



**THAKRAL HOLDINGS LIMITED**

**(ACN 054 346 315)**

**CHAIRMAN'S ADDRESS**

**2003 ANNUAL GENERAL MEETING**

**11.30am THURSDAY, 30 OCTOBER 2003**

**ALL SEASONS PREMIER MENZIES HOTEL**

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**Declare meeting open and note quorum present**

Welcome to this 10<sup>th</sup> Annual General Meeting of shareholders of Thakral Holdings Limited.

***Introduce directors and secretary***

In moving to a discussion of the 2003 Annual Report together with the Statement of Financial Position and Statement of Financial Performance and Directors and Auditors Reports for the year ended 30 June 2003 I would like to make the following comments:

## RESULTS

The year ended June 30, 2003 was another rough year for the tourist industry generally and the hotel industry in particular. Following the problems encountered in 2002 namely Olympics induced over supply, September 11 and the Ansett collapse, in 2003 the outbreak of SARS and the Iraq war were further occurrences that had a significant impact on tourism and consequently the hotel industry.

In spite of this difficult operating environment the company produced an after tax profit of \$29.6 million a reduction of 16% on the previous year. Excluding the effect of the sale of investment properties in 2002 the result was lower by approximately 10%.

In our release to the Stock Exchange on August 25, we stated: "Looking ahead and assuming a return to more normal trading conditions, particularly in the hotel sector, the Group expects that the year ending June 30, 2004 will show an improved performance against the current year". This is still our belief. It was with this in mind and the strengthening of our balance sheet that the Board decided to maintain the distribution to shareholders at the same level as 2002 by declaring a final dividend of 3.25 cents per stapled security, bringing the total distribution to 5.75 cents, the same level as in 2002. The distribution is 14.7% tax deferred, 66.6% taxable and 18.7% CGT concessionally taxed.

It is pleasing to be able to report that the annual revaluation of all of Thakral's investment properties resulted in an increase – net of capital expenditure and depreciation – of \$9 million in the value of our portfolio at June 30, 2003.

I now turn to the results of each Division which I will not traverse in too much detail as I think shareholders will agree the annual report provided a detailed review of the divisional results. There are however, some matters which I wish to bring to your attention.

## **HOTELS AND GAMING**

The operating profit from the Hotel Division was \$39 million or 7% below the previous year. I have already underlined the reasons for the fall in hotel profitability. What I am pleased to advise is that normal operating conditions are now evident and the hotel division is showing an increase of 4% for the September quarter compared to the previous year. Looking forward the domestic economy remains strong and the inbound market is continuing to recover from recent events although it is still marginally below prior year level. The Sydney hotel market continues to grow strongly as it benefits from the reduction in supply. The Gold Coast market is also strengthening where in particular Broadbeach is establishing itself as a destination in its own right. The completion of the new Gold Coast Convention Centre next year will enhance further this destination.

The Melbourne and Adelaide markets are weakening as they continue to absorb increases in supply and it will be sometime before these markets recover.

Trading during the second quarter will benefit from demand generated by the Rugby World Cup but these benefits may be partly eroded by a reduction in demand from the business sector and a decline in inbound from source markets not involved in the Rugby World Cup.

Overall however, we are budgeting for some improvement in profitability from our hotels.

Gaming was introduced into Thakral hotels in 1998, at the time almost unique in four star hotels. Gaming contributed over \$6 million to the annual result which is an example of how Thakral has been able to add value to its existing portfolio. The theme of our annual report deals with extracting value from our assets to deliver superior returns.

I have at recent annual meetings emphasised our policy of frequently examining the value of our assets and where deemed appropriate selling assets which we believe can be replaced with assets that will provide better returns in future. We continue to adopt this policy, the latest example of it being the sale of the Novotel Hotel in Adelaide for \$19 million. This resulted in a profit over book value of \$1.6 million.

During the year under review 58% of our profit was derived from hotels and while the turnover of hotel properties, i.e. both buying and selling, remains part of our ongoing strategy we aim to maintain investment in hotel properties at approximately current levels.

## **RETAIL AND COMMERCIAL DIVISION**

The Retail and Commercial Division, which controls approximately 58,000 sq m of retail and office space, achieved a profit of \$15 million, which was 10% below the previous year. At the end of last financial year Thakral sold three properties. Taking this into account on a like portfolio basis, the results of this division were marginally higher than 2002.

Returns increased in Sydney and Melbourne while our Gold Coast properties were slightly lower. For the current year we are anticipating a steady contribution from this Division.

## **DEVELOPMENT**

I want to make a few comments in regard to our strategy in respect of property development. Thakral is a property group with assets in hotels, retail and commercial property. These core investment properties are supplemented by a growing property development division. The Group's business continues to evolve from a passive property investor to a diversified property group.

In 1997, Thakral started its development activities with the successful subdivision and sale of residential lots on surplus land at the Pacific Bay Resort, Coffs Harbour. We see strong synergies between hotel, retail and commercial property investment and development. This was clearly illustrated during the year by three major developments commencing construction on or adjacent to Thakral investment properties. We intend to grow this area both as a stand alone business and also as a means of adding value or extracting value from these investment properties.

In 2003 contribution from property development was \$13.5 million, an increase of 6% over the prior year.

The main contributors to development profit in the year were Newtown, Cairns, Palm Cove, Pacific Bay and the “Air” residential project above the Oasis Shopping Centre at Broadbeach.

I point out that the Development Division profit is based upon the adoption of the new UIG accounting guideline, which requires profit from development activities to be recognised on a percentage completion basis. Generally, the UIG guidelines are in accord with those previously adopted by Thakral. The major difference being that Thakral’s policy was to recognise profits only once 30% of the development had been completed. The only project affected by the changed policy was “Air on Broadbeach” where adoption of the new UIG guideline meant that approximately \$2 million profit has been included in the year’s result. This is less than 10% of the total expected profit from this development – namely \$20 million.

The year’s result was enhanced by the sale of a 50% interest in the Amphora Palm Cove development that resulted in a return of all capital invested by the Group and a \$2.1 million increase in the profit for the year.

Construction is now underway on three sites which contained Thakral owned hotels: Amphora, Palm Cove adjacent to the Marriott Hotel which was sold by Thakral in 2002; Trilogy, Cairns adjacent to the Esplanade Hotel and Air, part of the Oasis/Grand Mercure complex on the Gold Coast. At 30 September 2003 we had achieved pre-sales totalling \$189 million or 89% of the sales value of our current projects.

The full impact from these projects will be progressively realised as profits are recognised on a percentage completion basis based on construction. We can therefore confidently expect increased profit from this area of our activity in the current year.

## **FURTHER DEVELOPMENT OPPORTUNITIES**

In addition to the three residential developments currently taking place we are pursuing redevelopment opportunities at the Hilton on the Park, Melbourne and at Wynyard. While there is much more work to be done if we are to bring these development opportunities to fruition the board is encouraged by the progress being made.

I feel I should give shareholders a brief review of the Wynyard complex. Thakral owns the properties known as 301 George Street, Sydney and the Menzies Hotel in Carrington Street, Sydney on a lease from the SRA that has up to 86 years to run. The properties also comprise the retail arcades which connect George Street to the rail concourse and the freehold heritage listed Shell House. These are strategically located above one of Sydney's major railway stations and the retail arcades provide the main pedestrian access to the station. Thakral has proposed to the NSW Government that we join with the SRA who own the freehold to the properties and also the main rail concourse that a major redevelopment of the properties be undertaken.

Our proposal, which I hasten to add is still in the preliminary discussion stage is to demolish the existing hotel and office buildings and replace them with a landmark building. Constructive discussions have been held with State Rail on the basis of a joint private sector/public sector relationship with a view to creating a transparent working model whereby the proposed redevelopment creates significant added value which can be transferred to State Rail for the benefit of an upgraded Wynyard precinct. Discussions are also taking place with the Sydney City Council in regard to the development.

I am sure shareholders will understand that such a project, as I have briefly touched upon will take time and full consultation with the Government and the City Council. If the parties can agree to an appropriate model it will not only be significantly advantageous to Thakral but we believe to the city of Sydney.

## **GEARING**

Net debt to total tangible assets at year-end reduced from 38.5% to 36.3%. The Group had cash and undrawn facilities of \$47 million and no debt on its development portfolio.

## **NET TANGIBLE ASSET BACKING**

Net tangible asset backing per stapled security at 30 June 2003 stood at 67.4 cents.

## **DEPRECIATION**

Depreciation was lower than last year as a result of the property sales referred to whilst interest expenses fell by \$3.5 million to \$19.8 million as a result of lower interest rates and reduced borrowings.

## **SUMMARY**

With world events impacting on hotel profitability as explained earlier in this address, the result for the year ended June 30, 2003 I believe reinforces the importance of the Group's diversification in terms of business activity, property type and geographic spread. Thakral's strategy of diversifying income from a broadened range of activities, including property development and gaming, continues to make important contributions to overall results. The mix of assets should enable the company to continue to grow year by year.

I would like to refer to the commentary of the Thakral story thus far set out on page 5 of the Annual Report. The company is now approaching its 10<sup>th</sup> year since listing. In that time it has grown to be a diversified property group with total assets of over \$700 million and net shareholders funds in excess of \$400 million. The initial total share capital was \$135 million at June 30, 1994. Profits have risen from \$13.6 million in 1995 to \$29.6 million this year and the Group has paid distributions in every year since it was floated including the year of its float.

For the three years to September 30, 2003 Thakral shareholders achieved total returns of 14% which compares favourably with the ASX 200 Accumulation Index of 2.8% and the ASX Property Accumulation Index of 12.2% over the same period.

## **CURRENT TRADING**

Results for the first quarter ended September 30, 2003 are positive with all operating divisions ahead of the same period last year. In addition, as announced on September 8, the Group exchanged contracts for the sale of the Novotel Adelaide for \$19 million. This resulted in a profit over book value of \$1.6 million. Barring unforeseen circumstances we expect the half year result to be approximately 20% ahead of the same period last year.

Finally, I would like to refer to the changes in the composition of the Board. As previously advised Mr. Graeme Samuel resigned as a Director of the Group on June 30, 2003. Mr. John Rowe has advised that he will retire as a director of the company at the close of this Annual General Meeting. I want to take this opportunity of conveying our appreciation to both of them. Graeme and John, in their own individual ways, have made significant contributions to the success of this company. We will miss the expertise that they brought to our deliberations.

The Board is currently considering their replacements and we expect to make an announcement in relation to the composition of the board as soon as possible.

On behalf of the board I wish to convey our appreciation to the Managing Director and to all our employees for their efforts in the interests of the Group during the year.

We also extend our grateful appreciation to our shareholders for their continued support and interest in the Group.

I now turn to the formal part of the meeting and the various resolutions set out in detail in the Notice of Meeting and Explanatory Memorandum which have been provided to all shareholders.

NOTE: *The formal resolutions concern the re-election of directors only.*

**CLOSE**

There being no further business I thank all shareholders and visitors for attending today and invite you to join me and the directors for refreshments.