

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Earnest Investments Holdings Limited (the "Company") for the year ended 31 December 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the year ended 31 December 2005, the Company has recorded a turnover of approximately HK\$1,108,000 (2004: approximately HK\$542,000) and a net loss attributable to shareholders of approximately HK\$2,801,000 (2004: approximately HK\$6,143,000). The decrease in loss for the year is mainly due to no impairment loss recognised on non-trading securities and the decrease in unrealised loss of a trading security.

Business Review

During the year, the market was very volatile and unpredictable due to continuing high oil price and the uprising trend of interest rates in the United States. In view of this unstable market, the Company held cash in bank for the time being and the Board was very cautious in making investment decision. The Company had not made any new investment during the year ended 31 December 2005. Considering investment opportunities are equally attractive both inside and outside Hong Kong and the People's Republic of China (the "PRC"), the Company had proposed to increase its investment threshold from investing by not more than 20% of its assets outside Hong Kong and the PRC to 50%, such proposed resolution was approved by the shareholders at the annual general meeting held on 27 May 2005.

The Company's portfolio of Hong Kong listed securities as at 31 December 2005 consisted of China Elegance (Holdings) Limited, China Mobile (Hong Kong) Limited and Shougang Concord International Enterprises Company Limited. The Company's investments in unlisted companies as at 31 December 2005 had not generated any significant investment return for the year ended 31 December 2005 but the Board believes that these investments will demonstrate good prospects of medium-term growth in profits and capital appreciation in the future.

As at 31 December 2005, approximately 8% (31 December 2004: 9%) of the Company's investment was in a portfolio of Hong Kong listed securities, 53% (31 December 2004: 52%) in the equity interests of unlisted companies, and the remaining 39% (31 December 2004: 18%) in cash which was deposited with a bank in Hong Kong.

Change of Domicile, Capital Reorganisation and Open Offer

The Company 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;
- (ii) Implement the Capital Reorganisation; and
- (iii) Raise additional capital by way of Open Offer.

Details of which are set out in notes 1, 17 and 19 of the accompanying financial statements.

Chairman's Statement

Liquidity, Financial Resources and Funding

For the year under review, the Company generally financed its operations and investment activities by internal resources. As at 31 December 2005, the net asset value of the Company amounted to HK\$26,854,148 (31 December 2004: HK\$29,654,719) with net asset value per share of HK\$2.98, adjusted for the effect of Capital Reorganisation (31 December 2004: HK\$3.29, adjusted for the effect of Capital Reorganisation).

The net proceeds of the Open Offer after the Capital Reorganisation as mentioned above, was approximately HK\$6 million, which will be used as (i) general additional working capital of the Company; and (ii) for future potential investment.

The Company continued to maintain a low gearing ratio, calculated on the basis of the Company's total liabilities over total shareholders' funds, of 0.012 as at 31 December 2005 (31 December 2004 : 0.007).

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 year, the Company did not employ any employees other than the directors of the Company. Total staff costs for the year amounted of HK\$345,600 (2004: HK\$110,400). The Company's remuneration policies are in line with the prevailing market practice.

Charges on the Company's Assets and Contingent Liabilities

As at 31 December 2005, there were no charges on the Company's assets and the Company did not have any significant contingent liabilities.

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 additional fund raised through the Open Offer will enable the Company to further its investment objectives and to make timely investment as well as to build a stronger platform for capturing opportunities when they arise.

Appreciation

On behalf of the Board, I would like to thank all our shareholders for their continued trust and support, and the Investment Manager for their dedicated efforts.

Chan Chak Paul

Chairman

Hong Kong, 24 April 2006