

Letter to Shareholders

*In life the only constant is change ... except from a vending machine.
In businesses the only constant is the cycle of bad news and good news.*

To the Shareholders of Lee Hing Development Limited:

First, some bad news. In the past fiscal year, we are reporting a loss of \$191 million because of a HK\$186 million write-down on the following investments:

	HK\$ Million
Regal Hotels International Holdings Ltd.	166
Amanresorts	20
	<hr/>
Total	186
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Now, some relative good news. At the end of 2001 the book value of Lee Hing shares was HK\$3.93, which was down 1.5 percent from the close of 2000. By comparison, the Hang Seng Index was down 24.5 percent in 2001.

Back to the bad news. Over the past 15 years (i.e., during the stewardship of the current management), the book value of each Lee Hing share increased from HK\$3.01 to HK\$9.65, after adjusting for the rights and bonus issues in 1987 and including all dividends paid. This increase represents an average annual growth rate of 8.7 percent, compounded. The twist at the end of this story is that this figure is still below the growth rate of 10.45 percent achieved by the Hang Seng Index.

Is a bird in the bush worth two in the hand?

Many company executives behave as if two good, bargain birds in the hand are worth less than an unknown or little-known bird in the bush. Bad mathematics? Or do many executives feel that the bird which is outside the corporate fence is always more attractive?

With so many shares trading at discounts of over 50 percent to their net book value, why don't companies buy back their shares instead of purchasing new assets at full market price? A possible reason may be that book figures are not achievable in the short run because the local property market is illiquid. Yes, there may be this or that valuation figure, but there are few buyers at this or that price. If company executives are thinking this way, then why should they go out and buy more property at full market price?

Another possible reason to avoid buying back shares is that executives view these transactions as shrinking the company and ... their domain. They would rather expand the amount of assets under their control. Business judgment, meet human nature!

We believe in enhancing the long-term value of Lee Hing shares, and share buybacks at substantial book discounts can increase our net worth while we wait patiently for our assets, which have been selected with value foremost in mind, to reflect their true worth.

Funds permitting, and should other opportunities arise, we shall continue with our buyback programme. As Mae West put it so warmly, "Too much of a good thing can be wonderful."

Letter to Shareholders (Cont'd)

Sources of Report Losses

The following table shows the main sources of our operating profits (losses):-

	2001	2000
	(HK\$ Million)	
Operating profit (loss):		
Net rental income	3.0	3.0
Dividend income	9.4	13.8
Interest income	2.9	12.6
Others	3.5	0.2
	<u>18.8</u>	<u>29.6</u>
Corporate expenses – finance costs	(29.6)	(12.8)
– others	(14.1)	(13.0)
Operating (loss) earning	(24.9)	3.8
Sales of listed shares	12.1	140.2
Sales of unlisted investments	10.9	–
Net provision for impairment in value of long-term investments	(164.8)	(239.9)
Unrealised loss of unconsolidated subsidiary	(20.0)	–
Unrealised gain (loss) of investments held for-trading purpose	2.0	(1.4)
	<u>(184.7)</u>	<u>(97.3)</u>

Listed Shares

Below we present our holdings in listed shares with a market value of more than HK\$30 million at 31 December 2001:-

	Original Investment Cost (HK\$ Million)	Market Value and Book Cost (HK\$ Million)
Malaysia		
Tan & Tan Developments Bhd.	291.0	103.3
Resorts World Bhd.	200.6	307.1
Padiberas Nasional Bhd.	70.8	64.8
	<u>562.4</u>	<u>475.2</u>

We do not appear to own any listed shares in Hong Kong because the year-end values of our Hong Kong listed holdings are all still below HK\$30 million. Smaller property share prices are still depressed in 2001.

Letter to Shareholders (Cont'd)

Going Forward

In coming years, we will devote our energy and resources to restructuring and expanding our share portfolio so that it conforms as nearly as possible to the investment criteria convincingly espoused by Warren Buffett:

- (1) Demonstrated consistent earning power, even in uncertain times.
- (2) Capacity to earn good returns on equity with little or no debt.
- (3) Essentially simple – therefore, neither vulnerable to constant technological changes nor requiring ever-increasing capital infusions for staying competitive.

We are aiming for a growth rate of 15 percent per annum in the value of our share investment portfolio. If we are unable to find suitable companies in which to invest, we will buy back our own shares. The shares of investment holding companies often trade at a discount, giving share buy-backs three advantages:

- (1) They narrow the discount between the share's market price and its underlying intrinsic value.
- (2) They provide liquidity for the shares.
- (3) They reduce the ancient temptation of investing for its own sake (especially in boom times when good opportunities are difficult to find).

I anticipate that our future profit stream from our Malaysian investments, though potentially a torrent, will be “lumpy” because we will not be selling these shares until they reach “irrationally high” levels. However, shareholders will benefit from growth in the excellent underlying businesses. While waiting for these eggs to hatch, we will try to be more active in share buy-backs, cash flow permitting. We will also continue to reposition our existing investments to maximize shareholders' long-term gains.

Conclusion

This informal reporting approach is an attempt to provide a deeper analysis and better understanding of our business. Indeed, I have tried to give you the information that I myself would like to receive as a shareholder. With a more focused approach and reasoned fidelity to the tested wisdom of the likes of Warren Buffett, I am convinced that we will achieve substantial long-term gains for our shareholders.

On behalf of the Board, I thank the management and all staff members for their efforts and contributions during the difficult past year.

Tan Boon Seng
Chairman

Hong Kong, 23 April 2002