

REPORT OF THE DIRECTORS

The directors submit herewith the annual report together with the audited financial statements of Earnest Investments Holdings Limited (the "Company") for the year ended 31 December 2002.

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 2002 and the state of affairs of the Company as at that date are set out in the financial statements on pages 18 to 40.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2002 (2001: Nil).

RESERVES

Details of movements in the reserves of the Company during the year are set out on page 19.

Pursuant to the Companies Law 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 2002, in the opinion of the directors, the Company's reserves available for distribution to shareholders amounted to HK\$32,410,659 (2001: HK\$34,880,339).

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FIXED ASSETS

Details of movements in fixed assets of the Company during the year are set out in note 11 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 two years ended 31 December 2002:

Results

	Year ended 31 December		Period ended 31 December
	2002 HK\$	2001 HK\$	2000 HK\$
Turnover	1,175,000	1,378,656	123,560
Loss before taxation	(2,439,681)	(11,398,966)	(4,045,317)
Taxation	–	–	–
Loss after taxation	(2,439,681)	(11,398,966)	(4,045,317)
Net loss attributable to shareholders	(2,439,681)	(11,398,966)	(4,045,317)

Assets and liabilities

	As at 31 December		
	2002 HK\$	2001 HK\$	2000 HK\$
Total assets	40,080,667	42,324,849	52,930,451
Total liabilities	(470,007)	(1,444,508)	(651,144)
Net assets	39,610,660	40,880,341	52,279,307

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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 18 and 19 to the financial statements respectively.

STAFF RETIREMENT BENEFITS

Details of staff retirement benefits are set out in note 10 to the financial statements.

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 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. The Directors have no present intention to terminate the existing share option scheme and to adopt a new scheme.

During the year, no option was granted or exercised under the Scheme. As at 31 December 2002, there were 4,000,000 shares available for issue under the Scheme representing approximately 1.1% of the Company's issued share capital as at that date.

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As at 31 December 2002, a director of the Company had the following personal interests in options to subscribe for shares granted under the Scheme:

Name of Director	Options held at 1 January 2002	Options lapsed during the year	Additional entitlement of Options adjusted after the Share Sub-division (note 1)	Options held at 31 December 2002	Adjusted exercise price (note 1) HK\$	Grant date	Exercisable Period
Mr. Lee Kwok Leung (note 2)	800,000	-	3,200,000	4,000,000	0.1619	23 Oct 2000	23 Oct 2000 to 22 Oct 2010
Mr. See Lee Seng, Reason (note 3)	800,000	(800,000)	-	-	-	23 Oct 2000	23 Oct 2000 to 22 Oct 2010

Notes:

- The number of share options and exercise price for each directors of the Company had been adjusted for the effects of the Share Sub-division with effect from 31 May 2002 as set out in note 18 to the financial statements.
- The 4,000,000 shares options outstanding as at 31 December 2002 had been lapsed after the balance sheet date upon the resignation of Mr. Lee Kwok Leung.
- All share options held by Mr. See Lee Seng, Reason were lapsed upon his resignation on 1 March 2002.

Valuation of share options

The options granted to directors and employees of the Company are not recognised in the financial statements until they are exercised. The directors consider that it is not appropriate to state the value of the share options granted on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

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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	
Mr. Wang Daming	(Appointed on 17 May 2002)
Mr. Ngai Wah Sang	(Appointed on 2 January 2003)
Mr. Chong Chin	(Appointed on 13 February 2003)
Mr. Lee Kwok Leung	(Resigned on 2 January 2003)
Mr. See Lee Seng, Reason	(Resigned on 1 March 2002)

Independent Non-executive Directors

Mr. Lui Benny	
Ms. Chan Bow Ye, Bonita	(Appointed on 6 September 2002)
Ms. Choy Hok Man, Constance	(Appointed on 18 January 2002 and resigned on 6 September 2002)
Mr. Chan Kin Sang	(Resigned on 1 March 2002)

In accordance with Article 87(3) of the Company's Articles of Association, Mr. Ngai Wah Sang, Mr. Chong Chin and Ms. Chan Bow Ye, Bonita retire at the forthcoming annual general meeting, and being eligible, offers themselves for re-election.

In accordance with Article 88(1) and (2) of the Company's Articles of Association, Mr. Wang Daming retires by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTOR'S SERVICE CONTRACT

Mr. Lee Kwok Leung had a service contract with the Company for an initial term of three years commencing on 3 July 2000 unless terminated by not less than six months' written notice served by either party or payment in lieu of such notice to the other party. Such service contract had been terminated on 2 January 2003 upon his resignation as director.

Save as disclosed above, 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 SHARES AND RIGHTS TO ACQUIRE SHARES

As at 31 December 2002, share options were granted to a director under the Scheme. Please refer to details under paragraph headed "Share option scheme" above.

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 (the "SDI Ordinance") as at 31 December 2002. At no time during the year 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 debentures of, the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, details of the interests representing 10% or more of the issued share capital of the Company as recorded in the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance are as follows:

Name of shareholder	Number of ordinary shares held (note1)	Percentage of total shares in issue
Supreme Zone Investments Limited	82,500,000	22.92%
Ho Wai Ling, Rebecca (note 2)	82,500,000	22.92%

Note:

1. After adjustment for the effects of the Share Sub-division as set out in note 18 to the financial statements.
2. Ho Wai Ling, Rebecca is, by virtue of section 8 of the SDI Ordinance, deemed to be interested in the Company's shares in which Supreme Zone Investments Limited is interested.

Save as disclosed above, no other parties were recorded in the register as having an interest of 10% or more of the issued share capital of the Company as at 31 December 2002.

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.

INVESTMENT MANAGEMENT AGREEMENT AND CONNECTED TRANSACTIONS

Related party transactions as disclosed in note 23 to the financial statements, which also constitute connected transactions under the Listing Rules, as required to be disclosed in accordance with Chapter 14 of the Listing Rules, are as follows:

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, 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 year. During the year, the Company paid an investment management fee amounting to approximately HK\$596,000 to Success Talent Investments Limited.

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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 year.

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.

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 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.

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 two independent non-executive directors, Mr. Lui Benny and Ms. Chan Bow Ye, Bonita. In establishing the terms of reference for this audit committee, the directors have had regard to "A Guide For The Formation Of An Audit Committee" issued by the Hong Kong Society of Accountants.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Company are set out in note 25 to the financial statements.

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

Chan Chak Paul

Executive Director

Hong Kong, 23 April 2003

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