

## **CHAIRMAN'S REVIEW**

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### *Kingsgate International Corporation Limited*

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#### **FINANCIAL PERFORMANCE**

The Directors of Kingsgate International Corporation Limited ("KIC") announce an unaudited operating profit after tax of \$5,543,000 for the six months ended 30 June 2002. This represents a 64% increase on the equivalent period the previous year. Earnings per share was 1.41 cents (2001: 0.86 cents) and total operating revenue was \$25,026,000, (2001: \$35,077,000). Revenue included a \$5,588,000 (2001: \$15,610,000) contribution from the sale of residential apartments. Excluding the residential apartment sales, revenue from normal operations was up 2.4% during this six month period. Unfortunately, however, the increase was lost in exchange rate variances caused by the strengthening NZD against the AUD.

Shareholders' funds as at 30 June 2002 totalled \$143,519,000, which was a 3% decrease from that as at 31 December 2001. The net tangible asset value as at 30 June 2002 was 36.5 cents per share (2001: 35.5 cents).

#### **MILLENNIUM HOTEL SYDNEY**

The Millennium Hotel Sydney recorded revenue of \$8,733,000 during the first six months of the year, which was a 3.0% decrease over the same period the previous year. Room revenue had a slight decline of 1.0% whilst Food and Beverage revenues improved by 3.3% during the period. By implementing cost cutting measures, management was able to increase the Hotel's net operating profit by 22%.

The Hotel's average occupancy during the first six months of the year was 78%. This compares favourably with our immediate market competitors who averaged 76%. Although occupancy was down on last year (82%), the Hotel was able to increase its revenue stream by increasing its Average Room Rate by 5%. This once again compares very favourably with our immediate market competitors who averaged a 7% fall in their Average Room Rates, due mainly to the intense competition in the Sydney hotel market. During June, the World Cup Soccer finals in Japan and Korea had a negative impact on the number of inbound international visitors to Sydney, especially from our core Asian markets.

Management is forecasting slightly higher occupancy and increased yields over the second half of the year.

### **KINGSGATE SHOPPING CENTRE**

The Kingsgate Shopping Centre located at the Hotel continued its improved performance during the period under review. Total revenue for the first six months of this year was 4% higher than in the previous year, partly due to additional income from the Coca Cola signage. Shopping centre expenses were reduced by 15% over the same period, resulting in a net profit increase of 11% on last year's result. Average occupancy at the centre was down slightly from 81% at June 2001 to 78% at June 2002.

### **BIRKENHEAD POINT SHOPPING CENTRE**

For the six months ended 30 June 2002, the Birkenhead Point Shopping Centre reported a satisfying 10% increase in gross revenue compared to last year. Occupancy in retail space averaged 98% (2001: 96%) and the average rental rate per square metre increased by 6% over the previous year. Demand for office space at the Centre has slowed and options for conversion are being considered. Occupancy of available office space averaged 81% compared to 80% the prior year.

The Shopping Centre encountered some unavoidable expenses during the period under review. Major electrical and plumbing/water supply repairs contributed to increased repairs and maintenance costs (up 22%). Insurance premiums rose by 128% compared to the prior period. This was an unfortunate consequence of the September 11 tragedy. However, due to cost reductions in other areas, the shopping centre was still able to achieve a 7% increase in net operating profit compared to the same period last year, and continues to be a major contributor to group operating profits.

### **BIRKENHEAD POINT MARINA**

Casual berthing revenue earned during the summer months was the main contributor to increased marina revenues, which were up 4% for the period under review. Marina expenses were reduced by 5% during the same period, netting an excellent operating profit increase of 17% for the six months ended 30 June 2002.

Refurbishment of the marina commenced in April 2002 and is progressing satisfactorily. Completion is expected by the end of August 2002. During construction, availability of berths has understandably been reduced. However, we have been able to maintain our core revenue stream by manoeuvring the vessels and by staging of the works process. When

completed, operating expenses will naturally decrease and it is expected that the new marina will attract increased berthing fees in line with the high market demand for berthing in the Sydney Harbour area.

### **BIRKENHEAD QUAYS PROJECT**

With the exception of two apartments, all other units in the Stage II development of Birkenhead Quays have now been sold. Building approval was received from Council for the construction of a further 24 units in Stage III. However, the board has since resolved to sell this piece of land (together with the approved plans). The sale to another developer has taken place with an exchange of contracts on 29 July 2002 and settlement requirements to be fulfilled once the land subdivision is completed.

### **OUTLOOK**

The outlook for the second half of the year is challenging.

The inability to sustain growth in the Sydney Hotel sector is now being addressed by the board, which is looking at options to convert part of the Hotel property into residential apartments. Various conceptual plans have been drawn, for the Millennium Hotel Tower as the company considers its options. The Kingsgate Shopping Centre and associated carpark will continue to be operated by the company.

Our retail business faces many challenges in the second half with a few of our major tenants vacating in June and July. Management is negotiating fresh leases, which could result in some major retailing brands coming to Birkenhead Point Shopping Centre. The launch of our new TV marketing campaign from August through December should also strengthen the Shopping Centres image among Sydney consumers.

By the year end, we expect to finalise the sale of the remaining two unsold apartments in Stage II of the Birkenhead Quays project, and the sale of the land that was allocated for Stage III.

Barring unforeseen circumstances, the Directors anticipate a satisfactory second half year result.

Embargoed until 2.30 pm 8 August 2002

*J Wilson*  
*Chairman*  
*08 August 2002*

Any inquiries please contact: Tsang Jat Meng, Managing Director  
Kingsgate International Corporation Limited  
Ph (021) 882 663  
Fax (09) 309 3244  
Email: [tsang.jm@mcqhotels.co.nz](mailto:tsang.jm@mcqhotels.co.nz)