and was adjourned to a further date to be determined by the court subject to its receipt of sufficient document from the two parties. The Company has not received any notice in relation to any specific dates for any further hearing.

Alleged claim for investment lost in the Company's shares

In October 2006, Gains Investment Corporation and 景裕國際股份有限公司 claimed that Yang Kwn San's family ("**Yang Family**") had defrauded them to acquire the Company's Shares and also dissipated FIAL's assets. The plaintiffs sued the Company, Taiwan Subsidiaries and the Yang Family for damages of NT$1,520,000 (approximately HK$366,000) in the Taiwanese court. The Company's Taiwan legal advisors advised that the case is pending and no hearing date has been set.

Alleged claim from a PRC investment partner

As more fully explained in note 16(a) to the financial statements, on 21 August 2007, the Group entered into a sale and purchase agreement for acquisition of the entire share capital of Natural Harvest Investments Limited, which holds 61.25% in Talenteam Development Limited ("**Talenteam**") and on completion of the transaction, Talenteam holds 80% in China Railway Information and Technology Limited (collectively referred to as the "**China Railway**" or "**Project**"). The consideration is HK$80,000,000 which had been fully paid on 7 September 2007. The registered capital of China Railway is HK$200,000,000 of which HK$50,000,000 has been paid up. Under a joint venture agreement, Talenteam is committed to pay an additional capital contribution requirement of HK$150,000,000.

The PRC investment partner has submitted a arbitration proceedings in PRC against the Company's subsidiary demanding the remaining HK$150,000,000 additional capital injection plus related interests of RMB2,250,000 and pecuniary loss of HK$150,000,000. The Group has filed a defence to deny the claim and the directors consider it is probable that the defence would be supported by the China International Economic and Trade Arbitration Commission. The directors believe at this early stage the probability of being successfully claimed is low and no provision is considered necessary.

33. COMMITMENTS

(a) Capital expenditure commitments

The group had the following capital commitments at the balance sheet date:

	2007	2006
	HK$'000	HK$'000
Contracted but not provided for	**1,801**	–
Authorised but not contracted for	**–**	–
	1,801	–

(b) Commitments under operating leases

The Group leases a number of properties under operating leases, which typically run for an initial period of 1-3 years. None of these leaser includes contingent rentals. At the balance sheet date, the Group had future lease payments under non-cancellable operating leases, which are payable as follows:

	2007	2006
	HK$'000	HK$'000
Within one year	**2,922**	4,210
In the second to fifth years inclusive	**124**	2,698
	3,046	6,908

34. RELATED PARTY TRANSACTIONS

	2007	2006
	HK$'000	HK$'000
Scania CV AB (Note i):		
– Purchase and service provided	**23,633**	56,776
– Warranty claim	**808**	3,376
– Interest paid	**109**	142
– Miscellaneous income	**467**	406
Griffin Automotive Limited		
– Purchase	**–**	15
Scania Singapore Pte Ltd (Note i)		
– Sales	**–**	311
– Purchase and service provided	**–**	25
Alvarez & Marsal Asia Limited		
– Professional fee paid	**–**	6,775
Wintop Shipping Company Ltd		
– Sales (ii)	**2,520**	–

Notes

(i) Scania CV AB is the principal supplier of the Group and a holding company of Scania Trade Development AB, a substantial shareholder up to 4 June 2007 as its share holding has diluted to 8.5% on that day. Scania Singapore Pte Ltd is a wholly owned subsidiary of Scania CV AB

(ii) The Group holds 40% of Golden Fame interested in which holds 50% equity share of Wintop Shipping Company Ltd in turn.

(iii) Sales and purchases were charged at market prices.

(iv) Interest expenses were charged at the pre-agreed rates.

35. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments are investment securities, convertible notes, bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables and financial assets and liabilities at fair value through profit and loss, which arise directly from its business activities.

The main risks arising from the Group's financial instruments are equity price risk, credit risk, foreign currency risk and liquidity risk. The Board of Directors regularly reviews and implements numbers of strategies on its risk management and limits the Group's exposure to these risks to a minimum. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below.

Equity price risk

The Group is exposed to equity price risk arising from trading of listed securities classified as investments held for trading in the balance sheet. The sensitivity analysis has been determined based on the exposure to equity price risk.

At the balance sheet date, if the quoted market prices had been 5% higher or lower while all other variables were held constant, the Group's net loss would decrease or increase by HK$10,644,381 (2006: HK$Nil) as a result of changes in fair value of investments. The Group's sensitivity to equity price has changed significantly from the prior year.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's securities investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk. The credit policy on extending credit terms to customers includes assessing and valuing of customer's creditworthiness and financial standing. Management also closely monitors all outstanding debts and reviews the collectability of trade debtors periodically. At the balance sheet date, the Group has a concentration of credit risk as 27% (2006: 25%) and 30% (2006: 41%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The Group has limited credit risk with its money placed in financial institutions and brokers, which are long-time established and have sound financial background, and are assessed as having low credit risk. The Group has not had any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

Foreign exchange risk

The Group is exposed to foreign currency risk because of trade payable balances to a principal supplier, which are denominated in foreign currencies, principally the US dollar. Management considers that the Group has limited exposure to foreign currency risk since the relevant exchange rate has remained relatively stable.

35. FINANCIAL RISK MANAGEMENT *(Continued)*

Liquidity risk

Liquidity risk refers to the risk in which the Group is unable to meet its short-terms obligations. Liquidity risk is minimal and is managed by matching the payments and receipts cycles. The Group's operations are financed mainly through its business activities.

Although the Company has net current liabilities, at the balance sheet date, a year fund raising activities have been translated shortly after the Balance Sheet date (see note 37), which generated additional capital for the Company to meet its liabilities, including the full redemption of the outstanding convertible notes.

Capital management

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital on the basis of debt-to-adjusted capital ratio, which is net debt divided by adjusted capital. The debt-to-adjusted capital ratios at the balance sheet date were as follow:

	2007	2006
	HK$'000	HK$'000
Interest bearing loans and borrowings	**14,885**	–
Trade and other payables	**19,232**	82,628
Zero coupon convertible notes	**225,160**	–
Less: Cash and short term deposits	**(162,913)**	(6,262)
Net debt	**96,364**	76,366
Total equity	**246,884**	24,659
Less: Reserve attributable to interests in unconsolidated subsidiaries held for sale	**–**	(5,383)
Adjusted capital	**246,884**	19,276
Debt-to-adjusted capital ratio	**39%**	396%

35. FINANCIAL RISK MANAGEMENT *(Continued)*

The maturity profile of the Group's financial liabilities at the balance sheet date based on contractual undiscounted payments are summarised below:

	Year 2007				
	Less than 3 months HK$	**3-12 months HK$**	**1-5 years HK$**	**Over 5 years HK$**	**Total HK$**
Interest bearing borrowing	**180**	**551**	**3,260**	**10,894**	**14,885**
Zero coupon convertible notes	**225,160**	**–**	**–**	**–**	**225,160**
Trade and other payables	**19,232**	**–**	**–**	**–**	**19,232**
	244,572	**551**	**3,260**	**10,894**	**259,277**

	Year 2006				
	Less than 3 months HK$	3-12 months HK$	1-5 years HK$	Over 5 years HK$	Total HK$
Trade and other payables	30,089	–	–	–	30,089
Amount due to unconsolidated subsidiaries	–	52,539	–	–	52,539
	30,089	52,539	–	–	82,628

36. SEGMENTAL INFORMATION

a. By business segments

The Group's continuing operations include the provision of motor vehicle related services and investing. An analysis by business segment is as follow:

	Year 2007			
	Provision of other motor vehicle related services HK$'000	Investing HK$'000	Unallocated HK$'000	Total HK$'000
Turnover				
Sales to external customers	3,692	668,250	–	671,942
Total turnover	3,692	668,250	–	671,942
Operating results				
Segment results	3,132	(282,930)	(43,431)	(323,229)
Share of profit of an associate				1,860
Taxation				–
Loss from continuing operations				(321,369)
Loss from discontinued operations				(11,818)
Loss attributable to shareholders				(333,187)
Other information				
Assets – Continuing operations	12,759	421,161	19,796	453,716
– Discontinued operations				52,445
				506,161
Liabilities – Continuing operations	2,766	15,005	226,486	244,257
– Discontinued operations				15,020
				259,277
Capital expenditure – Continuing operations	–	126,650	–	126,650
– Discontinued operations				1,909
				128,559
Depreciation and other non-cash expenditures – Continuing operations	(248)	231,589	23,494	254,835
– Discontinued operations				3,741
				258,576

36. SEGMENTAL INFORMATION *(Continued)*

a. By business segments *(Continued)*

	Year 2006			
	Provision of other motor vehicle related services HK$'000	Investing HK$'000	Unallocated HK$'000	Total HK$'000
Turnover				
Sales to external customers	3,786	–	–	3,786
Total turnover	3,786	–	–	3,786
Operating results				
Segment results	3,802	–	(16,174)	(12,372)
Taxation				–
Loss from continuing operations				(12,372)
Loss from discontinued operations				(12,380)
Loss attributable to shareholders				(24,752)
Other information				
Assets – Continuing operations	11,307	48,174	2,332	61,813
– Discontinued operations				45,474
				107,287
Liabilities – Continuing operations	2,678	52,539	7,617	62,834
– Discontinued operations				19,794
				82,628
Capital expenditure – Continuing operations	4	–	–	4
– Discontinued operations				3,863
				3,867
Depreciation and other non-cash expenditures – Continuing operations	(476)	–	(36)	(512)
– Discontinued operations				616
				104

36. SEGMENTAL INFORMATION *(Continued)*

b. By geographical segments

The Group's activities are conducted predominantly in Taiwan, Hong Kong and People's Republic of China ("**Mainland China**"). An analysis by geographical segments is as follows:

	Year 2007				
	Hong Kong HK$'000	Mainland China HK$'000	Taiwan HK$'000	Unallocated HK$'000	Total HK$'000
Turnover	671,942	–	–		671,942
Segment results	(184,055)	(92,015)	1,408		(274,662)
Profit (Loss) from operations	(200,350)	(100,162)	1,533		(298,979)
Assets – Continuing operations	424,187	8,000	1,733	19,796	453,716
– Discontinued operations					52,445
					506,161
Capital expenditure – Continuing operations	26,650	100,000	–	–	126,650
– Discontinued operations					1,909
					128,559

36. SEGMENTAL INFORMATION *(Continued)*

b. By geographical segments *(Continued)*

	Year 2006				
	Hong Kong HK$'000	Mainland China HK$'000	Taiwan HK$'000	Unallocated HK$'000	Total HK$'000
Turnover	3,786	–	–		3,786
Segment results	3,722	–	–		3,722
Loss from operations	(12,082)	–	–		(12,082)
Assets – Continuing operations	11,307	–	48,174	2,332	61,813
– Discontinued operations					45,474
					107,287
Capital expenditure – Continuing operations	4	–	–	–	4
– Discontinued operations					3,863
					3,867

37. POST BALANCE SHEET EVENTS

Placing of Shares

The Company entered into a placing agreement with Get Nice Investment Limited to place 294,983,744 placing shares at HK$0.2 per share to independent third parties. The transaction was completed in February 2008 and net proceed of HK$57,522,000 was received.

Granting of unsecured revolving loan to an association

On 14 March 2008 Crown Creation Limited (the "**Lender**") and Leapfly Limited (the "**Borrower**"), both of them are wholly owned subsidiaries of the Group have entered into an agreement for an unsecured revolving loan of HK$5 million in principal at interest rate of prime plus 2.5% per annum. The loan will be used to finance Tianjin Kai Sheng Automobile Service Co., Limited ("**Tianjin Kai Sheng**") to enhance and expand its automobiles distribution. Mr Zhuang You Dao, being the director of the Company, is the guarantor of the loan and substantial shareholder of Tianjin Kai Sheng.

Rights Issue

On 4 December 2007, the Group announced that it proposed to raise not less than HK$172 million after expenses by way of rights issue of 892,906,512 rights shares to the qualifying shareholders at a price of HK$0.2 per rights share on the basis of one rights share for every two existing shares held on the record date (i.e. 3 January 2008).

On 22 January 2008, an aggregate of 1,911,064,032 rights shares and excess right shares have been applied for, representing 133.39% of the total number of 892,906,512 rights shares offered under the Rights issue.

Immediately after completion of the Rights Issue, the Company's share capital increased from 1,785,813,024 shares to 2,678,719,536 shares. The net proceeds of HK$172 million from the Rights issues.

Disposal of subsidiaries

On 14 April 2008, the Group has entered into a sale and purchases agreement with Willie International Holding Limited, a shareholder of the Group, to dispose of the Group's interest in a subsidiary, Allied Well Development Limited at a consideration of HK$20 million, which shall be satisfied by the issue and allotment of 160 million consideration shares of Willie International Holding Limited with a gain on disposal approximately HK$7 million.

Allied Well is a wholly-owned subsidiary of the Group which directly held 100% of the issued capital of Hostbest Limited, which held properties in Hong Kong.

Redemption of convertible notes

In December 2007, convertible notes of HK$280 million were redeemed upon received of redemption notices from convertible notes holders. The remaining balance of HK$320 million were subsequently redeemed in January 2008 also upon received of redemption notices in the same month.

The following is a summary of the published consolidated income statement and consolidated balance sheets of Forefront Group Limited (the "**Company**") and its subsidiaries (together the "**Group**") for the past five years. Certain figures has been restated for comparative purpose with year 2007:

CONSOLIDATED INCOME STATEMENT

	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**671,942**	3,786	5,528	7,417	420,254
Cost of sales and services	**(720,463)**	–	(566)	(426)	(316,593)
Gross (loss) profit	**(48,521)**	3,786	4,962	6,991	103,661
Other income	**18,540**	337	15,881	–	15,219
Distribution and selling expenses	**(337)**	(286)	(46)	(157)	(6,720)
General and administrative expenses	**(129,241)**	(15,919)	(129,970)	(29,152)	(113,838)
Changes in fair value of financial assets at fair value through profit or loss	**(139,420)**	–	–	–	–
Loss from operations	**(298,979)**	(12,082)	(109,173)	(22,318)	(1,678)
Finance costs	**(24,250)**	(290)	(3,479)	(584)	(9,868)
Share of profit of an associate	**1,860**	–	–	–	–
Loss before taxation	**(321,369)**	(12,372)	(112,652)	(22,902)	(11,546)
Taxation	**–**	–	1,261	–	(7,416)
Loss from continuing operations	**(321,369)**	(12,372)	(111,391)	(22,902)	(18,962)
Loss from discontinued operations	**(11,818)**	(12,380)	(5,713)	(32,458)	(37,777)
	(333,187)	(24,752)	(117,104)	(55,360)	(56,739)
Attributable to:					
Equity holders of the parent	**(333,187)**	(24,752)	(117,104)	(55,360)	(56,739)
Minority interests	**–**	–	–	–	–
Loss attributable to shareholders	**(333,187)**	(24,752)	(117,104)	(55,360)	(56,739)

CONSOLIDATED BALANCE SHEETS

	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**72,006**	3,524	48,487	206,398	267,775
Current assets	**434,155**	103,763	164,653	118,959	550,697
Current liabilities	**(259,277)**	(82,628)	(163,731)	(74,991)	(530,664)
Net current assets	**174,878**	21,135	922	43,968	20,033
Total assets less current liabilities	**246,884**	24,659	49,409	250,366	287,808
Non-current liabilities	**–**	–	–	(79,686)	(54,243)
Net assets	**246,884**	24,659	49,409	170,680	233,565