

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 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the year ended 31 December 2004, the Company has recorded a turnover of approximately HK\$542,000 (2003: approximately HK\$1,176,000) and a net loss attributable to shareholders of approximately HK\$6,143,000 (2003: net loss of approximately HK\$3,813,000). The decrease in turnover is due to the drop of interest income because two interest-bearing convertible loans receivable were repaid in December 2003 and January 2004 respectively.

The increase in net loss attributable to shareholders is mainly due to the increase in unrealised loss of a trading security.

Business Review

During the year, although global and Hong Kong economies have been growing steadily, yet they were rather unstable due to the high volatility of oil price and the up-rising trend of interest rate in the United States. Along with the macro-economic tightening measures imposed by the Central Government of China due to the overheated economy in China, the market was very volatile and unpredictable. In view of this, the Company held cash in bank for the time being and the Board were very cautious in making investment decision.

For the year under review, interest income dropped significantly as two interest-bearing convertible loans receivable had been repaid as stated above.

The Company's portfolio of Hong Kong listed securities as at 31 December 2004 consisted of China Elegance (Holdings) Limited, China Mobile (Hong Kong) Limited and Shougang Concord Century Holdings Limited. Although a significant unrealised holding loss on trading securities was recorded during the year, the Board considers that it is temporary and the portfolio will produce favourable returns to the Company in medium-term.

During the year, the competition within the high technology industry was severe, thus the Company's investment in an unlisted company engaging in provision of computer maintenance service and software development does not generating satisfactory returns. In order to keep up with the current market player in the software development market, new investment in this unlisted company is inevitable as new technology will be acquired. Having considered that, the Company had decided to dispose of this unlisted investment, and it was subsequently sold at a loss in February 2005. The impairment loss of HK\$2,578,000 was recorded in 2004. For the other Company's investments in unlisted companies, no significant investment returns had been generated yet. However, the Board believes that these investments will provide a profitable return in medium-term.

As at 31 December 2004, approximately 9% (2003: 11%) of the Company's investment was in a portfolio of Hong Kong listed securities, 52% (2003: 50%) in the equity interests of unlisted companies, 21% (2003: 31%) in convertible loans receivable, and the remaining 18% (2003: 8%) in cash which was deposited with a bank in Hong Kong.

Chairman's Statement

Liquidity, Financial Resources and Funding

For the year under review, the Company generally financed its operations and investment activities by internal resources. As at 31 December 2004, the net asset value of the Company amounted to HK\$29,654,719 (2003: HK\$35,797,555) with net asset value per share of HK\$0.082 (2003: HK\$0.099). The Company continued to maintain a low gearing ratio, calculated on the basis of the Company's total liabilities over total shareholders' funds, of 0.007 as at 31 December 2004 (2003: 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\$110,400 (2003: HK\$40,000). The Company's remuneration policies are in line with the prevailing market practice.

Charges on the Company's Assets and Contingent Liabilities

As at 31 December 2004, 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. As the Company has maintained a relatively strong cash position, the Board believes that the Company is able 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

Chairman

Hong Kong, 18 April 2005