NZX RELEASE
TOURISM HOLDINGS LIMITED
RESULTS ANNOUNCEMENT
SIX MONTHS ENDED 31 DECEMBER 2007

Tuesday, 19th February 2008

TOURISM HOLDINGS LIMITED
corporate

KEY POINTS

- Unaudited Net Profit After Tax (NPAT) up 4% to $4.9m
- Continued good performance from Rentals, particularly in Australia, and expansion of the New Zealand rental car fleet
- Ongoing progress in strategic change programme
    - Joint venture of Johnston's Coachlines, retaining a 33% shareholding
    - Joint Venture with Intercity Group to combine the Kings and Fullers maritime assets and the Intercity, Newman's and Great Sights coaching businesses, retaining a 49% shareholding
    - Continued progress on the CI Munro relocation to new purpose built facilities in Hamilton
    - Explore More brand established, gaining a significant presence in the low cost and youth focused car and motorhome sector
    - A net gain of $0.5m after tax related to the change programme, with gains on asset sales offsetting non-recurring charges
- Strong balance sheet, with gearing of 39%, compared with 44% at December 2006
- Interim dividend maintained at 5c per share
- Continued shift of visitor numbers away from the first half of the tourism season towards the second reporting period
- Environmental initiatives
    - Partnership with Vehicle Testing New Zealand to ensure compliance with world best practice on emissions
    - Contract with Mercedes-Benz to purchase environmentally friendly vehicles
- Solid trading performance in third quarter to date underpins expectations of a satisfactory result for the full year

TRADING

Tourism Holdings Limited has reported unaudited Net Profit After Tax (NPAT) of $4.9m for the six months ended 31 December 2007 – a 4% increase on the $4.7m earned in the six months to December 2006.

Trading NPAT on a like-for-like basis – ie. excluding non recurring items and discontinued businesses – was up 6% to $5.1m, from $4.8m.

The result reflects continued growth in the Australian Rentals business led by a range of new products, and a rebuilding of the tourist car business in New Zealand.

Trading in the Rentals division was pleasing in the first quarter, with marketing initiatives in place to maximise yield. Trading remained strong in Australia in the second quarter, although there was some impact from the Rugby World Cup.

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There has been evidence of over-supply and heightened competitive activity in the New Zealand industry, driven by companies entering the rentals business with second-hand imported vehicles. These have put pressure on yields in the short term but are clearly unsustainable where companies are under-capitalised, and this is likely to lead to consolidation.

The Tourism Leisure Group performed below expectations due to a continued decline in the Japanese market and a drop in the United Kingdom and Korean markets, which softened the start of the tourism season in New Zealand.

Discontinued businesses reflect the sale of THL's Discover New Zealand packaging business as well as one month's trading of Johnston's Coachlines and five months of the Fullers Northland operation and Great Sights coaching prior to the creation of the respective joint ventures, plus associated overhead costs. Due to the timing of these transactions, low season unprofitable trading has been carried by THL and summer season profitable trading has moved to the joint ventures.

The soft start to the New Zealand tourism season was reflected both in visitor numbers and their associated spend. In addition, numbers continued to be affected by the trend, evident from previous years, for expanding airline capacity to drive stronger growth into the June half-year.

The increased profit was achieved on revenue of $82m, up 11% on that for the previous December half-year, due principally to increased Rentals Australia revenue and higher external CI Munro revenue. Other New Zealand revenue was up 5%. Costs continued to increase across much of the business due to volatile fuel prices, the tight labour market, wage rates and one-off costs arising from the strategic change process.

The group maintained its focus on industry consolidation via the Johnston's Coachlines and Intercity Group joint ventures. Both transactions generated cash returns that were used to strengthen the balance sheet.

A decision was made to close a centralised sales, marketing and administration unit in Auckland. This process will be complete by June 2008, with a maximum of 17 redundancies from the 80 people employed at the time of the decision. The remainder were mainly redeployed into the joint venture companies. Cost reductions from the closure will take effect from the fourth quarter of the current year.

Operating Cash Flow was reduced by higher tax payments and working capital, to $12m compared with $16m in the previous December half-year.

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

DIVIDEND

Based on current profitability, trading outlook and cash flow, the directors have resolved to pay a 5 cents per share interim dividend, fully imputed, with a record date of 18 April 2008 and a payment date of 24 April 2008. This is at the same level as the dividend paid in respect of the December 2006 period.

STRATEGIC CHANGE PROGRAMME

The change process was delayed by the unsuccessful takeover attempt by MFS Living and Leisure, but once the outcome of this offer was clear the group moved quickly to create the Johnston's Coachlines and Intercity joint ventures.

Work to improve the online trading and technology infrastructure continued throughout the period, including the range of projects set out under Capital Expenditure below. Growth in online trading has been strong and continues to build.

The group has also made continued progress on the relocation of CI Munro's manufacturing operations from Otorohanga to Hamilton. The Otorohanga motorhome plant was closed in December and the new factory in Hamilton is close to completion.

THL has entered into discussions with parties that have expressed interest in purchasing certain non-strategic assets of the group. Whilst these discussions have not progressed to a binding stage, the directors note that there is a reasonable likelihood of such transactions occurring.

In addition, with tightening conditions likely in tourism markets in the near term, and the fact that some New Zealand operators are running on unsustainable yields and weak balance sheets, the directors consider it likely that there will be opportunities for further industry consolidation. International conditions vary, but opportunities in other markets are also being monitored.

FINANCIAL POSITION

The company is in a strong financial position. The gearing ratio (debt to debt plus equity) is 39%, compared with 44% at 31 December 2006. Interest bearing debt net of cash on hand is $85m at 31 December 2007, compared with $90m at December 2006. A further $10m of debt was repaid in January 2008 from the set up of the InterCity Holdings joint venture transaction.

The group will continue to strengthen its balance sheet to be positioned for potential growth opportunities. Any asset sales as foreshadowed above would lead to further debt reduction.

CAPITAL EXPENDITURE

Capital expenditure during the half-year totaled $35m, related mainly to the introduction of new motorhome fleet, a change in the rental car model from lease to ownership and a shark tank refurbishment at Kelly Tarlton's. Other major projects commenced or progressed during the half year included:

- The IT replacement programme, which includes:
    - IT communications Wide Area Network replacement
    - Full redesign and replacement of the core IT infrastructure, including servers, storage area network and migration to new data centres
    - Implementation of a company-wide Voice Over IP telephony system
    - Consolidation and rebuild of the Internet Channel Environment, including all brand, trade, and intranet sites
- A full rebuild and upgrade of the core rentals reservation systems

With campervan fleet disposals totaling $11m and proceeds from the sale of assets and shares into the Johnston's and InterCity Holdings joint ventures of $10m, net capital expenditure was $14m. Year-end net capital expenditure, excluding sale of businesses and shares, is forecast to be in the order of $50m, consistent with previous expectations.

DIVISIONAL COMMENTARY

Operational Review

	six months ended 31 December 2007				six months ended 31 December 2006			
	Turnover ($million)	Divisional EBIT ($million)	Funds Employed ($million)	Operating Cashflow ($million)	Turnover ($million)	Divisional EBIT ($million)	Funds Employed ($million)	Operating Cashflow ($million)
Rentals	54.5	12.8	189.5	19.5	53.3	11.9	182.6	18.9
CI Munro	10.1	0.2	14.7	(3.8)	5.0	0.5	9.7	0.9
Tourism Leisure Group/Ex Group	21.0	0.1	62.8	3.6	19.3	1.2	63.2	2.2
Corporate	-	(2.4)	41.5	(6.9)	-	(2.8)	50.2	(6.0)
Inter company sales	(3.4)	-	-	-	(3.8)	-		-
Total Continuing Operations	82.2	10.7	308.5	12.4	73.8	10.8	305.7	16.0

Rentals

Rentals divisional Earnings Before Interest and Tax (EBIT) increased by 8% to $12.8m, compared with $11.9m in the previous December half. Turnover was up 2% to $55m.

Profit growth was driven by increased activity in Australia in motorhomes and a further increase in car activity in both Australia and New Zealand.

Rentals New Zealand EBIT was down 9% compared to the same period last year. Revenue from the New Zealand operations decreased by 1%, reflecting softer long-haul inbound markets, lower disposal contributions and an over-supply of product affecting the entry level brands Britz and Backpacker. This downturn was somewhat offset by the increase in car activity, enhanced cost management and a strengthening Trans-Tasman tourism market.

Fleet disposal contributions whilst below last year due mainly to higher retention of fleet with the establishment of Explore More were pleasing, reflecting strength and confidence in the group's ability to rotate fleet to maintain the appropriate brand positioning.

Rentals Australia EBIT increased by 17% due to a 5% increase in revenue from improvements in domestic marketing, car rental growth and continued cost control.

A number of business improvement and development initiatives were undertaken across the Rentals business, including a comprehensive management restructure, facilities enhancements, sales channel refinements and IT systems improvements. While business growth is the primary motivator for these changes, continual improvement of customer service standards also plays a key role in the creation of current Rentals strategies.

Commitment to Quality and Environmental Sustainability

In keeping with THL's position as Australasia's leading leisure vehicle rental company, the group partnered with Vehicle Testing New Zealand to commit to having its entire Rentals fleet tested to confirm that it meets or surpasses the highest global standard for vehicle emissions. THL is the only Australasian rental firm to undertake this voluntary commitment.

The group has committed more than $50m to partner with Mercedes-Benz to ensure that the next generation of THL fleet is the world's most customer and environmentally friendly rental product.

New Product Initiatives and Brand Positioning

The first half of 2007/08 has seen the following new vehicles introduced into the rental fleet:

- Backpacker Breezer
- Britz Adventurer (NZ)
- Britz Voyager (NZ)

The second half will see three new products and two design upgrades added to the line-up, ensuring that THL retains its position as the supplier of the widest range of leisure rental vehicles – not only in Australia and New Zealand, but anywhere in the world.

As of April 1, 2008 all non 4 wheel drive Maui fleet in Australia will offer automatic transmission, an important factor in customer choice.

After analysis of the market, THL's Backpacker brand has been totally refreshed, further cementing the group's position in the critical youth market in both Australia and New Zealand. This, and the launch of the Explore More brand, has produced positive growth in this sector for THL. An ongoing increase of vehicles in this category is planned in both New Zealand and Australia.

C I Munro

CI Munro's earnings were affected by a decrease in internal build activity and loss of operating efficiency during the relocation. The division recorded a trading loss of $0.4m, excluding the gain from the sale of its Otorohanga site as part of its relocation programme.

The building extensions at the Kaimiro Street site in Hamilton, to which the business has relocated, are nearing completion. The Otorohanga site has been closed. The temporary site at Kapuni Street, Hamilton, is due to close at the end of March, with caravan and holiday home manufacturing and repairs being relocated to Kaimiro Street.

Due to the difficulty experienced during the period in operating from three locations and building the Hamilton staff resource, the trading loss has been treated as a non recurring item.

Design Projects

CI Munro has maintained progress on design projects during the relocation phase. New private Ultimates motorhomes were launched during the December half-year, and a smaller version branded Marquis is to be launched at the National Motor Home & Caravan Expo at the end of February.

Tourism Leisure Group (Continuing Businesses)

Earnings Before Interest and Tax (EBIT) for the Tourism Leisure Group (including EX Group) decreased to $0.1m, compared with $1.2m in the previous December half mainly due to initial winter trading losses in Explore More that were not in the prior corresponding period. Turnover was up 9% to $21m.

Operating results were mixed. Positive marketing efforts provided gains in yield and market share in most areas, but these were offset by the decline in the Korean and Japanese markets. The Chinese market is starting to develop within the Attractions businesses, and strategies are being developed to improve targeting in this regard.

A series of structural changes was undertaken by the Tourism Leisure Group to maximise the focus of specific businesses on relevant sectors and market opportunities.

In August 2007 the group agreed to joint venture its premium coach chartering business, Johnston's Coachlines, with Coach Investments Limited. THL retained a 33% interest in the joint venture company.

On 1st December 2007 the group entered into a joint venture with the owners of InterCity Group (NZ) Limited, building on the strengths of the nationwide bus and coaching operations and the Northland leisure cruising businesses. A new company, InterCity Holdings Limited, was formed to hold the THL businesses Great Sights and Fullers Bay of Islands and the InterCity businesses Kings and InterCity Coachlines. THL owns 49% of the joint venture.

In a separate transaction, the group sold its Discover NZ inbound packaging operation, which traded under the brand names Horizon Holidays, Newman's Holidays, Mount Cook Line and Ski Express, to Tourmasters South Pacific (NZ) Ltd.

The internal changes resulting from these transactions are mostly complete – the exception being the closure of the centralised sales, marketing and administration unit, which is on schedule to occur in April 2008.

EX Group

The Explore More rental operation was launched on 01 July 07 to aggressively enter the low-cost and budget-focused car and motorhome sector. This sector remains under extreme pricing and yield pressure, and consolidation looks likely. Explore More has been well established, with strong brand and distribution in place, and THL is committed to building a substantial presence in this growing market. The trading loss for the half-year is in line with expectations for establishment and operation of the business during the low season.

The rest of the EX Group maintained a range of marketing initiatives over the winter to build market share. The Kiwi Experience product offering remains the best in the backpacker market segment, as reflected in the recent 'Golden Backpack' award for Best Holiday Package, voted by travellers. Customer ratings and repeat business remained high in the latest period. Kiwi Experience online booking levels were 110% higher than those for the previous December half, reflecting the group's investment to enhance its online marketing platform.

Airbus Express improved revenue and earnings, with passenger numbers increasing by 12.7%. This followed the introduction of a new City Route to shorten journey time from Auckland International Airport to downtown Auckland and to feed vehicle rental operators in the central business district.

The EX Group is accounted for as part of the Tourism Leisure Group.

GOVERNANCE

There were three changes to the board of directors during the half-year – the retirement of Mr Harry Price and the appointments of Mr Deepak Gupta and Mr Graeme Wong.

Mr Price retired by rotation at the annual shareholders' meeting in November 2007 and did not seek a further term of office. He had been a director of Tourism Holdings since November 2000.

Mr Gupta was appointed to fill a vacancy and was re-elected at the annual meeting. He has almost 20 years' experience in financial services and investment management, and has been a director of several other companies.

Mr Graeme Wong joined the board in December. He has been a director of a range of organisations including At Work Insurance, Magnum Corporation, Sealord Group, Southern Capital and Tasman Agriculture. His earlier career was in sharebroking and investment management.

OUTLOOK

The Directors believe 2008 will be a challenging year for the New Zealand tourism industry, driven by the impact of declines in the global equity and debt markets. The resulting uncertainty makes the purchase of large discretionary items like travel more significant, and thus places New Zealand under pressure as a destination. This is exacerbated by the high New Zealand dollar, which reduces tourists' purchasing power in New Zealand. In addition, the strength of the Euro in relation to the United States dollar makes the US a very attractively priced destination ex Europe. The customer cost of fuel surcharges from Europe to New Zealand is, in some cases, the same value as a short-haul package holiday.

The group's performance in Australia remains pleasing into the third quarter of the year. The New Zealand divisions are working hard via cost control and revenue generation to counter the international visitor declines and resulting intense competitive pressures. Indications for the fourth quarter are less clear at this point due to the factors noted above and the continuing trend to shorter booking times. In summary, the group expects a quiet trading period heading into winter.

Based on these factors and results to date, THL expects trading NPAT for the full year in the range of $16-$18m which is similar to last year, with an overall bottom line NPAT including non-recurring items and discontinued businesses of between $15-$17m, which is ahead of last year's $13m.

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