CHAIRMAN'S REVIEW

Reflecting on 2021

This time last year, we were hopeful that the prospects for 2021 would be better than those in 2020. There was good cause for optimism as we learned of vaccines that would be made available and the prospect of restrictions potentially easing as New Zealand pursued its elimination strategy and looked to get on top of the spread of the virus. That optimism turned out to be short-lived with the arrival of the Delta variant and the re-imposition of lockdowns initially across the whole of New Zealand but latterly in Auckland.

In 2021, the efforts of our staff were no less extraordinary than in 2020. They continued to adapt to an environment without international visitors for a second straight year.

Once more, MCK's Board thanks all of its team members at each of its hotels and corporate offices for their contributions in 2021. You have done us proud and we are grateful for the work you do each day.

Towards the end of 2021, there were two significant positive matters – in November, we welcomed the unanimous decision of the Court of Appeal to declare Auckland Council's Accommodation Provider Targeted Rate as illegal. We are disappointed that Council has decided to appeal the decision. We are optimistic that the Supreme Court will affirm the Court of Appeal's decision.

In December 2021, after a consultation process, MCK announced its vaccination policy which required all employees and guests to be fully immunized against Covid-19. This has been very well received by our guests and stakeholders alike, and reflects the general sentiment across the majority of New Zealanders who want and expect a safe environment when they travel away from home.

Financial Performance & Financial Position

For the year ended 31 December 2021, MCK recorded a profit attributable to owners of the parent of $40.0 million (2020*: $48.5 million).

Our 2021 results were bolstered by the continued strong performance of our property development operations through our majority-owned subsidiary, CDL Investments New Zealand Limited and from a one-off gain of $15.9 million on disposal from the sale of land (described as other income). Overall, MCK's New Zealand hotel operations recorded a profit before tax of $13.8 million (2020*: $5.5 million). Without the one-off gain from the sale of land, MCK would have recorded a pre-tax loss of $2.1 million. This was reflected in our earnings per share which decreased to 25.31 cents per share (2020*: 30.64 cents per share).

Our 2021 revenue totaled $164.8 million (2020: $172.0 million) largely contributed by CDL Investments. There were no tax credits in 2021 offered by the Government as pandemic support, although MCK's subsidiary claimed $4.2 million of wage subsidy particularly during the Level 4 and Level 3 lockdowns in 2021. A total of $202,078 of other Government support such as the Resurgence Support Payment was claimed during the year.

At 31 December 2021, MCK's shareholders' funds excluding non-controlling interests was $514.2 million (2020*: $474.7 million). Total assets increased to $680.8 million (2020*: $664.1 million) with net asset backing (with land and building at cost and before distributions) also increasing to 324.8 cents per share (2020*: 299.8 cents per share).

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*The 2020 comparative figures are restated due to the fact that during 2021, MCK changed its accounting policy relating to the measurement of land and buildings. Since 2005 when MCK adopted NZ IFRS, land and buildings have been recorded at fair value. This was different to the accounting policy used within other members of M&C Group overseas which recognised land and buildings at cost. In order to align with the overall group accounting policy, MCK made the decision to restate land and buildings at cost. The restatements took effect from 1 January 2005 and the comparatives now reflect this change. Further information can be found in the Notes to the Financial Statements.

New Zealand Hotel Operations

In 2021, we achieved an average occupancy of 36.1% (2020: 39.2%), reflecting the closed New Zealand borders that, accordingly, the sole reliance on New Zealand residents. The lockdowns affecting Auckland had a severe effect on travel and accommodation throughout New Zealand and the loss of revenue in the third and fourth quarters of the year were not able to be recovered.

Despite that, and owing to careful targeted marketing, the average RevPAR (Revenue Per Available Room) achieved across all of MCK's hotels was $57.91 (2020: $66.17).

Both Grand Millennium Auckland and M Social Auckland remained in the Managed Isolation programme during 2021 and are contracted to remain as MIQ properties for at least part of 2022.

Kingsgate Hotel Greymouth underwent major refurbishment works for several months in 2021 and is scheduled to be rebranded to the Copthorne Hotel Greymouth in the first half of 2022. The refurbishment of two levels of guest rooms at Millennium Hotel Queenstown is ongoing. Additional refurbishments are scheduled to take place at other hotels in 2022 in anticipation of the return of international visitors.

CDL Investments New Zealand Limited ("CDLI")

CDLI continued to meet strong demand for its residential sections in 2021 and recorded an operating profit after tax for the year ended 31 December 2021 of $31.3 million (2020: $30.1 million).

CDLI has maintained its dividend at 3.5 cents per share and MCK's Board has resolved to take its CDLI dividend in cash when it is paid in May. Given that CDLI's profitability and dividend will assist MCK's overall results in 2022, MCK is assured that CDI is sufficiently resourced to allow it to continue its sales and development activities in 2022 and that the decision by MCK to take its dividend in cash will not affect CDI's position.

Australia Update

In 2021, a total of ten apartments were sold at the Zenith Residences in Sydney. This was slightly below expectations given market conditions in Australia. MCK will continue to market its Zenith Residences for sale but will adjust its selling strategy given continued strong interest in residential property in Australia.

Dividend Announcement

MCK's Board has resolved to declare and pay all shareholders a fully imputed dividend of 3.5 cents per share for 2021. The dividend, payable to all shareholders, will be paid on 13 May 2022 with a record date of 6 May 2022. The dividend is modest and reflects the overall profit made in 2021 but also allows MCK to retain and deploy additional funds for its ongoing refurbishment and upgrade capital works in 2022 in preparation for 2023 and beyond.

Outlook

The current state of business will continue as long as the pandemic continues to stifle international travel. Those issues are completely outside MCK's control and it is already clear that 2022 will be another difficult year. If we have some cause to be optimistic for the second half of the year, it is that vaccination rates in key markets remain high and vaccination mandates for travel have become the norm. This should, we hope, allow some level of international travel to New Zealand to resume in 2022.

The announcements made by the New Zealand Government on 3 February confirming the step plan to reopen the international borders starting from late February 2022 are good news for Kiwis looking to return home this year. However, because all of the steps currently require a period of self-isolation for everyone entering New Zealand regardless of origin, we believe that international visitors will choose destinations other than New Zealand which do not have such requirements. As the plan also assumes that the international border will reopen to all non-New Zealand or Australian visitors from October, we do not expect to see a material boost in visitor numbers or to our revenue this year even if the timeline is brought forward.

The current low occupancy and domestic orientated environment will continue for most, if not all, of this year. We are looking at a half year of break-even results for H1 2022 for the hotel operations, but expect our property development activities to continue with their positive momentum throughout 2022. We will continue to take the opportunity to progressively upgrade and refurbish our hotels across out network in anticipation of better times in 2023 and 2024.

The advantage we have now is that we know the effect of the last two years on our operations and our business. We are able to scale back quickly if we need to should the current trading situation continue longer than anticipated. But we are also looking to scale up our operations where demand warrants it and will compete for talent and resources purposefully to ensure that we remain a leader in the New Zealand accommodation markets.

2022 will also see the conclusion of our Managing Director BK Chiu's time with the group. On behalf of the Board, I would like to take this opportunity to thank BK for his tireless efforts over the course of over sixteen-plus years with MCK and CDI which has seen the group through many difficult challenges including this pandemic. His significant contribution and leadership has ensured that MCK remains strong. His successor will have big shoes to fill as MCK continues on its path to recovery over the next few years.

Colin Sim
Chairman
18 February 2022