

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, 2002.

RESULTS

The Group's audited consolidated profit after taxation for the year ended 31st December, 2002 amounted to HK\$10,267,136 (nine months ended 31/12/2001: loss of HK\$10,443,353).

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31st December, 2002 (nine months ended 31/12/2001: Nil).

BOOK CLOSURE

The register of members will be closed from Monday, 26th May, 2003 to Friday, 30th May, 2003, 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, 30th May, 2003 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, 23rd May, 2003.

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 increase in turnover and profit for the financial year under review was mainly due to the disposal of a commercial/residential building of the Group. The profit from operations before taxation, finance costs and share of profits of associates amounted to approximately HK\$49 million prior to accounting for the revaluation decrease of approximately HK\$27 million of investment properties.

Operating income from the Group's hotel improved moderately as a result of the continued process of cost control. The year round average occupancy rate of the hotel was approximately 89% at reduced room rates. However, subsequent to the financial year under review, the hotel business has seriously deteriorated

due to the impact of the outbreak of the atypical pneumonia disease known as SARS. The outlook of this sector depends on the outcome of the control of the epidemic.

As to property leasing, the Group's investment properties maintained an overall occupancy of approximately 95% during the financial year under review.

Regarding property development, construction of the Group's 34 town houses at Ho Chung has been continued and the development project is expected to be completed by the end of the year 2003.

During the financial year under review, the Group has disposed of in strata-title sales the Aspen Court at No. 46, High Street, Hong Kong which is a 26-storey commercial/residential building. The disposal has realized net earnings of approximately HK\$25 million.

In Shanghai, the PRC, the Group's development project at Xizang Road has been completed and the business of short-term leasing of the furnished suites has commenced since April 2002.

As at 31st December 2002, gearing of the Group in terms of external bank borrowings on total funds employed was around 7.8%. The Group's external bank borrowings amounting to approximately HK\$90 million as at 31st December 2002 were secured by certain properties, listed securities and other assets of the Group with an aggregate carrying value of approximately HK\$781 million. These bank borrowings carry interest at floating interest rates and are mainly denominated in Hong Kong dollar. Accordingly, the exchange risk of the Group is minimal.

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

In general, the Board expects the business environment in Hong Kong remains difficult as the economy is dampened by the dual impacts of the war in Iraq and the outbreak of SARS. As such, the Group will continue to follow a cautious approach in its business development.

William CHENG Kai Man
Chairman

Hong Kong, 15th April, 2003