

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 2001.

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 geographical analysis is provided as all of the turnover and contribution to operating results 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 listed securities and interest-bearing loans and the disclosure of information regarding customers and suppliers would not be meaningful.

RESULTS AND APPROPRIATION

The results of the Company for the year ended 31 December 2001 and the state of affairs of the Company as at that date are set out in the financial statements on pages 16 to 36.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2001 (period ended 31 December 2000: Nil).

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 19 to the financial statements.

TANGIBLE FIXED ASSETS

Details of movements in tangible fixed assets of the Company during the year are set out in note 10 to the financial statements.

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 17 and 18 to the financial statements respectively.

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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. Lee Kwok Leung	
Mr. Chan Chak Paul	(Appointed on 19 November 2001)
Mr. Cheng Ping Lun	(Resigned on 19 November 2001)
Mr. See Lee Seng, Reason	(Resigned on 1 March 2002)

Independent Non-executive Directors

Ms. Choy Hok Man, Constance	(Appointed on 18 January 2002)
Mr. Lui Benny	(Appointed on 30 November 2001)
Mr. Chan Kin Sang	(Resigned on 1 March 2002)
Mr. Ng Hoi Yue	(Resigned on 30 November 2001)

In accordance with Article 87(3) of the Company's Articles of Association, any directors appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

DIRECTOR'S SERVICE CONTRACT

Mr. Lee Kwok Leung has 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.

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

Under a share option scheme (the "Scheme") approved by the shareholders of the Company on 7 July 2000, the directors of the Company may, at their discretion, invite full-time employees, including executive directors of the Company, to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein.

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DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES (Continued)

During the year, no option was granted to or exercised by any of the directors under the Scheme. As at 31 December 2001, the directors of the Company had the following personal interests in options to subscribe for shares granted under the Scheme:

Name of director	Exercisable period	Outstanding at 31 Dec 2000	Cancelled during the year	Outstanding at 31 Dec 2001	Price per share to be paid on exercise of options HK\$
Mr. Cheng Ping Lun	23 October 2000 to 22 October 2010	800,000	(800,000)	–	–
Mr. Lee Kwok Leung	23 October 2000 to 22 October 2010	800,000	–	800,000	0.8096
Mr. See Lee Seng, Reason	23 October 2000 to 22 October 2010	800,000	–	800,000	0.8096

Details of the Scheme are set out in note 18 to the financial statements.

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 2001. 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of ordinary shares held	Percentage of total shares in issue
Supreme Zone Investments Limited	16,500,000	27.50%

Save as disclosed above, no other parties were recorded in the register as having an interest of 10% or more in the issued share capital of the Company as at 31 December 2001.

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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 for 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

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\$693,000 to Success Talent Investments Limited. 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.

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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 Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited 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 Article 87(3) of the Company’s Articles of Association.

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. Choy Hok Man, Constance. 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.

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

Lee Kwok Leung

Executive Director

Hong Kong, 23 April 2002