CHAIRMAN'S REVIEW

A few words on the year just past

As we embark on the next twelve months ahead of us, we are taking this opportunity to reflect on the year just past.

When we reported our 2019 results, we knew that the effects of COVID-19 would be severe on tourism and our business. The fact that MCK as a group, has been able to record a positive set of results for its hotel and property development operations during 2020 is a testament to the extraordinary efforts of its staff during what can only be described as an abominable year.

The MCK Board sincerely thanks each and every one of our team whether they work at our hotels or corporate offices for their diligence and can-do attitude at all times.

We would also like to thank our shareholders, suppliers and business partners once again for their continuing support and loyalty for MCK and our hotels during the year. Many of you have provided our staff with some wonderfully heartfelt and positive comments and we greatly appreciate this.

The devastating impact of COVID-19 on the tourism and accommodation sectors in 2020 has been well documented and will continue during this year. With the international borders to New Zealand likely to be closed for the majority of, if not all of, 2021 to limit the spread of COVID-19 coming in from overseas, all of us will need to accept the major impact that continued closure will have on our business and our employees.

Most of our hotels across New Zealand were able to resume trading by the end of last year but not all. Copthorne Hotel Rotorua, Kingsgate Hotel Greymouth and Kingsgate Hotel Te Anau were closed for the majority of 2020 and these hotels will likely remain closed for a further period of time. During 2020, we were continuously reviewing how we can optimize our operations at all of our properties. This may mean that some of our hotels will be partially or entirely closed during periods where we do not have any bookings during 2021.

If we had to take any positives out of 2020, it was that the crisis made us think hard about our entire business, our customer and marketing strategies, how we manage our people and what the overall future will look like. All of us have learned a lot over the past year. Putting those learnings into practice to rebuild and reshape MCK's future will determine how successful we will be in 2021 and beyond.

Financial Performance & Financial Position

MCK reports that, for the year ended 31 December 2020, the company recorded a profit attributable to owners of the parent of $46.0 million (2019: $49.7 million).

Our 2020 results are almost entirely due to the performance of our property development operations through our majority-owned subsidiary CDL Investments New Zealand Limited which had a very positive year despite the difficulties caused by COVID-19 and sales of our apartment units in Sydney, Australia. Our hotel operations did perform better than anticipated and recorded a small profit before tax of $1.9 million (2019: $33.5 million). All of this was reflected in our earnings per share which decreased to 29.05 cents per share (2019: 31.39 cents per share).

Our 2020 revenue totaled $172.00 million (2019: $229.7 million) which was driven by CDL Investments and our Australian subsidiaries. As detailed in the 2020 Interim Report, we also recognized a one-off, non-cash tax credit of $20.06 million from the Government's COVID-19 Business Continuity Package. Our shareholders' funds excluding non-controlling interests was $743.6 million (2019: $715.3 million). We saw a decrease in our total assets of $987.9 million (2019: $1,008.2 million) with net asset backing (with land and building revaluations and before distributions) increasing slightly to 469.70 cents per share (2019: 451.78 cents per share).

New Zealand Hotel Operations

Typically, we would report on the total revenue, RevPAR (Revenue Per Available Room) and occupancy statistics as well as Gross Operating Performance and provide comparatives to the previous year. Given the lockdowns and ongoing border closure during the past 12 months and the resulting impact on business, direct comparisons between 2020 and 2019 are not helpful for shareholders as it was clear and obvious that the impact of COVID-19 on our business was severe.

In 2020, we were able to achieve an average occupancy of 39.2 % which was not unexpected given the lack of international visitors alone. To achieve even this level of occupancy required carefully targeted marketing and promotions and this targeting will continue into 2021. With only the New Zealand domestic market to rely on, the average RevPAR (Revenue Per Available Room) achieved across all of MCK's hotels was $66.17 which we consider to be a positive achievement given the inability to hold conferences, meetings and other large gatherings for a substantial part of the year as well as the difference in what the domestic market is prepared to pay over what we lost from the international markets. Unsurprisingly, our hotels' revenue in 2020 was less than half of what we earned in 2019 and included what we received for the Auckland managed isolation hotels.

Only the hotel operations applied for and received the Government's Wage Subsidy from March through to June as well as the June extension and a final resurgence payment in September. In all, a total of $9.5 million was received and all of it was paid out to our employees. We met the criteria to receive the subsidy and we have been audited by the Ministry of Social Development on our use of the wage subsidy and they have found no issues.

Our two hotels in the Managed Isolation programme, Grand Millennium Auckland and M Social Auckland, will continue to assist the Government with returning New Zealanders for much of 2021. Both hotels recorded positive performance metrics given the required length of stay for those returning to New Zealand but like the rest of the accommodation industry, we are conscious that with significant sporting events scheduled for 2022 and 2023, we are keen to ensure that we are able to position ourselves to be able to assist with the hosting of visiting teams, officials, media and possibly spectators should these events proceed as planned and border controls allow.

Kingsgate Hotel Greymouth will undergo major refurbishment works over 2021 which will see the demolition of part of the existing hotel with operations being shifted to the main tower block. Kingsgate Hotel Te Anau will be open over Summer 2021 after which time we will review whether there is sufficient demand for it to remain open over the winter season.

Refurbishment work was completed at Copthorne Hotel & Resort Queenstown Lakefront and the hotel reopened in Q4 2020. This has allowed us to proceed on planned room refurbishment works at Millennium Hotel Queenstown which closed on 31 January ahead of those works commencing in the next few weeks. A similar refurbishment project is also being scoped for Millennium Hotel Rotorua and is planned to commence in the second half of this year.

CDL Investments New Zealand Limited ("CDLI")

2020 has seen CDLI trade remarkably well in market conditions that we could not have foreseen. Reflecting that positivity, CDLI has announced an operating profit after tax for the year ended 31 December 2020 of $30.1 million (2019: $34.1 million). MCK is encouraged by CDLI's confidence in its recent land purchases and development plan for the next few years.

CDLI will continue to be a critical element in bolstering MCK's profitability for the foreseeable future and MCK is committed to providing CDLI with support as required to ensure that it is able to continue to acquire and develop land over the medium term.

CDLI maintained its ordinary dividend to 3.5 cents per share. MCK will take CDI shares instead of cash for this dividend to allow CDLI to optimize its cash resources to progress its development plans.

Australia Update

In 2020, a total of four apartments including the penthouse floor at the Zenith Residences were sold. The market dynamics in Sydney have been different to New Zealand and our sales strategy is being reviewed. Leasing of the remaining units is ongoing.

MCK is still committed to selling down its interest in the Zenith Residences but in a way that will ensure best possible returns and margins.

Dividend Announcement

While the company has made a profit, MCK's Board has resolved not to declare a dividend for the 2020 year and will instead deploy the funds for refurbishment and reinvestment in its hotels. This will also allow the company to ensure it has sufficient capital reserves to continue to trade as well as optimize its financial resources in its recovery runway objectives.

Outlook

This summer, some of our hotels are seeing significantly less occupancy compared to this time a year ago. That difference will be very significant to our 2021 results as the trading results in the first three months of 2020 were similar to 2019 and was reflected in the small profit that we announced in our 2020 interim results. Our property development activities are expected to perform positively and will again be the main driver for group profit this year.

MCK continues to have the benefit of a strong balance sheet and capital reserves which it will look to use and manage carefully to preserve and improve its assets. During 2021, the Board will work with Management to review our core operations to see how our business units and our operations generally can scale up when we need to and ensure our product remains attractive and competitive to Kiwis and future international visitors alike.

As I said earlier, having survived 2020, our thoughts now turn to how best to position the business to ensure that we are well-placed for the post-COVID recovery when it comes. Much depends on circumstances outside of our control. International travel to New Zealand will not be returning to volumes which will allow significant overseas tourism until COVID-19 is well under control globally.

While New Zealanders will hopefully continue to enjoy a level of freedom of movement which is better than other parts of the world, we do not expect to see a sustained domestic travel market developing over the short to medium term which will replace or eclipse what international visitors have brought in the past. Until such time as we can welcome international visitors back to New Zealand, our revenue and our results will reflect this.

Colin Sim
Chairman
17 February 2021