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TOURISM
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Speech Notes

Keith Smith
Chairman

Tourism Holdings Limited

Annual Shareholders' Meeting 14 November 2006

Welcome, Ladies & Gentlemen, to the 20th Annual Meeting of Tourism Holdings Limited. I am your chairman, Keith Smith.

I am joined by my fellow directors, Graeme Bowker, David Cushing, Rick Christie and Harry Price – and also by our new chief executive officer Trevor Hall.

I will speak briefly to you today about the key aspects of the 2006 trading year. Trevor will also speak to you, and there will be time for questions and answers as we move through the business of the meeting.

My comments will cover the following topics:

1. The group's trading results
2. Dividend
3. The trading environment
4. Divisional trading
5. The executive share scheme incentive
6. Directors
7. The forward trading outlook

Before I begin I would like to formally welcome Trevor Hall to his first annual meeting as THL's Chief Executive. Trevor joined the company in June, and has spent the time since then familiarising himself with the business and constructing a roadmap for the future.

Given that Trevor has been with the company for only a short time, my comments will include the review of operations for the 2006 year. This will leave Trevor free to comment on the future from the management perspective.

PAUSE [The group's trading results]

As reported to the market in August and subsequently in the Annual Report, the group earned a Net Profit After Tax of \$11 million for the year ended 30 June 2006, compared to \$15.3 million for the 2005 financial year.

Our results were reported under the newly-adopted New Zealand equivalent of International Financial Reporting Standards, and all the prior year comparatives have been restated to reflect that.

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Annual Meeting - 14 November 2006

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Much of the reduction in NPAT was due to a writedown in the carrying value of Kelly Tarlton's following an impairment test to assess the value in use of the assets. This resulted in a charge against fixed assets in the current year's account of \$5.5 million, which reduced our reported NPAT by \$3.7 million.

We maintained our strategy of reinvestment in assets to remain at the top end of the New Zealand tourism market. Capital expenditure for the year was \$57 million, compared with \$92 million in the 2005 year (which included the Fullers Bay of Islands acquisition), and was related mainly to normal rental fleet replacement.

A small acquisition was made during the year – of the Milford Sound Underwater Observatory, which is now included as part of the Red Boats operations at Milford.

PAUSE [Dividend]

A final dividend of 6 cents per share was paid on 27th October 2006. With the interim dividend of 5 cents per share, total dividend for the year is 11 cents per share, which was the same as for the previous year.

THL's dividend policy is to pay a dividend that provides certainty of income unless the Directors view future profitability as likely to be reduced on an ongoing basis. Dividends are based on a payment of at least 60% of Net Profit After Tax after adjusting for one-off items, with an objective to match or exceed the prior year.

PAUSE [The Trading Environment]

As you might recall, the New Zealand dollar remained at a relatively high level for most of the year. The exchange rate is one of a number of factors that can affect the flow of international visitors, along with the emergence of new short-haul regional destinations and shifts in consumer preference. The exchange rate can also affect the duration of visits and the related spending – particularly on leisure activities and attractions. These are all factors that merit close attention by our industry, and support the overall need for continued investment and strategic reassessment.

Additional factors in the 2006 year were substantial increases in fuel and energy prices and the flow on impact on airfares into New Zealand.

The number of holiday visitor arrivals into New Zealand declined by 4% during the June 2006 year, with significant declines from key markets including Japan and the United Kingdom in particular.

Tourism arrivals into Australia continued to improve in the June year from our key markets Germany and the UK. These increases, coupled with good domestic growth, reflected in a strong revenue increase in our Australian Rentals business.

PAUSE [Divisonal trading]

I'll just briefly review the performance of each part of the business...

The **Rentals** division achieved operating earnings (Earnings Before Interest and Tax) of \$24.7 million, compared with \$26.8 million in the 2005 year.

Our Australian Rentals business had a good year, lifting revenue by 13%, and fleet utilisation increased from 65% to 72%.

As a result of development over the past three years, the combined Australia / New Zealand domestic market now provides an increasing share of Australian Rentals' total customer base. This reduces exposure to risk associated with long haul markets such as Germany and UK – risks that arise from fluctuations in long haul airfares and exchange rates.

Revenue from New Zealand Rentals decreased by 3%, with growth in motorhome and disposal revenue offset by a decline in car revenues. The growth in motorhome revenue was led by the Backpacker brand, through competitive pricing, a compelling brand offer and an increased focus on value-based travel in the youth and adventure market.

CI Munro was affected by the downturn in New Zealand tourism and the resulting softness in build requirements, and made cost reductions to adjust to the lower demand.

The **Coaching** division had a much improved performance in the second half, following a loss in the first half. Operating earnings were \$1.6 million compared with \$1.9 million in the 2005 year. Revenue was down 7% to \$36.6 million.

Great Sights and Johnston's Coachlines were affected by the decline in arrivals from Japan. Johnston's was also affected by the dramatic increase in fuel costs. Both businesses took steps to reposition – Great Sights through the launch of an online booking engine and strategies to increase bookings from other parts of Asia, and Johnston's through cost reductions and targeting of new business for the 2007 year.

Kiwi Experience had a very good year, with earnings and revenues up substantially. The relaunch of the Kiwi Experience brand, the introduction of a new website booking facility and ongoing refinement of product and service delivery were the key factors. Airbus, Tourist Transport Fiji and Feejee Experience all had good years with increased earnings.

The **Attractions** division increased revenue by 13% due to the inclusion of a full 12 months of revenue from Fullers Bay of Islands. Attractions had increased costs in fuel, power and depreciation from necessary capital expenditure, and had a break-even result compared with operating earnings of \$8.2 million in the 2005 year.

Excluding the writedown in relation to Kelly Tarlton's, operating earnings were \$5.5 million.

As you will probably be aware, the Waitomo Glowworm Cave facilities suffered fire and vandalism incidents in December 2005, and Kelly Tarlton's was flooded during a power outage in early June 2006. The recovery from these incidents has gone well with the assistance from our insurers, with improved facilities already established at Kelly Tarlton's and a longer-term redevelopment plan taking shape for Waitomo. We were able to minimise the short-term disruption to trading in each case, although the impact was still significant.

The highlight of the year was the establishment of the Ruakuri Caves operation in July 2005. Ruakuri offers customers the opportunity to view one of the most remarkable cave formations in the world.

Fullers Bay of Islands traded down on the previous year, with the impact of lower visitor numbers, a new competitor and fuel cost increases. The company took delivery of a new 49-seater coach for its Cape Reinga product, and is about to introduce its new \$2.5 million car ferry providing a significant increase in tourist capacity.

Milford Sound Red Boats was less profitable due to the reduced number of Japanese visitors and the loss of one major client. A highlight was the purchase of the Milford Sound Underwater Observatory, which was combined successfully with the Red Boats operation.

PAUSE [The executive share scheme incentive]

As discussed in the Annual Report, the Directors have resolved that a Long Term Share Scheme incentive programme be introduced for the Chief Executive and nominated senior executives. The Directors believe this scheme will benefit both shareholders and executives by providing an incentive to achieve long-term share price appreciation, whilst ensuring minimal dilution for shareholders.

The scheme involves the issue of redeemable shares to the executives at a price of \$1.90, which was the share price at the date of issue of the shares on 22 September 2006. These shares will be held in trust for the executives and will be able to be fully paid up after a minimum of three years, at a rate of one third of the shares each year.

The shares will be paid up at issue to 1 cent each. Until they are fully paid up they will carry no entitlement to dividends other than in proportion to the 1 cent paid.

The total number of shares issued under the scheme is 2.52 million. This represents 2.6% of the company's issued capital.

As part of the scheme the executives are required to purchase, on-market and from their own resources, ordinary shares numbering at least 15% of their entitlement to redeemable shares; and to hold those ordinary shares in their own names, or in an entity controlled by them.

The executives will gain from the share scheme if THL shares appreciate by an amount greater than the normal dividends paid out during the period prior to their acquisition.

PAUSE [Directors]

Another item on our formal agenda is the election of directors. Two Directors resign in accordance with the company's constitution, and offer themselves for re-election at this meeting.

Firstly... Rick Christie, a non-executive director who was appointed to the company in 1998. He is chairman and/or a director of several companies and industry boards, including AgResearch, EBOS Group, the government's Growth & Innovation Advisory Board, Wakefield Health, Provenco and the New Zealand Pork Industry Board.

Rick is based in Wellington. He chairs THL's Audit & Risk Committee, and is a member of the Remuneration & Nomination Committee.

Secondly... David Cushing, who has been a non-executive director since June 2004. Based in Christchurch, David has a record of proven business experience initially as an investment banker and more recently as a director of a number of New Zealand companies, including Wakefield Health, H&G and Rural Equities. David's family interests also own 9.5% of THL.

Rick and David will each speak briefly when we deal with the relevant resolutions.

Your directors are mindful of the ongoing need to maintain a correct skill mix around the board table, to ensure that management is receiving the most appropriate and relevant input to assist in their delivery on the company's strategy – and also to ensure that best practise governance standards continue to be met.

Now that Trevor has had the opportunity to review the businesses and develop his strategy, we will be reviewing the board composition early in the new year to ensure that we have the appropriate skill sets, and potentially to appoint a further non-executive director to fill the position vacated on Joan Withers' retirement last year.

PAUSE [The forward trading outlook]

I'd like to give you a brief indication of the Board's view of prospects for tourism and the company...

International tourism generates more than 80% of THL's revenue. The long-term outlook for New Zealand tourism remains very positive, with growth opportunities in several sectors. New Zealand retains a strong international tourism brand, with appeal to a wide range of visitor segments. Australia, which generates 30% of our revenue, also has a strong brand and an inbound tourism sector two and a quarter times as large as New Zealand's.

To illustrate the overall strength of our position, let me summarise the findings of a recent survey on perceptions among international travellers, published under the name "Futurebrand."

In this survey, 1500 travellers rated New Zealand top of the list in two categories – "Best natural beauty" and "Best outdoor activities and sport." The "Best overall brand" – Australia. So THL operates in two of the best branded travel destination markets in the world. It follows that our task is to build on and exploit these advantages.

In the short term, all of THL's divisions will be influenced by a number of factors including visitor numbers, high fuel costs and airline surcharges. There might be some offset if the New Zealand dollar remains at levels slightly below those of the 2005 year.

First quarter trading has been on budget. This is traditionally our weakest trading period in New Zealand. Whilst revenue is lower than for the same period last year, this is mainly due to lower trading by CI Munro, with the motorhome build for Rentals being reduced to increase utilisation.

Results for October and the forward book into the start of the high season indicate a six months trading position in line with last year's result of \$4.2 million Net Profit After Tax.

Booking trends continue to shift into the second half of the year. At this stage we expect a trading result for the full year within the range forecast by analysts – that is, of \$15 million to \$18 million Net Profit After Tax.

We do expect that there will be some one off costs incurred in the change process being driven by the Chief Executive, which will be in addition to this. These will be dealt with by Trevor in his comments.

This is an appropriate point at which to make a couple of observations on the strategy that Trevor will outline. Firstly, it has been developed in conjunction with the Board and naturally has our full support. Secondly, it is focused squarely on our customers – It's about driving growth by bringing the business closer to the customer... through refreshment of our brands, investment in distribution channels and streamlining of back office functions. I think you'll be impressed by the thinking behind it.

Finally, I would like to take this opportunity to once again thank all staff for their efforts during the year in promoting THL and the countries we operate in, and in providing our customers with great holiday experiences.

I will now hand you over to Trevor Hall.



Keith Smith
Chairman, Tourism Holdings Limited
14th November 2006

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