

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I would like to present the second annual report of Earnest Investments Holdings Limited (the "Company") for the year ended 31 December 2001.

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").

Business Review

The year under review had been a very difficult year for the international securities markets as the global economy experienced its worst recession in many years. Due to the challenging economic conditions for the entire global community, Hong Kong is now experiencing a period of economic adjustment. During the year, the Hang Seng Index fell by about 24% from the previous year closing of 15,095 to 11,397 for the year.

In 2001, the Company continued to be engaged principally in investments in listed companies in Hong Kong and to seek promising investments which was consistent with the Company's objective of generating superior returns. However, the adverse market conditions affected the general investment sentiment. The Company therefore mainly dealt in marketable securities in order to give the Company better flexibility to cope with market changes and to preserve liquidity in the first half of 2001. In the second half of 2001, the Company started to invest in unlisted company when valuation was becoming favourable to investors.

At the balance sheet date, 19% of the Company's investment was in a portfolio of Hong Kong listed securities, 23% in the equity interests of an unlisted company, 57% in interest-bearing loans of various maturity, with the remaining 1% being deposited with banks in Hong Kong.

The Board has resolved not to recommend a payment of dividend as 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 year under review, the Company recorded a turnover of approximately HK\$1,379,000 representing an increase of about 10 times when comparing with that of last financial period, whilst net loss attributable to shareholders for the year increased to approximately HK\$11,399,000 (2000: a loss of approximately HK\$4,045,000). Such increase in loss mainly arose from the unrealised holding losses on the Company's investments in trading securities of approximately HK\$4,547,000 due to the drop in share prices of these trading securities as a result of the downturn of the stock market in Hong Kong, and increase in administrative and other operating expenses for the year.

The Company continues to manage a portfolio of good-quality marketable securities covering a range of industry sectors to achieve risk diversification. The portfolio consisted of China Elegance International Fashion Limited, China Mobile (Hong Kong) Limited and Karce International Holdings Company Limited. Although the depressed investment climate exerted some downward pressure on these asset prices, 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 of the Company's listed investment portfolio are set out in the audited financial statements.

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Business Review *(continued)*

In accordance with the Company's investment objectives and policies, the Company has entered into an agreement for investing in an unlisted company which is engaged in investment holding and provision of e-commerce solutions. As the Company only made this investment in December 2001, this unlisted investment had not yet generated any significant investment returns during the year under review. After undertaking a careful review of the relevant business plans, the Board believes that this investment demonstrates good prospects of medium-term growth in profits and capital appreciation.

During the year, the Company invested in three additional interest-bearing loans, which in aggregate represented approximately 57% of the Company's total investments as at 31 December 2001. These loans contributed satisfactory returns in terms of interest income of approximately HK\$1,336,000 in aggregate for the year. These investments offered the Company a stable and attractive yield on its surplus cash resources than that offered by bank deposits with the benefit of having the options convertible into equities of these investee companies.

Liquidity, Financial Resources and Funding

The Company generally finances its operations and investment activities by equity funding.

With cash and marketable securities on hand, the Company's financial position remains healthy which positions the Company advantageously to pursue its investment strategies and new investment opportunities. As at 31 December 2001, the net asset value of the Company amounted to HK\$40,880,341 (2000: HK\$52,279,307) with net asset value per share of HK\$0.6813 (2000: HK\$0.8713). The Company continued to maintain a low gearing ratio, calculated on the basis of the Company's total liabilities over total shareholders' funds, of 0.035 at the year end date.

Given that all of the retained cash and borrowings (in the form of finance lease) of the Company are denominated in Hong Kong dollars, its exposure to exchange fluctuation is considered negligible.

Employees

For the year under review, total staff costs amounted to approximately HK\$1,707,433 (2000: HK\$705,245). 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. Apart from salaries, certain employees were entitled to provident funds and participated in the Company's share option scheme.

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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 2001.

Prospects

In 2002, the Company will continue to identify and pursue investment opportunities in Hong Kong and the PRC and manage the existing investments in accordance with the Company's investment objectives and policies.

Given the difficult investment environment, the Company's management implemented stringent cost and credit control to improve its results in tough market conditions. In addition, the Company will adopt a conservative cash management approach so as to conserve funds until appropriate investment opportunities arise, along with the ultimate goal of maximising returns to shareholders.

Appreciation

On behalf of the Board, I would like to thank all our shareholders for their continued trust and support, and all our employees and the Investment Manager for their dedicated efforts.

Lee Kwok Leung
Executive Director

Hong Kong, 23 April 2002