



## SHAREHOLDER UPDATE TO 30 JUNE 2021

Dear MCK Shareholders,

Although it is over a year since the last major national lockdowns which affected all of us, the memory of what happened in 2020 is still fresh and while we are working towards our path to recovery, many of the same things which affected us last year are things we still have to deal with.

The latest change in Alert Levels for Greater Wellington in June saw over nine hundred room nights cancelled across our network, over half of which were for the Copthorne Hotel Wellington Oriental Bay, and while the financial impact of those cancellations was not material to our overall financial performance, it served as a reminder to us that COVID-19 continues to have a significant impact on our employees and our revenue across the country.

The good news is that the work we have put in over the last twelve months to right-size and stabilize our hotels is working. Although occupancy levels continue to be similar in 2021 to last year, we are seeing some growth in the domestic corporate and conferences markets as confidence returns to both market sectors and forward bookings for events are being made. Assuming that there are no major alert level changes, we believe this trend will continue in the second half of the year and into 2022.

The eight week suspension of the Trans-Tasman Travel Bubble announced recently confirms that we cannot depend on the Travel Bubble to be a totally reliable source of business. Our domestic markets remain our primary market and for that reason, our promotions remain focused on New Zealand travelers as we encourage them to visit regions they have either not explored before or have not been to in a while.

It is clear that international long-haul travel is very unlikely until some time in 2022 and we have based our planning on that basis. We continue to liaise with our international clients and agents ahead of the time when border restrictions will be eased.

To our shareholders and stakeholders, we would like to thank you again for the support and positive comments and feedback you have provided to our employees and about our hotels not only in 2021 but indeed over the past twelve months. We love hearing from you and we are very grateful for the positivity as we slowly build back to where we were before.

### **Results summary**

MCK as a group made an unaudited profit before tax and non-controlling interests of \$41.36 million for the six month period ended 30 June 2021 (2020: \$26.26 million). The main contributors to these results were sales of residential sections from our majority-owned subsidiary CDL Investments New Zealand Limited which continues to trade strongly and the sale of the Copthorne Hotel Christchurch Central land in May 2021. Four apartment sales at the Zenith Residences in Sydney settled during the last six months also contributed to this result.

MCK has therefore recorded a profit after income tax and non-controlling interests of \$25.34 million (2020: \$34.09 million) on group revenue for the period of \$98.36 million (2020: \$84.74 million). Our earnings per share for the period decreasing to 16.02 cents per share (2020: 21.55 cps) reflecting the impact of last year's one-off tax credit from the Government's COVID-19 Business Continuity Package. MCK's Net Tangible Assets per share as at 30 June 2021 which was \$4.86 per share (2020: \$4.44 per share).

### **New Zealand Hotel Operations**

For the first half of this year, MCK's hotel operations made a pretax profit of \$33,000 (2020: \$3.69 million) excluding the one-off item from other income. EBITDA for the same period excluding the one-off item from other income was \$5.25 million (2020: \$8.58 million). These results reflect the lack of two months pre-COVID summer trading seen in 2020, the impact of not having the wage subsidy or other Government support in this period and continued reliance on the domestic markets for business.

While the result might appear to be marginal, we believe that it is actually satisfactory given the operational levels of occupancy seen during this period (2021: 40.5%; 2020: 42.7%) and also takes into the account the impact of the short lockdown in February in Auckland and the change of alert levels across New Zealand in February and in Wellington in June. Good occupancies in our regional hotels are being seen but these positive signs need to be balanced with reduced occupancies in the main centres and increased competition in resort locations.

Hotel operations and management in New Zealand will continue to be challenging for the foreseeable future. Staff and skill shortages are the biggest issues facing the industry as a whole currently and how to bridge the capacity and skills gap is a priority for MCK and other operators.

MCK continues to adopt a cautious and conservative approach to its use of resources and expenditure. Financially, we remain sound with sufficient reserves and balance sheet strength to see out a change in trading conditions should they occur.

As we announced in April, MCK issued injunction proceedings against the Waitangi National Trust Board in relation to the renewal of its ground lease for the Copthorne Hotel & Resort Bay of Islands. Matters relating to the renewal are still being discussed between the parties through their lawyers and it is hoped that matters can be resolved without the need to proceed to arbitration.

Grand Millennium Auckland and M Social Auckland both continue to undertake managed isolation facility business and are likely to do so for the remainder of this year. All staff working at both hotels have been fully vaccinated and the deadline to comply set by the Government was met. We continue to have a positive working relationship with the Ministry of Business, Innovation and Employment which is the lead government agency for managed isolation and returnee feedback about their managed isolation stay is for the most part very positive.

Refurbishment work on the public areas and one level of guest rooms commenced at Millennium Hotel Queenstown and will be completed at the end of Q4 as part of the staged refurbishment of the hotel. A partial reopening of the hotel was made on 22<sup>nd</sup> July. Work will also commence shortly at Millennium Hotel Rotorua on a selected section of the hotel. Kingsgate Hotel Greymouth was closed in April ahead of extensive demolition and refurbishment works which will see the hotel rebranded to Copthorne standard when it reopens in Q4 2021.

**CDL Investments New Zealand Limited ('CDL') update:**

CDL has continued to trade positively in 2021 and recorded an unaudited operating profit after tax for the six months ended 30 June 2021 of \$20.75 million (2020: \$13.74 million). Sales in Auckland, Hamilton and Canterbury were recorded and CDL is on track better its 2020 results which will in turn bolster MCK's results as well.

**Australia update:**

We recorded four sales of apartments at the Zenith Residences, Sydney in the first half of the year. We are aiming to sell additional apartments in the second half of the year and we are currently reviewing our sales strategy as buyers are showing renewed interest in inner city apartments.

**Outlook:**

As we said at the start of this update, there are positive signs as confidence returns to the markets and we have reasons to be optimistic should the current trading environment continue. At our annual meeting of shareholders, we stated that our focus was on positioning our operations to ensure that we can take advantage of market growth wherever it arises and whenever it appears. Shareholders can take heart that we are confident that we will be able to achieve this aim through the projects and other initiatives we are undertaking this year.

However, the Alert Level Changes we have seen already in Auckland and Wellington so far could well be repeated before the end of the year. While we hope that this will not be the case, the impact of any significant change or even lockdown could well have a material bearing on any forecast revenue or profit. While we remain confident that MCK still has sufficient resources to endure a period where trading is not possible at some or all of its New Zealand hotels, we have factored in the potential effects of such an event or events. We think this is a prudent approach to adopt until such time as New Zealand's international borders can be safely reopened and travel to and from New Zealand can resume to pre-pandemic levels which will not be until some time in 2022 at the earliest.

We are therefore understandably cautious about making statements about the second half of this year and about what we are forecasting for our year-end results presently. There remains a high degree of uncertainty due to the pandemic and the Board will be monitoring MCK's trading patterns, revenue and profitability very closely during the coming months and will look to provide clearer guidance towards the end of the calendar year.

In the meantime, we look forward to welcoming everyone to our hotels across the country whether it is for leisure or business. You can be assured of a warm welcome and the very best hospitality we have to offer wherever you choose to go.



**Colin Sim**  
Chairman  
2 August 2021



**BK Chiu**  
Managing Director