

The directors present their annual report and the audited financial statements for the nine months from 1st April, 2004 to 31st December, 2004.

CHANGE OF FINANCIAL YEAR END DATE

During the period, the Company changed its financial year end date from 31st March to 31st December in order to bring the balance sheet date in line with that of the statutory year end date of Shanxi Changxing Yuci Coking Co., Ltd. ("Shanxi Changxing"), a company proposed to be acquired by the Group. Upon completion of the acquisition, Shanxi Changxing will become the Group's major subsidiary operating in the People's Republic of China. Details of the acquisition are set out in note 31 to the financial statements. Such alignment will facilitate the presentation of the Group's consolidated financial statements. The financial statements presented therefore cover a period of nine months from 1st April, 2004 to 31st December, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 15 and 16 respectively, to the financial statements.

CHANGE OF COMPANY'S NAME

Pursuant to a resolution passed at a directors' meeting held on 2nd July, 2004, the Chinese translation name adopted by the Company was changed from 益華教育投資集團有限公司 to 益華國際投資集團有限公司 with effect from 9th July, 2004.

The Company's name was further proposed to be changed to China Best Group Holding Limited with the Chinese translation name to be changed to 國華集團控股有限公司 subject to the approval of shareholders at a special general meeting to be held on 4th May, 2005.

RESULTS

The results of the Group for the nine months from 1st April, 2004 to 31st December, 2004 are set out in the consolidated income statement on page 23 of the annual report.

No dividend was paid during the period.

DIRECTORS' REPORT

INVESTMENT PROPERTY

Details changes in the investment property of the Group during the period are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the period in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and share options of the Company during the period are set out in notes 21 and 22 to the financial statements, respectively.

CONVERTIBLE BONDS

On 2nd December, 2004, the Company entered into a subscription agreement with an independent third party (the "subscriber") for the issue of two redeemable convertible bonds with aggregate principal amount of US\$5,000,000. The Company also granted an option to the subscriber for subscription of two additional redeemable convertible bonds with aggregate principal amount of US\$5,000,000.

Each redeemable convertible bond bears interests at the rate of 1% per annum and is due on the maturity date, which is the date falling on the second anniversary from the date of issue of such redeemable convertible bond. The conversion price is HK\$0.089 per share if the conversion rights are exercised within 3 months from the issue date of the relevant bonds. A total of 876,404,493 shares will be allotted and issued upon the conversion in full of the convertible bonds.

On 16th December, 2004, the Company issued US\$2,500,000 (equivalent to approximately HK\$19,500,000) redeemable convertible bonds to the subscriber and none of which had been converted into ordinary shares of the Company during the period.

Details of movements in the redeemable convertible bonds of the Company are set out in note 24 to the financial statements.

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Executive directors:

Mr. Wang Jian Hua (*Chairman*)

Mr. Ng Tang, David (*Deputy Chairman*)

Mr. Bao Wen Bin

Mr. Pak Chung

Mr. Ren Zheng

Ms. Cheung Hoi Ping

Ms. Ma Jun Li

Mr. Wang Da Yong

(appointed on 16th September, 2004)

Mr. Zhang Jun

(appointed on 1st April, 2005)

Independent non-executive directors:

Ms. Chung Kwo Ling

Mr. Sun Yeung Yeung

Mr. Lee Yuen Kwong

(appointed on 16th September, 2004)

In accordance with the clauses 86(2) and 87 of the Company's Bye-laws, Mr. Ng Tang, David, Mr. Wang Da Yong, Mr. Lee Yuen Kwong and Mr. Zhang Jun retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting whereas Mr. Bao Wen Bin retire and will not offer himself for re-election at the forthcoming annual general meeting.

None of directors being proposed for re-election at the forthcoming annual general meeting has any service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each independent non-executive director is the period up to his/her retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACT

None of the Directors of the Company who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that the Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rules 3.13 of the Listing Rules and considered all of the Independent non-executive directors to be Independent throughout the year.

DIRECTORS' INTERESTS IN SHARES AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2004, the interests and short positions of the directors and their associates in the shares and underlying shares of the Company and its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the Securities and Futures Ordinance ("SFO") (including interests and short positions which they were taken or deemed to have under such provision of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Long position in the shares and share options of the Company

Name of directors	Capacity	Interest in shares	Percentage of the issued share capital of the Company	Interests in underlying shares (share options)
Wang Jian Hua	<i>Note 1</i> Interest by attribution	2,256,000,000	51.24%	–
Wang Jian Hua	Beneficial owner	–	7.72%	339,900,000
Wang Jian Hua	<i>Note 2</i> Interest by attribution	–	0.27%	12,000,000
Ng Tang, David	<i>Note 1</i> Interest by attribution	2,256,000,000	51.24%	–
Ng Tang, David	Beneficial owner	–	0.23%	10,000,000
Bao Wen Bin	<i>Note 1</i> Interest by attribution	2,256,000,000	51.24%	–
Bao Wen Bin	Beneficial owner	–	0.27%	12,000,000
Pak Chung	<i>Note 3</i> Interest by attribution	305,018,760	6.93%	–
Pak Chung	Beneficial owner	11,982,000	0.39%	5,000,000
Ren Zheng	Beneficial owner	–	0.14%	6,000,000
Ma Jun Li	<i>Note 4</i> Interest by attribution	2,256,000,000	58.96%	339,900,000
Ma Jun Li	Beneficial owner	–	0.27%	12,000,000

Notes:

1. Mr. Wang Jian Hua, Mr. Ng Tang, David and Mr. Bao Wen Bin beneficially own 93.7%, 3.8% and 2.5%, respectively, of the issued share capital of Best Chance Holdings Limited, which in turn owns 2,256,000,000 shares of HK\$0.05 each in the Company.

2. The interest by attribution represents share options held by Ms. Ma Jun Li, spouse of Mr. Wang Jian Hua.
3. Mr. Pak Chung is deemed to have interest in 305,018,760 shares of the Company through Fortune Garden Investment Limited, which is wholly and beneficially owned by him.
4. The interest by attribution represents shares and share options held by Mr. Wang Jian Hua, spouse of Ms. Ma Jun Li.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, as at 31st December, 2004, none of the directors, nor their associates, had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTIONS

The Company has two share option schemes which were adopted on 5th March, 1996 (the "1996 Scheme") and 18th March, 2002 (the "2002 Scheme") and the 1996 Scheme was terminated on 18th March, 2002.

Particulars of the Company's share option schemes are set out in note 22 to the financial statements.

The following table discloses movements in the share options which have been granted to or held by certain directors under the share option schemes of the Company during the period:

(1) 1996 Scheme

Name of director	Date of grant	Exercisable period	Exercise price	Number of share options			
				Outstanding at 1.4.2004	Granted during the period	Exercised during the period	Outstanding at 31.12.2004
Mr. Pak Chung	17.11.2000	17.5.2001 to 17.11.2005	0.144	2,000,000	-	-	2,000,000

At the date of this report, the number of shares in respect of which options could be exercisable under the 1996 Scheme was 2,400,000 representing approximately 0.05% of the shares of the Company in issue at the date.

(2) 2002 Scheme

Name of director	Date of grant	Exercisable period	Exercise price HK\$	Number of share options			
				Outstanding at 1.4.2004	Granted during the period	Exercised during the period	Outstanding at 31.12.2004
Mr. Wang Jian Hua	8.11.2002	8.11.2002 to 8.11.2005	0.119	339,900,000	-	-	339,900,000
Mr. Ng Tang, David	8.11.2002	8.11.2002 to 8.11.2005	0.119	10,000,000	-	-	10,000,000
Mr. Bao Wen Bin	8.11.2002	8.11.2002 to 8.11.2005	0.119	12,000,000	-	-	12,000,000
Ms. Ma Jun Li	8.11.2002	8.11.2002 to 8.11.2005	0.119	12,000,000	-	-	12,000,000
Mr. Pak Chung	19.9.2002	19.9.2002 to 19.9.2005	0.119	3,000,000	-	-	3,000,000
Mr. Ren Zheng	19.9.2002	19.9.2002 to 19.9.2005	0.119	6,000,000	-	-	6,000,000
				<u>382,900,000</u>	<u>-</u>	<u>-</u>	<u>382,900,000</u>

At the date of this report, the number of shares in respect of which options could be exercisable by the directors under the 2002 Scheme was 382,900,000 representing approximately 8.70% of the shares of the Company in issue at the date.

During the period ended 31st December, 2004, there were 440,000,000 share options under the 2002 Scheme granted to employees and other eligible persons. The total number of share options granted are not exceeded 10% of the Company's shares in issue as at the date of adoption of the 2002 Scheme. The number of shares in respect of which options could be exercisable by all participants under the 2002 Scheme was 840,700,000, representing 19.10% of the shares of the Company in issue as at 31st December, 2004.

The closing price of the Company's shares immediately before 23rd September, 2004 and 5th October, 2004, the dates of grant of the 2002 Scheme's option, were HK\$0.070 and HK\$0.0712, respectively.

The fair value of the options granted in the current period measured at the date of grant on 23rd September, 2004 and 5th October, 2004 were approximately HK\$8,256,000 and HK\$10,048,000. The following significant assumptions were used to derive the fair value, using the Black Scholes option pricing model:

	Dates of grant	
	23rd September, 2004	5th October, 2004
Expected life of the options granted	10 years	10 years
Expected volatility based on historical volatility	52%	52%
Expected annual dividend yield	Nil	Nil
Hong Kong Exchange Fund Notes interest rate at the date the options were granted	0.125%	0.125%

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

The Black Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of directors, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures, of the Company or any other body corporate. None of the directors, their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights during the period.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, the interests of parties, other than the directors, in 5% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO are as follows:

Long Position in the shares and underlying shares of the Company

Name	Capacity	Notes	Interest in shares and underlying shares	Percentage of the Company's issued share capital
Feng Gui Ming	Interest by attribution	1	2,268,000,000	51.52%
Wong Hung Wan	Interest by attribution	2	2,266,000,000	51.47%
Chu Yuet Wah	Interest of controlled corporation	3	2,256,000,000	51.24%
Ma Siu Fong	Interest of controlled corporation	3	2,256,000,000	51.24%
Kingston Finance Limited	Security Interest	3	2,256,000,000	51.24%
Best Chance Holdings Limited	Beneficial Owner		2,256,000,000	51.24%
Fortune Garden Investment Limited	Beneficial Owner		305,018,760	6.93%

Notes

- The interest by attribution represents interests of Mr. Bao Wen Bin (director of the Company), spouse of Ms. Feng Gui Ming.
- The interest by attribution represents interests of Mr. Ng Tang, David (director of the Company), spouse of Ms. Wong Hung Wan.
- Ms. Chu Yuet Wah and Ms. Ma Siu Fong beneficially owned 51% and 49% respectively of the issued share capital of Kingston Finance Limited, which has held security interest of 2,256,000,000 shares in the share capital of the Company. Best Chance Holdings Limited, which beneficially owns 2,256,000,000 shares of HK\$0.05 each in the Company, has pledged its entire interests in such shares to Kingston Finance Limited.

Long Position in the underlying shares of the Company-convertible bonds

(As at 31 December 2004, the convertible bonds were not fully paid and the conversion rights under the convertible bonds had not been exercised)

Name	Capacity	Note	Interest in shares and underlying shares	Percentage of the Company's issued share capital
Asset Managers Co., Ltd	Interest of controlled corporation	II	876,404,494	19.91%
Red Rock Investment Co., Ltd	Interest of controlled corporation	II	876,404,494	19.91%
Asset Managers (China) Company Limited	Interest of controlled corporation	II	876,404,494	19.91%
Asset Investors Co., Ltd	Interest of controlled corporation	II	876,404,494	19.91%
Asset Managers (China) Fund Co., Ltd	Beneficial Owner	I & II	876,404,494	19.91%

- I. On 2 December 2004, Asset Managers (China) Fund Co., Ltd entered into a subscription agreement with the Company, pursuant to which the Company has issued convertible bonds ("CB") in an aggregate principal amount of US\$10,000,000 to Asset Managers (China) Fund Co., Ltd. Asset Managers (China) Fund Co., Ltd exercised the conversion right to convert part of the CB in the principal amount of US\$8,000,000 to 701,123,595 of the Company on 2 March 2005 and remained to have a right to convert the balance of the CB in the principal amount of US\$2,000,000 to 175,280,898 shares of the Company within three months from 2 March 2005.

- II. Asset Managers (China) Fund Co., Ltd was owned as to 50% by Asset Investors Co., Ltd (which was owned as to 57.69% by Asset Managers Co., Ltd) and 50% by Asset Managers (China) Company Limited (which was owned as to 70% by Red Rock Investment Co., Ltd.). Red Rock Investment Co., Ltd was a wholly owned subsidiary of Asset Managers Co., Ltd. The interest of 876,404,494 shares held by Asset Managers (China) Fund Co., Ltd in the share capital of the Company was deemed as the interest of Asset Investors Co., Ltd, Asset Managers (China) Company Limited, Red Rock Investment Co., Ltd and Asset Managers Co., Ltd.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "DIRECTORS' INTERESTS IN SHARES AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above, had registered an interest or short position in the shares or underlying shares of the Company as required to be recorded pursuant to section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers for the nine months period ended 31st December, 2004 were less than 30% of the total sales (1.4.2003 to 31.3.2004: less than 30%). The aggregate purchase attributable to the Group's five largest suppliers for the nine months period ended 31st December, 2004 were less than 30% of the total purchases (1.4.2003 to 31.3.2004: less than 30%).

CORPORATE GOVERNANCE

The Company has complied throughout the nine months from 1st April, 2004 to 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules which were then in force.

EMOLUMENT POLICY

Including the directors, the Group had 26 employees as at 31st December, 2004. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical cover, subsidized training programmes as well as share option schemes.

DIRECTORS' REPORT

The determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient float throughout the nine months ended 31st December, 2004.

POST BALANCE SHEET EVENT

Details of a significant post balance sheet event are set out in note 31 to the financial statements.

ADVANCE TO AN ENTITY

At 31st December, 2004, the aggregate amount of the advance made by the Group to a third party, Citibillion Development Limited, amounted to approximately HK\$9,663,000.

The advance is unsecured, carries interest at Hong Kong Prime Rate plus 2% and was due for repayable on 18th March, 2005. An amount of HK\$5,000,000 was settled subsequent to 31st December, 2004 while the maturity date of the remaining balance has been extended to 18th September, 2005.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the audited financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

WANG JIAN HUA

CHAIRMAN

26th April, 2005