

## Report of the Directors

The directors submit herewith their report together with the audited financial statements of Earnest Investments Holdings Limited (the “Company”) for the year ended 31 December 2006.

### CHANGE OF DOMICILE AND CAPITAL REORGANISATION

The Company announced on 12 October 2005 that the Company proposed for a Change of Domicile 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 became effective on 6 January 2006.

The Company also announced on 12 October 2005 that the Company proposed for a Capital Reorganisation, details of which are set out in note 15 to the financial statements. The Capital Reorganisation became effective on 2 February 2006.

### PRINCIPAL ACTIVITY

The Company is an investment company engaged principally in investment in and trading of listed and unlisted investments.

No segment information is presented as all of the turnover and revenue, contribution to operating results, assets and liabilities of the Company are attributable to investment activities which are carried out or originated principally in Hong Kong and the People’s Republic of China (the “PRC”).

### MAJOR CUSTOMERS AND SUPPLIERS

The Company’s turnover is derived from the Company’s investments in listed and unlisted equity securities and the disclosure of information regarding customers and suppliers would not be meaningful.

### RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2006 and the state of the Company’s affairs as at that date are set out in the financial statements on pages 16 and 17 respectively.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2006 (2005: Nil).

### RESERVES

Details of movements in the reserves of the Company during the year are set out in the statement of changes in equity as set out in the financial statements on page 18.

Details of the reserves available for distribution to shareholders are set out in note 17 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

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

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### FINANCIAL SUMMARY

The following tables summarise the results, assets and liabilities of the Company for each of the five years ended 31 December 2006:

#### Results

	Year ended 31 December				
	2006 HK\$	2005 HK\$	2004 HK\$	2003 HK\$	2002 HK\$
Turnover	<b>198,691</b>	1,108,358	541,814	1,175,919	1,175,000
Loss before tax	<b>(2,574,681)</b>	(2,800,571)	(6,142,836)	(3,813,105)	(2,439,681)
Income tax expense	–	–	–	–	–
Loss for the year attributable to equity holders of the Company	<b>(2,574,681)</b>	(2,800,571)	(6,142,836)	(3,813,105)	(2,439,681)

#### Assets and liabilities

	As at 31 December				
	2006 HK\$	2005 HK\$	2004 HK\$	2003 HK\$	2002 HK\$
Total assets	<b>31,662,188</b>	27,187,819	29,867,095	36,163,300	40,080,667
Total liabilities	<b>(182,721)</b>	(333,671)	(212,376)	(365,745)	(470,007)
Total equity	<b>31,479,467</b>	26,854,148	29,654,719	35,797,555	39,610,660

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company are set out in notes 15 and 16 to the financial statements respectively.

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### SHARE OPTION SCHEME

The Company's share option scheme adopted on 7 July 2000 (the "Old Scheme") was terminated and replaced by a new share option scheme (the "New Scheme") which constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The termination of the Old Scheme and the adoption of the New Scheme were 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 of Hong Kong Limited (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.

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 year, no option was granted, exercised, cancelled or lapsed under the Old Scheme or New Scheme and there was no outstanding option as at 31 December 2006.

### DIRECTORS

The directors of the Company during the financial year and to the date of this report were:

#### Executive Directors

Mr. CHAN Chak Paul (*Chairman*)

Mr. NGAI Wah Sang (*Chief Executive Officer*)

Mr. WANG Daming

#### Independent Non-executive Directors

Mr. Benny LUI

Mr. Oliver Yeung Kam LAI

Mr. CHAN Francis Ping Kuen

In accordance with Section 99 of the Company's Bye-Laws, Mr. WANG Daming and Mr. Benny LUI will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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### DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company 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 year or at any time during the year.

### DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at 31 December 2006, no share options were granted to directors under the Old or New Schemes.

As at 31 December 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

At no time during the year was the Company a party to any arrangements to enable the directors or chief executives 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 SHAREHOLDERS

As at 31 December 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	Number of shares held	Percentage of total shares in issue as at 31 December 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

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### SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

- (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 the 22,275,000 shares.
- (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 the 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 year, the Company neither purchased, sold nor redeemed any of its own listed securities.

### PRE-EMPTIVE RIGHTS

There are no provisions of pre-emptive rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders under the Company's Bye-Laws and there is no restriction against such rights under the laws of Bermuda.

### MANAGEMENT CONTRACTS

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

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Board, as at the date of this annual report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

### AUDITOR

The financial statements for the financial year ended 31 December 2003 were audited by Messrs. HLB Hodgson Impey Cheng. The financial statements for the three financial years ended 31 December 2006, 2005 and 2004 were audited by Messrs. RSM Nelson Wheeler.

A resolution to re-appoint the retiring auditor, Messrs. RSM Nelson Wheeler, will be put at the forthcoming annual general meeting.

On behalf of the Board

**Chan Chak Paul**

*Chairman*

Hong Kong, 14 April 2007