

## REPORT OF THE DIRECTORS

The directors have pleasure in submitting their first annual report together with the audited financial statements of Earnest Investments Holdings Limited (the "Company") for the period from 9 February 2000 (date of incorporation) to 31 December 2000.

### **PRINCIPAL ACTIVITY**

The Company is an investment company engaged principally in the investments in listed and unlisted companies in Hong Kong and the People's Republic of China (the "PRC").

No geographical analysis is provided as all of the turnover and contribution to operating results of the Company are attributable to investment activities which are carried out or originated principally in Hong Kong.

### **RESULTS AND APPROPRIATION**

The results of the Company for the period are set out in the income statement on page 16 of the financial statements.

The directors do not recommend the payment of a dividend in respect of the period ended 31 December 2000.

### **TANGIBLE FIXED ASSETS**

Details of movements in tangible fixed assets of the Company during the period are set out in Note 9 to the financial statements.

### **SHARE CAPITAL AND SHARE OPTIONS**

Details of the share capital and share options of the Company are set out in Notes 14 and 15 to the financial statements respectively.

### **MAJOR CUSTOMERS AND SUPPLIERS**

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

# REPORT OF THE DIRECTORS

## DIRECTORS

The directors of the Company who held office during the financial period and up to the date of this report were:

### Executive Directors

|                          |   |
|--------------------------|---|
| Mr. Cheng Ping Lun       | (Appointed on 9 February 2000)                              |
| Mr. Lee Kwok Leung       | (Appointed on 17 March 2000)                                |
| Mr. See Lee Seng, Reason | (Appointed on 8 June 2000)                                  |
| Mr. Choi Wai Yin         | (Appointed on 17 March 2000 and resigned on 5 June 2000)    |
| Mr. Nam Ka Keung         | (Appointed on 8 June 2000 and resigned on 25 November 2000) |

### Non-executive Directors

|                    |   |
|--------------------|---|
| Madam Lam Lai Tim  | (Appointed on 18 March 2000 and resigned on 31 May 2000)  |
| Madam Ng Yue Ching | (Appointed on 31 May 2000 and resigned on 28 August 2000) |

### Independent Non-executive Directors

|                           |   |
|---------------------------|---|
| Mr. Chan Kin Sang         | (Appointed on 1 June 2000)                                  |
| Mr. Ng Hoi Yue            | (Appointed on 28 August 2000)                               |
| Mr. Tsang Fan Wan, Ducken | (Appointed on 18 March 2000 and resigned on 1 June 2000)    |
| Mr. Ng Wing Hang, Patrick | (Appointed on 18 March 2000 and resigned on 28 August 2000) |

In accordance with Article 87(3) of the Company's Articles of Association, any director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr. Cheng Ping Lun, Mr. Lee Kwok Leung and Mr. See Lee Seng, Reason has entered into a service contract with the Company. The service contracts cover an initial term of three years commencing on 3 July 2000 unless terminated by not less than six month's written notice served by either party or payment in lieu of such notice to the other party.

Save as disclosed above, no other directors have service contracts with the Company which are not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Under a share option scheme (the "Scheme") approved by the shareholders of the Company on 7 July 2000, the directors of the Company may, at their discretion, invite employees, including executive directors of the Company, to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES (Continued)

As at 31 December 2000, the directors of the Company had the following personal interests in options to subscribe for shares granted under the Scheme of the Company. The market value per share at the date of grant of the share options and at the balance sheet date are approximately HK\$1.0600 and HK\$0.8500 respectively. Each share option gives the holder the right to subscribe for one share and is exercisable during the period between 23 October 2000 and 22 October 2010.

| Name                     | Number of share options granted and outstanding at the balance sheet date | Date granted    | Price per share to be paid on exercise of options<br>HK\$ |
|--------------------------|---|-----------------|---|
| Mr. Cheng Ping Lun       | 800,000   | 23 October 2000 | 0.8096  |
| Mr. Lee Kwok Leung       | 800,000   | 23 October 2000 | 0.8096  |
| Mr. See Lee Seng, Reason | 800,000   | 23 October 2000 | 0.8096  |

Details of the Company's share option scheme are set out in Note 15 to the financial statements.

Save as disclosed above, none of the directors or chief executives had any interests in any securities of the Company as defined in the Securities (Disclosure of Interests) Ordinance.

Apart from the foregoing, at no time during the period was the Company a party to any arrangement to enable the directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance showed that the following shareholders had an interest of 10% or more of the issued share capital of the Company:

| Name                                      | Number of ordinary shares held | Percentage of total shares in issue |
|---|--------------------------------|-------------------------------------|
| New Millennium Profits Limited (Note 1)   | 17,000,000                     | 28.33%                              |
| Mr. Ho Man Piu                            | 16,500,000                     | 27.50%                              |
| Supreme Zone Investments Limited (Note 2) | 16,500,000                     | 27.50%                              |

Notes:

1. New Millennium Profits Limited is wholly and beneficially owned by Madam Ng Yue Ching, a Non-executive Director of the Company. Madam Ng Yue Ching resigned as a director on 28 August 2000.
2. Supreme Zone Investments Limited is wholly and beneficially owned by Madam Ho Wai Ling, Rebecca.

Save as disclosed above, no other parties were recorded in the register as having an interest in 10% or more of the issued share capital of the Company as at 31 December 2000.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS IN CONTRACTS**

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

### **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.

### **PRE-EMPTIVE RIGHTS**

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

### **INVESTMENT MANAGEMENT AGREEMENT AND CONNECTED TRANSACTIONS**

Pursuant to the Interim Investment Management Agreement, the Company appointed KGI Asset Management (HK) Limited as its Interim Investment Manager to provide it with interim investment management services prior to the registration of the Investment Manager as an investment adviser under the Securities Ordinance.

Pursuant to the Investment Management Agreement, the Company has appointed Success Talent Investments Limited, a company which is owned by Mr. Lee Kwok Leung and Mr. Choi Wai Yin as to 50% and 50% respectively, to replace the Interim Investment Manager as the Investment Manager to provide investment management services and general administrative services to the Company. In return, Success Talent Investments Limited was entitled to a monthly investment management fee at 1.5% per annum of the net asset value of the Company of the preceding month and an incentive fee equivalent to 10% of the surplus in the net asset value (with appropriate adjustments) over a financial period/year. During the period, the Company paid an investment management fee amounting to approximately HK\$366,540 to Success Talent Investments Limited. In the opinion of the independent non-executive directors, the payment of the investment management fee was:

- (i) in the ordinary and usual course of the Company's business and was in accordance with the terms of the Investment Management Agreement;
- (ii) on normal commercial terms and on an arm's length basis; and
- (iii) fair and reasonable so far as the shareholders and the Company are concerned.

Apart from the aforesaid, no other 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 period.

Apart from the above, no other 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 period or at any time during the period.

### RESERVES

Details of movements in the reserves of the Company during the period are set out in Note 16 to the financial statements.

The Company's reserves available for distribution represent the share premium less accumulated losses under the Companies Law Chapter 22 of the Cayman Islands. The share premium of the Company is available for paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividend may be declared and paid out of the profits of the Company and, with the approval of the shareholders of the Company, out of the share premium. The Company's reserves available for distribution amounted to approximately HK\$46,279,300 as at 31 December 2000.

### COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix I4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period, except that the independent non-executive directors are not appointed for specific terms and are subject to retirement by rotation in accordance with Article 87(3) of the Company's Articles of Association.

On 7 July 2000, the Company established an Audit Committee comprising two independent non-executive directors Mr. Chan Kin Sang and Mr. Ng Wing Hang, Patrick who was subsequently replaced by Mr. Ng Hoi Yue on 28 August 2000. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants.

### AUDITORS

The accompanying financial statements were audited by Messrs. HLB Hodgson Impey Cheng. A resolution for the reappointment of Messrs. HLB Hodgson Impey Cheng as auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Mr. See Lee Seng, Reason**

*Executive Director*

Hong Kong, 12 April 2001