

Letter to Shareholders

*"I realized the car wasn't having problems; the ground was having problems."
Driver on the San Francisco – Oakland Bay bridge during the 1989 earthquake.*

To the Shareholders of Lee Hing Development Limited:

2003 – the year of SARS. 2003 – the year when Lee Hing Development Limited made a profit. 2003 – the year when the Hang Seng Index outstripped the performance of our Company. For Lee Hing, that is the 2003 bottom line in three sentences.

During 2003, daily life in Hong Kong was changed by SARS, and many businesses faced a freefall in revenue. Yet the market recovered, and Lee Hing posted a profit of approximately HK\$120 million – the first profit in five years. Thank goodness! I believe the worst is behind us, and we can now look forward to making up for lost time, recovering all of our past losses and a good deal more.

Our Record by the Numbers

At the end of 2003, the book value of Lee Hing shares was HK\$3.68 which is up 3.1 percent from the close of 2002. That's the good news. By comparison the Hang Seng Index was up 34.92 percent! And from this point of view, Lee Hing did not perform impressively.

Over the past 16 years (i.e. during the stewardship of current management), the book value of each Lee Hing share has increased from HK\$3.01 to HK\$9.19, after including all dividends paid and adjusting for the rights and bonus issue in 1987. This increase represents an average annual growth rate of 7.2 percent compounded. Regrettably, this figure is still below the growth rate of 10.44 percent achieved by the Hang Seng Index.

We shall work towards narrowing the gap this year.

During the past tumultuous year, we underwent two major restructuring exercises.

Amanresorts

Our biggest investment, Amanresorts, issued convertible bonds to fund its expansion and diversification plan. Previously, five of Amanresorts' 11 hotels were in Indonesia. This 45 percent concentration of properties in a single country meant that our results were highly dependent on tourist arrivals in Indonesia. And for the past three years, unfortunately for us, Indonesia has been adversely affected by 11th September in 2001, by the Bali bombing in 2002 and by SARS in 2003.

In the past year, Amanresorts has opened new hotels in Cambodia and India. Over the next few years, more hotels will be completed in India, Sri Lanka and Bhutan.

The conversion price and the level of dilution of our interest in Amanresorts will depend on future profits. In the worse case, our equity will drop to 37.74 percent. After the above reorganisation, the Company only had significant influence, but not control, over the management of Amanresorts. For the above two reasons, we have reclassified our stake from "Current Assets" to "Interest in an Associated Company", which is now shown in the accounts as "Long Term Asset."

With Amanresorts opening new hotels and with its strong brand name for the ultimate in luxury and holiday experience, I am convinced that our Amanresorts holdings will one day be worth a lot of money.

Letter to Shareholders (Cont'd)

Parkway

Our second restructuring exercise involved buying back 125,332,186 Lee Hing shares from Parkway Holdings Limited and cancelling those shares.

Post buy-back, the book value of each Lee Hing share increased from HK\$3.68 to HK\$4.51. This represents a compound growth of 8.3 percent since 1987. We have made a step in the right direction towards catching up with the Hang Seng Index. We hope to make a few more of these moves.

There are two obvious statements to make about the buy-back that are no less true for being so apparent: 1. The management believes that the assets of Lee Hing are positioned to appreciate significantly; and 2. Fewer outstanding shares will mean turbo-charged profits for all shareholders.

Sources of Reported Profits

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

	2003 (HK\$ Million)	2002 (HK\$ Million) (Restated)
Operating profit (loss):		
Rental income	3.0	3.0
Dividend income	9.8	13.9
Interest income	8.0	2.3
Others	2.0	0.2
	<u>22.8</u>	<u>19.4</u>
Corporate expenses – finance costs	(11.9)	(20.6)
– others	(12.3)	(13.6)
	<u>(24.2)</u>	<u>(34.2)</u>
Operating loss	(1.4)	(14.8)
Profit on sales of listed shares	150.1	15.8
Loss on sales of property	–	(0.9)
Profit (loss) on sales of unlisted investments	3.9	(0.3)
Net write back of (provision for) impairment in value of long-term investments and associates	30.8	(21.5)
Unrealised loss on unconsolidated subsidiary	(20.2)	(140.0)
Unrealised gain on investments held for trading purpose	6.8	1.5
	<u>170.0</u>	<u>(160.2)</u>

Letter to Shareholders (Cont'd)

Listed Shares

Below we present our holdings in listed shares with a market value of more than HK\$30 million as of 31 December 2003:

	Original Investment Cost (HK\$ Million)	Market Value (HK\$ Million)
Malaysia		
IGB Corporation Berhad	113.1	85.9
Resorts World Berhad	97.0	244.1
Padiberas Nasional Berhad	51.4	39.1
	<u>261.5</u>	<u>369.1</u>

We appear not to own any listed shares in Hong Kong only because the year-end values of our Hong Kong listed holdings are all still below HK\$30 million.

Going Forward

In coming years, we will devote our energy and resources to reducing our bank debt whilst waiting for our principal investment in Amanresorts to bear fruit.

I anticipate our future profit stream from Amanresorts and some of our Malaysian investments, though potentially a torrent, will be “lumpy” or a spurting torrent because we will not be selling these shares until market conditions are right. Shareholders, though, will benefit from the growth in the excellent underlying businesses. While waiting for what I believe will be golden eggs to hatch, we will be more active in share buy-backs, cash flow permitting.

Conclusion

As I noted in earlier annual reports, this informal reporting approach is an attempt to tell you in simple language how management regards the current position of Lee Hing, what it sees as the prospects for Lee Hing, and how it hopes to increase profits in the future. Indeed, I have tried to give you the information that I myself would like to receive as a shareholder.

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, 22 April 2004