

MANAGEMENT DISCUSSION AND ANALYSIS

The consolidated turnover of the Group amounted to HK\$174,830,000 for the six months ended 30th June, 2006 (six months ended 30th June, 2005: HK\$5,653,000). Total gross profit was approximately HK\$3,127,000 (six months ended 30th June, 2005: HK\$1,267,000). For the for the six months ended 30th June, 2006, the Group recorded total expenses (net of other operating income) of HK\$29,496,000 (six months ended 30th June, 2005: HK\$37,777,000) and net loss before Minority Interest HK\$26,369,000 (six months ended 30th June, 2005: HK\$36,510,000). Finally, the net loss after Minority Interest was approximately HK\$18,998,000 (six months ended 30th June, 2005: HK\$36,510,000).

BUSINESS REVIEW

Coke Business

After the newly acquired coke enterprise was consolidated into the accounts of China Best Group from second half year 2005, the turnover of the Group's coke business was approximately HK\$18,594,000 for the six months ended 30th June, 2006 (six months ended 30th June, 2005: Nil). The gross profit/loss was approximately HK\$3,680,000 gross loss (six months ended 30th June, 2005: Nil).

Freight Forwarding Business

The turnover of the Group's international forwarding agency business was HK\$5,140,000 (six months ended 30th June, 2005: HK\$5,395,000), representing a decrease of 5% as compared to the previous corresponding period. Total gross profit was HK\$1,378,000 profit, (six months ended 30th June, 2005: HK\$1,321,000), an increase of HK\$57,000 comparing with the previous corresponding period.

Though international freight forwarding business is still a very thin margin competition, operating profit on freight forwarding business has substantially increased especially in Singapore. Furthermore, the joint venture of freight forwarding business in Shanghai with strategy partner such as China Airline was stabilized and contributed continuously to the Group in the current period.

Securities Investment

The turnover of the Group's securities investment business was HK\$151,096,000 (six months ended 30th June, 2005: HK\$258,000), representing a large increase as compared to the previous corresponding period. Total gross profit was HK\$5,430,000 profit, (Total gross loss for six months ended 30th June, 2005: HK\$139,000), an increase of HK\$5,569,000 comparing with the previous corresponding period. The Adoption of New Accounting Standard for the six months ended 30th June 2006, the Company has got the impact of the following non-cash items including:

- a) There was a fair value adjustment of HK\$3,977,000 for investments held for trading during the period under review (Six months ended 30th June 2005: HK\$215,000);
- b) There was no further fair value adjustment for investment at fair value through income statement during the period under review (Six months ended 30th June 2005: HK\$4,500,000).

Net Profit in securities investment amounted to HK\$1,460,000.

LIQUIDITY AND CASHFLOW RESOURCES

The gearing ratio improved to 0.45 (31st December, 2005: 0.81) and the current ratio increased from 0.52 to 0.71. The calculation of gearing ratio is based on interest bearing borrowings of HK\$45,075,000 (31st December, 2005: HK\$47,710,000) and the shareholders' equity of HK\$99,980,000 (31st December, 2005: HK\$58,955,000) at the balance sheet date. The calculation of current ratio is based on the current assets of HK\$158,749,000 (31st December, 2005: HK\$97,962,000) and the current liabilities of HK\$224,433,000 (31st December, 2005: HK\$187,243,000) at the balance sheet date.

On 29th March, 2006, the Group entered into a top-up placing agreement with the major shareholder, Best Chance Holdings Limited and placing agent, Gold Bond Securities Limited for issuing 483,000,000 shares at a subscription price HK\$0.109. We believe the placing of the shares can strength our financial position enable the Company to have sufficient and readily available financial resources for the proposed investment in the coke industry in the PRC and for general working capital purpose.

Finally, we successfully met the short term capital requirement by issue of convertible bonds, top-up placing and bank borrowings. Strategic partners and investors such as Assets Manager Funds and Deutsch Bank were attracted to become our substantial shareholders.

PLEDGE OF ASSETS

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

Bank deposits of HK\$16,119,000 (31.12.2005: HK\$11,129,000)

Buildings with a carrying value of HK\$53,080,000 (31.12.2005: HK\$52,963,000)

Prepaid lease payments with a carrying value of HK\$3,688,000 (31.12.2005: HK\$3,691,000)

Other deposits of HK\$1,349,000 (31.12.2005: HK\$1,018,000)

CHANGE OF DIRECTORSHIP

On 20th January, 2006, Mr. Leung Chung Tak Barry was appointed as non-executive director of the Company.

EMPLOYEE AND HUMAN RESOURCES POLICY

The Group had approximately 530 staff at the period end. Staff cost amounted to HK\$5,437,000 (six months ended 30th June 2006: HK\$2,758,000). The Group is well acquainted with the importance of the maintaining high calibre and competent employees by implementing a strict recruitment policy accordingly. It offers benefit like shares options to staff in order to instil a place of loyalty of the Company.

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 especially in Shanxi. 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

On 27th July, 2006, the Group entered into a non-legally binding memorandum of understanding ("MOU") with Shanxi Taixing Group Company Limited and Char Coke (Asia) Investment Limited for the acquisition of a controlling interest 51% in a coke processing venture, Hejin City Taixing Coke Chemical Company Limited at RMB219,300,000. The Board confirms that such project is still in the negotiation stage and no formal agreement has been entered into by the Company in respect thereof.

For the coke market, the Board considered that there was a favourable indication for the recent upward trend of coking industries.

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 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.

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, 2006 (six months ended 30th June, 2005: Nil).

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

As at 30th June, 2006, 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 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	2,188,816,000	36.18%
Mr. Ng Tang	<i>Note 2</i>	Interest by attribution	42,864,000	0.70%
Mr. Ng Tang		Beneficial owner	10,000,000	0.17%
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. Besides, 74,944,000 shares are held and beneficially owned by Mr. Wang Jian Hua.
2. 42,864,000 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 42,864,000 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, 2006, 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 which have been granted under the share option schemes of the Company during the period:

Employees and other eligible persons	Date of grant	Exercisable period	Exercise price HK\$	Number of share options				Outstanding at 30.6.2006
				Outstanding at 1.1.2006	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	24,000,000	-	-	(9,000,000)	15,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	36,700,000	-	-	(9,500,000)	27,200,000
Sub-total				60,700,000	-	-	(18,500,000)	42,200,000
(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	-	-	-	67,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	481,000,000	-	(100,000,000)	-	381,000,000
Sub-total				738,000,000	-	(100,000,000)	-	638,000,000
Total categories				798,700,000	-	(100,000,000)	(18,500,000)	680,200,000

At the date of this report, the number of shares in respect of which options could be exercisable under the 2002 Scheme was 680,200,000 representing approximately 11.24% of the shares of the Company in issue at the date.

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, and none of the directors or 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 right.

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") 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 as at 18th March, 2002, i.e. 403,237,500 shares unless a fresh approval from the shareholders of the Company has been obtained. 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 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 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 shares in issue from time to time.

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.

At 30th June, 2006, the number of shares in respect of which options had been granted and remained outstanding under the 2002 Scheme was 680,200,000 (31st December 2005: 798,700,000), representing 11.24% (31st December 2005: 14.61%) of the shares of the Company in issue at that date.

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, 2006.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, 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:–

Name of shareholders	Capacity	Interest in shares	Percentage of the Company's issued share capital
Mr. Wang Jian Hua	Interest by attribution (<i>Note 1</i>)	2,113,872,000	34.95%
	Beneficial owner	74,944,000	1.23%
Best Chance Holdings Limited	Beneficial owner (<i>Note 1</i>)	2,113,872,000	34.95%
Asset Managers (China) Fund Co., Ltd	Beneficial owner	841,110,376	13.90%
Asset Investors Co., Ltd	Interest by attribution (<i>Note 2</i>)	841,110,376	13.90%
Asset Managers (China) Company Limited	Interest by attribution (<i>Note 2</i>)	841,110,376	13.90%
Asset Managers Co, Ltd	Interest by attribution (<i>Note 2</i>)	841,110,376	13.90%
Red Rock Investment Co., Ltd	Interest by attribution (<i>Note 2</i>)	841,110,376	13.90%
Deutsche Bank Aktiengesellschaft	Interest by attribution	366,028,000	6.05%

Notes:

- 2,113,872,000 Shares were held by Best Chance Holdings Limited in which Mr. Wang Jian Hua holding more than one third of its voting rights and was therefore deemed to be interested in the same 2,113,872,000 Shares held by Best Chance Holdings Limited.
- 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 at 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 Inventors 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, 2006.

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, 2006 under review.

AUDIT COMMITTEE

The Interim Report, which is prepared in accordance with HKAS 34 "Interim Financial Reporting", has also been reviewed by the Company's independent auditors Messrs. Deloitte Touche Tohmatsu in accordance with the Statement of Auditing Standards 700 "Engagement to Review Interim Financial Reports".

The Audit Committee of the Board, consisted of three independent non-executive directors, has reviewed the Interim Report and recommended its adoption by the Board.

CORPORATE GOVERNANCE

During the six months ended 30th June, 2006, 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 A4.1.

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.

INTERNAL CONTROL

The Board acknowledges its responsibility for the Group's system of internal controls and has assumed this responsibility through formulating proper procedures.

The Company is currently in the process of development the procedures for the review of the effectiveness of its internal control system under Code Provision C.2.1. The procedures would be completed and implemented prior to the end of this year.

PUBLICATION OF INTERIM REPORT

All information that is required by Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and the Company (<http://www.cbgroup.com.hk>) in due course.