

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I would like to present the annual report of Earnest Investments Holdings Limited (the "Company") for the year ended 31 December 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company is an investment company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company had focused on its key investments and there has been no change in the Company's investment objectives and policies of achieving medium-term capital appreciation by investing in listed and unlisted companies in Hong Kong and the People's Republic of China (the "PRC").

Results

For the year under review, the Company recorded a turnover of approximately HK\$1,175,000 (2001: approximately HK\$1,379,000) and net loss of approximately HK\$2,440,000 (2001: net loss of approximately HK\$11,399,000). The improvement in the Company's results is mainly attributable to the decrease in unrealised holding losses, increase in realised gains from the disposal of the Company's investments in trading securities and decrease in administrative and operating expenses as a result of stringent cost control policy adopted by the Company during the year.

Business review

The year under review continued to be a very difficult year for Hong Kong securities market as the general investment sentiment was adversely affected by the continuing depressed economy faced by Hong Kong. During the year, the Hang Seng Index has fallen by approximately 18% from the closing of 11,397 as at 31 December 2001 to 9,321 as at 31 December 2002.

During the year, management had taken active measures to restructure the Company's investment portfolio and has made additional investments in two unlisted companies during the year under review. These two unlisted companies are mainly engaged in manufacturing and trading of printed circuit boards and provision of investment and business management consulting services respectively.

As at 31 December 2002, approximately 12% of the Company's investment was in a portfolio of Hong Kong listed securities, 48% in the equity interests of unlisted companies, 39% in interest-bearing convertible loans receivable, and the remaining 1% being deposited with banks in Hong Kong.

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The Company's portfolio of Hong Kong listed securities as at 31 December 2002 consisted of equity securities of China Elegance International Fashion Limited and China Mobile (Hong Kong) Limited. In view of the prevailing market sentiment, management will continue to take a prudent approach in managing the Company's investment portfolio. The Board is confident that the Company's investment portfolio will bring along favourable returns to the Company. Further details of the Company's listed investment portfolio are set out in the financial statements.

For the year under review, net realised gains on disposal of trading securities amounted to approximately HK\$986,000 and the interest-bearing convertible loans receivable continued to contribute adequate returns in term of interest income amounted to HK\$1,175,000.

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Liquidity, financial resources and funding

As at 31 December 2002, the net asset value of the Company amounted to HK\$39,610,660 (2001: HK\$40,880,341) with net asset value per share of HK\$0.1100 (2001: HK\$0.1363, after adjustment for the effects of the Share Sub-division as set out in note 18 to the financial statements) and had no bank and other borrowings or long term liabilities.

The Company continued to maintain a low gearing ratio, calculated on the basis of the Company's total liabilities over total shareholders' funds, of 0.010 as at 31 December 2002 (2001: 0.035).

During the year, a Share Sub-division and a change in board lot size have been taken place with the view to improve the liquidity in trading of the Company's shares and therefore in the interests of the Company and its shareholders as a whole. Subsequent to the Share Sub-division, a placement of 60,000,000 shares of the Company was proposed and completed in order to maintain a higher working capital level. The net proceeds of HK\$1,170,000 have been used as additional general working capital to finance the daily operations of the Company.

The Board believes that the placing of new shares is a better alternative to raise working capital as compared to disposal or realisation of the Company's investments under the current market conditions.

All of the Company's cash and cash equivalents are denominated in Hong Kong dollars as at the balance sheet date and as such, its exposure to exchange fluctuation is considered negligible.

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 to HK\$78,500 (2001: HK\$1,707,433). The Company's remuneration policies are in line with the 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 31 December 2002, 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 Company will also adopt a conservative cash management approach so as to maintain a strong cash position and to take up investment opportunities when they arise.

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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

Executive Director

Hong Kong, 23 April 2003