

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders the first annual report of Earnest Investments Holdings Limited (the "Company") since the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2000.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was incorporated on 9 February 2000 and commenced operations on 26 July 2000. 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 (the "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.

INITIAL PUBLIC OFFERING AND USE OF PROCEEDS

The year 2000 marked a significant era for the Company. On 26 July 2000, the Company was successfully listed on the Stock Exchange following an issue of 10,000,000 new shares at an issue price of HK\$1 per share. The proceeds arising from the initial public offering, after deduction of related expenses, amounted to approximately HK\$6,325,000 and have been applied in investments in listed securities. There were no unused proceeds from the initial public offering as at 31 December 2000.

BUSINESS REVIEW

As at 31 December 2000, 52% of the Company's total investments was in a portfolio of listed securities in Hong Kong, 20% in convertible loans receivable from two PRC unlisted companies, 2% in the equity of an unlisted company, with the remaining 26% being deposited with banks in Hong Kong.

The Board has resolved not to recommend a dividend. In view of the Company's relatively short operating history, the Board considers it appropriate for the Company to retain financial resources at present to enable it to seize new and attractive investment opportunities as and when they arise.

For the financial period under review, the Company recorded a net loss of approximately HK\$4,045,000 and this was mainly attributable to the net unrealised holding losses on the Company's investments in listed securities of approximately HK\$3,035,000. The year 2000 was a year of high volatility in the Hong Kong stock market due to the continual corrections in the telecommunications-media-technology sectors and Internet-related stocks. This is evident from the Hang Seng Index's overall negative return for the year 2000. The Company's net loss for the period is partly offset by a net realised gain on disposal of the Company's investments in listed securities amounting to approximately HK\$340,000. This timely disposal has enabled the Company to realise investment gains and contributed to increased holding of cash in a falling market towards the end of the year 2000.

Against the above background, nevertheless, the Company is managing a portfolio of good-quality listed company securities covering a range of industry sectors to achieve risk diversification. The portfolio consisted of China Unicom Limited, Great Wall Cybertech Limited, Intcera High Tech Group Limited, Karce International Holdings Company Limited and Welback Holdings Limited. Dividend income totaling approximately HK\$124,000 was received by the Company during the period under review. The Board is optimistic as to the future prospects of these companies in their respective lines of businesses, and expect attractive return on investments and medium-term capital appreciation. Further details on the Company's listed investment portfolio are set out in the audited financial statements.

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In accordance with the Company's investment objectives and policies, the Company's investments in unlisted companies are intended to be held for medium-term capital appreciation. As the Company only made these investments between October 2000 and December 2000, these unlisted investments had not yet generated any significant investment returns during the period under review.

The Company invested in two convertible loans receivable from two PRC unlisted companies in November 2000 and December 2000 respectively, which in aggregate represented approximately 20% of the Company's total investments as at 31 December 2000. The investee companies are respectively engaged in property development and manufacturing of polymer material and related products in Xinhui, the PRC. After undertaking a careful review of the relevant business plans and historical results, the Board believes that both of these investee companies demonstrate good prospects of medium-term growth in profits and capital appreciation. These investments offered the Company a stable and attractive yield 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\$11,973,000 as at the balance sheet 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.

The Company had net current assets of HK\$42,662,000 and no borrowings or long term liabilities at the balance sheet date, which positions the Company advantageously to pursue its investment strategies and new investment opportunities. The gearing ratio, calculated on the basis of total liabilities over total shareholders' funds as at 31 December 2000, is 0.012.

EMPLOYEES

As at 31 December 2000, the Company had 11 employees, including directors of the Company. Total staff costs for the period under review amounted to approximately HK\$705,000. 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.

During the period under review, the Company granted a total of 6,000,000 share options to certain directors and full-time employees of the Company, pursuant to the Company's share option scheme approved by the shareholders on 7 July 2000, to subscribe for shares of the Company at an exercise price of HK\$0.8096 per share. These share options are exercisable from 23 October 2000 to 22 October 2010.

CHARGES ON THE COMPANY'S ASSETS AND CONTINGENT LIABILITIES

There were no charges on the Company's assets or any significant contingent liabilities as at 31 December 2000.

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PROSPECTS

In 2001, the Company will continue to identify and pursue investment opportunities in Hong Kong and the PRC in accordance with the Company's investment objectives and policies which continue to work satisfactorily.

The Board considers that the Company is well positioned to benefit from the vast opportunities brought by the continual growth in the Hong Kong and the PRC economy and China's imminent accession to the World Trade Organisation. The Company will undertake further investments in this region when attractive investment opportunities arise, along with the ultimate goal of maximising returns to shareholders.

APPRECIATION

On behalf of the Board of Directors, I would like to express my appreciation to the shareholders for their continued support and the Investment Manager for their dedicated efforts since the Company's listing on the Stock Exchange.

Mr. See Lee Seng, Reason

Chairman

Hong Kong, 12 April 2001