

## 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, 2006.

### RESULTS

The Group's audited consolidated profit after taxation for the year ended 31st December, 2006 amounted to HK\$110,456,000 (2005: HK\$67,872,000), an increase of 62.7% in compared to the year before.

The net assets before deferred tax (not including revaluation on all asset properties) of the Group increased during the financial year to HK\$1,419 million (HK\$0.26 per share) and after valuation on all asset properties increased to HK\$3,346 million (HK\$0.61 per share).

### DIVIDEND

The Board recommends a final dividend of HK\$0.22 cents per share for the year ended 31st December, 2006 (2005: HK\$0.20 cents per share) to shareholders whose names appear on the register of members of the Company on 25th May, 2007.

### BOOK CLOSURE

The register of members will be closed from Monday, 21st May, 2007 to Friday, 25th May, 2007, both dates inclusive, during which period transfer of shares will not be registered. In order to qualify for the proposed final dividend and determine the identity of members who are entitled to attend and vote at the Annual General Meeting to be held on Friday, 25th May, 2007, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 18th May, 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group continued with its operations of property investment, development and leasing and operation of hotels.

- For the year ended 31st December, 2006, the Group's turnover was mostly derived from the aggregate of income from operation of hotels, property rental income, proceeds from sale of insignificant properties, interest and dividend income, which is analysed as follows:

	2006 HK\$'000	2005 HK\$'000
<b>Turnover Income</b>		
Income from operation of hotels	170,228	120,973
Properties rental income	17,235	14,817
Interest from debt securities	1,268	1,179
Dividend income	40	526
Proceeds from sale of properties	-	95,243
	<u>188,771</u>	<u>232,738</u>
<b>Other income</b>	<u>6,740</u>	<u>16,158</u>
<b>Total</b>	<u><u>195,511</u></u>	<u><u>248,896</u></u>

The income from operation of hotels increased from HK\$121 million to HK\$170 million for the same period compared with last year. The increase of turnover for the whole year was due to better tourism visit environment and smooth running the operations of Ramada Hotel Kowloon, Ramada Hong Kong Hotel, Best Western Hotel Taipa, Macau and Magnificent International Hotel, Shanghai.

## Chairman's Statement (Continued)

	Ramada Hotel Kowloon		Ramada Hong Kong Hotel		Best Western Hotel Taipa, Macau		Magnificent International Hotel, Shanghai	
	Avg Room Occupancy %	Avg Room Rates HK\$	Avg Room Occupancy %	Avg Room Rates HK\$	Avg Room Occupancy %	Avg Room Rates HK\$	Avg Room Occupancy %	Avg Room Rates HK\$
2006								
Jan	95	619	89	535	82	309	39	322
Feb	96	533	93	457	89	321	57	294
Mar	97	720	93	609	95	286	69	373
Apr	95	830	91	759	90	346	74	377
May	87	568	88	502	80	331	73	365
Jun	86	531	90	476	90	291	68	378
Jul	87	554	95	499	89	320	78	351
Aug	94	573	93	514	94	333	75	356
Sep	95	671	83	568	88	285	79	408
Oct	96	962	89	858	91	367	79	397
Nov	98	743	96	659	97	312	82	416
Dec	98	797	96	698	95	360	64	352
Avg/yr	93		91		88		69	
<b>Total Revenue</b>	<b><u>53,667,000</u></b>		<b><u>68,939,000</u></b>		<b><u>30,295,000</u></b>		<b><u>17,327,000</u></b>	

The property rental income was derived from office building of Shun Ho Tower and various shops from Ramada Hotel Kowloon, Ramada Hong Kong Hotel and Best Western Hotel Taipa, Macau amounted to HK\$17,235,000.

- Overall operating expenses for the Group was HK\$89 million for the hotel operations and HK\$15 million for the corporate management office.

Operating costs for these hotels for the year under review was HK\$89 million compared to HK\$63 million last year. The escalation of costs was due to full running of the hotels and renovation costs of the hotels.

The approximate operating cost and improvement costs for each operating hotel was as follows:

Name of Hotel	HK\$
Centralized sales office	0.3 million per month
Ramada Hotel Kowloon	2.2 million per month
Ramada Hong Kong Hotel	2.5 million per month
Best Western Hotel Taipa, Macau	1.5 million per month
Magnificent International Hotel, Shanghai	0.9 million per month
<b>Total</b>	<b><u>HK\$7.4 million per month</u></b> <b><u>(HK\$89 million per annum)</u></b>

Administrative expenses of HK\$15 million per annum or HK\$1.25 million per month was for corporate office representing directors' fees, salaries for executive staff and employees, rental, marketing expenses and office expenses.

- As at 31st December, 2006, the overall debt was HK\$557 million, of which HK\$316 million was bank borrowing and HK\$241 million was shareholder loan.

Of these loans, the total interest expenses amounted to HK\$25 million, of which HK\$13 million was paid to bank borrowing and HK\$12 million was paid to shareholder loan.

Out of these interests totally paid, HK\$6 million was capitalized and HK\$19 million reflected in the expenses account.

- The new accounting standards continue to have adverse impact on the results from hotel businesses, these hotels are now stated at cost less depreciation resulting in a significant impact of the following:

- Reduction of the carrying amount of the net assets value of the Group as the market value of the Group's hotel properties has not been accounted for:

Name of properties	Carrying amounts in the accounts under new accounting standards At 31.12.2006	Independent professional valuation report from Dudley Surveyors Limited At 31.12.2006	Valuation surplus (before accounting for any related taxes) not included in accounts At 31.12.2006
	HK\$'000	HK\$'000	HK\$'000
Ramada Hotel Kowloon	299,311	642,000	342,689
Ramada Hong Kong Hotel	384,902	827,400	442,498
Best Western Hotel Taipa, Macau	269,599	350,000	80,401
Magnificent International Hotel, Shanghai	83,672	255,600	171,928
633 King's Road	421,437	1,286,000	864,563
Shun Ho Tower	362,435	363,900	1,465
Properties at Gold Coast	15,505	39,000	23,495
<b>Total</b>	<b><u>1,836,861</u></b>	<b><u>3,763,900</u></b>	<b><u>1,927,039</u></b>

## Chairman's Statement (Continued)

If the valuation of the Group's properties by the independent professional valuer was accounted for in financial statements, the net asset value of the Group will be increased as follows:

	<i>HK\$'000</i>
Total net assets (before deferred tax) of the Group	1,419,405
Add: Valuation surplus (before accounting for any related taxes) not recognized in the Account	<u>1,927,039</u>
Adjusted equity attributable to shareholders of the Company	<u><u>3,346,444</u></u>
Adjusted net asset value per share	<u><u>HK\$0.61</u></u>

- (b) Reduction of hotel operating profits due to depreciation of the hotel properties amounting to HK\$22 million for the year under review.

### FUTURE PROSPECTS

- For the year under review, the investment properties such as Shun Ho Tower, various shops in Ramada Hong Kong Hotel, Ramada Hotel Kowloon and Best Western Hotel Taipa, Macau was fully letted. It is expected that the rental revenue from these properties will continue to increase.

The construction of the grade A office building at 633 King's Road is nearly completed, the decoration for the lobby is well underway. The applied occupation permit is expected to be issued soon. The Board envisages the 300,000 sq.ft. office building will increase rental income for the Group substantially.

For the year under review, there was no significant property disposal. However, the houses at Gold Coast Marina, Tuen Mun will be ready for rental income or disposal in 2007.

- For the year under review, the turnover income for the 4 hotels was amounted to HK\$170 million.

Name of Hotel	Avg Room Occupancy %	Avg Room Rates HK\$
Ramada Hotel Kowloon	93	675
Ramada Hong Kong Hotel	91	595
Best Western Hotel Taipa, Macau	88	322
Magnificent International Hotel, Shanghai	69	366

In the coming year, it is envisage that the hotel business should further improve due to continuous increase of inbound tour from global expanding economy and implementation of the CEPA and further relaxation of mainlanders to travel freely. The Management of the Hotels will endeavour to maintain the high occupancy but will focus on obtaining higher room rates.

The hotel turnover for the first three months of 2007 of the four hotels amounted to HK\$42,841,000, which represented 12% increase compared to the same period last year.

	Ramada Hotel Kowloon		Ramada Hong Kong Hotel		Best Western Hotel Taipa, Macau		Magnificent International Hotel, Shanghai	
	Avg Room Occupancy %	Avg Room Rates HK\$	Avg Room Occupancy %	Avg Room Rates HK\$	Avg Room Occupancy %	Avg Room Rates HK\$	Avg Room Occupancy %	Avg Room Rates HK\$
2007								
Jan	97	678	93	563	90	295	53	343
Feb	94	588	89	542	92	471	55	330
Mar	97	774	96	694	90	312	76	410
Total Revenue	<u><u>13,450,000</u></u>		<u><u>17,729,000</u></u>		<u><u>7,986,000</u></u>		<u><u>3,676,000</u></u>	

- Subsequent to the financial year end, the Group continued the business of property investment, development and hotel operating and development. The Group completed the purchase of 239-243 Queen's Road West and 245-247 Queen's Road West for re-development. Further to that, the Group entered into a contract to acquire the Swire & Maclaine House at 19-23 Austin Avenue, Tsimshatsui for the purpose of rental income and redevelopment of 400 rooms 4-star hotel. In addition, the Group entered into a contract to acquire Nos. 30-40 Bowrington Road, Causeway Bay, Hong Kong for development of a 260 rooms 4-star hotel.

## Chairman's Statement (Continued)

---

At 31st December, 2006, overall debt was HK\$557 million (2005: HK\$474 million). Gearing ratio was approximately 43% (2005: 40%) in terms of external bank borrowings of HK\$316 million (2005: HK\$246 million) and advance from a shareholder of HK\$241 million (2005: HK\$227 million) against funds employed of HK\$1,299 million (2005: HK\$1,191 million).

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

The corporate strategy is to build hotels on grade B commercial locations which are usually not ideal for office development, too expensive for residential development but most suitable for hotel businesses in terms of low acquisition costs and high yields. Magnificent benefits from the development of these hotels from good operating incomes, but most importantly is their capital value gain. Such strategy has successfully helped to increase the value of Magnificent substantially:

	2004	2005	2006
	HK\$ million	HK\$ million	HK\$ million
Adjusted Shareholders Fund	1,915	2,590	3,226
Adjusted Net Asset Value Per Share	HK\$0.35/share	HK\$0.47/share	HK\$0.61/share

Looking ahead, the Board considers that the global low interest rate economy will continue to uphold a strong expanding economy and continue to fuel international travels. The implementation by the PRC Government of CEPA and the furtherance of relaxation of mainland travelers to visit Hong Kong help stimulate further regional tourism. It is envisaged that the hotel business should further improve in the coming year confirming the Group's correct strategy to build up a portfolio of prime 4-star hotels in Hong Kong and major cities of China. The continuous increase of inbound tourists justified the Group's intention to expand the Group's hotel assets. The recent rising property prices also add momentum to the Hong Kong business environment. The Group will continue to acquire quality hotels and investment/development properties should the opportunity arises.

**William CHENG Kai Man**  
Chairman

Hong Kong, 20th April, 2007