

Chairman's Statement

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 December, 2003.

RESULTS

The Group's audited consolidated profit after taxation for the year ended 31st December, 2003 amounted to HK\$4,985,000 (2002: HK\$8,729,000).

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31st December, 2003 (2002: Nil).

BOOK CLOSURE

The register of members will be closed from Monday, 24th May, 2004 to Friday, 28th May, 2004, 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, 28th May, 2004, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tengis Limited, G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 21st May, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

During the financial year under review, the Group continued with its operations of property investment, property development and trading, property leasing, investment in and operation of hotel and furnished suites and investment holding. The decrease in turnover was due to the reduction in property sales during the year. The reduction in net profit was mainly due to the loss on the disposal of a commercial property of the Group.

Operating income from the Group's hotel declined as a result of the adverse impact of the SARS disease which occurred during the second quarter of the year. The hotel business managed to recover gradually after August 2003. The average occupancy rate of the hotel for the year under review was approximately 70% at reduced room rates.

As to property leasing, the Group's investment properties maintained an overall occupancy of approximately 90% during the financial year under review.

Regarding property development, construction of the Group's 34 town houses at Ho Chung has been completed by the end of the year and is now ready for sale and will be put on to the market at an optimal time in light of the continued improving property market conditions in the year 2004.

In September 2003, the Group completed the disposal of the commercial property at No.210, Pak Sha Wan, Sai Kung for a consideration of HK\$52 million. This disposal has resulted in a loss of approximately HK\$26.6 million.

In Shanghai, the PRC, the Group has continued with the business of short-term leasing of the furnished suites at the Magnificent International Hotel commercial property at Xizang Road.

In September 2003, the Group entered into a sale and purchase agreement to acquire the development site at No.633 King's Road, North Point for a consideration of HK\$230 million. This acquisition was completed in December 2003. The site area is approximately 17,150 sq.ft. and the site will be developed into a 3-star hotel with 600 rooms of gross floor area of approximately 258,601 sq.ft.

Subsequent to the financial period under review, in March 2004, the Group has completed the sale of House No.23, Las Pinadas at No.33 Shouson Hill Road, Hong Kong for a consideration of HK\$31.7 million. This disposal has realized a gain of approximately HK\$1.7 million which will be reflected in the next financial period. Also in March 2004, the Group has completed the acquisition of 5 town houses on a site of approximately 9,820 sq.ft. at So Kun Wat, Tuen Mun, N.T. for a consideration of HK\$13.8 million.

As at 31st December, 2003, gearing of the Group in terms of external bank borrowings was around 25.6%. These bank borrowings carry interest at floating rates and are mainly denominated in Hong Kong dollar. Accordingly, the exchange risk of the Group is minimal.

During the financial period under review, there were no significant changes in the Group's staffing level and remuneration and benefits were set with reference to the market.

Chairman's Statement *(Continued)*

Looking ahead, the Board considers that the economic recovery in Hong Kong is well on its way subsequent to the SARS disease occurred during the second quarter of 2003. The implementation by the PRC Government of CEPA and the furtherance of relaxation of mainland travellers to visit Hong Kong helps stimulate further recovery. Also, the recent rising property prices also add momentum in the Hong Kong business environment. As a whole, the Group will take a cautious but more optimistic approach in its business development.

William CHENG Kai Man
Chairman

Hong Kong, 19th April, 2004