

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 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Company recorded a turnover of approximately HK\$1,176,000 (2002: approximately HK\$1,175,000) and a net loss of approximately HK\$3,813,000 for the year under review (2002: net loss of approximately HK\$2,440,000). The increase in net loss was mainly due to an impairment loss of approximately HK\$3,078,000 made in respect of a particular investment in unlisted company (note 10 to the financial statements).

If excluding the impact of the impairment loss, the Company has managed to reduce the net loss to approximately HK\$735,000 during the year, representing an improvement by approximately 70% when compared to the net loss of approximately HK\$2,440,000 for the year ended 31 December 2002. Such improvement was due to the continuing decrease in administrative and operating expenses as a result of on going stringent cost control policy adopted by the Company.

Business Review

During the first half of the year under review, the economy was very weak in general in Hong Kong and was further hampered during the emergence of Severe Acute Respiratory Syndrome (the "SARS"). In the wake of outbreak of SARS, the Company took the opportunity of investing in an additional unlisted company, which was mainly engaged in sourcing and trading of pharmaceutical products.

During the second half of the year under review, there is an obvious favorable change in the Hong Kong economy. In response to the situation, the Company has adopted a conservative cash management approach so as to maintain a strong cash position and to take up investment opportunities when they arise. As a result, the Board decided to demand repayments rather than conversion into equity shares in respect of two interest-bearing convertible loans receivable (the "Convertible Loans") which matured in December 2003 and January 2004 respectively. Both Convertible Loans had been fully settled and repaid.

For the year under review, the Convertible Loans continued to contribute adequate returns in terms of interest income amounted to approximately HK\$1,175,000. However, interest income from Convertible Loans for the year ending 31 December 2004 is expected to be lower as two of the Convertible Loans had been matured and repaid as discussed above. In any event, management will continue to pursue appropriate investment opportunities in order to maximise returns.

The Company's portfolio of Hong Kong listed securities as at 31 December 2003 consisted of equity securities of China Elegance International Fashion Limited and China Mobile (Hong Kong) Limited. During the year, due to severe competition within the high technology industry, an impairment loss of approximately HK\$3,078,000 had been made in respect of one of the Company's investment in an unlisted company engaging in provision of computer maintenance service and software development. 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 in medium term.

As at 31 December 2003, the Company's investment comprised approximately 11% Hong Kong listed securities, 50% equity interests in unlisted companies, 31% Convertible Loans, and the remaining 8% cash deposit with banks in Hong Kong.

Liquidity, Financial Resources and Funding

As at 31 December 2003, the net asset value of the Company amounted to HK\$35,797,555 (2002: HK\$39,610,660) with net asset value per share of HK\$0.099 (2002: HK\$0.110). 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 2003 (2002: 0.010).

All the Company's cash and cash equivalents are 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 to HK\$40,000 (2002: HK\$78,500). The Company's remuneration policies are in line with the market practice.

Charges on the Company's Assets and Contingent Liabilities

As at 31 December 2003, 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.

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 2004