I present to the shareholders my report on the results and operations of Magnificent Estates Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st March, 2001.

RESULTS

The Group's audited consolidated loss after taxation for the year ended 31st March, 2001 amounted to HK$5,156,545.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31st March, 2001 (2000: Nil).

BOOK CLOSURE

The register of members will be closed from Monday, 27th August, 2001 to Friday, 31st August, 2001, both dates inclusive, during which period no transfer of shares will be registered. In order to determine the identity of members who are entitled to attend and vote at the Annual General Meeting to be held on Friday, 31st August, 2001 all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong, not later than 4:00 p.m. on Friday, 24th August, 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

During the financial year under review, the Group continued with its operations of property investment, property leasing and hotel investment. The loss for the year attributable to shareholders arose mainly as a result of the value marked down to market price at year end date of the portfolio of securities investment in blue-chip stocks. This unrealised holding loss on securities amounted to HK$19.6 million. However, subsequent to the financial year under review, part of the portfolio has been disposed of in May 2001 at recovered market prices so that approximately HK$7 million of recovered value will be reflected as earnings in the financial statements for the next financial year. The increase in the Group's turnover was due to the increase in the turnover from securities investment.

Operating income from the Group's hotel improved moderately although the hotel business environment remained highly competitive. The average occupancy rate of the hotel was approximately 84 per cent at increased room rates for the year under review.

As to property leasing, the rental market of both luxury residential and commercial properties in Hong Kong has been gradually improving since the last financial year. The Group's investment properties which include the Shun Ho Tower, California Plaza, the Pak Sha Wan Pier and Chateau Vivienne remained fully leased. Also, in September 2000, the Group has added to its luxury property portfolio the House No. 23, Las Pinadas at Shouson Hill for a consideration of HK$26 million.

In October 2000, the land lease modification for the Pak Sha Wan Pier has been approved for an increase in the gross floor area of approximately 15,000 sq. ft. for a premium of HK$5 million.

At Ho Chung, Sai Kung, New Territories, foundation works for the 34 town houses development is currently underway and it is expected that the development will be completed before October 2002.

As to capital expansion, subsequent to the financial year under review, in May 2001, the Company issued HK$96.7 million of mandatorily convertible bonds the proceeds of which have been fully applied towards the reduction of the Group's current liabilities. Such convertible bonds will be fully converted into equity upon their maturity in November 2002 to strengthen the Group's capital base. Currently, gearing of the Group in terms of external bank borrowings remains at an average level of around 10 per cent.

During the year, the Group's staffing level remained at around 130 with remunerations and benefits set with reference to the market.

Generally, the Board expects the business environment in Hong Kong remains difficult despite that the Hong Kong economy appears to be improving. Given the prevailing market outlook, the Group will continue to be cautious in the use of external borrowings and will consider capital expansion to support further expansion of its investment portfolio.

William CHENG Kai Man
Chairman

Hong Kong, 20th July, 2001