**NZX RELEASE**
**TOURISM HOLDINGS LIMITED**
**RESULTS ANNOUNCEMENT**
**SIX MONTHS ENDED 31 DECEMBER 2008**

**Wednesday 18th February 2009**

TOURISM HOLDINGS LIMITED

corporate

Name of Listed Issuer : Tourism Holdings Limited
For the half year ended : 31 December 2008 Unaudited Results

This report has been prepared in a manner which complies with New Zealand International Financial Reporting Standards (NZIFRS) and gives a true and fair view of the matters to which the report relates and is based on unaudited financial statements.

*Current Year NZ$m; Up/down %; Previous corresponding year NZ$m*

Total Operating Revenue $80m; Down 7%; $86.3m

Operating surplus from continuing operations before tax $(6.7m); Down 197%, $6.9m

Less tax on operating profit $(1.9m); Down 200%; $1.9m

Operating surplus after tax from continuing operations $(4.8m); Down 196%; $5.0m

Profit from discontinued operations after tax $4.5m; n/a%; $(0.1m)

Surplus after tax attributable to members of the listed issuer; $(0.3m); Down 106%; $4.9m

Earnings per share from continuing operations (4.9cps); Down 195%; 5.1cps

No dividend declared (5cps in pcp)

## KEY POINTS

- Revenue from continuing businesses down 7% to $80m
- Net Profit After Tax (NPAT) loss of $0.3m vs profit of $4.9m for the prior period
- Debt reduced $16m over the 12 month period
- Balance sheet ratios improved with debt to debt plus equity improving to 34% as at December 2008 from 39% pcp
- Ci Munro EBIT loss of $3.2m
- Yield impacts across all Rentals businesses
- Tourism businesses Waitomo and Kiwi Experience performed well
- $46m cash received from asset / business sales
- No interim dividend declared vs 5cps in the prior period
- Tourism sector outlook remains mixed, but THL is in a strong competitive position

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**TRADING RESULTS**

Tourism Holdings Limited (THL) had an unaudited net loss after tax of $0.3m for the six months ended 31 December 2008, compared with a net profit after tax (NPAT) of $4.9m for the previous interim period.

Trading NPAT on a like-for-like basis – ie. excluding discontinued businesses – was a loss of $4.8m compared with a profit of $5.0m for the previous December half.

Key factors in the result were:

- Further losses in the group's vehicle production business Ci Munro (Measures to assist in restoring profitability at Ci Munro were announced internally last week, including operational changes and staff reductions)
- The effect of the global recession on visitor numbers and yields for the Rentals business although Australian revenues were less affected than NZ
- Positive performance in the remaining Tourism businesses Waitomo Caves and Kiwi Experience

Group operating earnings (Earnings Before Interest & Tax – EBIT) were a loss of $4.4m in the six months compared to a profit of $10.2m in the prior period. With the reduction in debt and lower interest rates, interest expense reduced by 30% to $2.3m, from $3.3m.

The Tourism group, which includes the Waitomo businesses, Kiwi Experience and the operations in Fiji, performed well given the economic climate, producing an EBIT result in line with the previous December half. These operations benefited from significant changes to cost structures following asset sales and subsequent reorganisation.

Results for discontinued businesses (NPAT of $4.5m) include the gains from the sales of Kelly Tarlton's Antarctic Encounter & Underwater World and the Milford Sound businesses, less the loss on sale of the shareholding in Intercity Holdings as well as trading results up to settlement of these sales.

THL has early adopted NZ IAS16 that requires businesses that regularly sell rental assets as part of their core operations to classify revenue from these sales as part of operating revenue. Previously THL has recognised the margin as other income. In addition fixed asset purchases and sales of rentals assets are now included within operating cash flow (OCF) rather than investing cash flow. As such the OCF figure now includes motorhome purchases and sales. Overall cash flow is not impacted.

Revenue for the period, at $80m, was down 7.3% on that for the previous December half-year due principally to decreasing yield. Growth in the Free Independent Traveller (FIT) market, including the backpacker market, assisted Kiwi Experience. Waitomo also benefitted from this growth, but this was balanced by the ongoing decline in Asian business affecting the Waitomo businesses. Without IAS16 early adoption, revenue would have been down 6% to $71.2m.

Costs were up on those for the previous December half-year. These included Ci Munro operating costs, fleet costs in Australia and additional costs incurred to expand the operations of Explore More. Included were non recurring costs associated with restructures and write downs of $1.6m pre tax.

Operating Cash Flow was negative $27.6m, compared with negative $7.8m in the previous December half-year. If the reclassification under NZ IAS16 had not occurred, operating cash flow would have been $6.2m for the six months compared to $12.4m, for the same pcp.

All results are based on New Zealand equivalents to International Financial Reporting Standards (NZIFRS).

## Dividend

No Interim dividend has been declared. Balance sheet management continues to be a focus for the company. The non-payment of an interim dividend reflects the current focus on reducing debt and recognises the expectation of low trading profit through the remainder of the financial year. We are unable to commit to a forecast for the full-year dividend position due to the ongoing uncertainty in global markets and volatility in current booking patterns.

## THE TOURISM INDUSTRY – 2008 AND 2009

With the tourism industry under pressure globally, competitive dynamics are changing and structural shifts are likely to follow.

2008 started with industry pressures including oil price peaks and airline fuel surcharges. These placed New Zealand under pressure as a long-haul destination with increasing transit costs coupled with a strong local currency. With the onset of the global financial crisis, these issues were replaced by noticeable reductions in consumer confidence, increased price activity and a reduction in global tourism demand.

Among the effects of these developments are shifts in the way the industry operates. Aviation and tourism products are over-supplied in many markets (especially New Zealand). With decreasing demand, many largely fixed-cost operators have entered into severe price competition. This is changing consumer buying patterns as they chase ‘specials’ and delay purchase decisions based on the news of the day.

Evidence suggests that customers are moving to the strategy of purchasing direct from tourism operators at the last minute – often arriving at destination with no pre-booked activity, thus expanding the Free Independent Traveller category. With low forward booking numbers, tourism operators are reacting with more specials to stimulate activity, thus creating a spiral of competition and pricing volatility. Companies without strong balance sheets will not survive this current pricing and yield upheaval.

Tourism marketing is evolving rapidly, with changes in distribution channels, technology and customer behaviours. Only companies with strong brands covering multiple market segments, and with the ability to respond to changing consumer decision patterns, will prosper for the long term.

In this environment, New Zealand poses more challenges for THL than Australia, where the size and opportunity of the domestic market carries greater potential for reward from flexibility and adaptation on THL’s part.

Whilst 2009 will be a difficult year for tourism, THL remains optimistic that price competition between airlines, New Zealand and Australian government tourism office promotional spend along with lower exchange rates, should assist in stimulating demand.

In the immediate future, the challenge for New Zealand operators will be to maintain the strength of the country’s positioning and product quality under the inevitable pressure to reduce capital investment, while protecting yields.

### THL’s response to industry trends

Recognising the likelihood of change in the operating environment, the board moved aggressively during 2008 to re-position the business. This involved the sale and settlement of a number of asset sales in the December half-year, generating more than $46m in cash.

- Kelly Tarlton’s for $13m, to Village Roadshow
- The Milford Sound businesses for $17.5m, to Skeggs Group

- The remaining 49 percent shareholding in Intercity Holdings for $9.5m. ($4m received in December 2008 with $5.5m due in 2009)
- Sale of the Kiwi Experience fleet to Johnston's Coachlines (JCL), settlement of the Airbus business sale and settlement of the JCL residual share sale, totalling $11m

Excluding staff moving with sold businesses, subsequent restructuring and natural attrition has reduced the number of full-time equivalent roles by 150 (more than 15 percent of the total employment base) in the year to December 2008.

Capital expenditure requirements for 2009-10 are under monthly review, along with demand and production capacity assessments.

THL has continued to streamline all management and operational areas of the business. A significant update to the rentals reservations system was completed and went "live" during the December half-year, enabling more effective operations in both the trade and direct customer channels.

This update, along with other significant IT infrastructure investment, will enable new online activity to commence within the coming weeks.

New retail sites in Sydney, Auckland and Christchurch were opened to maximise market share from the now fiercely competitive 'free independent' or uncommitted traveller whose purchase preference is the two-to-three-person van and car categories.

As the market has become more bargain-focused THL's discount brands have gained market share. Explore More has firmly established itself as a compelling offer to meet these customers needs.

## OPERATIONAL REVIEW

### Rentals

The Rentals New Zealand result now includes the Explore More operation to more accurately reflect the total Rentals business. Explore More had previously been accounted for under the combined Waitomo / EX group within the Tourism Leisure Group. Accounts have been adjusted on a like-for-like basis.

THL's vehicle fleet is the largest and most modern in Australasia. The fleet operates under four brands – Maui, Britz, Backpacker and Explore More –enabling THL to cover all market segments and meet changing consumer demand.

Total Rentals EBIT (before allocation of group costs) declined to $3.7m from $11.6m in the previous December half-year. This reflected excess fleet in the low-end Explore More business over the winter months, reducing yields in all areas and increasing costs associated with the larger fleet.

The utilisation rate in Rentals Australia was maintained at the previous year's levels with an increased fleet, which was pleasing given market conditions. Operating costs associated with this larger fleet increased. Revenue declined due to lower pricing and a shift towards smaller vehicles.

The Rentals New Zealand result reflected both a lower utilisation rate and lower yield than last year. Costs increased with the expansion of the Explore More brand.

Add-on sales revenue per hire day was up in both New Zealand and Australia.

Vehicle disposals in both countries were in line with expectations, with sales totalling $8.8m. Margins were similar to those for the previous December half.

**Ci Munro**

Ci Munro incurred an operating loss of $3.2m, compared to a profit of $0.1m in the previous corresponding period.

Ci Munro is still suffering from the issues associated with the relocation from Otorohanga, substantial changes in staffing, new design introductions and supplier performance.

External expertise has been engaged since November to assist management in establishing best-in-class processes and improved manufacturing techniques. This broad operational review has been conducted to ensure that further changes now planned are implemented effectively. A consultation process was announced internally on 11 February to reduce the direct labour team in line with current production requirements.

The changes now under way are expected to provide sustainable financial improvement. Supporting future growth, a long-term contract has been signed with a number of District Health boards to produce mobile vehicles for dental health clinics.

**NZ Tourism Group**

**Waitomo Group:**

The Waitomo profit performance was pleasing given the general market decline, previous reliance on the inbound Asian market and significant weather impacts on the first quarter.

The extended lease for the Waitomo Glowworm Caves was signed between Tourism Holdings, the Ruapuha Uekaha Hapu Trust and the Department of Conservation. This provides Tourism Holdings with exclusive leasing and operating rights within the Waitomo Glowworm Caves through to 2027.

Following the signing of this new lease construction of the $12 million dollar visitor centre for the Waitomo Glowworm Caves commenced in December 2008, with an estimated opening date in late 2009 or early 2010. Under a unique roof structure, this centre will incorporate a 250 seat restaurant, café, retail centre and exhibition centre and is set to establish itself as an iconic building within New Zealand architecture.

Ruakuri Caves, opened by Tourism Holdings in 2005, saw excellent growth in visitor numbers, driven by the domestic and Australian markets combined with a strong marketing focus driving travellers to undertake visits to multiple cave offerings.

The Legendary Blackwater Rafting adventure product again showed steady revenue growth.

**Kiwi Experience**:

Revenue reflected a strong first-half performance in terms of both passenger numbers and yield. Strong marketing initiatives in conjunction with long-standing trade partners have also seen market share grow.

The forward booking trend was strong from July to December 2008, generally with double-digit growth in revenue over the previous December half – a strong indicator that the backpacker market will show resilience in the latter part of the financial year.

Kiwi Experience sold its coach fleet to Johnston's Coachlines, which services and maintains the branded fleet. Kiwi Experience leases the fleet back into the business on a variable cost model.

Kiwi Experience secured a globally preferred contract via one of the world's largest youth travel brands, further strengthening its position as market leader in flexible backpacker coach transport in New Zealand.

## FINANCIAL POSITION

The asset sales programme further strengthened the balance sheet, with the $46m cash generated being used to upgrade fleet and pay down debt. Net debt reduced to $68.5m at 31 December 2008 – $16.1m below the figure for 31 December 2007.

The debt to debt plus equity ratio (net of intangibles) improved to 34% at December 2008, from 35% at June 2008 and 39% at December 2007.

## GOVERNANCE AND MANAGEMENT

The Chief Executive transition occurred in December 2008, with Grant Webster, formerly Chief Operating Officer of the Leisure division, commencing as CEO.

THL has now become a predominantly Rentals centric organisation with management realignment to a functional operating structure. This change reflects the ongoing focus on delivery to customers. In conjunction with this change, the New Zealand based executives will move into the retail outlet on Beach Road in Auckland.

There were no changes to the board during the period.

## OUTLOOK

The Australian business has plans to further grow the domestic market as customers opt to holiday at home. The New Zealand business faces a more difficult situation, with a strong reliance on the United Kingdom and German markets, in which consumer confidence is falling. The depreciation in the New Zealand dollar, government stimulus and airline competitive activity may provide some respite into the 2010 financial year.

The backpacker and low cost segments continue to perform well, holding UK market arrivals at a higher level than general market sentiment suggests.

The New Zealand market is currently over-supplied in rentals and is under yield pressure. THL's extensive reorganisation of assets, reduction in fixed overheads and success in new marketing initiatives, along with strong cashflows, have provided a strong foundation from which the group can compete to improve its market position.

THL will continue to invest in fleet as appropriate to maintain its customer offering in line with expected demand. Diminished access to capital should inhibit potential for new entrants into the market and fleet renewal for competitors. In combination, these factors enable a positive outlook beyond the global recessionary impacts to our sector of the industry.

We are currently in the middle of the key booking period for the Australian high season and are relatively pleased with forecast utilisation. Predictions for the Australian business in the second half-year are for a decline in motorhome hire days of approximately 6% over the previous corresponding period.  In addition, although yield predictions are difficult to make we believe yield will remain at similar levels to last year.

The New Zealand position reflects a different market mix. Our expectations for the second half-year are for hire days to drop by 10% over for the previous December half, and for yields to decline between 5% and 10%.

Ci Munro's impact on results for the 2009 financial year is expected to be an EBIT loss in the order of $5m.  Whilst improvement is expected in the second half of the financial year with the changes being implemented, low production will impede the achievement of positive results.

To summarise, like most businesses globally, THL is operating in a climate of reduced visibility on its forward business. With the trends identified above we currently anticipate a small net profit after tax for the full year, including gains from the sale of discontinued businesses. This is subject to bookings maintaining their momentum through the remainder of the current period and there being no further large global shocks to tourism markets.

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