

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Directors”) 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 2001.

General

The Company is an investment company with the primary objective of achieving medium-term capital appreciation by investing in listed and unlisted companies in Hong Kong and the People’s Republic of China (“PRC”). There has been no change in the Company’s investment objectives and policies as stated in the prospectus of the Company dated 17 July 2000 and since the listing of the Company on The Stock Exchange of Hong Kong Limited on 26 July 2000.

Business and Investment Review

As at 30 June 2001, 47% of the Company’s total investments was in a portfolio of listed securities in Hong Kong, 31% in convertible loans receivable from three unlisted companies, 2% in the equity of an unlisted company, with the remaining 20% being deposited with banks in Hong Kong. This compares with the Company’s investment portfolio as at 31 December 2000 where 52% of the Company’s total investments was in a portfolio of listed securities in Hong Kong, 20% in convertible loans receivable from two unlisted companies, 2% in the equity of an unlisted company, with the remaining 26% being deposited with banks in Hong Kong.

For the interim financial period under review, the Company recorded a net loss of approximately HK\$1,850,000. The Company’s net loss for the period is partly offset by net realised gains on disposal of the Company’s investments in trading securities amounting to approximately HK\$1,023,000 and net unrealised holding gains on trading securities amounting to approximately HK\$335,000.

The Directors have resolved not to declare any interim dividend for the period under review.

As at 30 June 2001, the Company’s listed portfolio comprised equity securities in various listed companies covering a range of industry sectors. The portfolio consisted of Great Wall Cybertech Limited, Intcera High Tech Group Limited, Karce International

Holdings Company Limited, TechCap Holdings Limited and Welback Holdings Limited. Dividend income totaling approximately HK\$43,000 was received by the Company during the interim period under review.

As disclosed in the 2000 Annual Report, the Company had invested in two convertible loans receivable from two unlisted companies which are respectively engaged in property development and manufacturing of polymer material and related products. During the interim period under review, the Company invested in a convertible loan of HK\$5,000,000 advanced to an independent third party engaging in property investment in Hong Kong. These convertible loans receivable accounted for approximately 31% of the Company's total investments as at 30 June 2001 and generated interest income of approximately HK\$642,000 for the period then ended. These investments are expected to bring to the Company stable and attractive yield in terms of interest income with the benefit of having the options convertible into equities of these investee companies.

Liquidity, Financial Resources and Funding

The Company had retained cash of approximately HK\$8,816,000 as at the interim reporting date. As most of the retained cash was placed in Hong Kong Dollars short-term deposits with major banks in Hong Kong, exposure to exchange fluctuation is considered minimal. It is intended that future investments will be funded through the Company's retained cash resources.

At the interim reporting date, the Company had net current assets of approximately HK\$35,801,000 and outstanding obligations under a hire purchase contract amounting to approximately HK\$26,000. The gearing ratio, calculated on the basis of total liabilities over total shareholders' funds as at 30 June 2001, is 0.010.

Employees

As at 30 June 2001, the Company had 11 employees, including directors of the Company. Total staff costs for the interim period under review amounted to approximately HK\$953,000. The Company's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience of individual employees.

Charges on the Company's Assets and Contingent Liabilities

As at 30 June 2001, there were no charges on the Company's assets and the Company did not have any significant contingent liabilities.

Prospects

The Company maintains a strong balance sheet which positions the Company advantageously to pursue its investment strategies and new investment opportunities. With the Company's investment strategies remained intact, the focus will continue to be on promising investments in Hong Kong and the PRC.

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

As at 30 June 2001, the directors of the Company had the following personal interests in options to subscribe for shares (the "Share Options") granted under the scheme of the Company. 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 of director	Number of Share Options granted and outstanding at the interim reporting date	Date granted	Price per share to be paid on exercise of Share Options <i>HK\$</i>
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

Save as disclosed above, as at 30 June 2001, none of the directors, chief executives and others had any personal, family, corporate or other interests in any securities of the Company as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

Save as disclosed above, the Company did not grant to any director, spouse or children under 18 years of age of any such director any right to subscribe for securities of the Company, nor had there been any exercise of such right by such persons during the period under review.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more of the issued share capital of the Company:

Name of shareholder	Number of ordinary shares held	Percentage of total shares in issue
New Millennium Profits Limited	17,000,000	28.33%
Mr. Ho Man Piu	16,500,000	27.50%
Supreme Zone Investments Limited	16,500,000	27.50%

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 30 June 2001.

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.

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 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period ended 30 June 2001, except that the Independent Non-executive Directors are not appointed for specific terms and are subject to retirement by rotation in accordance with the provisions of the Company's Articles of Association.

AUDIT COMMITTEE

The Audit Committee, comprising two Independent Non-executive Directors, has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including the review of the Company's unaudited interim financial statements for the six months ended 30 June 2001. At the request of the Directors, the Company's external auditors, Messrs HLB Hodgson Impey Cheng, have carried out a review of the unaudited interim financial statements in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.