# CDL HOTELS NEW ZEALAND LIMITED - Chairman's Address to Annual Meeting

May 13, 2003

Ladies and Gentlemen

Without a doubt CDL Hotels' performance in the financial year ending 31 December 2002 was excellent. For that period the company reported a group net profit after tax of $17.1 million, up 60% on the $10.7 million recorded in the previous year. This was a record profit. Clearly this was a great achievement and one that highlights the potential of the Group after going through a rebuilding phase in the latter part of the year 2000.

To put our latest performance into perspective I would now like to review the past five years. You will note the following:

- The net profit after tax is the highest in the last five years;
- With the exception of the 1999 year, the profit was extracted from revenue that was the lowest it has been for five years. This highlights our ability to efficiently manage our asset base and contain costs;
- Net asset backing per share now stands at 63.9 cents. This has risen by 11% in five years.
- Total liabilities have fallen by 53.1% in the last five years and currently sit at $129.9 million. It would be of interest to shareholders to note that the parent company, CDL Hotels does not have any bank borrowings at all with total assets of $212.7 million;
- The group recorded that the ratio of total liabilities to total assets is the lowest it has ever been;
- The previous year's higher dividend payout has been maintained. This payout is not only the highest in the past five years, but it is a record.

I hope you will agree with me that, based on the above criteria, it really has been an exceptional year. I would now like to take you through the key operational drivers of this result, starting with our core New Zealand hotels business, and then following up with our two subsidiary assets – CDL Investments New Zealand Limited (CDLI) and Kingsgate International Corporation (KIC).

Before I review our operations I would like to welcome Mr Gordon Wilson to the Board. Gordon is the chief operating officer of the Group and has been with the company since 1993.

NEW ZEALAND HOTELS OPERATIONS

CDL Hotels is this country's largest hotel owner and operator, with 28 hotels and 3,576 rooms across 15 locations. We are also one of the largest employers in New Zealand, with approximately 2,400 staff.

As this is the core business of the Group, it was particularly pleasing to see the hotels division underpin our 2002 earnings with a 68% increase in operating profit. Other key supporting performance indicators for the year were:

- an 8.5% increase in revenue to $114.2 million;
- a 5.9% increase in average occupancy over 2001;
- a 4.5% increase in average room rate on previous year;
- and a 10.4% increase in yield, which as you know is a function of occupancy and average room rate.

It is worthy to note that this outstanding result was achieved in what would have to be described as a very unpredictable and challenging environment. For a start, our performance during the first quarter of the 2002 year was affected by the aftermath of the September 11 tragedy.

Furthermore, there were no major international events during the year, except for the Louis Vuitton Cup in Auckland, and three of our hotels were either partly or fully closed for short periods for refurbishment.

I should add here that although the Cup provided a major fillip to Auckland during the last quarter, it was only short lived. With total availability of hotel and apartment accommodation at approximately 2.25 million room nights, Auckland continues to suffer from an oversupply of accommodation.

Given these circumstances, I must say, our ability to maximise performance is a credit to all those involved. Despite there being an oversupply of rooms, the company has generally been successful in maintaining its market share, and in some instances made gains on its competitors.

Looking across our locations, the average occupancies in Christchurch, Queenstown, Rotorua and the provincial centres exceeded the regional industry average, while those in Wellington and Auckland were slightly behind. This was due mainly, as I indicated, to an oversupply of rooms in Auckland, as well as to a readjustment of the corporate sector's usage of Wellington hotels which registered a 11% inventory growth over the last two years.

International visitors to New Zealand continued to play a major role in tourism growth in 2002. For us, this market contributed 62.9% of our total business as compared with 65% in the previous year. With airline capacity remaining static, growth has been driven by the local market.

While international tourism remains important us, the threat of further conflict, such as what we have seen in the Middle East, is still a concern. In addition, whilst Air New Zealand has introduced new services to the USA, we have – for the first time in a significant period – no USA carrier flying to New Zealand. As well, there remains uncertainty about the impact of the proposed Qantas/Air New Zealand alliance and its impact on both capacity and fares in all sectors of their operations.

Corporate business was a substantial contributor to both the revenue and profit of the company. This market, however, continues to be under pressure as competitors strive to replace their lower yielding business and manage off peak inventory with more lucrative corporate business. However, we are now experiencing positive growth in the major business centres from this sector of the market.

A key driver behind our concerted focus on the domestic market is to

buffer us from events such as September 11. We have also experienced an increase in domestic leisure business, in part due to our ability to offer a wide range of accommodation and price solutions to this market. It remains a key market for the future development and success of the company.

This being so, Tourism New Zealand continues to do well in promoting the country overseas. The feeling that New Zealand is a safe destination and the success of the Lord of the Rings films bode well, we hope, for continued growth in international visitor arrivals.

Hand in hand with this is the fact that CDL Hotels is part of Millennium & Copthorne Hotels plc (M&C), which owns, operates or manages 91 hotels in 17 countries world-wide. It has hotels in Europe, Asia and the United States of America as well as hotels in the Middle East and North Africa. The New Zealand hotels continue to benefit from this international relationship with M&C as it provides a key strategic link to the global distribution chain and network to promote these local hotels.

With our portfolio of hotels and the diversity of their locations, we can ensure that we remain a company that can accommodate the needs of all travellers – whether they reside in New Zealand or overseas.

As a major employer, we are constantly reviewing our human resources and training strategies. This benefits not only our staff, but also customers and shareholders through improved service and productivity. For example, in the year under review we introduced a new training program targeting the 130 Heads of Departments at our hotels. The results have been excellent, and further programs are planned for the current year.

As well, the Group retains its stringent policy on Occupational Safety and Health. As we have previously told you, these efforts have not gone unnoticed by the Accident Compensation Corporation, which has granted us tertiary status – a position still enjoyed by very few employers.

CDL INVESTMENTS NEW ZEALAND LIMITED

Another pleasing aspect of the 2002 year Group result was the performance of CDL Investments, a company in which we own 60.12%. Its operating profit before tax of $9.5 million was in stark contrast to the $0.3 million loss the previous year. The turnaround in profit performance reaffirms the decision by the board to dispose of the loss-making property services company Knight Frank (NZ) Limited.

During the 2002 year, the company was able to capitalise on what were very favourable market conditions for the property sector – in fact they were the best we have seen for some time.

Population growth, along with the continued low interest rate environment and strong consumer spending, provided New Zealand with plenty of insulation during a year of global uncertainty. Off the back of this CDLI reported a strong lift in sales as well as solid improvement in gross margin, driven in particular by high demand for properties at the top end of the market.

Turnover increased 17.8% to 23.88 million. Section sales numbered 221, up 35.6% on the previous year. Importantly, the company's gross margin improved by 32.6%.

During the year the company acquired a further 10 hectares of land in Albany thus replenishing its land bank which stood at 252 hectares as at 31 December 2002 with a net realisable value of $59.19 million. About 65% of this land bank is located in the upper North Island – principally in Auckland, Hamilton and Tauranga.

KINGSGATE INTERNATIONAL CORPORATION

KIC is 50.74% owned by CDL Hotels. The hotel and property company reported a net operating profit before tax of $12.5 million for the 2002 calendar year, compared to $10.8 million the previous year. Having used up its considerable tax losses, KIC, for the first time in many years, was in a tax-paying position. As a result it reported an after tax profit of $10.2 million. The comparative result was also affected by the stronger New Zealand dollar on KIC's Australian dollar earnings.

Total operating revenue of $50.9 million was down 33% on the previous year. The drop in revenue was primarily due to the reduced number of apartments available for sale at Birkenhead Quays. Revenue attributable from the sale of apartments and land at the Quays in the 2002 year was $12.6 million, down from $37.2 million in 2001. In the 2002 year all but one of the remaining units were sold, and this sale occurred after balance date. In October 2002, the land and the Development Approval originally allocated to Stage 3 of the Project were sold to an unrelated Sydney developer.

The Millennium Hotel Sydney improved its performance in the 2002 year. Despite a fall in occupancy from 80.4% to 77.7%, gross revenue was up 3.2% and the average room rate increased 6.4%. However, the return on this asset has been quite low for some time. Last year the KIC board indicated it was considering an option to either refurbish the hotel or restructure it so as to enhance its asset value. During the year the decision was made to convert part of the hotel into apartments.

The tower block of the existing hotel, which contains 250 rooms, has been renamed Zenith for the purposes of this development. The Zenith development comprises 97 apartments. Initial expressions of interest in over 50% of the apartments have been noted and this is most encouraging.

The Kingsgate Shopping Centre at the hotel continued to show improvement, as did the Birkenhead Point Shopping Centre. The refurbishment of the Birkenhead Point Marina was completed in the later part of 2002. The positive financial impact of the upgraded facility will be seen in the current year and beyond.

OUTLOOK

The Board remains positive about the long-term growth prospects for the Group. Although global uncertainty lingers, we are very encouraged by the recovery of the New Zealand hotels market from the effects of September 11. However, the impact of the SARS epidemic to our New Zealand and Australian business is still being evaluated and is difficult to predict.

Though the hotel market continues to be highly competitive, our ongoing focus on yield growth in concert with a strategy of building our domestic sales base through innovative marketing programs should continue to bear fruit. Building up the domestic base will also provide a buffer for any fluctuations in international visitor flows. At the same time our links to the international network of our parent company, M&C, will ensure we maintain or improve market share.

Coming off a very good year, the board of CDLI is confident of another satisfactory performance. While there are signs that the market may ease in light of worldwide uncertainty, CDLI is on a sound footing and well-positioned to take advantage of opportunities as they arise.

Initiatives continue to be taken by KIC to improve value. The response to our decision to close the Millennium Hotel Sydney and replace it with an apartment complex has very encouraging. The closure of the Hotel will result in a drop in revenue for KIC. With completion expected by the end of 2004 for the Zenith project, the full benefits from sales should begin to be realised during that year.

Once this project is completed, KIC will be in a prime position to review its operations.

Finally, I am happy to say that the 2003 year has started positively, with good initial trading results throughout the Group. Barring unforeseen circumstances, the Board expects another profitable year.

Thank you.