



CITY DEVELOPMENTS LIMITED

KINGSGATE INTERNATIONAL CORPORATION LIMITED - Chairman's Address to Annual Meeting

May 13, 2003 at 12:00 AM EDT

Ladies and Gentlemen:

It is fair to say that 2002 has been a very eventful year for Kingsgate International and certainly one that sees us at a pivotal point in our history.

While I will go into more detail later in my address, I would like to give you a quick snapshot of significant events that have occurred during the year:

- The completion of the \$A2.7 million upgrade of Birkenhead Point Marina, which is expected to increase its revenue by around 25% and its profit by about 50%
- The completion of the sale of stages 1, 2 and 3 of the Birkenhead Quays residential project. This project has been very successful, making a significant contribution to the company's profits in recent years
- All available tax losses have been used up, bringing the company into a tax paying position
- Last, but certainly not least, is the decision to convert part of the Millennium Hotel Sydney into luxury strata-titled apartments. Already at this early stage there has been significant interest from prospective buyers. The sales process has already started with settlement expected in 2004

Outside the Hotel conversion there are no other major developments on our books. With the Quays project largely completed and all tax losses absorbed, Kingsgate is, as I mentioned, at a pivotal stage and, as such, is in a prime position to review its options for the future.

I would now like to review our financial performance for the year ending 31 December 2002. For the year under review, the company reported an operating profit before tax of \$12.5 million. This figure would have been some 4.7% higher had it not been for the effects of a stronger New Zealand dollar on the company's Australian dollar earnings. That being so the result was still a satisfactory improvement on the previous year's profit of \$10.8 million.

As I have already indicated, another significant impact on the 2002 earnings was that the company moved into tax paying status. For many years, Kingsgate has had considerable income tax losses available to it and as such has not had to pay income tax. However, as of September 2002 all those Australian tax losses were fully absorbed. This resulted in Kingsgate incurring a tax charge of \$2.3 million, bringing its after tax profit to \$10.2 million. This compares to \$10.8 million the previous year, which, of course, had no tax burden.

Looking at the revenue side of the equation, this was down 33%, from \$76.4 million to \$50.9 million. The principal reason for this fall related to a drop in income from the sale of apartments and land at Birkenhead Quays from \$37.2 million to \$12.6 million as the project neared completion.

Revenue from our other operations was modestly higher but again exchange rate fluctuation flattened the performance. On the other hand cashflow from all operations was particularly encouraging and we were able to reduce borrowings by 33% from \$65 million to \$43 million.

I would now like to take you through our operations.

Millennium Hotel Sydney

The Millennium Hotel Sydney improved its performance in the 2002 year despite experiencing a continuance of the tough operating conditions we have seen in recent years. Although occupancy fell from 80.4% to 77.7%, gross revenue was up 3.2% and the average room rate increased 6.4%,

bringing more revenue per room. In all, this culminated in a very pleasing 49% lift in net operating profit over the previous year.

Among the factors the hotel had to contend with during the year was the impact of the Soccer World Cup in Korea and Japan, which diverted much of the hotel's inbound business from Asia and the UK in the early part of the year. At the same time we saw the continuing threat of international world terrorism, which affected travel to Australia, particularly from New Zealand and Europe.

Then we saw a continued slump in the food and beverage revenues in line with an overall decline in conference and catering business across Sydney. Tight control of overhead expenses and costs as well as targeted marketing programmes helped us contend with these very trying conditions.

Although the hotel's performance was pleasing given the circumstances, the fact is that the return on assets has been quite low for some time. Basically the hotel's age and tired appearance makes it difficult to compete with the many new or refurbished 4 and 5 star hotels in Sydney's CBD and Darling Harbour area. In recent years, Kings Cross, where the hotel is situated, and nearby suburbs have seen former hotels convert to residential apartments as the area demographics change from tourism-dependent to community housing.

Last year the Kingsgate board indicated it was considering whether to refurbish the hotel or restructure it to enhance its value. As I mentioned earlier the decision was made during the year that the best option was to convert the 250-roomed hotel into 97 luxury apartments. To this end the hotel was closed in March 2003.

The tower block of the existing hotel has been renamed Zenith for the purposes of this development. Although there have been suggestions that the Australian apartment market may be overheated, initial expressions of interest have been noted in over 50% of the apartments and this is most encouraging.

Kingsgate Shopping Centre

The Kingsgate Shopping Centre, situated at the hotel, continued to improve its performance. Although turnover was up only 1%, this was a good result given that approximately 1,000 square metres of floor-space was held back mid-year pending redevelopment, plus the revenue stream from the lease of the communications tower ceased in September.

In an environment of increased competition, the average rental rate per square metre decreased by 1%. However, average occupancy increased 4.2% to 84.5% and the major tenants at the shopping centre continue to perform very well. I should add that during the last quarter occupancy stood at 95.3% of available space.

Discussions are continuing with tenants regarding the logistics surrounding the planned refurbishment of the building.

Birkenhead Point Shopping Centre

The Birkenhead Point Shopping Centre continued on its growth path, increasing revenues by 4.3% and profits by 6% for the period under review. Average occupancy in the retail space increased from 97% to 98% and the centre achieved a 6% increase in the Australian dollar average rental rate per square metre.

This was a very satisfying performance considering the flat retail environment in Australia over the past 12 months and the opening of a competitive factory outlet centre within a 10km radius of Birkenhead Point.

Along with repositioning the centre as a major destination for Labels, Leisure and Lifestyle, a significant reason for the centre's success in 2002 was the relaunch of its Fresh Point food precinct. Not only did this help to improve annual sales in this precinct by 64%, but the campaign also won a major award for Excellence in Shopping Centre Marketing New South Wales 2002 by the Australian Marketing Institute.

Birkenhead Point Marina

The refurbishment of the Birkenhead Point Marina was completed in September 2002, boosting revenue for the last quarter of the year under review by around 25%. This flowed into the full year performance that saw revenue up 11.1% on last year. Occupancy at year end was an excellent 98% on the 177 available berths demonstrating a high demand for such a facility in Sydney.

This is a particularly pleasing outcome given the difficulties we experienced during the year as a result of the late completion of the works.

Birkenhead Quays Project

As I mentioned earlier 2002 saw the completion of the sale of stages 1, 2 and 3 of the very successful Birkenhead Quays residential project. During the

year 11 units were sold with the last remaining unit sold in February 2003.

In October the land and architectural drawings for stage 3 were sold to an unrelated Sydney developer. The 4th and final stage of the project is now in the planning phase, although no commitment has been made to proceed.

The Quays project has certainly been a key driver of both revenue and earnings over the years.

Outlook

2003 is certainly looking as if it will be a challenging year for us. For a start the revenue and earnings boost that we have enjoyed over recent years from the Birkenhead Quays project will largely be gone with just the final leg of the project to go.

On top of this, revenue will be clipped as a result of the closure of the Millennium Hotel Sydney in March 2003 and, of course, we are also returning to a tax paying status.

Having said that, the company is still in a strong position. The Kingsgate board is confident that the decision to convert the hotel into apartments will deliver value to shareholders. The planned luxury apartments should sell at a premium due to the building's unique design and its spectacular views. Certainly initial interest in the apartments has been very encouraging. Once the settlement process begins, the revenue generated will provide the company with an important cash fillip.

I would also like to reiterate the fact that the company has been judicious in reducing borrowings. In the past year borrowings have fallen 33%, giving a ratio of total liabilities to total assets of 25.9%.

Among our other operations, the shopping centre assets continue to perform well. Revenue and profits should improve considerably at the Birkenhead Point Marina in 2003 as it takes full advantage of the new refurbishment.

Clearly, the company is at an important juncture in its lifecycle and we will certainly be using this as an opportunity to review our future. But overall the company is in very good shape and in a good position to deliver value to shareholders.

Thank you for your time and attention.