CHAIRMAN'S REVIEW

Overview

If we had to use one word to describe 2022, it would be "tough". The year commenced with a period of lockdowns affecting our hotels – notably Rotorua and Bay of Islands – and transitioned with borders re-opened but restricted staffing. Like most businesses in the hospitality and tourism sectors, we were affected by labour and skill shortages across the country and the intense competition to retain and attract new employees. This continues to be a current on-going challenge.

It was pleasing to have the transition from an Auckland MIQ based focus (in the first half of the year) to an opening of the international borders and the associated increases in visitor numbers. This was certainly welcome news, particularly for Queenstown, however the lack of employees at our hotels across the country meant having to adjust our inventory and service delivery to ensure that all of our guests received a warm welcome and the best possible service you would expect at any of our New Zealand hotels.

2022 also was a year of change as we bade farewell to long-serving Managing Director BK Chiu and welcomed back Stuart Harrison to MCK to take BK's place in July. Stuart has already made an impact with the Board and the hotel teams and we are very much looking forward to his contribution to our future strategic direction.

On behalf of the Board, we take this opportunity to sincerely thank all of our employees at our hotels and our corporate offices for their work during the past year. We sincerely appreciate all of your efforts.

Financial Performance & Financial Position

For the year ended 31 December 2022, MCK recorded a profit attributable to owners of the parent of $21.7 million (2021: $40.0 million).

With no one-off gains recognized during 2022, our majority-owned subsidiary CDL Investments New Zealand Limited ("CDI") has been the core contributor to our profits. CDI recorded another strong year with the year concluding a number of section sales despite a rapid change in the residential markets in the last few months of the year.

MCK's New Zealand hotel operations recorded a loss before tax of $4.0 million (2021: $2.1 million loss excl. one-off gain from sale of land). Despite the reopening of the international border, visitor numbers remained comparatively low and inventory reductions due to the lack of staff also impacted on revenue and profitability.

Our total revenue in 2022 was $144.2 million (2021: $164.8 million) and our earnings per share decreased to 13.72 cents per share (2021: 25.31 cents per share (incl. one-off gain from sale of land). At 31 December 2022, MCK's shareholders' funds excluding non-controlling interests was $531.0 million (2021: $514.2 million). Total assets increased to $709.2 million (2021: $680.8 million) with net asset backing (with land and building at cost and before distributions) also increasing to 335.4 cents per share (2021: 324.8 cents per share).

New Zealand Hotel Operations

2022 saw our New Zealand hotels record an operating revenue of $65.2 million (2021: $55.2 million) for the year. The impact of Covid lockdowns and restrictions in place around isolation tempered revenues severely throughout the year. The initial part of the year was supported by the utilisation of the M Social Hotel (Auckland) as an MIQ and on the decommissioning and re-opening of borders the recovery commenced in the leisure locations of Bay of Islands, Queenstown and Rotorua. Whilst there was an increase in revenue the sustained labour shortages and associated increased costs meant delivering a profitable result for the year was always going to be challenging. The Board consider the result creditable given the current circumstances but are targeting a return to overall profit this year.

Overall, an occupancy percentage of 43.7% (2021: 36.1%), was achieved with an average RevPAR (Revenue Per Available Room) of $76.59 (2021: $57.91).

At the coalface, we were pleased to see the completion of the first stage of our refurbishment at Millennium Hotel Queenstown of 62 rooms. We are already proceeding with the next 145 rooms which will be completed in stages between May and December 2023.

MILLENNIUM HOTELS AND RESORTS

CDL Investments New Zealand Limited ("CDLI")

CDLI performed well in 2022 nearly matching its 2021 results despite a rapid change in the property markets in late 2022 and recorded an operating profit after tax for the year of $31.2 million (2021: $31.3 million).

CDLI has maintained its dividend at 3.5 cents per share and MCK's Board has again resolved to take its CDLI dividend in cash when it is paid in May.

Australia Update

In 2022, a total of five (2021: 10) apartments were sold at the Zenith Residences in Sydney. We continue to own and manage 36 apartments being predominantly one bedroom units plus some two – three bedrooms units. In 2023, MCK will continue its plans to gradually sell down its interest in the Zenith Residences.

Dividend Announcement

MCK's Board has resolved to declare and pay all shareholders a fully imputed dividend of 3 cents per share for 2022. The dividend, payable to all shareholders, will be paid on 12 May 2023 with a record date of 5 May 2023. The dividend remains at a sustainable level where shareholders are able to receive a return commensurate with MCK's current profitability while still ensuring that the company retains sufficient resources to progress refurbishment and other business critical projects over the coming year.

Outlook

Although worsening global economic conditions will have an inevitable impact on our performance over the coming year, there are grounds for optimism as well. Global demand for travel is strong and is expected to remain so during 2023 as people look to reconnect with family and friends across the world or explore new locations.

We have started 2023 positively with good demand seen in our summer season, but like a lot of New Zealand we have been affected by recent weather events particularly in Northland and Auckland. While our hotels have escaped any serious physical damage from the cyclones and flooding, the impact on our revenue and occupancy is still to be determined. We do believe that there will be continued growth in the second half of 2023 thanks to events such as the FIFA Women's World Cup to be held in New Zealand and Australia in July and August.

Conferencing and meeting business is also showing good signs of recovery and growth and we are looking to add as much business as we can sustain into our hotels which are geared to host such events.

We are excited that our refurbishment programme at Millennium Hotel Queenstown is now well underway along with other locations being scheduled to be completed in 2024 which will see increased rate growth and clientele coming back to our key hotels. In addition to the works at Millennium Hotel Queenstown, rooms refurbishment is scheduled to commence at Copthorne Hotel & Resort Bay of Islands and at Millennium Hotel Rotorua in the second quarter of 2023 after the end of the current high season.

Our optimism is tempered slightly with some moderate caution - we do not expect the next twelve to eighteen months to be easy for our business but we also expect that trading conditions will be easier now that overriding restrictions caused by the pandemic have eased.

Our new product will create a very strong platform which will allow us to deliver stronger returns from 2024 onwards and the Board will be looking at additional ways to improve and invest in our properties. We therefore expect that 2023 will be an exciting and critical year as we continue on our recovery journey.

Colin Sim
Chairman
16 February 2023