

# Earnest Investments Holdings Limited

(Continued into Bermuda with Limited Liability)

(Stock Code: 339)



Interim Report **2006**

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## Corporate Information

### **Board of Directors**

#### *Executive Directors*

Mr. CHAN Chak Paul

Mr. WANG Daming

Mr. NGAI Wah Sang

#### *Independent Non-executive Directors*

Mr. Benny LUI

Mr. Oliver Yeung Kam LAI

Mr. CHAN Francis Ping Kuen

### **Company Secretary**

Ms. CHUI Yee Man

### **Auditors**

Messrs. RSM Nelson Wheeler

*Certified Public Accountants*

### **Registered Office**

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

### **Principal Place of Business**

1/F Yue On Commercial Building

385-387 Lockhart Road

Wanchai, Hong Kong

### **Stock Code**

339

### **Investment Manager**

Success Talent Investments Limited

### **Directors of the Investment Manager**

Mr. CHOI Wai Yin

Mr. LEE Kwok Leung

### **Audit Committee**

Mr. Benny LUI

Mr. Oliver Yeung Kam LAI

Mr. CHAN Francis Ping Kuen

### **Principal Registrars**

Reid Management Limited

Argyle House

41A Cedar Avenue

Hamilton HM12

Bermuda

### **Branch Registrars**

Tengis Limited

26/F Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

### **Principal Banker**

Bank of China (Hong Kong) Limited

## Management Discussion and Analysis

The Board of Directors (the “Board”) of Earnest Investments Holdings Limited (the “Company”), is pleased to present the unaudited interim financial results of the Company for the six months ended 30 June 2006 together with comparative figures for the corresponding period.

### Interim Dividend

The Board does not recommend to pay any interim dividend for the six months ended 30 June 2006. (2005: Nil)

### Results

For the six months ended 30 June 2006, the Company has recorded a turnover of approximately HK\$102,000 (2005: approximately HK\$239,000) and a net loss attributable to shareholders of approximately HK\$2,915,000 (2005: approximately HK\$1,435,000). The increase in net loss attributable to shareholders is mainly due to the increase in unrealized loss of trading securities.

### Business Review

During the period under review, the Company had not made any new investment other than Hong Kong listed securities. The Board will be cautious in making investment decision and hold cash in bank for the time being.

The Company’s portfolio of Hong Kong listed securities as at 30 June 2006 consisted of China Elegance (Holdings) Limited, China Mobile (Hong Kong) Limited, Shougang Concord International Enterprises Company Limited and Shougang Concord Century Holdings Limited.

The Company’s investments in unlisted companies had not generated any significant investment returns for the period ended 30 June 2006 but the Board believes that these investments will demonstrate good prospects in medium-term growth in profits and capital appreciation in the future.

As at 30 June 2006, approximately 18% (31 December 2005: 8%) of the Company’s investment was in a portfolio of Hong Kong listed securities, 47% (31 December 2005: 53%) in the equity interests of unlisted companies, and the remaining 35% (31 December 2005: 39%) in cash which was deposited with a bank in Hong Kong.

## Management Discussion and Analysis

### **Change of Domicile, Capital Reorganisation and Open Offer**

As mentioned in 2005 annual report, the Company had announced on 12 October 2005 that the Company proposed to:

- (i) Change the domicile of the Company from the Cayman Islands to Bermuda by way of discontinuation in the Cayman Islands and continuation as an exempted company under the laws of Bermuda (the “Change of Domicile”);
- (ii) Implement capital reorganisation (the “Capital Reorganisation”); and
- (iii) Raise additional capital by way of open offer (the “Open Offer”).

The Change of Domicile, Capital Reorganisation and Open Offer were completed during the period ended 30 June 2006, details of which are set out in the accompanying notes 1 and 8 of this interim report.

### **Liquidity, Financial Resources and Funding**

For the period under review, the Company financed its operations and investment activities through its internal resources. As at 30 June 2006, the net asset value of the Company was HK\$31,139,342 (31 December 2005: HK\$26,854,148) with net asset value per share of HK\$0.38 (31 December 2005: HK\$0.33, restated for the effect of Capital Reorganisation and Open Offer). The Company continued to maintain a low gearing ratio, calculated on the basis of the Company's total liabilities over total shareholders' funds, of 0.005 as at 30 June 2006 (31 December 2005: 0.012).

All the Company's cash and cash equivalents were denominated in Hong Kong dollars as at the balance sheet date. The directors believe that the Company has minimal exposure to foreign exchange risk.

### **Employees**

During the period, the Company did not employ any employees other than the directors of the Company. Total staff cost for the period was HK\$172,800 (2005: HK\$172,800). The Company's remuneration policies are in line with the prevailing market practice.

### **Charges on the Company's Assets and Contingent Liabilities**

As at 30 June 2006, there were no charges on the Company's assets and the Company did not have any significant contingent liabilities.

## Management Discussion and Analysis

### Prospects

The Company will continue to identify and pursue investment opportunities and manage the existing investments in accordance with the Company's investment objectives and policies of achieving medium-term growth in profits and capital appreciation. The Board believes that the Company is able to further its investment objectives and to make timely investment as well as to capture opportunities when they arise.

### Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, none of the directors of the Company or their associates had any interest and short position in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code").

### Share Options

As mentioned in 2005 annual report, the Company proposed to terminate the share option scheme adopted by the Company on 7 July 2000 (the "Old Scheme") and replaced by a new share option scheme (the "New Scheme") which constitute a share option scheme governed by Chapter 17 of the Listing Rules. The proposed ordinary resolution for termination of the Old Scheme and adoption of the New Scheme was approved by shareholders at the annual general meeting held on 26 May 2006 (the "Adoption Date").

The New Scheme is valid and effective for a period of 10 years commencing on the Adoption Date and the purpose of the New Scheme is to provide the Company with a flexible and effective means of incentivising, rewarding, remunerating, compensating and/or providing benefits to participants. Pursuant to the New Scheme the Board may at its discretion, subject always to any limits and restrictions specified in the Listing Rules, offer to grant an option to any participant; impose terms and conditions; and determine such number of shares to be subscribed for at the option price.

The minimum option price for any option granted under the New Scheme shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange on the date of offer; (ii) the average closing price of the shares as stated in the Stock Exchange for the five business days immediately preceding the date of offer; and (iii) the nominal value of the share.

## Management Discussion and Analysis

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any options to be granted under any other scheme must not in aggregate exceed 10% of the aggregate of the shares in issue as at the Adoption Date unless refreshed by the shareholders. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and all outstanding options granted and yet to be exercised under any other scheme should not exceed 30% of the shares in issue from time to time.

During the period, no options was granted, exercised, cancelled or lapsed under the Old Scheme or New Scheme and there was no outstanding option as at 30 June 2006. Save for the share option scheme of the Company, no time during the period was the Company a party to any arrangement to enable the directors or chief executive of the Company or any of their associates to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

### Substantial Shareholder

As at 30 June 2006, the register of substantial shareholders maintained under Section 336 of the SFO showed that the following shareholders had an interest of 5% or more in the shares and underlying shares of the Company:

Name of shareholder	Number of shares held	Percentage of total shares in issue as at 30 June 2006
Winsome Worldwide Limited (note 1)	22,275,000*	27.50%
SIU Kwan (note 1)	22,275,000#	27.50%
YAU Mei Han	14,051,250*	17.35%
Supreme Zone Investments Limited (note 2)	11,812,500*	14.58%
KEUNG Kwai Yung (note 2)	11,812,500#	14.58%
Benluck Company Limited	8,077,500*	9.97%

\* Beneficial owner

# Interest of controlled corporation

## Management Discussion and Analysis

Note 1: The 22,275,000 shares were held by Winsome Worldwide Limited which was wholly owned by Ms. SIU Kwan. By virtue of the SFO, Ms. SIU Kwan was deemed to be interested in 22,275,000 shares.

Note 2: The 11,812,500 shares were held by Supreme Zone Investments Limited which was wholly owned by Ms. KEUNG Kwai Yung. By virtue of the SFO, Ms. KEUNG Kwai Yung was deemed to be interested in 11,812,500 shares.

All the interests disclosed above represent long position in the ordinary shares of the Company.

Save as disclosed above, no other person had an interest or short position in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### **Purchase, Sale or Redemption of Listed Securities of the Company**

During the period, the Company neither purchased, sold nor redeemed any of its own listed securities.

### **Corporate Governance**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not or was not in compliance with the Code on Corporate Governance Practices (the "Corporate Governance 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") throughout the period.

### **Model Code**

The Company has adopted the Model Code as the code of conduct regarding directors' securities transactions. All directors confirmed that they have complied with the required standards as set out in the Model Code.

### **Audit Committee**

The audit committee, with its terms of reference established in accordance with the Corporate Governance Code, comprises three independent non-executive directors, Mr. Benny LUI, Mr. Oliver Yeung Kam LAI, and Mr. CHAN Francis Ping Kuen. The committee had reviewed the Company's unaudited interim financial statements for the six months ended 30 June 2006.



## Condensed Interim Financial Statements

### Condensed Income Statement

For the six months ended 30 June 2006

		Six months ended 30 June	
		2006 (unaudited) HK\$	2005 (unaudited) HK\$
	Notes		
<b>Turnover</b>	4	<b>101,560</b>	238,926
Cost of sales		<b>(73,000)</b>	–
		<b>28,560</b>	238,926
Administrative and other operating expenses		<b>(2,943,366)</b>	(1,673,634)
<b>Loss before taxation</b>	5	<b>(2,914,806)</b>	(1,434,708)
Taxation	6	–	–
<b>Loss for the period attributable to equity holders of the Company</b>		<b>(2,914,806)</b>	(1,434,708)
<b>Loss per share</b>			
Basic	7	<b>(5.42) cents</b>	(9.96) cents

All of the Company's operations are classified as continuing.

The accompanying notes form part of this interim financial report.

**Condensed Interim Financial Statements**
**Condensed Balance Sheet**

As at 30 June 2006

	Notes	30 June 2006 (unaudited) HK\$	31 December 2005 (audited) HK\$
<b>Non-Current Assets</b>			
Fixed assets		–	4,612
Available-for-sale investments		14,500,000	14,500,000
		<b>14,500,000</b>	14,504,612
<b>Current Assets</b>			
Financial assets at fair value through profit and loss		5,578,305	2,010,050
Sundry deposits, prepayments and other receivables		145,590	208
Cash and cash equivalents		11,082,241	10,672,949
		<b>16,806,136</b>	12,683,207
<b>Current Liabilities</b>			
Sundry payables and accruals		166,794	333,671
<b>Net Current Assets</b>		<b>16,639,342</b>	12,349,536
<b>Net Assets</b>		<b>31,139,342</b>	26,854,148
<b>Capital and Reserves</b>			
Share capital	8	1,620,000	7,200,000
Reserves		29,519,342	19,654,148
		<b>31,139,342</b>	26,854,148
<b>Net Asset Value Per Share</b>	9	<b>0.38</b>	0.33

The accompanying notes form part of this interim financial report.

## Condensed Interim Financial Statements

### Condensed Statement of Changes In Equity

For the six months ended 30 June 2006

	Share capital HK\$	Share premium HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 2005	7,200,000	50,294,617	–	(27,839,898)	29,654,719
Loss for the period	–	–	–	(1,434,708)	(1,434,708)
At 30 June 2005	7,200,000	50,294,617	–	(29,274,606)	28,220,011
At 1 January 2006	7,200,000	50,294,617	–	(30,640,469)	26,854,148
Capital Reduction *	(7,020,000)	–	7,020,000	–	–
Share Premium Cancellation *	–	(50,294,617)	50,294,617	–	–
Credit Transfer *	–	–	(29,274,606)	29,274,606	–
Issue of open offer shares *	1,440,000	5,760,000	–	–	7,200,000
Loss for the period	–	–	–	(2,914,806)	(2,914,806)
At 30 June 2006	1,620,000	5,760,000	28,040,011	(4,280,669)	31,139,342

\* Details of the Capital Reorganisation and Open Offer are set out in the accompanying note 8 of this interim financial report.

**Condensed Interim Financial Statements**

**Condensed Cash Flow Statement**

For the six months ended 30 June 2006

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(unaudited) HK\$</b>	(unaudited) HK\$
Net cash used in operating activities	<b>(6,790,708)</b>	(200,347)
Net cash from investing activities	–	524,000
Net cash from financing activities	<b>7,200,000</b>	–
<b>Net increase in cash and cash equivalents</b>	<b>409,292</b>	323,653
Cash and cash equivalents at 1 January 2006/2005	<b>10,672,949</b>	5,351,924
<b>Cash and cash equivalents at 30 June 2006/2005</b>	<b>11,082,241</b>	5,675,577
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	<b>11,082,241</b>	5,675,577

## Notes to Condensed Financial Statements

### 1. Corporate Information

The Company announced on 12 October 2005 that the Company proposed to change the domicile of the Company from the Cayman Islands to Bermuda by way of discontinuation in the Cayman Islands and continuation as an exempted company under the laws of Bermuda (the "Change of Domicile"). The Change of Domicile was approved by a special resolution passed at an extraordinary general meeting held on 2 December 2005, and had become effective on 6 January 2006.

The new registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment and trading of listed and unlisted companies.

### 2. Basis of Preparation

The condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Listing Rules and The Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### 3. Principal Accounting Policies

The accounting policies adopted are consistent with those used in the annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Company has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on the results and financial position of the Company, both for the current and prior period.

**Notes to Condensed Financial Statements**

The Company has not early adopted the following new HKFRSs that have been issued but are not yet effective as the adoption of these new HKFRSs will have no material impact on how its results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

**4. Turnover and Revenue**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	2005
	<b>HK\$</b>	HK\$
<b>Turnover</b>		
Dividend income from trading securities listed in Hong Kong	<b>8,160</b>	899
Interest on convertible loans receivable	–	238,027
Proceeds from sales of financial assets at fair value through profit or loss	<b>93,400</b>	–
<b>Total Revenue</b>	<b>101,560</b>	238,926

No segment information is presented as all of the turnover and contribution to operating results of the Company are attributed to investment activities which are carried out or originated principally in Hong Kong.

Notes to Condensed Financial Statements

**5. Loss before Taxation**

Loss before taxation is stated after charging:

	Six months ended 30 June	
	2006 HK\$	2005 HK\$
Depreciation of fixed assets	4,612	61,928
Investment management fee	180,000	180,000
Loss on disposal of fixed assets	–	16,461
Net unrealised holding losses from financial assets at fair value through profit and loss	1,539,045	647,600
Staff costs	172,800	172,800

**6. Taxation**

No provision for Hong Kong profits tax has been made as the Company had no assessable profits arising in Hong Kong for the current and prior period.

No provision for deferred tax has been made as the Company did not have any significant unprovided deferred taxation as at 30 June 2006 and 31 December 2005.

**7. Loss Per Share**

The calculation of the basic loss per share is based on the loss for the period of HK\$2,914,806 (2005: HK\$1,434,708) and on the weighted average number of ordinary shares of 53,772,025 (2005: 14,401,849 shares after adjusting for the Share Consolidation and Open Offer during the period).

No diluted loss per share is presented for the current and prior period as the Company had no dilutive potential ordinary shares in issue.

## Notes to Condensed Financial Statements

## 8. Share Capital

	<b>30 June 2006 HK\$</b>	31 December 2005 HK\$
Authorised:		
1,000,000,000 ordinary shares of HK\$0.02 each	<b>20,000,000</b>	20,000,000
Issued and fully paid:		
81,000,000 ordinary shares (2005: 360,000,000 ordinary shares) of HK\$0.02 each	<b>1,620,000</b>	7,200,000

On 12 October 2005, the Company announced to propose capital reorganisation (the "Capital Reorganisation") which involved:

- (a) consolidating every 40 existing shares of HK\$0.02 each into one consolidated share ("Consolidated Shares") of HK\$0.8 each (the "Share Consolidation");
- (b) reducing the nominal value of the then issued Consolidated Shares from HK\$0.8 to HK\$0.02 each by canceling the paid up capital to the extent of HK\$0.78 on each of the then issued Consolidated Shares (the "Capital Reduction") with a credit of approximately HK\$7.02 million arising from the Capital Reduction be transferred to the contributed surplus accounts;
- (c) sub-dividing each authorised but unissued Consolidated Share into 40 adjusted shares of HK\$0.02 each ("Adjusted Shares");
- (d) canceling the entire amount standing to the credit of the share premium account of the Company as at 30 June 2005 (the "Share Premium Cancellation") and crediting the credit of approximately HK\$50.3 million arising from the Share Premium Cancellation to the contributed surplus account; and
- (e) offsetting the aggregate amount credited to the contributed surplus account arising from Capital Reduction and Share Premium Cancellation against the accumulated losses of the Company as at 30 June 2005 (the "Credit Transfer").



## Notes to Condensed Financial Statements

After the Capital Reorganisation had become effective on 2 February 2006, the Company's authorised share capital remains at HK\$20,000,000 but is now divided into 1,000,000,000 Adjusted Shares of HK\$0.02 each and the Company's issued share capital is reduced to HK\$180,000 represented by 9,000,000 Adjusted Shares.

Also on 12 October 2005, the Company announced to propose an open offer of 72,000,000 offer shares at HK\$0.1 per offer share on the basis of eight offer shares for every Adjusted Share held by the qualifying shareholder on the record date (the "Open Offer"). The Open Offer was completed on 15 March 2006.

### **9. Net Asset Value Per Share**

The calculation of the net asset value per share is based on the net assets as at 30 June 2006 of HK\$31,139,342 (31 December 2005: HK\$26,854,148) and on the number of 81,000,000 ordinary shares in issue (2005: adjusted number of 81,000,000 ordinary shares taking into account the effect of Share Consolidation and Open Offer).

### **10. Approval of Interim Financial Report**

The interim financial report was approved by the Board on 13 September 2006.

By Order of the Board

**Chan Chak Paul**

*Chairman*

Hong Kong, 13 September 2006