CITY DEVELOPMENTS LIMITED

CDL INVESTMENTS NEW ZEALAND LIMITED - Chairman's Address to the Shareholders

May 13, 2003
Ladies and Gentlemen:

CDL Investments reported a satisfying performance for the 2002 financial year as the company capitalised on what were very favourable market conditions for the property sector.

Good migration inflows, 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.

It is fair to say that market conditions for our land-based operations were as good as we have experienced for some time.

As a result, the company reported an operating profit of $9.51 million and a net profit after tax of $5.99 million for the year ended 31 December 2002. This is in stark contrast to the previous year when the company reported an after tax loss of $264,000.

The turnaround certainly supports our decision to dispose of the loss making property services subsidiary, Knight Frank New Zealand Limited. The sale of this asset was settled on the 28th of March 2002.

Looking at sales, CDL Land New Zealand Limited reported an 18% increase in total revenue to $23.88 million, reflecting both an increase in sales as well as a shift towards properties at the higher end of the market.

In total the company sold 221 sections during the period under review compared with 163 the previous year. More importantly, the company's gross margin improved by 32.6%, boosted by demand for higher end properties such as Waimanu Bay Auckland.

DIVIDEND

The return to profitability coupled with the fact that the company has imputation credits available to it, this enabled us to reinstate the payment of a dividend. Your directors recommend the payment of a dividend of 1.6 cents per share. As well, the Dividend Reinvestment Plan established in 1998 applied to this dividend, enabling shareholders to choose either a fully imputed cash dividend or ordinary shares in lieu.

OPERATIONS

As I mentioned economic conditions were favourable for most of the year.

A particular feature during the period under review was the continued population growth, which is a key determinant in driving demand for residential property. Added to this was the fact that high net worth individuals made up a significant portion of the migration inflow and this fuelled demand for residential properties at the top end of the market, which in turn had a knock-on effect through the rest of the market.

Coupled with this we also enjoyed a continuation of a low interest rate environment throughout 2002, this provided a solid platform for demand and price growth in the domestic property market. As well, the New Zealand dollar was reasonably low for much of the year and this benefited the rural community and exporters and drove income growth and consumption.

Adding further to demand was a pick up in the supply of new houses. This led to a significant lift in confidence in the "spec" building market during the year.

In line with this demand for residential properties, the company sold all but six of its available sites at Waimanu Bay in Auckland. Elsewhere, all available sections at Highfields in Waitakere City, Ranfurly Rise in Manukau and Brookhaven in Christchurch were sold, plus strong sales were recorded in the Hamilton developments.

While conditions were favourable, the year was not without its challenges, particularly with regards to maintaining a competitive land bank during a period when sales and prices were escalating. To this end the company has been able to maintain its land bank in key growth areas, it also remains well positioned in the sector.

CURRENT PORTFOLIO

During the year, a further 10 hectares of land was purchased at Albany, this took our land bank back to 252 hectares as at the 31st of December 2002 – two thirds of which are located in the upper North Island.

The net realisable value of the land bank as determined by DTZ New Zealand Ltd was $59.2 million, which is similar to the previous year's level. This value was made up of fully developed property, property under development and 219 hectares of undeveloped land.

Since balance date two further developed sites totalling 10.4 hectares of land have been purchased in Henderson.

RISK MANAGEMENT

Managing the company's exposure to business cycles is certainly a key consideration of ours and vital to our long-term profitability. We have a number of measures in place to retain our flexibility both operationally and financially.

For example, we always look to minimise our commitment to long-term contracts, maintain a diversified portfolio of land developed sites and ensure our balance sheet is appropriately geared.

In essence, the company is well positioned to take advantage of opportunities as and when they arise.

Managing risk is also about ensuring we are mindful of the importance of environmental protection in maintaining a high quality of life for all New Zealanders.

We are committed to the spirit of the Resource Management Act and as such we carry out extensive planning and consultation to ensure developments are carried out responsibly and with minimum impact on the environment and the community.

OUTLOOK

As I said earlier, market conditions in 2002 were as good as they have been in a long time and certainly our performance reflected this. It is pleasing to note that the momentum has carried through into 2003. Though we have made a good start to the year, there are however, early signs the top end of the market may be overheated.

Immigration, for example, which was a key driver for 2002, has been hit with new restrictions, this is likely to have an effect on demand. Furthermore, the rising dollar is already eating into the returns of the rural community. This will inevitably have a trickle down affect on the provinces. Other exporters will also be feeling the affects of a higher Kiwi dollar.

Added to the mix is a slowing economy, the effect on confidence of continued global uncertainty. So clearly there are some real challenges ahead.

Having said that, we remain relatively confident about the year before us. Certainly, as I mentioned, there is still considerable momentum in the market. Demand is such that we are developing a further 137 new sections from the land holding at Auckland and 115 lots at Hamilton.

With a sound balance sheet and a substantial land bank across most market sectors, we are well positioned to take advantage of any opportunities in the market when they exist, and to ride out the more difficult times when these occur.

At this stage the board and management remain confident of the ongoing profitability of the company and, barring any unforseen circumstances, we expect a satisfactory result in the current year.

Thank you for your attention.