



Six Monthly Review to Shareholders to September 2013

Skyline and operating subsidiaries have traded satisfactorily over the first six months and earnings overall are consistent with that budgeted.

Nationally we have noted that visitor arrivals to New Zealand for holidaying purposes have remained quite flat and that there has been a change in the origination of such with visitors from China displacing the UK as the second largest market behind Australia.

Key influences in the market include both the introduction and discontinuation of some airline services from China and the USA, strong growth in the cruise market and the enduring effects of a relatively high currency. Average spend per head has increased by only 2%.

Some comments on our respective properties.

Skyline Queenstown

Whilst the past skiing season could only be regarded as passable the business did record some increases in gondola, luge and dining patronage. The recently redesigned café area, now referred to as the Market Kitchen is trading to expectations, whilst costs throughout the property have been well contained.

Skyline Rotorua

There has been only minimal growth in our core patronage and as a result our net earnings are broadly similar to the same period in the preceding year.

A new experience in the form of a 370 metre zipline is scheduled to be operational by mid 2014 and will become a welcome addition to the complement of attractions on site.

Mercure Leisure Lodge.

Occupancy has improved marginally and with a small increase in the average room rate net earnings have been enhanced.

Recent rationalisation of properties within the Accor Group (owners of the Mercure brand) in Dunedin should result in less confusion for visitors intending to stay in a Mercure property.

Blue Peaks Lodge and Apartments

An increase in occupancy levels within the Lodge has assisted an improvement in the net trading surplus. The market though continues to be over supplied.

Mont Tremblant – Quebec

Luge rides improved by 7% for the season just completed and our prediction is that net earnings will increase by at least a similar amount.

Calgary Luge

After a delayed opening, due to circumstances beyond our control, this seasonal operation has proven to be a difficult start up. The introduction of new technology to facilitate cart handling has had to be revised with new equipment to be installed in anticipation of a full season's uninterrupted trading in 2014.

Visitor reaction to the product has been encouraging with a high number of rides purchased per rider.

Sentosa Luge.

Although ride numbers on the luge have remained at levels consistent with 2012, those just using the chairlift for sightseeing purposes only have been lower due mainly to a refocus on other products by our Island partner.

International visitors now account for almost 65% of all luge rides sold with growth in the Korean and Chinese markets in particular.

Improvements to our ticketing and photography facilities have been completed as well as some lane modifications to the track. Our expectation is that the visitor experience will be significantly improved as a result of such changes.

Christchurch Casino

Visitor numbers to the property continue to show an upward trend although of course not up to pre earthquake levels.

Property redevelopment along Victoria Street in particular is progressing relatively quickly and with the establishment of new restaurants we can anticipate further pedestrian activity in this area.

The newly established 'Mashina Lounge' has recently opened as a functions and entertainment venue within the confines of the casino. Early response to the product has been very encouraging with long queues awaiting entry on specific occasions.

The Helicopter Line and Glacier Helicopters

Traditionally the first part of the year is not one of high activity with the Harris Mountain Heli-skiing as an example being one where weather conditions have frustrated activity over much of the season. Growth in revenue has been achieved over the period with management's current focus being one of yield improvement and expense containment. Some incremental costs have occurred as the Group reorganises its mix of owned and leased helicopters.

Mitre Peak Cruises.

Our relative share of visitations to Milford Sound is being maintained albeit within a declining market. Discounting is becoming common place which in our view is an inappropriate response. Frequent road closures have not assisted in providing continuity of access aside from the resultant costs.

Flightseeing Activities

Although visitor movements to Milford have been less than the preceding year, improvements in the fleet configuration and utilisation resulting from the timely replacement of some fixed wing aircraft has had a positive effect on the net operating performance of the joint venture Company.

Rafting and Queenstown Combos

Competition for the visitor dollar is intense and the current challenge is to leverage off other Skyline products in order to establish a pre-eminent position within the market.

International Luge

The consenting process and associate assessments for the Tongyeong Luge project in South Korea continues with an expected completion date of mid 2014 when construction is scheduled to commence. At this stage construction is anticipated to take up to a year to complete. Other sites offshore continue to be evaluated.

Other Matters

(1) New Director.

The Company is pleased to advise that Mr Gordon Harper of Christchurch has been appointed to the Board. . Gordon is a part owner and Director of a composite manufacturing business. He holds an engineering degree from Canterbury University and has worked extensively offshore in a project management – construction role. The company is delighted to have secured his services.

(2) Communication with shareholders.

The Company is seeking to establish some efficiency's with its communication to shareholders. Accordingly we envisage a greater reliance on electronic means over the years ahead and our intention is to introduce changes throughout 2014.

Shareholders should note though that reports and advice in the traditional format will still be available.

(3) Legal dispute – Heli Holdings and The Helicopter Line.

At the time of the AGM we advised that attempts of a mediated settlement as between the parties had not been resolved. Subsequently Heli Holdings have issued proceedings and as a consequence we have filed a notice of defence and counterclaim.

It is currently unclear as to when the Court will hear this matter.

The Balance of the Year

Consistent with previous years we are somewhat reluctant to make any predictions on our full year performance. Certainly our trading to date is satisfactory and our results reflect that. However change can occur quickly and from an international visitation perspective there is not a lot of growth.

In order to remain competitive we must continue to reinvest in our core properties, create new reasons to visit and constantly address the issues of improvements in both quality and service levels. We believe that we are reasonably well placed to do that and accordingly, barring unforeseen circumstances over the ensuing four months, can contemplate a reasonable result by year end.

Finally on behalf of Directors may I extend to shareholders and their families our best wishes for the festive season and a happy and safe 2014.

Ken Matthews.
Chairman
November 2013.