

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 2004.

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"). There was no significant change in its activity during the year.

No segment information is presented as all of the turnover, 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.

MAJOR CUSTOMERS AND SUPPLIERS

The Company's entire turnover is derived from the Company's investments in trading securities and interest-bearing loans 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 2004 and the state of affairs of the Company as at that date are set out in the financial statements on pages 14 to 34.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2004 (2003: Nil).

RESERVES

Details of movements in the reserves of the Company during the year are set out on page 15.

Pursuant to the Companies Law (Revised) of the Cayman Islands, share premium of the Company is distributable to the shareholders, subject to the provisions of the Company's Memorandum and Articles of Association and a statutory solvency test. In accordance with Article 143 of the Company's Articles of Association, no dividend shall be declared or payable except out of the profits, any reserves of the Company set aside from profits which the directors determine is no longer needed and, with the approval of the shareholders of the Company, out of share premium. At 31 December 2004, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$22,454,719 (2003: HK\$28,597,555).

FIXED ASSETS

Details of movements in fixed assets of the Company during the year are set out in note 8 to the financial statements.

FINANCIAL SUMMARY

The following tables summarise the results, assets and liabilities of the Company for the period from 9 February 2000 (date of incorporation) to 31 December 2000, and each of the four years ended 31 December 2004:

Results

| | Year ended 31 December | | | | Period ended |
|---------------------------------------|------------------------|-------------|-------------|--------------|--------------|
| | 2004 | 2003 | 2002 | 2001 | 31 December |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| Turnover | 541,814 | 1,175,919 | 1,175,000 | 1,378,656 | 123,560 |
| Loss before taxation | (6,142,836) | (3,813,105) | (2,439,681) | (11,398,966) | (4,045,317) |
| Taxation | - | - | - | - | - |
| Net loss attributable to shareholders | (6,142,836) | (3,813,105) | (2,439,681) | (11,398,966) | (4,045,317) |

Assets and liabilities

| | As at 31 December | | | | |
|-------------------|-------------------|------------|------------|-------------|------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| Total assets | 29,867,095 | 36,163,300 | 40,080,667 | 42,324,849 | 52,930,451 |
| Total liabilities | (212,376) | (365,745) | (470,007) | (1,444,508) | (651,144) |
| Net assets | 29,654,719 | 35,797,555 | 39,610,660 | 40,880,341 | 52,279,307 |

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year are set out in notes 12 and 13 to the financial statements respectively.

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SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") approved by the shareholders of the Company on 7 July 2000, for the purpose of providing incentives and rewards to eligible participants who contributed to the Company's operation. Eligible participants include executive directors and full-time employees of the Company. The Scheme remains effective for ten years from 7 July 2000.

The maximum number of shares in respect of which options may be granted under the Scheme when aggregated with any securities subject to any other scheme may not exceed 10% of the shares which have been duly allotted and issued and that the maximum number of shares in respect of options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

HK\$1.00 is payable by the grantee of an option upon acceptance of the grant of the option. The exercisable period of the share options granted is determinable by the directors, and such period shall not expire later than ten years from the date on which the share options are granted.

The exercise price per share is to be determined by the directors at their absolute discretion provided that in no event shall such price be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant of the options.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which came into effect on 1 September 2001. In accordance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Company may have to alter the terms of the existing share option scheme, or to adopt a new share option scheme before further options are granted.

During the year, no option was granted, exercised or cancelled under the Scheme. As at 31 December 2004, there were no outstanding share options.

DIRECTORS

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

Executive Directors

Mr. CHAN Chak, Paul (*Chairman*)

Mr. WANG Daming

Mr. NGAI Wah Sang

Mr. CHONG Chin (Resigned on 4 March 2004)

Independent Non-executive Directors

Mr. Benny LUI

Mr. Oliver Yeung Kam LAI (Appointed on 27 September 2004)

Mr. CHAN Francis Ping Kuen (Appointed on 7 February 2005)

Ms. CHAN Bow Ye, Bonita (Resigned on 7 February 2005)

In accordance with the Company's Articles of Association, Mr. WANG Daming, Mr. Oliver Yeung Kam LAI and Mr. CHAN Francis Ping Kuen retired by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No directors 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

Details of directors' interests in contracts in relation to the Company's business are set out in note 16 to the financial statements.

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 year or at any time during the year.

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DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES

As at 31 December 2004, no share options were granted to directors under the Scheme.

As at 31 December 2004, none of the directors of the Company or their associates had any interest and short position in the shares, underlying shares and debentures 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.

Save as disclosed above, 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 2004, 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 2004 |
|---|------------------------------|---|
| Winsome Worldwide Limited (note 1) | 59,000,000* | 16.39% |
| SIU Kwan (note 1) | 59,000,000# | 16.39% |
| Supreme Zone Investments Limited (note 2) | 52,500,000* | 14.58% |
| KEUNG Kwai Yung (note 2) | 52,500,000# | 14.58% |
| YAU Mei Han | 42,450,000* | 11.79% |
| Benluck Company Limited | 35,900,000* | 9.97% |

* Beneficial owner

Interest of controlled corporation

Notes:

- (1) The 59,000,000 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 59,000,000 shares.
- (2) The 52,500,000 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 52,500,000 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 Memorandum and Articles of Association, or the laws of the Cayman Islands.

CONNECTED TRANSACTIONS

Pursuant to a tenancy arrangement which covered a tenancy period from 1 May 2002 to 30 April 2005, signed between the Company and Yieldwin Limited, a company in which Mr. CHONG Chin, who was appointed as a director of the Company on 13 February 2003 and was subsequently resigned as director of the Company on 4 March 2004, has beneficial interests. Pursuant to the tenancy agreement, a monthly rental fee of HK\$15,000 was paid by the Company to Yieldwin Limited.

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 year.

CODE OF BEST PRACTICE AND MODEL CODE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year, except that the independent non-executive directors are not appointed for specific terms and are subject to retirement by rotation in accordance with the Company's Articles of Association.

The Company has adopted the Model Code for Securities Transaction 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.

During the year under review, none of the directors is aware of any information that would reasonably indicate that the Company or any of its directors is not or was not in compliance with the Model Code.

AUDIT COMMITTEE

In compliance with the requirements in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has an audit committee comprising the three independent non-executive directors, Mr. Benny LUI, Mr. Oliver Yeung Kam LAI and Mr. CHAN Francis Ping Kuen. In establishing the terms of reference for this audit committee, the directors have had regard to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants.

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PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, 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.

POST BALANCE SHEET EVENTS

On 3 February 2005, the Company disposed of its 10.5% interest in Jointech International Limited which is engaged in investment holding of Hong Kong Cable Services Co. Limited for a consideration of HK\$500,000 representing the net carrying value of the investment and was settled on 9 March 2005.

Save as disclosed above, the Company had no other significant post balance sheet events.

AUDITORS

The financial statements for the three financial years ended 31 December 2001, 2002 and 2003 were audited by Messrs. HLB Hodgson Impey Cheng. The accompanying financial statements were audited by Messrs. RSM Nelson Wheeler.

On 2 February 2005, Messrs. HLB Hodgson Impey Cheng tendered their resignation as the Company's auditors and Messrs. RSM Nelson Wheeler were appointed as auditors of the Company at an extraordinary general meeting held on 9 March 2005 to fill the casual vacancy.

A resolution for the reappointment of Messrs. RSM Nelson Wheeler as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

CHAN Chak, Paul

Chairman

Hong Kong, 18 April 2005