

Six Monthly Review to Shareholders to September 2012

Our respective entities have traded quite satisfactorily for the first six months and earnings are broadly on par with those of the preceding year.

It is interesting though that while international arrivals to New Zealand to September 2012 have recorded an annual growth of just under 2%, there has been absolutely no change in the number of visitors to our shores where the identified purpose has been that of a holiday.

As widely anticipated the origination of visitors is continuing to change with growth in the Asian markets simply offsetting the traditional markets of greater Europe and the Americas. Australia continues to remain as a core market and recently announced increases in flight frequency direct to Queenstown will be clearly beneficial for the town.

Domestically the extent of holiday activity by New Zealanders has increased with an annual recorded growth rate of 13%, which may in part be a reflection of last year's Rugby World Cup.

Commentary on our respective properties is as follows:

Skyline Queenstown

Whilst conditions were not especially great for the ski field operators, Skyline did record an increase in gondola patronage as well as improvements with both luge and dining numbers. Operational costs have been held well with the resultant positive impact on group earnings for the period.

Skyline Rotorua

Revenue levels have improved and management are engaged in introducing new products as well as updating existing ones. As examples the cafe is currently under redevelopment and a new dining concept is scheduled to be introduced in December, whilst the utilisation of unoccupied areas will assist in generating revenue growth.

Mercure Leisure Lodge

Comparison with last year is inappropriate given the one-off effect of the Rugby World Cup. However year to date occupancy and returns are similar to those achieved in 2010.

Blue Peaks Lodge and Apartments

Trading is consistent with last year and continues to be reflective of an over supplied market where pricing growth is particularly difficult.

Mont Tremblant - Quebec

Luge ride numbers for the season just ended were slightly less than in the previous year although our expectation is that overall net earnings will be maintained.

Sentosa Luge - Singapore

Although the domestic economy has shown signs of minimal growth, luge rides to date have been relatively consistent with 2011. Redevelopment of both terminal buildings are currently underway which will result in improvements to our service levels.

Commercial Properties

Our properties are almost fully tenanted and pleasingly there exists a level of demand for well sited retail premises. Some rental growth has been able to be achieved although we remain mindful of the importance to ensure that rentals need to be sustainable.

Sky City - Queenstown

The Casino continues to improve its trading performance assisted through sound management controls and effective promotions.

Christchurch Casino

The property is still a destination for the vast majority of visitors and will remain so until the likes of the establishment of the Convention Centre and the Performing Arts facility not anticipated for completion until late 2016-17. The intention to reinstate the Town Hall (as distinct from relocation) is a positive sign in re-establishing the inner city nucleus, as is the re-opening of Victoria Square.

Understandably current trading levels relative to the preceding year are irrelevant, although a comparison with 2010 for the period under review indicates that revenue has declined by around 4%. Trading patterns have changed with most activity occurring over the weekend. A new electronic management system is scheduled for introduction in early 2013 providing amongst other features specific benefits for members. The Central City rebuild is not scheduled to get fully underway in earnest until late 2013-14 when we can start to expect that visitation levels to the property will improve.

The Helicopter Line and Glacier Helicopters

Revenue levels have improved although some regional differences are appearing which will necessitate attention. A key challenge for management has been in the area of resource optimisation to meet operational requirements and the renegotiation of the terms of supply for some replacement helicopters.

Mitre Peak Cruises

Visitor levels to Milford have declined over the year which has had a like effect on our own trading. Some operational activities have been able to be rationalised and we anticipate that the benefits will become evident as the season progresses.

Flightseeing Activities

The principle activity is the provision of flightseeing services to Milford and as an early response to the lesser numbers travelling to that destination a restructuring of engineering services was effected. The result has been encouraging. Aircraft configuration is currently under review as our joint venture Company seeks further operational efficiencies.

Rafting and Queenstown Combos

Trading conditions have been relatively tight which is a reasonable reflection on the spending ability of many of our visitors. Further sales initiatives are to be introduced and improvements to our booking facilities have already commenced.

International Luge

The completion of facilities in Calgary has been frustrated due to the early onset of winter and accordingly it is likely that it will be late May 2013 before operations can commence. Given the local economy and location of the venue we have every confidence that the venture will be a success.

The permitting process for our luge in Korea (Tongyeong) is scheduled to commence soon and the expectation is that the process should take around 6-8 months to be completed. We anticipate that this project will present new challenges, however we are hopeful that with the assistance of a supportive local authority that these will be promptly addressed.

Other offshore locations remain under consideration both in Asia and in Europe.

The balance of the year

Our comments on year end trading and returns have at this time been traditionally quite cautionary and we see no reason to reverse such views. Indeed there is considerable uncertainty globally and our domestic economy has lost a little momentum with short term growth forecasts being downgraded; although expected to recover through the latter part of next year and into 2014. In such environment it would be somewhat inappropriate to make too many predictions over the year end result.

On a positive note the Ministry of Business, Innovation and Employment predict an improvement in both international arrivals (28%) and visitor spend (9%) over the next 5 years and comment in particular the anticipated changes in source markets through that time.

From Skyline's perspective this is not necessarily a 'wait and see' situation since the Board continues to actively evaluate new opportunities both within New Zealand and offshore.

Finally on behalf of your Directors may I extend to shareholders and their families our best wishes for the festive season and a safe 2013.

Ken Matthews.
Chairman
30th November 2012.