

# CHINA BEST GROUP HOLDING LIMITED

(Incorporated in Bermuda with limited liability)



(Stock Code: 370)

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## CORPORATE INFORMATION

<b>Company Name</b>	China Best Group Holding Limited
<b>Board of Directors</b> <b>Executive Directors</b>	Ms. Ma Jun Li ( <i>Chairman</i> ) Mr. Ng Tang ( <i>Deputy Chairman</i> ) Mr. Zhang Da Qing ( <i>Chief Executive Officer</i> ) (Appointed on 5th June, 2007) Mr. Wang Da Yong ( <i>Chief Executive Officer</i> ) (Resigned on 5th June, 2007) Mr. Ren Zheng Ms. Cheung Hoi Ping Mr. Zhang Jun
<b>Non-Executive Director</b>	Mr. Leung Chung Tak, Barry (Resigned on 5th June, 2007)
<b>Independent Non-Executive Directors</b>	Ms. Chung Kwo Ling Mr. Sun Yeung Yeung Mr. Lee Yuen Kwong
<b>Company Secretary</b>	Mr. Ho Wing Kuen FCCA, HKICPA, ACIS, ACS
<b>Registered Office</b>	Clarendon House 2 Church Street Hamilton HM11 Bermuda
<b>Head Office and Principal Place of Business in Hong Kong</b>	Room 3405, Bank of America Tower, 12 Harcourt Road Central Hong Kong
<b>Auditors</b>	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35/F One Pacific Place 88 Queensway Hong Kong
<b>Principal Banker</b>	Standard Chartered Bank
<b>Principal Share Registrars and Transfer Office</b>	Butterfield Corporate Services Limited Rosebank Centre 14 Bermudiana Road Pembroke Bermuda
<b>Hong Kong Branch Share Registrars and Transfer Office</b>	Tricor Tengis Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

## CHAIRMAN'S MESSAGE

In the first half of 2007, the Group made better achievements in implementing its strategy of making the coke business as core development. The management efficiency and effectiveness of the Group's investment in a coke project in Shanxi have been progressively enhanced, where Coke Furnace No. 2 of the second phase project already finished and commenced production in February 2007. Through its good networks and relationship with both the Shanxi Provincial Government and various business sectors, the Group strove to explore any new opportunities to broaden its coke business portfolio step by step. Furthermore, the Group may also expand into some other coal-producing provinces for new mergers and acquisitions.

The Group had acquired a 51% interest in Shanxi Changxing Yuci Coking Co., Ltd. in 2005, and accordingly became the controlling shareholder of Shanxi Changxing. We have injected all our capital investments in August 2007. However, the Chinese party of the said investment is still waiting for the issuing for a State-owned land use right certificate of the production plant to finish all the legal procedures.

Currently, the annual coke production capacity of Shanxi Changxing is 600,000 tons. Of which, the second phase of the plant's 300,000-ton capacity expansion planning was achieved and commenced for production in February 2007. In view of the rapid increase in the market prices of coke and the benefits contributed from the economies of scale for the expanded production, the Group still reported a loss during the period under review. The reasons behind are due to the increase in materials and depreciation costs. However, its results was greatly improved for the first half of the year.

The business operation of Shanxi Changxing was gradually improving. The management and operating efficiency enhanced especially during the past two months. It is expected that performance will be significantly improved in the second half of this year, thus helping the Group to accomplish its objective of becoming a leading "fully-integrated" coke-producing enterprise in China continuously.

Furthermore, in view of the sustained growth of the Chinese economy and the boom of the stock market in the first half of the year, the Group's allocated and utilized the surplus funds in a right and prudent manner, which have already brought substantial profit contributions to the result of the Group.

### Future Prospects

In February of 2007, Shanxi Changxing has reached the annual production capacity of 600,000 tons, and the utilization rate of such capacity was achieved as expected. The Group anticipates that its operating efficiency can further be enhanced if the capacity of project designed can be fully utilized and the sales turnover increases. The Group also arranges its management team to this project so as to raise its management efficiency, and endeavours to proceed with the project targeting to bring profit contributions for the Group in the second half of the year.

The sustained growth of China's economy gives an impetus to the steady development of the local steel and other related industries including the automotive manufacturing industry and infrastructure construction, thus creating a stable and persistent demand in the coke industry. And an increase in coke prices recently. The Group finds optimistic about the development of the coke industry in the long run, and is fully confident in the future development of coke as a major energy. The Group will continue to take the coke manufacturing as its core business, strive to identify other investment and cooperation opportunities for strengthening its coke business portfolio by steps. The group will also commence another stage of mergers and acquisitions and explore opportunities for expanding into the upstream mineral resources and downstream coal chemical processing industry.

**Ma Jun Li**

*Chairman*

Hong Kong, 24 September, 2007

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	NOTES	Six months ended 30th June,	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Turnover	3	<b>577,960</b>	174,830
International air and sea freight forwarding		<b>7,689</b>	5,140
Sale of coke		<b>101,923</b>	18,594
Cost of sales		<b>109,612</b> <b>(113,195)</b>	23,734 (26,036)
Gross profit (loss)		<b>(3,583)</b>	(2,302)
Fair value adjustment on investments held for trading		<b>54,808</b>	1,452
Other income		<b>4,297</b>	3,561
Distribution selling and expenses		<b>(8,602)</b>	(3,736)
Administrative expenses		<b>(19,133)</b>	(22,708)
Interest on other borrowings wholly repayable within five years		<b>(7,444)</b>	(2,781)
Share of results of associates		<b>126</b>	145
Profit (loss) before taxation		<b>20,469</b>	(26,369)
Income tax expense	4	<b>(2,441)</b>	–
Profit (loss) for the period	5	<b>18,028</b>	(26,369)
Attributable to:			
Equity holders of the Company		<b>18,028</b>	(18,998)
Minority interests		–	(7,371)
		<b>18,028</b>	(26,369)
Earnings (loss) per share	6		
– basic		<b>HK0.30 cents</b>	HK(0.33) cents
– diluted		<b>HK0.29 cents</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2007

	Notes	30.6.2007 HK\$'000 (unaudited)	31.12.2006 HK\$'000 (audited)
<b>Non-Current Assets</b>			
Investment property	7	1,500	1,500
Property, plant and equipment	7	175,120	151,068
Prepaid lease payments		3,941	3,725
Interests in associates		3,848	3,722
Available-for-sale investments		8,850	8,850
Club debenture		1,074	514
		<b>194,333</b>	<b>169,379</b>
<b>Current Assets</b>			
Inventories		20,375	4,785
Trade and other receivables	8	41,526	19,263
Prepaid lease payments		19	19
Short term loan receivables		7,555	5,976
Investments held for trading		2,820	70,820
Deposits placed with security brokers	9	105,494	1,657
Pledged bank deposits		14,610	24,349
Bank balances and cash		39,608	26,652
		<b>232,007</b>	<b>153,521</b>
<b>Current Liabilities</b>			
Trade and other payables	10	257,184	223,043
Taxation payable		3,236	795
Other borrowings	11	74,413	41,114
		<b>334,833</b>	<b>264,952</b>
<b>Net Current Liabilities</b>			
		<b>(102,826)</b>	<b>(111,431)</b>
<b>Total Assets Less Current Liabilities</b>			
		<b>91,507</b>	<b>57,948</b>
<b>Non-current liability</b>			
Other borrowings	11	32,577	26,533
		<b>58,930</b>	<b>31,415</b>
<b>Capital and Reserves</b>			
Share capital	12	309,824	302,449
Reserves		(209,424)	(229,564)
Equity attributable to equity holders of the Company		100,400	72,885
Minority interests		(41,470)	(41,470)
<b>Total Equity</b>			
		<b>58,930</b>	<b>31,415</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30TH JUNE, 2007**

	Attributable to equity holders of the Company								
	Share capital	Share premium	Contributed surplus	Translation reserve	Share option reserve	Accumulated losses	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 15)			(note)					
At 31st December, 2005	273,299	115,500	1,996	(595)	38,604	(369,849)	58,955	(26,268)	32,687
Exchange difference arising from translation of overseas operation	-	-	-	(129)	-	-	(129)	-	(129)
Loss for the period	-	-	-	-	-	(18,998)	(18,998)	(7,371)	(26,369)
Total recognised expenses for the period	-	-	-	(129)	-	(18,998)	(19,127)	(7,371)	(26,498)
Exercise of share options	5,000	8,700	-	-	(5,400)	-	8,300	-	8,300
Shares issued at premium	24,150	28,497	-	-	-	-	52,647	-	52,647
Share issue expenses	-	(795)	-	-	-	-	(795)	-	(795)
At 30th June, 2006	302,449	151,902	1,996	(724)	33,204	(388,847)	99,980	(33,639)	66,341
Exchange difference arising from translation of overseas operation	-	-	-	(325)	-	-	(325)	(387)	(712)
Loss for the period	-	-	-	-	-	(26,770)	(26,770)	(7,444)	(34,214)
Total recognised expenses for the period	-	-	-	(325)	-	(26,770)	(27,095)	(7,831)	(34,926)
Forfeit of share option	-	-	-	-	(513)	513	-	-	-
At 31st December, 2006	302,449	151,902	1,996	(1,049)	32,691	(415,104)	72,885	(41,470)	31,415
Exchange difference arising from translation of overseas operation	-	-	-	(2,106)	-	-	(2,106)	-	(2,106)
Profit for the period	-	-	-	-	-	18,028	18,028	-	18,028
Total recognised expense for the period	-	-	-	(2,106)	-	18,028	15,922	-	15,922
Exercise of share options	7,375	8,272	-	-	(4,054)	-	11,593	-	11,593
At 30th June, 2007	309,824	160,174	1,996	(3,155)	28,637	(397,076)	100,400	(41,470)	58,930

*Note:*

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation prior to the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited in 1996 and the nominal value of the Company's shares issued in exchange.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
 FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	<b>Six months ended 30th June,</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Net cash from operating activities:		
Cash inflow (outflow) from investment held for trading	<b>65,233</b>	(10,298)
Cash from other operating activities	<b>25,766</b>	13,971
	<b>90,999</b>	3,673
Net cash used in investing activities:		
Purchase of property, plant and equipment	<b>(23,832)</b>	(16,193)
Decrease (increase) in pledged deposits	<b>9,739</b>	(4,990)
Increase in short term receivables	<b>(1,579)</b>	-
Other investing cash flows	<b>1,407</b>	1,809
	<b>(14,265)</b>	(19,374)
Net cash from financing activities:		
Proceeds on issues of shares, net of expenses	<b>15,647</b>	60,152
New other borrowings raised	<b>79,561</b>	-
Repayments of other borrowings	<b>(44,877)</b>	-
Interest paid	<b>(7,444)</b>	(2,781)
	<b>42,887</b>	57,371
Net increase in cash and cash equivalents	<b>119,621</b>	41,670
Cash and cash equivalents at 1st January	<b>28,309</b>	28,676
Effect of foreign exchange rate changes	<b>(2,828)</b>	(129)
Cash and cash equivalents at 30th June	<b>145,102</b>	70,217
Represented by:		
Bank balances and cash	<b>39,608</b>	35,430
Deposits placed with securities broker	<b>105,494</b>	34,787
	<b>145,102</b>	70,217



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared on the following bases:

- (i) The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting".
- (ii) In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the consolidated net current liabilities of approximately HK\$102.8 million at 30th June, 2007 and profit of approximately HK\$18.0 million for the six months then ended.

During the year ended 31st December, 2005, in order to take advantage of further growth opportunities, the Group explored the business opportunities in the coke industry. The Group entered into a subscription agreement ("Subscription Agreement") with Shanxi Changxing Yuci Coking Co, Limited ("Shanxi Changxing"), Mr. Yu-wen Jiang Ming ("Mr. Yu-wen") and Ms. Yu-wen Man Rui ("Ms. Yu-wen"), independent third parties, in February 2005 under which the Group and Mr. Yu-wen agreed to subscribe for a total of RMB64.3 million and RMB41.7 million, respectively, in the additional share capital of Shanxi Changxing.

Upon completion of the Subscription Agreement, Shanxi Changxing will be owned as to 51% by the Group, as to approximately 44.2% by Mr. Yu-wen and 4.8% by Ms. Yu-wen. The principal activity of Shangxi Changxing is the manufacture and sale of coke and certain by-products in the Peoples' Republic of China (the "PRC"). The acquisition was approved by the shareholders of the Company at the special general meeting on 23rd June, 2005, details of which are set out in the circular of the Company dated 7th June, 2005. During the year ended 31st December, 2005, the Group made an initial investment of RMB42.2 million and a further RMB22.1 million (equivalent to approximately HK\$23.1 million) was finally injected into Shanxi Changxing on 1st August, 2007, in accordance with the Subscription Agreement.

Shanxi Changxing became a subsidiary of the Group when the Group obtained control of Shanxi Changxing by appointing the majority of directors to the board of directors of Shanxi Changxing, which has the power to govern the financial and operating policies of Shangxi Changxing, on 2nd July, 2005. Accordingly, the Group's has commenced to account for Shanxi Changxing as a subsidiary in accordance with Hong Kong Accounting Standard ("HKAS") 27 "Consolidated and Separate Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") from 2nd July, 2005.

In accordance with the Group's strategic plan, the directors of the Company will assess and review the performance of the Company's subsidiaries on a timely basis. In the circumstances that those investments are non-performing, the Group will discontinue further support in those investments to preserve the Group's financial and liquidity position in the short term as well as maintaining the long term growth and development of the Group.

Shanxi Changxing had sustained net current liabilities of approximately HK\$255.0 million at 30th June, 2007 and loss of approximately HK\$27.0 million for the six months then ended. Shanxi Changxing is currently focusing on strengthening its operations of manufacturing and sale of coke, and the management of Shanxi Changxing is implementing active cost-saving and value-adding measures to improve its operating cash flows and financial position.

**1. BASIS OF PREPARATION** *(Continued)*

(ii) *(Continued)*

The directors have given careful consideration to the financial performance and liquidity position of Shanxi Changxing since it became a subsidiary of the Company. Should Shanxi Changxing's operating results and cash flows be unable to improve, the Group may consider to cease further support, in accordance with the strategic plan discussed above.

On the basis that the Group can improve the Group's operating results and cash flows through the implementation of the measures described above, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

**2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for the investment property and certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2006.

In the current interim period, the Group has applied, for the first time, a number of new standard, amendment and interpretation ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for the Group's financial year beginning on 1st January, 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

### 3. SEGMENTAL INFORMATION

For management purposes, the Group is currently organised into three operating divisions (i) international air and sea freight forwarding; (ii) securities investment and (iii) manufacture and sales of coke. These divisions are the basis on which the Group reports its primary segment information.

#### Business segments

For the six months ended 30th June, 2007

	International air and sea freight forwarding <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Manufacture and sales of coke <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Turnover</b>				
External	<u>7,689</u>	<u>468,348</u>	<u>101,923</u>	<u>577,960</u>
<b>Results</b>				
Segment results	<u>777</u>	<u>54,786</u>	<u>(21,331)</u>	34,232
<b>Unallocated corporate expenses</b>				(7,334)
<b>Interest income</b>				889
<b>Finance costs</b>				(7,444)
<b>Share of results of associates</b>				<u>126</u>
<b>Profit before taxation</b>				20,469
<b>Income tax expenses</b>				<u>(2,441)</u>
<b>Profit for the period</b>				<u>18,028</u>

For the six months ended 30th June, 2006

	International air and sea freight forwarding <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Manufacture and sales of coke <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Turnover</b>				
External	<u>5,140</u>	<u>151,096</u>	<u>18,594</u>	<u>174,830</u>
<b>Results</b>				
Segment results	<u>254</u>	<u>1,460</u>	<u>(10,396)</u>	(8,682)
<b>Unallocated corporate expenses</b>				(15,834)
<b>Interest income</b>				783
<b>Finance costs</b>				(2,781)
<b>Share of results of associates</b>				<u>145</u>
<b>Loss for the period</b>				<u>(26,369)</u>

#### 4. INCOME TAX EXPENSE

The taxation charge for the six months ended 30th June, 2007, represented Hong Kong Profits Tax recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 17.5% (six months ended 30th June, 2006: 17.5%) for the six months ended 30th June 2007.

Pursuant to the relevant laws and regulations in the PRC, the tax for Shanxi Changxing is calculated at the statutory income tax rate of 33% (Six months ended 30th June, 2006: 33%) on the assessable profit and it is exempted from PRC income tax for two years starting from the first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the condensed consolidated financial statements as Shanxi Changxing has no assessable profit for both periods.

#### 5. PROFIT (LOSS) FOR THE PERIOD

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Profit (loss) for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	<b>3,964</b>	3,522
Interest income	<b>(889)</b>	(783)
Dividend from investments in securities	-	(22)
Allowance on inventories	-	2,687
	<u><b>          </b></u>	<u>          </u>

#### 6. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the ordinary equity holders of the Company is based on the following data:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>Earnings</b>		
Earnings (loss) for the purpose of basic and diluted earnings per share	<u><b>18,028</b></u>	<u>(18,998)</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>6,069,342</b>	5,745,251
Effect of dilutive potential ordinary shares:		
Share options	<u><b>135,863</b></u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><b>6,205,205</b></u>	<u>N/A</u>

No diluted loss per share is presented for the six months ended 30th June, 2006 as the exercise of the share options would result in a decrease in the loss per share would be anti-dilutive.

## 7. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The Group incurred expenditure of approximately HK\$23,823,000 (Six months ended 30th June, 2006: HK\$16,193,000) on property, plant and equipment during the period ended 30th June, 2007.

In the opinion of the directors, there is no material difference between the carrying amount of the investment property and its fair value at 30th June, 2007.

## 8. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers with credit periods normally ranging from 30 days to 60 days.

	<b>30.6.2007</b> <i>HK\$'000</i>	31.12.2006 <i>HK\$'000</i>
Trade receivables, aged		
0-30 days	<b>17,160</b>	7,138
31-60 days	<b>659</b>	831
61-90 days	<b>384</b>	4,285
Over 90 days	<b>906</b>	806
	<hr/>	<hr/>
	<b>19,109</b>	13,060
Other receivables	<b>22,417</b>	6,203
	<hr/>	<hr/>
	<b>41,526</b>	19,263
	<hr/>	<hr/>

## 9. DEPOSITS PLACED WITH SECURITY BROKERS

The amount represents margin deposits placed with security brokers. The deposits carry interest ranging from 2.5% to 3% (30th June, 2006: approximately 3%) per annum.

## 10. TRADE AND OTHER PAYABLES

	<b>30.6.2007</b> <i>HK\$'000</i>	31.12.2006 <i>HK\$'000</i>
Trade payables		
0-30 days	<b>10,089</b>	4,731
31-60 days	<b>12,377</b>	3,324
61-90 days	<b>31,622</b>	23,959
Over 90 days	<b>16,518</b>	29,337
	<hr/>	<hr/>
	<b>70,606</b>	61,351
Receipt in advance from customers	<b>128,449</b>	101,301
Accrued charges and other payables	<b>28,002</b>	28,024
Construction payable	<b>30,127</b>	32,367
	<hr/>	<hr/>
	<b>257,184</b>	223,043
	<hr/>	<hr/>

## 11. OTHER BORROWINGS

During the period, the Group obtained new other borrowings amounting to HK\$79,561,000. The other borrowing carry interest at market rates ranging from 9.3% to 36.0% (30th June, 2006: 9.3% to 36.0%) per annum and repayable within 2 years. The proceeds were used to finance the acquisition of property, plant and equipment.

## 12. SHARE CAPITAL

	<b>Number of shares</b> <i>'000</i>	<b>Nominal amount</b> <i>HK\$'000</i>
Ordinary shares of HK\$0.05 each		
Authorised:		
At 1st January, 2007 and 30th June, 2007	<u>12,000,000</u>	<u>600,000</u>
Issued and fully paid:		
At 1st January, 2007	6,048,986	302,449
Exercise of share options (note)	<u>147,500</u>	<u>7,375</u>
At 30th June, 2007	<u>6,196,486</u>	<u>309,824</u>

*Note:* During the period, the Company issued 147,500,000 shares at cash consideration of HK\$0.083 or HK\$0.0712 per share pursuant to the exercise of the share options granted.

The shares issued during the period rank pari passu with the then existing shares in issue in all respects.

## 13. CAPITAL COMMITMENTS

	<b>30.6.2007</b> <b>HK\$'000</b>	31.12.2006 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>37,302</u>	<u>38,212</u>

#### 14. PLEDGE OF ASSETS

At the balance sheet dates, the Group had pledged the following assets to secure the Group's borrowings:

	<b>30.6.2007</b> <i>HK\$'000</i>	31.12.2006 <i>HK\$'000</i>
Bank deposits	<b>14,610</b>	24,349
Buildings	<b>55,098</b>	54,672
Prepaid lease payments	<b>3,960</b>	3,744
Other deposits	<b>1,431</b>	1,384
	<hr/> <b>75,099</b> <hr/>	<hr/> <b>84,149</b> <hr/>

#### 15. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of director and other members of key management during the period was as follows:

	<b>Six months ended 30th June,</b>	
	<b>2007</b> <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Short term benefits	<b>1,227</b>	1,480
Retirement benefits contribution	<b>38</b>	43
	<hr/> <b>1,265</b> <hr/>	<hr/> <b>1,523</b> <hr/>

## MANAGEMENT DISCUSSION AND ANALYSIS

The consolidated turnover of the Group amounted to HK\$577,960,000 for the six months ended 30th June, 2007 (Six months ended 30 June, 2006: HK\$174,830,000). Total gross profit/(loss) for international forwarding business and sale of coke was approximately HK\$(3,583,000) (Six months ended 30 June, 2006: HK\$(2,302,000)). Gross profit for securities trading was approximately HK\$54,808,000 (Six months ended 30 June, 2006: HK\$1,452,000). For the six months ended 30 June, 2007, the net profit/(loss) before tax of the Group amounted to profit HK\$20,469,000 (Six months ended 30 June, 2006: HK\$26,369,000 loss) with total expenses (net of other operating income) of HK\$30,882,000 (Six months ended 30 June, 2006: HK\$29,496,000) and net profit/(loss) after tax before Minority Interest of profit HK\$18,028,000 (Six months ended 30 June, 2006: HK\$26,369,000 loss). Finally, the net profit/(loss) attributable to equity holders of the Company was approximately profit HK\$18,028,000 (Six months ended 30 June, 2006: HK\$26,639,000 loss).

The overall performance and financial results for current period have a turn-around comparing with the previous corresponding period.

### BUSINESS REVIEW

#### *Coke Business*

Since the newly acquired coke enterprise was consolidated into the accounts of China Best Group, the performance had been gradually improved. The turnover of the Group's coke business was HK\$101,923,000 for the six months ended 30 June, 2007 (Six months ended 30 June, 2006: HK\$18,594,000). The gross profit/(loss) were HK\$(5,693,000) for the current period (Six months ended 30 June, 2006: HK\$(3,680,000)). The gross loss ratio cut significantly from 19.8% to 3.6%.

The Group's coking business was greatly increased for both turnover volume and price due to the recent completion of our second furnace as well as the booming of coking market for steel manufacturing.

#### *Freight Forwarding Business*

The turnover of the Group's international forwarding agency business was HK\$7,689,000 for the six months ended 30 June, 2007 (Six months ended 30 June, 2006: HK\$5,140,000), representing an increase of 50% as compared to the previous corresponding period. The Gross profit was HK\$2,035,000, (Six months ended 30 June, 2006: HK\$1,378,000), an increase of HK\$657,000 as comparing with the previous corresponding period.

The Group's freight forwarding business was stabilized though international freight forwarding business had still faced the keen competitions.

#### *Securities Investment*

The turnover of the Group's securities investment business was HK\$468,348,000 for the six months ended 30 June, 2007 (Six months ended 30 June, 2006: HK\$151,096,000), representing an increase of 2.1 times as compared to the previous corresponding period. The Gross profit was HK\$54,808,000, (Six months ended 30 June, 2006: HK\$5,430,000), an increase of HK\$49,378,000 comparing with the previous corresponding period. Profit in securities investment amounted to HK\$54,786,000 (Six months ended 30 June, 2006: HK\$1,460,000) and there was a fair value adjustment of HK\$1,343,000 (Six months ended 30 June, 2006: HK\$3,977,000) for investments held for trading got the impact as of the non-cash items during the period under review.

The Group's securities investment business in Hong Kong was profitable due to the boom of the PRC regional economic growth.



## LIQUIDITY AND CASHFLOW RESOURCES

The gearing ratio increased to 1.07 (31st December, 2006: 0.93) and the current ratio increased from 0.58 to 0.69. The calculation of gearing ratio is based on interest bearing borrowings of HK\$106,990,000 (31st December, 2006: HK\$67,647,000) and the shareholders' equity of HK\$106,406,000 (31st December, 2006: HK\$72,885,000) at the balance sheet date. All the borrowings were for the development of Shanxi, Mainland China by the Joint Venture. The calculation of current ratio is based on the current assets of HK\$233,007,000 (31st December, 2006: HK\$153,521,000) and the current liabilities of HK\$334,833,000 (31st December, 2006: HK\$264,952,000) at the balance sheet date.

The Group had a strong cash position as at 30 June 2007 with the Deposits placed with securities broker, bank balances and cash amounting to approximately HK\$145,102,000 (31st December, 2006: HK\$28,309,000).

## CAPITAL EXPENDITURE

For the period under review, the Group incurred a total capital expenditure of HK\$23,831,000 (Six months ended 30 June, 2006: HK\$16,193,000), which was funded by its own financial resources and bank/other borrowings. Of which, approximately HK\$23.6 million was spent on development of the production facilities in the Joint Venture of Shanxi, Mainland China and the balance of approximately HK\$0.2 million was spent mainly on furniture & fixtures/office equipment in other areas.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong dollars, US dollars and Renminbi. During the period, there was no significant fluctuation in the exchange rates of the Hong Kong dollars and US dollars. The appreciation in the currency value of the Renminbi may have some impact especially for the joint venture in PRC. The Group will take a prudent approach for this impact but do not engage in any derivative activities and not commit to any financial instruments to hedge its balance sheet exposure in 2007.

## PLEDGE OF ASSETS

At the balance sheet date, the Group's assets in aggregate of net book value approximately HK\$75,099,000 (31st December 2006: HK\$84,149,000) were pledged to banks to secure general banking facilities granted to the Group and the post dated bills payable. (Note 14)

## CHANGE OF DIRECTORSHIP

On 5th June 2007, Mr. Zhang Da Qing had been appointed as Executive Director and Chief Executive Officer of the Group. At the same time, Mr. Wang Da Yong had resigned as Executive Director and Chief Executive Officer as well as Mr. Leung Chung Tak Barry was resigned from non-executive director of the Company.

## EMPLOYEE AND HUMAN RESOURCES POLICY

As at 30th June, 2007, the Group had approximately 530 staff (31st December, 2006: 530). The geographical location of this staff force based including Hong Kong, Overseas Countries and Mainland China. The Group is well acquainted with the importance of the maintaining high calibre and competent employees by implementing a strict recruitment policy accordingly. The remuneration of employees was in line with the market trend, and attractive rewards such as discretionary bonuses and staff options were offered to instil a place of loyalty of the Company. Total staff cost incurred for the six months ended 30 June, 2007 was approximately HK\$5,214,000 (Six months ended 30 June, 2006: HK\$5,437,000).

## BUSINESS PROSPECT

The Group is principally engaged in coke processing, international air and sea freight forwarding and the provision of logistics services as well as trading of securities. In order to strengthen the core business - coke processing, we continue to dig out investment opportunities and select strategic partners for business development especially in this recovery of economic environment.

Furthermore, we will also develop our business to be the leader of the newly growing business coke processing. The Group had decided to re-locate more resources to occupy our unique market position in China for both in Shanxi and other northern China Provinces. Through our group's international exposure in management & financing, and followed the National policy of PRC, we are confident to develop successful business model to obtain high contribution and stable revenue from coke processing in the future.

### *Recent development*

For the coke market, the Board considered that there was a favourable upward trend of market price of coking industries and a large jump in production after the completion of second furnace in February 2007. The Group had injected all our committed investment capital approximately HK\$23.1 million ie. equivalent to RMB22.1 million into our Joint Venture Shanxi Changxing at the beginning of August 2007.

### *Short-term strategy*

The Group has decided to acquire more coke processing factories in PRC. Due to the typical nature of the business, the financial structure will be capital intensive. At the first stage of Merger and Acquisition, the Group's major assets will be non-current nature.

### *Long-term strategy*

The Group has planned to be the leader of the newly growing business coke processing especially in Shanxi and other coal producing provinces of PRC. With comparative advantages such as contemporary international management exposure and financing experience plus deeply understanding the trend of coking business for PRC National policy, the Group is confident to develop a successful business model to obtain high growth rate and stable revenue from coke processing in the future. Backward integration to acquire coal mines will be our next stage of Merger and Acquisition.

Since PRC is a major coke producer and exporter in the international market, future development prospect of coke industry is considered to be optimistic. In the overseas market, the boosting global steel industry, Japanese economy recovery and the fact that coke production in Europe and the United States being restrained by stringent environmental legislations and obsolescence of production facilities together created buoyant demand for coke.

## INTERIM DIVIDEND

The Board of Directors has resolved not to recommend the payment of any interim dividend for the six months ended 30th June, 2007 (six months ended 30th June, 2006: Nil).

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

As at 30th June, 2007, the interests and short positions of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities Futures Ordinance ("SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

### Long Position in shares and underlying shares of the Company

Name of directors		Capacity	Interest in shares	Percentage of the issued share capital of the Company
Ms. Ma Jun Li	<i>Note 1</i>	Deemed Interest	2,201,860,000	35.53%
Mr. Ng Tang	<i>Note 2</i>	Interest by attribution	30,864,000	0.50%
Mr. Ren Zheng		Beneficial owner	2,000,000	0.03%

#### Notes:

1. The shares represent deemed interest of Ms. Ma Jun Li by virtue of her spouse, Mr. Wang Jian Hua, being a substantial shareholder of the Company having a notifiable interest in the Company of such 2,113,872,000 shares were held by Best Chance Holdings Limited. By virtue of the SFO, Mr. Wang Jian Hua holding more than one third of voting rights of Best Chance Holdings Limited. Furthermore, 87,988,000 shares are held and beneficially owned by Mr. Wang Jian Hua.
2. 30,864,000 shares were held by Power Win Group Limited. By virtue of the SFO, Mr. Ng Tang holding more than one third of voting rights of Power Win Group Limited, was deemed to be interested in the same 30,864,000 shares held by Power Win Group Limited.

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 30th June, 2007, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or convertible bonds of the Company or any of its associated corporations.

## SHARE OPTIONS

The Company has share option scheme which was adopted on 18th March, 2002 (the "2002 Scheme").

The following table discloses movements in the share options of the Company during the period:

Employees and other eligible persons	Date of grant	Exercisable period HK\$	Exercise price	Number of share options				Outstanding at 30.6.2007
				Outstanding at 1.1.2007	Granted during the period	Exercised during the period	Surrendered/ lapsed during the period	
(i) Employees	5.10.2004	5.10.2004 to 5.10.2014	0.0712	15,000,000	-	(13,000,000)	-	2,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	27,200,000	-	(12,500,000)	-	14,700,000
Sub-total				42,200,000	-	(25,500,000)	-	16,700,000
(ii) Other eligible persons	23.9.2004	23.9.2004 to 23.9.2014	0.070	190,000,000	-	-	(190,000,000)	-
	5.10.2004	5.10.2004 to 5.10.2014	0.0712	67,000,000	-	(42,000,000)	-	25,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	381,000,000	-	(80,000,000)	-	301,000,000
Sub-total				638,000,000	-	(122,000,000)	(190,000,000)	326,000,000
Total categories				680,200,000	-	(147,500,000)	(190,000,000)	342,700,000

## SHARE OPTION SCHEMES

### The 2002 Scheme

On 18th March, 2002, the Company adopted the 2002 Scheme under which the board of directors may at its discretion offer to any director (including non-executive director), employee, suppliers, customers, any person or entity that provides research, development or other technological support to the Group, shareholders of any member of the Group or any entity in which the Group holds an equity interests and any other group or classes of persons or entities who have contributed to the development and growth of the Group ("Participant") of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the 2002 Scheme. The principal purpose of the 2002 Scheme is to provide incentive or rewards for the participant's contributions to the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company in issue as at the date of adoption of the 2002 Scheme. Whereas refresh approvals from the shareholders of the Company was obtained on 4 May 2005 and 6 August 2007 respectively. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company (including the 1996 Scheme) shall not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The subscription price of the option shares granted under the 2002 Scheme shall be a price to be determined by the directors of the Company being not less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; (iii) the nominal value of a share.

The total number of shares issued and may be issued upon exercise of the options granted to any individual under the 2002 Scheme and any other share option schemes of the Company must not exceed 1% of the shares in issue.

The 2002 Scheme will remain in force for a period of ten years commencing from the date of adoption of the 2002 Scheme, after which no further options will be granted but the options which are granted during the life of the 2002 Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the 2002 Scheme shall in all other respects remain in full force and effect in respect thereof.

Options granted under the 2002 Scheme must be taken up within 21 days of the date of grant. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant.

#### **ARRANGEMENTS TO PURCHASE SHARES OF DEBENTURES**

Other than the option holdings disclosed above, at no time during the year 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.

#### **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 six months ended 30th June, 2007.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2007, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO, other than the interests disclosed in "Directors' Interests in Shares and Short Positions in Shares", the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

### Long position

Ordinary shares of HK\$0.05 each of the Company

Name of shareholders	Capacity	Interest in shares	Percentage of the Company's issued share capital
Mr. Wang Jian Hua	Controlled corporation ( <i>Note 1</i> )	2,113,872,000	34.11%
	Beneficial owner	87,988,000	1.42%
Best Chance Holdings Limited	Beneficial owner ( <i>Note 1</i> )	2,113,872,000	34.11%
Chu Yuet Wah	Controlled corporation ( <i>Note 2</i> )	1,963,872,000	31.69%
Ma Siu Fong	Controlled corporation ( <i>Note 2</i> )	1,963,872,000	31.69%
Kingston Finance Limited	Security Interest ( <i>Note 2</i> )	1,963,872,000	31.69%
Asset Managers (China) Fund Co., Ltd	Beneficial owner	841,110,376	13.57%
Asset Investors Co., Ltd	Controlled corporation ( <i>Note 3</i> )	841,110,376	13.57%
Asset Managers (China) Company Limited	Controlled corporation ( <i>Note 3</i> )	841,110,376	13.57%
Asset Managers Co, Ltd	Controlled corporation ( <i>Note 3</i> )	841,110,376	13.57%
Red Rock Investment Co., Ltd	Controlled corporation ( <i>Note 3</i> )	841,110,376	13.57%

#### Notes:

- 2,113,872,000 shares were held by Best Chance Holdings Limited. By virtue of the SFO, Mr. Wang Jian Hua holding more than one third of the voting rights of Best Chance Holdings Limited, was deemed to be interested in the same 2,113,872,000 shares of the Company.
- Best Chance Holdings Limited beneficially holding 2,113,872,000 shares in the Company, has partially pledged 1,963,872,000 shares to Kingston Finance Limited. By virtue of the SFO, Ms. Chu Yuet Wah and Ms. Ma Siu Fong beneficially owned 51% and 49% respectively of the voting shares of Kingston Finance Limited were deemed to have security interest in the same 1,963,872,000 shares of the Company.
- 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. By virtue of the SFO, Asset Investors Co., Ltd, Asset Managers (China) Company Limited, Asset Managers Co., Ltd and Red Rock Investment Co., Ltd were deemed to be interested in the interests held by Asset Managers (China) Fund Co., Ltd.

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 30th June, 2007.

## **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th June, 2007 under review.

## **AUDIT COMMITTEE**

The Audit Committee of the Board, consisted of three independent non-executive directors, has reviewed and discussed with the management the Company's unaudited Interim Report and the internal control as well as financial reporting matter.

## **CORPORATE GOVERNANCE**

During the six months ended 30th June, 2007, the Company has fully complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, with deviation from Code Provisions A.4.1 and E.1.2.

All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1) but are subject to retirement by rotation once every three years and re-election at the annual general meeting under the Company's Bye-laws.

Last annual general meeting, Ms. Ma Jun Li, Chairman of the Board, was unable to attend (Code Provision E.1.2) due to business trips. She authorized the Deputy Chairman, Mr. Ng Tang attended to chair the meeting and answer questions on her behalf.

## **INTERNAL CONTROL**

The Board acknowledges its responsibility for the Group's system of internal control system to safeguard shareholder investment and reviewing the effectiveness of such on an annual basis under Code Provision C.2.1.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed, immediately following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th June 2007.

## **PUBLICATION OF INTERIM REPORT**

This interim report will be published on the websites of Hong Kong Exchange and Clearing Limited (<http://www.hkex.com.hk>) under the section "Latest Listed Companies Information and the Company" (<http://www.cbgroup.com.hk>).