GENERAL ANNOUNCEMENT::ANNOUNCEMENT BY SUBSIDIARY COMPANY, MILLENNIUM & COPTHORNE HOTELS NEW ZEALAND LIMITED

Issuer & Securities

Issuer/ Manager
CITY DEVELOPMENTS LIMITED

Securities
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Announcement Details

Announcement Title
General Announcement

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Announcement Sub Title
Announcement by Subsidiary Company, Millennium & Copthorne Hotels New Zealand Limited

Announcement Reference
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Submitted By (Co./ Ind. Name)
Enid Ling Peek Fong

Designation
Company Secretary

Description (Please provide a detailed description of the event in the box below)
Please refer to the Announcement released by Millennium & Copthorne Hotels New Zealand Limited on 13 February 2019 relating to Full Year Results for the Year Ended 31 December 2018.

Attachments

13022019_MCHNZ_2018_Full%20Year%20Results.pdf

Total size =3597K MB

Millennium & Copthorne Hotels New Zealand Limited

Consolidated Income Statement

For the year ended 31 December 2018

DOLLARS IN THOUSANDS	Note	Group 2018	Group 2017
Hotel revenue		126,478	105,567
Rental income		3,009	3,070
Property sales		89,351	78,630
Revenue		**218,838**	**187,267**
Cost of sales	3,10	(89,004)	(74,847)
Gross profit		**129,834**	**112,420**
Administration expenses	2,3	(24,833)	(20,504)
Other operating expenses	2,3	(21,923)	(19,148)
Operating profit		**83,078**	**72,768**
Finance income	4	3,772	4,072
Finance costs	4	(1,748)	(1,897)
Net finance income		**2,024**	**2,175**
Profit before income tax		**85,102**	**74,943**
Income tax expense	5	(23,146)	(19,847)
Profit for the year		**61,956**	**55,096**
Attributable to:			
Owners of the parent		49,375	43,116
Non-controlling interests		12,581	11,980
Profit for the year		**61,956**	**55,096**
Basic earnings per share (cents)	8	31.21	27.25
Diluted earnings per share (cents)	8	31.21	27.25

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

DOLLARS IN THOUSANDS	Note	Group 2018	Group 2017
Profit for the year		**61,956**	**55,096**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation/impairment of property, plant and equipment	9	20,075	75,326
- Tax expense on revaluation/impairment of property, plant and equipment	5, 16	(5,541)	(11,342)
		14,534	**63,984**
Items that are or may be reclassified to profit or loss			
Foreign exchange translation movements	4	(3,060)	3,426
- Tax credit on foreign exchange translation movements	4, 5	(76)	11
		(3,136)	**3,437**
Total comprehensive income for the year		**73,354**	**122,517**
Total comprehensive income for the year attributable to :			
Owners of the parent		60,773	107,648
Non-controlling interests		12,581	14,869
Total comprehensive income for the year		**73,354**	**122,517**

The accompanying notes form part of, and should be read in conjunction with, these financial statements

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Millennium & Copthorne Hotels New Zealand Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

Group

DOLLARS IN THOUSANDS	Attributable to equity holders of the Group							
	Share Capital	Revaluation Reserve	Exchange Reserve	Retained Earnings	Treasury Stock	Total	Non-controlling Interests	Total Equity
Balance at 1 January 2018	383,266	222,465	114	(16,939)	(26)	588,880	74,810	663,690
Movement in exchange translation reserve, net of tax	-	-	(3,136)	-	-	(3,136)	-	(3,136)
Revaluation/impairment of property, plant & equipment, net of tax	-	14,534	-	-	-	14,534	-	14,534
Total other comprehensive income/(loss)	-	14,534	(3,136)	-	-	11,398	-	11,398
Profit for the year	-	-	-	49,375	-	49,375	12,581	61,956
Total comprehensive income for the year	-	14,534	(3,136)	49,375	-	60,773	12,581	73,354
Transactions with owners, recorded directly in equity:								
Dividends paid to:								
Owners of the parent	-	-	-	(9,493)	-	(9,493)	-	(9,493)
Non-controlling interests	-	-	-	-	-	-	(4,231)	(4,231)
Supplementary dividends	-	-	-	(242)	-	(242)	-	(242)
Foreign investment tax credits	-	-	-	242	-	242	-	242
Movement in non-controlling interests without a change in control	-	-	-	99	-	99	454	553
Balance at 31 December 2018	383,266	236,999	(3,022)	23,042	(26)	640,259	83,614	723,873

The accompanying notes form part of, and should be read in conjunction with, these financial statements

Millennium & Copthorne Hotels New Zealand Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

Group

Attributable to equity holders of the Group

DOLLARS IN THOUSANDS	Share Capital	Revaluation Reserve	Exchange Reserve	Retained Earnings	Treasury Stock	Total	Non-controlling Interests	Total Equity
Balance at 1 January 2017	383,266	161,370	(3,323)	(52,224)	(26)	489,063	63,218	552,281
Movement in exchange translation reserve, net of tax	-	-	3,437	-	-	3,437	-	3,437
Revaluation/impairment of property, plant & equipment, net of tax	-	61,095	-	-	-	61,095	2,889	63,984
Total other comprehensive income	-	61,095	3,437	-	-	64,532	2,889	67,421
Profit for the year	-	-	-	43,116	-	43,116	11,980	55,096
Total comprehensive income for the year	-	61,095	3,437	43,116	-	107,648	14,869	122,517
Transactions with owners, recorded directly in equity:								
Dividends paid to:								
Owners of the parent	-	-	-	(7,911)	-	(7,911)	-	(7,911)
Non-controlling interests	-	-	-	-	-	-	(3,662)	(3,662)
Supplementary dividends	-	-	-	(221)	-	(221)	-	(221)
Foreign investment tax credits	-	-	-	221	-	221	-	221
Movement in non-controlling interests without a change in control	-	-	-	80	-	80	385	465
Balance at 31 December 2017	383,266	222,465	114	(16,939)	(26)	588,880	74,810	663,690

The accompanying notes form part of, and should be read in conjunction with, these financial statements

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Millennium & Copthorne Hotels New Zealand Limited

Consolidated Statement of Financial Position

As at 31 December 2018

DOLLARS IN THOUSANDS	Note	Group 2018	Group 2017
SHAREHOLDERS' EQUITY			
Issued capital	7	383,266	383,266
Reserves		257,019	205,640
Treasury stock	7	(26)	(26)
Equity attributable to owners of the parent		**640,259**	**588,880**
Non-controlling interests		83,614	74,810
Total equity		**723,873**	**663,690**
Represented by:			
NON CURRENT ASSETS			
Property, plant and equipment	9	532,124	505,908
Development properties	10	163,106	145,751
Investment in associates	11	2	2
Total non-current assets		**695,232**	**651,661**
CURRENT ASSETS			
Cash and cash equivalents	12	14,437	34,195
Short term bank deposits		108,289	88,890
Trade and other receivables	13	21,515	17,729
Inventories		1,684	1,646
Development properties	10	57,025	34,104
Total current assets		**202,950**	**176,564**
Total assets		**898,182**	**828,225**
NON CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	64,000	66,000
Provision for deferred taxation	16	75,844	70,245
Total non-current liabilities		**139,844**	**136,245**
CURRENT LIABILITIES			
Trade and other payables	17	25,132	22,442
Trade payables due to related parties	22	2,364	1,981
Income tax payable		6,969	3,867
Total current liabilities		**34,465**	**28,290**
Total liabilities		**174,309**	**164,535**
NET ASSETS		723,873	663,690

For and on behalf of the Board

R BOBB, DIRECTOR, 13 February 2019

BK CHIU, MANAGING DIRECTOR, 13 February 2019

The accompanying notes form part of, and should be read in conjunction with, these financial statements

Millennium & Copthorne Hotels New Zealand Limited

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

DOLLARS IN THOUSANDS	Note	Group 2018	Group 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		215,311	188,776
Interest received		3,511	3,428
Dividends received	4	2	2
Cash was applied to:			
Payments to suppliers and employees		(115,782)	(102,504)
Purchases of development land	10	(51,557)	(15,139)
Interest paid		(1,755)	(1,859)
Income tax paid		(20,044)	(19,782)
Net cash inflow from operating activities		**29,686**	**52,922**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was (applied to)/provided from:			
Proceeds from the sale of property, plant and equipment		46	12
Purchases of property, plant and equipment	9	(14,375)	(14,466)
Investments in short term bank deposits		(19,399)	(3,292)
Net cash outflow from investing activities		**(33,728)**	**(17,746)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was (applied to)/provided from:			
Repayment of borrowings	14	(2,000)	(4)
Repayment of loan from parent company	22	-	(5,800)
Dividends paid to shareholders of Millennium & Copthorne Hotels New Zealand Ltd	7	(9,493)	(7,911)
Dividends paid to non-controlling shareholders		(4,231)	(3,662)
Net cash inflow/(outflow) from financing activities		**(15,724)**	**(17,377)**
Net increase/(decrease) in cash and cash equivalents		(19,766)	17,799
Add opening cash and cash equivalents		34,195	15,520
Exchange rate adjustment		8	876
Closing cash and cash equivalents	12	**14,437**	**34,195**

The accompanying notes form part of, and should be read in conjunction with, these financial statements

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Millennium & Copthorne Hotels New Zealand Limited

Consolidated Statement of Cash Flows - continued

For the year ended 31 December 2018

DOLLARS IN THOUSANDS	Note	Group 2018	Group 2017
RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		61,956	55,096
Adjusted for non-cash items:			
Gain on sale of property, plant and equipment	2	(2)	(5)
Depreciation	9	8,188	6,482
Unrealised foreign exchange (gain)/losses		13	65
Income tax expense	5	23,147	19,847
		93,302	**81,485**
Adjustments for movements in working capital:			
(Increase)/Decrease in trade & other receivables		(3,786)	964
(Increase)/Decrease in inventories		(38)	(138)
(Increase)/Decrease in development properties		(42,820)	(6,936)
Increase/(Decrease) in trade & other payables		4,445	(760)
Increase/(Decrease) in related parties		383	(156)
Cash generated from operations		**51,486**	**74,459**
Interest paid		(1,755)	(1,755)
Income tax paid		(20,045)	(19,782)
Cash inflows from operating activities		**29,686**	**52,922**

The accompanying notes form part of, and should be read in conjunction with, these financial statements

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Millennium & Copthorne Hotels New Zealand Limited
Notes to the Consolidated Financial Statements for the year ended 31 December 2018

Significant accounting policies

Millennium & Copthorne Hotels New Zealand Limited is a company domiciled in New Zealand registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange. Millennium & Copthorne Hotels New Zealand Limited (the "Company") is a Financial Markets Conduct Reporting Entity in terms of the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The financial statements of the Company for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The registered office is located at Level 13, 280 Centre, 280 Queen Street, Auckland, New Zealand.

The principal activities of the Group are ownership and operation of hotels in New Zealand; development and sale of residential land in New Zealand; and development and sale of residential units in Australia.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs) as appropriate for Tier 1 profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRSs).

The financial statements were authorised for issuance on 13 February 2019.

(b) Basis of preparation

The financial statements are presented in New Zealand Dollars, rounded to the nearest thousand. They are prepared on the historical cost basis except that hotel land and buildings are stated at their fair value (refer to Note 9).

The preparation of financial statements in conformity with NZ IFRSs requires management to make judgments, estimates and assumptions that affect the application of the Group's policies and reported amounts of assets and liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 23 - Accounting Estimates and Judgements.

(c) Change in accounting policies and new standards adopted in the year

The Group has adopted two standards, NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 9 *Financial Instruments,* which are mandatory for the financial period beginning on 1 January 2018.

Impact of Adoption of NZ IFRS 15 Rev*enue from Contracts with Customers*

Effective 1 January 2018, the Group applied NZ IFRS 15 for its accounting of revenue from customers. The new standard replaced NZ IAS 18 *Revenue* and introduces a principles based five-step model to recognise revenue when a performance obligation is satisfied by transferring control of a good or service to the customer.

It has been determined that the impact of the new standard is not significant. All revenue of the Group is derived from the satisfaction of a single performance obligation, which can be the provision of hotel and conference rooms, sale of food and beverage, rental of property or sale of development property. There has been no change in the timing of revenue recognition for these performance obligations.

The Group elected to apply the cumulative effect method under NZ IFRS 15, which did not result in an impact on the financial statements for the year ended 31 December 2018.

Impact of Adoption of NZ IFRS 9 *Financial Instruments*

Effective 1 January 2018, the Group applied NZ IFRS 9 for its accounting of financial instruments, which included the adoption of the "expected loss model", replacing the "incurred loss" impairment model for financial assets that are not measured at fair value through profit and loss (FVTPL). In accordance with the new standard, the Group's financial assets which consist primarily of trade and other receivables, are assessed for impairment on a forward looking basis taking into consideration not only past events and current conditions, but also forecast future economic conditions.

It has been determined that the impact of NZ IFRS 9 on the Group's impairment assessment of trade and other receivables is not significant. Other provisions of NZ IFRS 9 were not considered applicable to the Group's financial statements in 2018.

The Group elected to apply the cumulative effect method under NZ IFRS 9 which did not result in an impact on the financial statements for the year ended 31 December 2018.

The accounting policies have been applied consistently to all periods presented in these financial statements. The accounting policies are now included within the relevant notes to the consolidated financial statements.

(d) Foreign currency

Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to New Zealand dollars at foreign exchange rates ruling at the dates the fair value was determined.

(e) Insurance proceeds

Compensation from third parties for items of property, plant and equipment that were damaged, impaired, lost or given up is included in the profit or loss when the compensation becomes virtually certain. Any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately.

(f) Revenue

Revenue from sale of goods and services in the ordinary course of business is recognised when the Group satisfies a performance obligation by transferring control of a promised good or service to the customer. The amount of revenue recognised is the amount of the transaction price allocated to the satisfied performance obligation.

Revenue represents amounts derived from:

- The ownership, management and operation of hotels: recognised on an accruals basis to match the provision of the related goods and services.
- Income from property rental: recognised on an accruals basis, straight line over the lease period. Lease incentives granted are recognised as an integral part of the total rental income.
- Income from development property sales: recognised when the customer obtains control of the property and is able to direct and obtain the benefits from the property.

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Millennium & Copthorne Hotels New Zealand Limited
Notes to the Consolidated Financial Statements for the year ended 31 December 2018

1. Segment reporting

Operating segments
The Group consisted of the following main operating segments:

- Hotel operations, comprising income from the ownership and management of hotels.
- Residential land development, comprising the development and sale of residential land sections.
- Residential and commercial property development, comprising the development and sale of residential apartments.

The Group has no major customer representing greater than 10% of the Group's total revenue.

Operating segments

	Hotel Operations		Residential Land Development		Residential Property Development		Group	
Dollars In Thousands	2018	2017	2018	2017	2018	2017	2018	2017
External revenue	126,478	105,567	85,030	78,667	7,330	3,033	218,838	187,267
Earnings before interest, depreciation & amortisation	43,826	35,925	45,069	42,526	2,370	799	91,265	79,250
Finance income	1,923	1,778	1,652	2,144	197	150	3,772	4,072
Finance expense	(1,748)	(1,897)	-	-	-	-	(1,748)	(1,897)
Depreciation and amortisation	(8,172)	(6,476)	(1)	(1)	(14)	(5)	(8,187)	(6,482)
Profit before income tax	35,829	29,330	46,720	44,669	2,553	944	85,102	74,943
Income tax (expense)/credit	(9,565)	(6,725)	(13,078)	(12,507)	(503)	(615)	(23,146)	(19,847)
Profit after income tax	26,264	22,605	33,642	32,162	2,050	329	61,956	55,096
Segment assets	617,040	572,697	217,613	191,703	63,527	63,823	898,180	828,223
Investment in associates	-	-	2	2	-	-	2	2
Total assets	617,040	572,697	217,615	191,705	63,527	63,823	898,182	828,225
Segment liabilities	(88,083)	(87,154)	(2,207)	(2,160)	(1,206)	(1,109)	(91,496)	(90,423)
Tax liabilities	(78,178)	(71,235)	(4,813)	(3,433)	178	556	(82,813)	(74,112)
Total liabilities	(166,261)	(158,389)	(7,020)	(5,593)	(1,028)	(553)	(174,309)	(164,535)
Material additions to segment assets:								
Property, plant and equipment expenditure	14,326	14,463	-	-	49	3	14,375	14,466
Residential land development expenditure	-	-	29,329	23,941	-	-	29,329	23,941
Purchase of land for residential land development	-	-	51,557	15,139	-	-	51,557	15,139

1. Segment reporting - continued

Geographical areas

The Group operates in the following main geographical areas:
- New Zealand.
- Australia.

Segment revenue is based on the geographical location of the asset.

	New Zealand		Australia		Group	
Dollars In Thousands	2018	2017	2018	2017	2018	2017
External revenue	211,508	184,234	7,330	3,033	218,838	187,267
Earnings before interest, depreciation & amortisation	88,909	78,505	2,356	745	91,265	79,250
Finance income	3,575	3,922	197	150	3,772	4,072
Finance expense	(1,748)	(1,897)	-	-	(1,748)	(1,897)
Depreciation and amortisation	(8,173)	(6,477)	(14)	(5)	(8,187)	(6,482)
Profit before income tax	82,563	74,053	2,539	890	85,102	74,943
Income tax (expense)/credit	(22,646)	(19,248)	(500)	(599)	(23,146)	(19,847)
Profit after income tax	59,917	54,805	2,039	291	61,956	55,096
Segment assets	835,080	764,400	63,100	63,823	898,180	828,223
Investment in associates	2	2	-	-	2	2
Total assets	835,082	764,402	63,100	63,823	898,182	828,225
Segment liabilities	(90,335)	(90,384)	(1,161)	(39)	(91,496)	(90,423)
Tax liabilities	(82,982)	(74,673)	169	561	(82,813)	(74,112)
Total liabilities	(173,317)	(165,057)	(992)	522	(174,309)	(164,535)
Material additions to segment assets:						
Property, plant and equipment expenditure	14,326	14,463	49	3	14,375	14,466
Residential land development expenditure	29,329	23,941	-	-	29,329	23,941
Purchase of land for residential land development	51,557	15,139	-	-	51,557	15,139

An operating segment is a distinguishable component of the Group:
- that is engaged in business activities from which it earns revenues and incurs expenses;
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions on resource allocation to the segment and assess its performance; and
- for which discrete financial information is available.

Segment information is presented in respect of the Group's reporting segments. Operating segments are the primary basis of segment reporting. The Group has determined that its chief operating decision maker is the Board of Directors on the basis that it is this group which determines the allocation of resources to segments and assesses their performance.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

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2. Administration and other operating expenses

Dollars In Thousands	Note	Group 2018	Group 2017
Depreciation	9	8,187	6,482
Auditors remuneration			
Audit fees		317	306
Scrutineering fees		8	-
Tax compliance and advisory fees		56	52
Directors fees	21	303	321
Lease and rental expenses	19	2,536	2,247
Provision for bad debts			
Debts written off		30	1
Movement in doubtful debt provision		(21)	46
Net gain on disposal of property, plant and equipment		(2)	(5)
Other		35,342	30,202
		46,756	39,652

3. Personnel expenses

Dollars In Thousands	Group 2018	Group 2017
Wages and salaries	42,946	36,517
Employee related expenses and benefits	1,211	1,382
Contributions to defined contribution plans	772	677
Increase in liability for long-service leave	59	88
	44,988	38,664

The personnel expenses are included in cost of sales, administration expenses and other operating expenses in the income statement.

Employee long-term service benefits
The Group's net obligation in respect of long-term service benefits, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using their expected remuneration and an assessment of likelihood the liability will arise.

4. Net finance income

Recognised in the income statement

Dollars In Thousands	Group 2018	Group 2017
Interest income	3,742	3,992
Dividend income	2	2
Foreign exchange gain	28	78
Finance income	3,772	4,072
Interest expense	(1,735)	(1,755)
Foreign exchange loss	(13)	(142)
Finance costs	(1,748)	(1,897)
Net finance income recognised in the income statement	2,024	2,175

Finance income and expenses
Finance income comprises interest income on funds invested, dividend income and foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange losses that are recognised in the income statement.

4. Net finance income - continued

Recognised in other comprehensive income

Dollars In Thousands	Group 2018	Group 2017
Foreign exchange translation movements	(3,136)	3,437
Net finance income recognised in other comprehensive income	**(3,136)**	**3,437**

Exchange translation of financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to New Zealand dollars at foreign exchange rates ruling at the balance date. The revenues and expenses of foreign operations are translated to New Zealand dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on re-translation are recognised directly as a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the exchange reserve is released into the income statement.

5. Income tax expense

Recognised in the income statement

Dollars In Thousands	Group 2018	Group 2017
Current tax expense		
Current year	23,271	20,790
Adjustments for prior years	(107)	(674)
	23,164	20,116
Deferred tax expense		
Origination and reversal of temporary difference	93	(157)
Changes in Tax Rates	(104)	103
Adjustments for prior years	(7)	(215)
	(18)	(269)
Total income tax expense in the income statement	**23,146**	**19,847**

Reconciliation of tax expense

Dollars In Thousands	Group 2018	Group 2017
Profit before income tax	85,102	74,943
Income tax at the company tax rate of 28% (2017: 28%)	23,829	20,984
Adjusted for:		
Non-deductible expenses	7	-
Tax rate difference (if different from 28% above)	(54)	103
Tax exempt income	(523)	(351)
Under/(Over) - provided in prior years	(113)	(889)
Total income tax expense	**23,146**	**19,847**
Effective tax rate	27%	26%

Deferred tax expense/(credit) recognised in other comprehensive income

Dollars In Thousands	Group 2018	Group 2017
Relating to revaluation of property, plant and equipment	5,541	11,342
Relating to foreign currency translation of foreign subsidiaries	76	(11)
	5,617	11,331

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

5. Income tax expense - continued

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that neither affect accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities; the Group intends to settle net; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

6. Imputation credits

Dollars In Thousands	Group 2018	Group 2017
Imputation credits available for use in subsequent reporting periods	93,071	79,680

The KIN Holdings Group has A$5.5 million (2017: A$5.5 million) franking credits available as at 31 December 2018.

7. Capital and reserves

Share capital

	Group 2018 Shares	Group 2018 $000's	Group 2017 Shares	Group 2017 $000's
Ordinary shares issued 1 January	105,578,290	350,048	105,578,290	350,048
Ordinary shares issued at 31 December - fully paid	**105,578,290**	**350,048**	**105,578,290**	**350,048**
Redeemable preference shares 1 January	52,739,543	33,218	52,739,543	33,218
Redeemable preference shares issued at 31 December - fully paid	**52,739,543**	**33,218**	**52,739,543**	**33,218**
Ordinary shares repurchased and held as treasury stock 1 January	(99,547)	(26)	(99,547)	(26)
Ordinary shares repurchased and held as treasury stock 31 December	**(99,547)**	**(26)**	**(99,547)**	**(26)**
Total shares issued and outstanding	**158,218,286**	**383,240**	**158,218,286**	**383,240**

At 31 December 2018, the authorised share capital consisted of 105,578,290 ordinary shares (2017: 105,578,290 ordinary shares) with no par value and 52,739,543 redeemable preference shares (2017: 52,739,543 redeemable preference shares) with no par value.

Repurchase of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributed costs, is recognised as a change in equity. Repurchased shares are classified as treasury stock and presented as a deduction from total equity.

Revaluation reserve
The revaluation reserve relates to property, plant and equipment. Movements in the revaluation reserve arise from the revaluation surpluses and deficits of property, plant and equipment.

Exchange reserve
The exchange reserve comprises the foreign exchange differences arising from the translation of the financial statements of foreign operations.

7. Capital and reserves - continued

Dividends
The following dividends were declared and paid during the year ended 31 December:

Dollars In Thousands	Parent	
	2018	2017
Ordinary Dividend - 6.0 cents per qualifying share (2017: 5.0 cents)	9,493	7,911
Supplementary Dividend - 1.0588 cents per qualifying share (2017: 0.8824 cents)	242	221
	9,735	8,132

After 31 December 2018, the following dividends were declared by the directors. The dividends have not been provided for and there are no income tax consequences.

Dollars In Thousands	Parent
Ordinary Dividend - 7.5 cents per qualifying share (2017: 6.0 cents)	11,866
Supplementary Dividend - 1.3235 cents per qualifying share (2017: 1.0588 cents)	302
Total Dividends	12,168

Dividends and tax
Dividends are recognised as a liability in the period in which they are declared. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

8. Earnings per share

Basic earnings per share
The calculation of basic earnings per share at 31 December 2018 was based on the profit attributable to ordinary and redeemable preference shareholders of $49,375,000 (2017: $43,116,000) and weighted average number of shares outstanding during the year ended 31 December 2018 of 158,218,286 (2017: 158,218,286), calculated as follows:

Profit attributable to shareholders

Dollars In Thousands	Group	
	2018	2017
Profit for the year	61,956	55,096
Profit attributable to non-controlling interests	(12,581)	(11,980)
Profit attributable to shareholders	49,375	43,116

Weighted average number of shares

	Group	
	2018	2017
Weighted average number of shares (ordinary and redeemable preference shares)	158,317,833	158,317,833
Effect of own shares held (ordinary shares)	(99,547)	(99,547)
Weighted average number of shares for earnings per share calculation	158,218,286	158,218,286

Diluted earnings per share
The calculation of diluted earnings per share is the same as basic earnings per share.

9. Property, plant and equipment

Group

Dollars In Thousands	Freehold Land	Freehold Buildings	Leasehold Land and Buildings	Plant, Equipment, Fixtures and Fittings	Motor Vehicles	Work In Progress	Total
Cost							
Balance at 1 January 2017	128,861	215,307	37,557	87,623	65	41,537	510,950
Acquisitions	-	-	-	3	-	14,463	14,466
Disposals	-	-	-	(256)	-	-	(256)
Transfers between categories	-	45,489	24	8,888	1	(54,402)	-
Transfer from accumulated depreciation following revaluation	-	(136)	(149)	-	-	-	(285)
Movements in foreign exchange	-	-	-	25	-	-	25
Revaluation surplus/(deficit)	31,214	37,047	7,065	-	-	-	75,326
Balance at 31 December 2017	**160,075**	**297,707**	**44,497**	**96,283**	**66**	**1,598**	**600,226**
Balance at 1 January 2018	160,075	297,707	44,497	96,283	66	1,598	600,226
Acquisitions	2,500	6,925	-	1,525	-	3,425	14,375
Disposals	-	-	-	(114)	-	-	(114)
Transfers between categories	-	1,675	11	2,498	10	(4,194)	-
Transfer from accumulated depreciation following revaluation	-	(399)	-	-	-	-	(399)
Movements in foreign exchange	-	-	-	(18)	-	-	(18)
Revaluation surplus/(deficit)	387	19,787	(100)	-	-	-	20,074
Balance at 31 December 2018	**162,962**	**325,695**	**44,408**	**100,174**	**76**	**829**	**634,144**
Depreciation and impairment losses							
Balance at 1 January 2017	-	(13,863)	(3,198)	(71,231)	(55)	-	(88,347)
Depreciation charge for the year	-	(2,451)	(399)	(3,628)	(4)	-	(6,482)
Disposals	-	-	-	250	-	-	250
Transfer accumulated depreciation against cost following revaluation	-	136	149	-	-	-	285
Movements in foreign exchange	-	-	-	(24)	-	-	(24)
Balance at 31 December 2017	**-**	**(16,178)**	**(3,448)**	**(74,633)**	**(59)**	**-**	**(94,318)**
Balance at 1 January 2018	-	(16,178)	(3,448)	(74,633)	(59)	-	(94,318)
Depreciation charge for the year	-	(3,645)	(441)	(4,096)	(5)	-	(8,187)
Disposals	-	-	-	70	-	-	70
Transfer accumulated depreciation against cost following revaluation	-	399	-	-	-	-	399
Movements in foreign exchange	-	-	-	16	-	-	16
Balance at 31 December 2018	**-**	**(19,424)**	**(3,889)**	**(78,643)**	**(64)**	**-**	**(102,020)**
Carrying amounts							
At 1 January 2017	128,861	201,444	34,359	16,392	10	41,537	422,603
At 31 December 2017	**160,075**	**281,529**	**41,049**	**21,650**	**7**	**1,598**	**505,908**
At 1 January 2018	160,075	281,529	41,049	21,650	7	1,598	505,908
At 31 December 2018	**162,692**	**306,271**	**40,519**	**21,531**	**12**	**829**	**532,124**

9. Property, plant and equipment - continued

Initial recording
Items of property, plant and equipment are initially stated at cost. The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Capital expenditure on major projects is recorded separately within property, plant and equipment as capital work in progress. Once the project is complete the balance is transferred to the appropriate property, plant and equipment categories. Capital work in progress is not depreciated.

Subsequent measurement
Property, plant and equipment is subsequently measured at cost less accumulated depreciation and impairment losses, except for land and buildings which are re-valued. The Group recognises the cost of replacing part of such an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Revaluation
Land and buildings are shown at fair value less subsequent depreciation for buildings. Fair value is determined by management using valuation models and confirmed by independent registered valuers This is performed on a staged triennial basis for each hotel asset unless its carrying value is no longer considered to reflect its fair value, in which an earlier valuation may be necessary. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset. Any decreases in value that offset a previous increase in value of the same asset is charged against reserves in equity, any other decrease in value is charged to the income statement.

The Directors consider the value of the hotel assets with a net book value of $532.12 million (2017: $505.9 million) to be within a range of $532.12 to $543.10 million (2017: $505.91 to $529.72 million). This is substantiated by valuations completed by Bower Valuations Limited, registered valuers, on: five hotel assets valued in total at $157.54 million in December 2018; three hotel assets valued in total at $251.48 million in December 2017; and seven hotel assets valued in total at $245.69 million in December 2016. One hotel, M Social Auckland, was inspected in December 2017 after a soft opening in October 2017, and again in December 2018 to assess its fair value after a full year of trading.

During 2018, five (2017: three) of the Group's freehold and leasehold hotel properties were subject to an external professional valuation by Bower Valuations Limited, registered valuers, on a highest and best use basis. Based on these valuations and in accordance with the Group's accounting policies the respective properties' land and buildings were revalued to their fair value. A total of $20.07 million (2017: $75.33 million) was added to the carrying values of land and buildings.

The Group's fair value of hotel properties as determined by independent valuers is categorised as Level 3 based on the inputs to the valuation methodology. The basis of the valuation is the net present value of the future earnings of the assets. The major unobservable inputs and assumptions that are used in the valuation model that require judgement include forecasts of the future earnings, projected operational and maintenance expenditure profiles and discount rates (internal rate of return).

	The estimated fair value would increase	The estimated fair value would decrease
If forecast future earnings were	higher	lower
If projected operational and maintenance expenditures were	lower	higher
If the discount rates were	lower	higher

Impairment
The testing for impairment requires management to estimate future cash flows to be generated by the cash generating units and is categorised as Level 3 based on the inputs to the impairment models. The major unobservable inputs that management use that require judgement in estimating future cash flows include expected rate of growth in revenue and costs, market segment mix, occupancy, average room rates expected to be achieved and the appropriate discount rate to apply when discounting future cash flows. Average annual growth rates appropriate to the hotels range from 1.19% to 3.46% (2017: 1.25% to 3.74%) over the five years projection. Pre-tax discount rates ranging between 8.50% and 11.25% (2017: 8.50% and 14.50%) were applied to the future cash flows of the individual hotels based on the specific circumstances of the property.

Depreciation
Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values over their estimated useful lives, as follows:

- Building core — 50 years or lease term if shorter
- Building surfaces and finishes — 30 years or lease term if shorter
- Plant and machinery — 15 - 20 years
- Furniture and equipment — 10 years
- Soft furnishings — 5 - 7 years
- Computer equipment — 5 years
- Motor vehicles — 4 years

Disposal or retirement
Gains or losses arising from the disposal or retirement of property, plant and equipment are determined as the difference between the actual net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

9. **Property, plant and equipment** - continued

No residual values are ascribed to building surfaces and finishes. Residual values ascribed to building core depend on the nature, location and tenure of each property.
Had the property, plant and equipment been carried under the cost model, the following carrying values would have been recognised:

Group							
Dollars In Thousands	Freehold Land	Freehold Buildings	Leasehold Land and Buildings	Plant, Equipment, Fixtures and Fittings	Motor Vehicles	Work In Progress	Total
Cost less accumulated depreciation							
At 1 January 2017	38,659	73,415	18,898	16,395	10	41,537	188,914
At 31 December 2017	**38,659**	**116,453**	**18,523**	**21,653**	**7**	**1,598**	**196,893**
At 1 January 2018	38,659	116,453	18,523	21,653	7	1,598	196,893
At 31 December 2018	**41,159**	**121,408**	**18,093**	**21,534**	**12**	**829**	**203,035**

10. **Development properties**

Dollars In Thousands	Group 2018	Group 2017
Development land	169,724	124,699
Residential development	50,407	55,156
	220,131	179,855
Less expected to settle within one year	(57,025)	(34,104)
	163,106	**145,751**
Development land recognised in cost of sales	35,861	32,144
Residential development recognised in cost of sales	2,216	-

Development land is carried at the lower of cost and net realisable value. Interest of $287,000 (2017: $nil) was capitalised during the year. The fair value of development land held at 31 December 2018 was determined by an independent registered valuer, DM Koomen SPINZ, of Extensor Advisory Limited as $337.77 million (2017: $276.32 million).

The fair value of development property as determined by the independent valuer is categorised as Level 3 based on the inputs to the valuation methodology. The basis of the valuation is the hypothetical subdivision approach and/or block land sales comparisons to derive the residual block land values. The major unobservable inputs that are used in the valuation model that require judgement include the individual section prices, allowances for profit and risk, projected completion and sell down periods and interest rates during the holding period.

	The estimated fair value would increase	The estimated fair value would decrease
If the individual section prices were	higher	lower
If the allowances for profit were	higher	lower
If the allowances for risk were	lower	higher
If the projected completion and sell down periods were	shorter	longer
If the interest rates during the holding period were	lower	higher

Residential development at balance date consists of the residential development known as Zenith Residences in Sydney, Australia. The value of Zenith Residences held at 31 December 2018 was determined by R Laoulach AAPI of Laoulach & Company Pty Ltd, registered valuers as $90.98 million (A$86.99 million) (2017: $93.97 million (A$85.50 million)).

The fair value of the residential development as determined by the independent valuer is categorised as Level 3 based on the inputs to the valuation methodology. The basis of the valuation is gross realisations 'as is' assuming individual sales of unsold units. The major unobservable inputs and assumptions that are used in the valuation model that require judgement include the interest rates, consumer confidence, unemployment rate and residential unit demand.

	The estimated fair value would increase	The estimated fair value would decrease
If the interest rates were	lower	higher
If the consumer confidence was	optimistic	pessimistic
If the unemployment rate was	lower	higher
If the residential unit demand was	stronger	weaker

10. Development properties - continued

Development properties
Property held for future development and development property completed and held for sale are stated at the lower of cost and net realisable value. The net realisable value is determined by independent valuers. Cost includes the cost of acquisition, development, and holding costs. Development properties also include deposits paid on unconditional contracts on land purchases. All holding costs incurred after completion of development are expensed as incurred. Revenue and profit are not recognised on development properties until the legal title passes to the buyer when the full settlement of the purchase consideration of the properties occurs and the development property is derecognised.

11. Investment in associates

The associate companies included in the financial statements of Millennium & Copthorne Hotels New Zealand Limited as at 31 December 2018 are:

	Principal Activity	Principal Place of Business	Holding % by CDL Land New Zealand Limited 2018	Holding % by CDL Land New Zealand Limited 2017
Prestons Road Limited	Service provider	NZ	33.33	33.33

Prestons Road Limited has no revenue or expenses, therefore the Group's share of profit of its associate was nil (2017: nil). During the year, the Group maintained its 33.33% economic interest in Prestons Road Limited. The principal activity of Prestons Road Limited is as service provider to the Group's subsidiary, CDL Land New Zealand Limited, and in this regard, it is charged with engaging suitably qualified consultants in fields such as geotechnical engineering, resource management compliance, subdivision of land, legal and regulatory compliance and related issues to enable the Group to develop its land at Prestons Road in Christchurch.

The net assets of Prestons Road Limited not adjusted for the percentage ownership held by the Group is $6,000, with the Group's share equal to $2,000. Prestons Road Limited has a 31 March balance date. No adjustment is made for the difference in balance date of Prestons Road Limited, because it has no revenue or profits to report.

Investment in associates
Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income (OCI) of equity-accounted investees, until the date on which significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

12. Cash and cash equivalents

	Group	
Dollars In Thousands	2018	2017
Cash	8,313	15,707
Call deposits	6,124	18,488
	14,437	34,195

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

13. Trade and other receivables

	Group	
Dollars In Thousands	2018	2017
Trade receivables	13,147	10,370
Less provision for doubtful debts	(69)	(89)
Other trade receivables and prepayments	8,437	7,448
	21,515	17,729

Trade and other receivables are stated at their cost less impairment losses. The carrying amounts of the trade receivables, other trade receivables, and prepayments are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and provided for. An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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14. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 18.

Group

Dollars in Thousands	Currency	Interest Rate	Facility Total	31 December 2018 Face Value	31 December 2018 Carrying Amount	31 December 2017 Face Value	31 December 2017 Carrying Amount
Revolving credit	NZD	2.70%	53,000	35,000	35,000	35,000	35,000
Revolving credit	NZD	2.70%	46,000	29,000	29,000	31,000	31,000
Overdraft	NZD	2.70%	6,000	-	-	-	-
TOTAL			105,000	64,000	64,000	66,000	66,000
Current				-	-	-	-
Non-current				64,000	64,000	66,000	66,000

Terms and debt repayment schedule
The bank loans are secured over hotel properties with a carrying amount of $475.86 million (2017: $467.67 million) - refer to Note 9. The bank loans have no fixed term of repayment before maturity. The Group facilities were renewed on 7 December 2018 with a new maturity of 31 January 2022.

Interest-bearing loans and borrowings
Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

15. Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Group					
	Assets		Liabilities		Net	
Dollars In Thousands	2018	2017	2018	2017	2018	2017
Property, plant and equipment	-	-	78,063	72,132	78,063	72,132
Development properties	(876)	(1,103)	-	-	(876)	(1,103)
Provisions	(75)	(75)	-	-	(75)	(75)
Employee benefits	(1,276)	(1,135)	-	-	(1,276)	(1,135)
Trade and other payables	(849)	(411)	-	-	(849)	(411)
Net investment in foreign operations	-	-	857	837	857	837
Net tax (assets) / liabilities	(3,076)	(2,724)	78,920	72,969	75,844	70,245

Movement in deferred tax balances during the year

	Group			
Dollars In Thousands	Balance 1 Jan 17	Recognised in income	Recognised in equity	Balance 31 Dec 17
Property, plant and equipment	61,175	(385)	11,342	72,132
Development properties	(1,139)	103	(67)	(1,103)
Provisions	(81)	6	-	(75)
Employee benefits	(978)	(157)	-	(1,135)
Trade and other payables	(576)	164	1	(411)
Net investment in foreign operations	782	-	55	837
	59,183	(269)	11,331	70,245

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16. Deferred tax assets and liabilities - continued

	Group			
Dollars In Thousands	Balance 1 Jan 18	Recognised in income	Recognised in equity	Balance 31 Dec 18
Property, plant and equipment	72,132	390	5,541	78,063
Development properties	(1,103)	175	52	(876)
Provisions	(75)	(3)	3	(75)
Employee benefits	(1,135)	(141)	-	(1,276)
Trade and other payables	(411)	(439)	1	(849)
Net investment in foreign operations	837	-	20	857
	70,245	(18)	5,617	75,844

17. Trade and other payables

	Group	
Dollars In Thousands	2018	2017
Trade payables	2,900	1,787
Employee entitlements	4,372	3,905
Non-trade payables and accrued expenses	17,860	16,750
	25,132	22,442

Trade and other payables are stated at cost.

18. Financial instruments

The Group only holds non-derivative financial instruments which comprise cash and cash equivalents, trade and other receivables, trade receivables due from related parties, related party advances, secured bank loans, trade and other payables and trade payables due to related parties.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described in accounting policies below.

Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfer the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Exposure to credit, liquidity and market risks arises in the normal course of the Group's business.

Liquidity risk
Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Credit risk
Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. There are no significant aged debtors which have not been fully provided for.

Investments are allowed only in short-term financial instruments and only with counterparties approved by the Board, such that the exposure to a single counterparty is minimised.

At balance date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The maximum exposure to credit risk in Australia is $42,000 (2017: $23,000). All other credit risk exposure relates to New Zealand.

Market risk

(i) Interest rate risk
In managing interest rate risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings with an ongoing review of its exposure to changes in interest rates on its borrowings, the maturity profile of the debt, and the cash flows of the underlying debt. The Group maintains its borrowings at fixed rates on short term which gives the Group flexibility in the context of the economic climate, business cycle, loan covenants, cash flows, and cash balances.

An increase of 1.0% in interest rates would have increased profit before tax for the Group in the current period by $0.40 million (2017: $0.48 million increase), assuming all other variables remained constant.

18. Financial instruments - continued

Effective interest and re-pricing analysis
In respect of income-earning financial assets and interest-bearing financial liabilities the following table indicates their effective interest rates at the balance date and the periods in which they re-price.

Group		2018				2017			
Dollars In Thousands	Note	Effective interest rate	Total	6 months or less	6 to 12 months	Effective interest rate	Total	6 months or less	6 to 12 months
Interest bearing cash & cash equivalents *	12	0.25% to 3.05%	14,437	14,437	-	0.25% to 2.67%	34,195	34,195	-
Short term bank deposits *		2.18% to 3.64%	108,289	33,886	85,403	2.14% to 3.68%	88,890	34,649	54,241
Secured bank loans *	14	2.70%	(64,000)	(64,000)	-	2.44%	(66,000)	(66,000)	-
Bank overdrafts *	14	2.70%	-	-	-	2.44%	-	-	-

* These assets / (liabilities) bear interest at a fixed rate

(ii) Foreign currency risk
The Group owns 100.00% (2017: 100.00%) of KIN Holdings Limited. Substantially all the operations of this subsidiary is denominated in foreign currencies. The foreign currencies giving rise to this risk are Australian Dollars. The Group has determined that the primary risk affects the carrying values of the net investments in its foreign operations with the currency movements being recognised in the foreign currency translation reserves. The Group has not taken any measurements to manage this risk.

The Group is not exposed to any other foreign currency risks.

Capital management
The Group's capital includes share capital and retained earnings.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group is not subject to any external imposed capital requirements.

The allocation of capital is, to a large extent, driven by optimisation of the return achieved on the capital allocated.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. There were no changes in the Group's capital management policies during the year.

Fair values
The fair values together with the carrying amounts shown in the statement of financial position are as follows:

Group *Dollars In Thousands*	Note	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
LOANS AND RECEIVABLES					
Cash and cash equivalents	12	14,437	14,437	34,195	34,195
Short term bank deposits		108,289	108,289	88,890	88,890
Trade and other receivables	13	21,515	21,515	17,729	17,729
OTHER LIABILITIES					
Secured bank loans and overdrafts	14	(64,000)	(64,000)	(66,000)	(66,000)
Trade and other payables	17	(25,132)	(25,132)	(22,442)	(22,442)
Trade payables due to related parties	22	(2,364)	(2,364)	(1,981)	(1,981)
Loans due to related parties	22	-	-	-	-
		52,745	52,745	50,391	50,391
Unrecognised (losses) / gains		-	-	-	-

18. Financial instruments - continued

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

(a) Cash, accounts receivable, accounts payable and related party balances. The carrying amounts for these balances approximate their fair value because of the short maturities of these items.
(b) Borrowings. The carrying amounts for the borrowings represent their fair values because the interest rates are reset to market periodically, every 1 to 2 months.

19. Operating leases

Leases as lessee

The minimum amount payable under non-cancellable operating lease rentals are as follows:

	Group	
Dollars In Thousands	2018	2017
Less than one year	1,357	992
Between one and five years	2,722	2,562
More than five years	2,201	89
	6,280	3,643

The Group leases a number of hotels and motor vehicles under operating leases. The hotel leases typically run for a period of years, with an option to renew the lease after that date. Lease payments are increased regularly to reflect market rentals. Typically these leases include a base rent plus a performance related element which becomes payable if revenue exceeds a specified level.

During the year ended 31 December 2018, $2.54 million was recognised as an expense in the income statement in respect of operating leases (2017: $2.25 million).

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

20. Capital commitments

As at 31 December 2018, the Group had entered into contractual commitments for capital expenditure, development expenditure, and purchases of land. Contractual agreements for the purchase of land are subject to a satisfactory outcome of the Group's due diligence process, board approval, and OIO approval. Development expenditure represents amounts contracted and forecast to be incurred in 2019 in accordance with the Group's development programme.

On 11 February 2019, the Group withdrew from an agreement to purchase land to the value of $35.00 million due to Plan Change timing and zoning issues along with infrastructural constraints.

	Group	
Dollars In Thousands	2018	2017
Capital expenditure	3,057	3,746
Purchase of business and assets	-	10,988
Development expenditure	42,496	32,665
Land purchases	46,132	35,956
	91,685	83,355

21. Related parties

Identity of related parties

The Group has a related party relationship with its parent, subsidiaries (see Note 22), associates and with its directors and executive officers.

Transactions with key management personnel

Directors of the Company and their immediate relatives control nil (2017: Nil) of the voting shares of the Company. There were no loans (2017: $nil) advanced to directors for the year ended 31 December 2018. Key management personnel include the Board and the Executive Team.

Total remuneration for key management personnel

	Group	
Dollars In Thousands	2018	2017
Non-executive directors	303	321
Executive director	599	532
Executive officers	856	756
	1,758	1,609

Non-executive directors receive director's fees only. Executive director and executive officers receive short-term employee benefits which include a base salary and an incentive plan. They do not receive remuneration or any other benefits as a director of the Parent Company or its subsidiaries. Directors' fees are included in "administration expenses" (see Note 2) and remuneration for executive director and executive officers are included in "personnel expenses" (see Note 3).

22. Group entities

Control of the Group

Millennium & Copthorne Hotels New Zealand Limited is a 75.78% (2017: 75.78%) owned (economic interests from both ordinary and preference shares) subsidiary of CDL Hotels Holdings New Zealand Limited which is a wholly owned subsidiary of Millennium & Copthorne Hotels plc in the United Kingdom. The ultimate parent company is Hong Leong Investment Holdings Pte Ltd in Singapore.

At balance date there were related party advances owing from/(owing to) the following related companies:

		Group	
Dollars In Thousands	Nature of balance	2018	2017
Trade payables and receivables due to related parties			
Millennium & Copthorne Hotels plc	Recharge of expenses	(871)	(654)
Millennium & Copthorne International Limited	Recharge of expenses	(35)	-
CDL Hotels Holdings New Zealand Limited	Recharge of expenses	3	-
CDLHT (BVI) One Ltd	Rent payment	(1,461)	(1,327)
		(2,364)	(1,981)
Loans due to related parties			
CDL Hotels Holdings New Zealand Limited	Inter-company loan	-	-
		-	-

No debts with related parties were written off or forgiven during the year. No interest was charged on these payables during 2018 and 2017. There are no set repayment terms. During this period costs amounting to $250,000 (2017: $250,000) have been recorded in the income statement in respect of fees payable to Millennium & Copthorne International Limited for the provision of management and marketing support.

On 7 September 2016, the Group commenced operations of the Grand Millennium Auckland under a management lease agreement with CDLHT (BVI) One Ltd, a subsidiary of CDL Hospitality Trusts Singapore. Under the accounting standards, the Group accounts for the results of the Grand Millennium Auckland on a net basis. The Group records the management, franchise and incentive incomes derived from the management of the hotel in the profit and loss. At the balance sheet date, there was an amount owing to CDLHT (BVI) One Ltd of $1.46 million being rent payable with respect to the leasing of the property. During the year ended 31 December 2018, the Group received $1.58 million (2017: $1.62 million) in management, franchise, and incentive fees.

At the balance sheet date, the company has fully repaid the loan due to CDL Hotels Holdings New Zealand Limited which was interest bearing. The interest rates were fixed and ranged between 1.75% and 2.07% (2017: 2.00% to 2.37%).

During the year consulting fees of $10,500 (2017: $12,000) were paid to Bobb Management Pty Ltd of which Mr. R Bobb (Director) is a shareholder and director.

Subsidiary companies

The principal subsidiary companies of Millennium & Copthorne Hotels New Zealand Limited included in the consolidation as at 31 December 2018 are:

	Principal Activity	Principal Place of Business	Group Holding % 2018	Group Holding % 2017
Context Securities Limited	Investment Holding	NZ	100.00	100.00
Copthorne Hotel & Resort Bay of Islands Joint Venture	Hotel Operations	NZ	49.00	49.00
Quantum Limited	Holding Company	NZ	100.00	100.00
100% owned subsidiaries of Quantum Limited are:				
Hospitality Group Limited	Holding Company	NZ		
100% owned subsidiaries of Hospitality Group Limited are:				
Hospitality Leases Limited	Lessee Company/Hotel Operations	NZ		
QINZ Anzac Avenue Limited	Hotel Owner	NZ		
Hospitality Services Limited	Hotel Operations/Franchise Holder	NZ		
CDL Investments New Zealand Limited	Holding Company	NZ	66.42	66.56
100% owned subsidiaries of CDL Investments New Zealand Limited are:				
CDL Land New Zealand Limited	Property Investment and Development	NZ		
KIN Holdings Limited	Holding Company	NZ	100.00	100.00
100% owned subsidiaries of KIN Holdings Limited are:				
Kingsgate Investments Pty Limited	Residential Apartment Developer	Australia		

All of the above subsidiaries have a 31 December balance date.

Although the Group owns less than half of the voting power of the Copthorne Hotel & Resort Bay of Islands Joint Venture, it is able to control the financial and operating policies of the Copthorne Hotel & Resort Bay of Islands Joint Venture so as to obtain benefits from its activities by virtue of an agreement with the other parties of the Joint Venture. Therefore, the results of the Joint Venture are consolidated from the date control commenced until the date control ceases.

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22. Group entities - continued

Subsidiaries
Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation
Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

23. Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Critical accounting judgements in applying the Group's accounting policies
Certain critical accounting judgements in applying the Group's accounting policies are described below.

Property, plant and equipment
The Group adopted a revaluation model of valuing land and buildings rather than the cost model. This results in any future decreases in asset values being charged in the income statement unless there is a surplus for that asset in the revaluation account in which case the decrease can be charged to equity.

Assessing whether individual properties are impaired may involve estimating the future cash flows expected to be generated by those properties. This will in turn involve assumptions, including expected rate of growth in revenue and costs, occupancy and average room rates and an appropriate discount rate, to apply when discounting future cash flows.

The Group has one remaining property affected by the Christchurch earthquakes. In assessing the land for impairment the following assumption was made: the land is not affected by liquefaction or other geological issues which prevent the rebuild of a replacement building upon it.

Development property
The Group is also exposed to market fluctuations in the value of development properties. The carrying value of development properties is $220.13 million (2017: $179.86 million) while the fair value determined by independent valuers is $428.75 million (2017: $370.29 million).

In determining fair values, the valuers will also make assumptions relating to section prices, sell down periods, consumer confidence, unemployment rates, interest rates and external economic factors.

24. New standards and interpretations not yet adopted

The following new standards and amendments to standards are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements.

IFRS 16 - Leases (effective 1 January 2019). The Group leases a number of hotels and motor vehicles under operating leases. This standard requires a right of use asset and a corresponding lease liability to be recognised on the balance sheet in respect of the leased assets. The current lease expenses will be replaced with an interest expense and an amortization expense in the income statement.

The Group intends to adopt the modified retrospective approach in applying NZ IFRS16 on the effective date. Based on detailed assessments, this standard will have a material impact on the Net Assets in the Statement of Financial Position on transition and an immaterial impact on the Net Profit after Tax in the Income Statement in 2019. There are no impacts on the cash flows and the loan covenants. The following tables illustrate the impacts on the financial statements.

Statement of Financial Position *Dollars In Thousands*	Reverse interests in long term leased assets and adjust the asset revaluation reserves.	Record new assets and new liabilities	Impact on opening balances @ 1 January 2019
Revaluation reserve	(7,595)	-	(7,595)
Equity	(7,595)	-	(7,595)
Property, plant and equipment	(7,595)	-	(7,595)
Right of use assets	-	15,040	15,040
Total assets	(7,595)	15,040	7,445
Current lease liabilities	-	340	340
Non current lease libilities	-	14,700	14,700
Total liabilities	-	15,040	15,040
Net Assets	(7,595)	-	(7,595)
Net Asset Value			(4.8003) cents per share

24. New standards and interpretations not yet adopted - continued

The Group have several long-term leases: leases which renew at 21 year cycles for perpetuity at the discretion of the Group on the land at Copthorne Hotel Auckland City, at Kingsgate Hotel Greymouth, and a motel and manager's house at Millennium Hotel Rotorua. In addition, there is a long-term lease of the basement carpark at M Social Auckland, which expires in 2083, the lease of corporate office, which expires in 2023, and a long term lease of the land at Copthorne Hotel & Resort Bay of Islands, which expires in 2087. The interests in long term leases have been recorded and classified as leasehold land in property, plant and equipment as at 31 December 2018. On transition to NZ IFRS 16, these interests totalling $7.60 million will be reversed out of property plant, equipment with the corresponding total of $7.60 million reversed out of the asset revaluation reserves.

The long term leases of the land and carpark at the hotels and the motor vehicles will be recorded as "right of use" assets totalling $15.04 million and their corresponding lease liabilities under current liabilities of $0.34 million and non-current liabilities of $14.70 million. Exempted are leases shorter than 12 months and leased assets with value below $8,000. Excluded are leases, which have variable rentals, and leases of managed hotels under service and management contracts. The use of increment borrowing rates used to discount the leased assets and liabilities requires significant judgement and can have a material impact on the calculation of the lease liability and right of use asset. The indicative incremental borrowing rates used in the assessment are subject to further review and refinement.

Income Statement *Dollars In Thousands*	Lease payments now booked to lease liabilities in the Balance Sheet	Additional amortization of right of use assets now booked to the Profit & Loss	Additional interest on lease liabilities now booked to Profit & Loss	Impact on FY2019 performance
Other operating expenses	(2,029)	1,275	-	(754)
EBITDA	2,029	(1,275)	-	754
Net finance income	-	-	(1,007)	(1,007)
Net profit/(loss) before tax	2,029	(1,275)	(1,007)	(253)
Less income tax (expense)/credit	(568)	357	282	71
Net profit/(loss) after tax	**1,461**	**(918)**	**(725)**	**(182)**
Earnings per Share				**(0.1151) cents per share**

On application of NZ IFRS 16, lease payments will no longer be expensed into the income statement. Instead, they will be accounted as reductions in the lease liabilities in the statement of financial position. There will be an additional expense of $1.28 million due to the straight line amortization of the right of use assets over the term of the leases. Interest costs, computed at the relevant incremental borrowing rates totalling $1.00 million are additional expenses in the income statement. These costs are computed on the leases, which exist at balance date, and further costs may arise upon new leases, which may be contracted during 2019.

Other standards and interpretations, which are not yet effective for the year ended 31 December 2018, are:

- NZ IFRS 9 Financial Instruments (effective 1 January 2019) - Based on assessments, this standard has no impact on the Group's financial statements.
- 2017 Omnibus Amendments to NZ IFRS Part B; Amendments to NZ IFRS 10 Consolidated Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2019) - Based on assessments, this standard has no impact on the Group's financial statements.
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle (effective 1 January 2019) - Minor amendments and editorial corrections to existing standard which have no impact on the financial statements.
- NZ IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019) - This interpretation has no impact on the financial statements.
- Long-term Interests in Associates and Joint Ventures; amendments to NZ IFRS 9 (effective 1 January 2019) - These amendments have no impact on the financial statements.
- Prepayment Features with Negative Compensation (Amendment to NZ IFRS 9) (effective 1 January 2019) - This amendment has no impact on the financial statements.

25. Contingent liability

The Group has an outstanding claim from the main contractor of the Copthorne Hotel Harbourcity City project. The Group received the notice for an arbitration but no date has been set. The total of the claim is unknown and the outcome of the arbitration is indeterminate at present, hence no liability has been recognised in the financial statements at balance date.

Independent Auditor's Report

To the shareholders of Millennium & Copthorne Hotels New Zealand Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Millennium & Copthorne Hotels New Zealand Limited (the company) and its subsidiaries (the group) on pages FIN1 to FIN26:

i. present fairly in all material respects the Group's financial position as at 31 December 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 31 December 2018;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to taxation compliance, taxation advisory & scrutineering at the group's annual meeting of shareholders. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $4.1 million determined with reference to a benchmark of group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
1. Valuation of Hotel Land and Building assets	
Refer to note 9 of the consolidated financial statements. Hotel land and buildings of $509.5 million (representing 70% of net assets) are recognised at fair value in the financial statements. To establish fair value, each hotel is required to undergo an independent valuation on a tri-annual basis. In the intervening years, management complete an impairment assessment, and assess whether the carrying value of each hotel continues to reflect fair value. The valuations and impairment assessments are based on discounted future cashflow models which include a number of assumptions taking into consideration future economic and market conditions. The key assumptions (including forecast growth, occupancy rates and revenue per available room) are inherently judgemental and consequently a change in the assumptions could have a material impact on the valuations and the carrying value of the hotel land and buildings.	Our procedures on the independently valued hotels involved the following: - Using our own valuation specialist to assist us in assessing the appropriateness of the valuation model used, including compliance with relevant accounting standards and alignment to market practice. - We assessed the scope of work performed, competency, professional qualifications and experience of the external expert engaged by the group. - We challenged the key assumptions used within each valuation in determining the fair value of these hotel assets. This included a comparison of occupancy rates, revenue per available room, market growth and expected inflation with externally derived data including external hotel industry reports. - We also performed our own assessment of other key inputs such as estimated future costs, discount rates and terminal multipliers, and considered the external expert's estimates with historical hotel performance. - We performed sensitivities and break-even analysis on the key assumptions. Our testing indicated that the estimates and assumptions used were reasonable in the context of the group's property portfolio. For those hotels assets that were not valued within the tri-annual valuation cycle, management assessed these assets for impairment, and assessed whether their carrying value continues to reflect fair value. - We considered management's impairment assessment of each hotel's recoverable amount. This included comparing actual hotel performance to previous forecasts. - Based on this analysis two hotels warranted a detailed impairment review. For these hotels we challenged the key assumptions used in determining the recoverable amount of the hotel land and buildings. We also considered future forecasts, comparing these to internal plans and external market information. - Three hotels were identified where there were indicators the property was outperforming expectation compared to projections in their previous valuations. We challenged key

The key audit matter	How the matter was addressed in our audit
	assumptions in the cashflow models used by management to assess that the carrying value of these hotels continues to reflect fair value. Our testing indicated that the estimates and assumptions used were reasonable in the context of the group's property portfolio.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the Chairman's Review, Managing Director's Review, disclosures relating to corporate governance, the financial summary and the other information included in the Annual Report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have received the Chairman's Review and have nothing to report in regards to it. The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report and we will report the matters identified, if any, to those charged with governance.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Aaron Woolsey

For and on behalf of

KPMG

KPMG
Auckland

13 February 2019

CHAIRMAN'S REVIEW

Financial Performance & Financial Position

Millennium & Copthorne Hotels New Zealand Limited (NZX:MCK) is pleased to report a profit attributable to owners of the parent of $49.4 million (2017: $43.1 million) for the year ended 31 December 2018.

MCK's revenue for the year increased to $218.8 million (2017: $187.3 million) and profit before tax and non-controlling interests totaled $85.1 million (2017: $74.9 million) reflecting positive hotel performance. Together with the contribution from majority-owned residential property developer CDL Investments New Zealand Limited, earnings per share increased to 31.21 cents per share (2017: 27.25 cents per share).

Shareholders' funds excluding non-controlling interests as at 31 December 2018 totaled $640.3 million (2017: $588.9 million). MCK's total assets at 31 December 2018 was $898.2 million (2017: $828.2 million) with net asset backing (with land and building revaluations and before distributions) as at 31 December 2018 also increasing to 404.41 cents per share (2017: 371.96 cents per share).

New Zealand Hotel Operations

It was pleasing to see further improvements in hotel revenue growth in 2018 which reflected both tourism growth and MCK's competitiveness. Our Gross Operating Profit increased by 21.7% with a 1.9 % point increase in total occupancy throughout the New Zealand Hotels. Both increases reflect positive contributions from M Social Auckland and Millennium Hotel New Plymouth Waterfront and the overall results were underpinned by the steady performances from MCK's Queenstown and Rotorua hotels throughout the year.

Tourism is tied to international events, both positive and negative but even more so in New Zealand given its location. New Zealand is particularly sensitive to negative wealth effects from the economies of our visitor countries. However domestic conditions have had more significant impacts on the accommodation sector in 2018 and will continue into 2019. The tight supply of skills continues and changes to the immigration policies on work visas have not helped. These have immediate flow through effects on the quality of service and costs of doing business going beyond wage or salary rates.

Another domestic dampener affecting our cost of doing business is the Auckland Council's Accommodation Provider Targeted Rate (APTR) continues to impact the performance and profitability of MCK's Auckland hotels. The cost of the council rates, including APTR, to MCK in 2018 was 63% more in 2018 than the previous year. To-date council rates have increased by 109% from 2016 before the APTR was imposed. This targeted rate, used to fund ATEED activities, cannot be passed through to guests as Council had anticipated erroneously. The direct effect of the APTR is the erosion of our operational productivity gains we have made.

The judicial review action initiated by various Auckland hotel owner / operators to which MCK is a party is now well advanced and will be heard in the High Court later in 2019.

2019 will see new challenges for tourism and accommodation providers across New Zealand. Increased inventory in key markets such as Auckland will drive new competitive pressures from new entrants and existing operators. These international and domestic shifts necessitates on an urgent change in managing costs and revenue in 2019 and into 2020.

CDL Investments New Zealand Limited ("CDLI")

CDLI continued to perform strongly announcing another record operating profit after tax for the year ended 31 December 2018 of $33.6 million (2017: $32.2 million). Although it has seen signs of markets starting to slow down in some areas, CDLI is well positioned for the medium term having acquired additional land for development during 2018 and has a good pipeline of sections for sale across New Zealand.

CDLI maintained its ordinary dividend at 3.5 cents per share which MCK will take in cash when paid in May this year.

Australia Update

During 2018, two apartments at the Zenith Residences were sold and further units are being advertised for sale progressively as their leases come to an end. The rooftop penthouse area is also available for sale. Of the remaining leased apartments, occupancy continued to be positive at 98%. The Board is targeting further sales in 2019.

Dividend Announcement

In view of the improved result in 2018, MCK's Board has resolved to declare and pay all shareholders a fully imputed dividend of 7.5 cents per share (2017: 6.0 cents per share). The increased dividend reflects a sound trading result over the past 12 months, feedback from shareholders and the Board's progressive dividend policy.

The dividend, payable to all shareholders, will be paid on 17 May 2019. The record date will be 10 May 2019.

Outlook

Although there are significant challenges ahead, the Board is confident that MCK will do well in 2019. We remain positive about the year ahead and expect growth in 2019 although slower.

On behalf of the Board, I would like to thank all of MCK's management and staff for their work in 2018.

Colin Sim
Chairman
13 February 2019

13 February 2019

MILLENNIUM & COPTHORNE HOTELS NEW ZEALAND REPORTS A POSITIVE 2018 RESULT

Millennium & Copthorne Hotels New Zealand Limited (**NZX: MCK**) today reported its preliminary results for the year ended 31 December 2018 and announced a profit after tax and attributable to owners of the parent of $49.4 million (2017: $43.1 million) on total revenue of $218.8 million (2017: $ 187.3 million).

“MCK’s 2018 results reflect the growth of the New Zealand tourism and property markets over the last year with significant contributions from two hotel investments”, said MCK’s Chair Colin Sim.

MCK also reported increases in its occupancy, gross profit and yield across its hotel portfolio which were assisted by contributions from its M Social Auckland and the acquisition of Millennium Hotel Waterfront New Plymouth. The steady growth in the company’s hotels in Rotorua and Queenstown underpinned the performance of its hotels and MCK’s majority-owned property development subsidiary CDL Investments New Zealand Ltd delivered its ninth year of profit growth despite a slowing of the residential property market.

While pleased with the positive results, MCK’s Managing Director BK Chiu highlighted some challenging factors that MCK had had to deal with over the past year.

“Costs have escalated eroding much of the productivity gains we have made in 2018. The doubling of local body rates since 2016 primarily due to the targeted rate on Auckland accommodation providers has eroded productivity gains achieved by our operations. New work visa policies have squeezed availability of labour in the hospitality industry which is already very tight. Add to that the cross currents from overseas and uncertainty in a cyclical tourism sector is hardly surprising”, he said.

Mr. Chiu said that 2019 would see additional challenges in the form of increased inventory in key markets such as Auckland.

”There will be more competition. But we are up to the challenge. The diversity and competitiveness of our portfolio of well-located hotels across New Zealand and the agility of our operations to flex costs and revenues will be key in 2019. Our two new hotels, M Social Auckland and Millennium Waterfront, New Plymouth, together with further sales of the Zenith Apartments in Sydney will help manage MCK’s growth into the next cycle,” he added.

Reflecting its 2018 results, MCK has resolved to declare an increased and fully imputed dividend of 7.5 cents per share to all shareholders (2017: 6.0 cents per share). The dividend will be paid to shareholders on 17 May 2019. The record date will be 10 May 2019.

13 February 2019

Summary of results:

• Profit after tax and non-controlling interests	$49.4 million	(2017: $43.1m)
• Profit before tax and non-controlling interests	$85.1 million	(2017: $74.9m)
• Group revenue	$218.8 million	(2017: $187.3m)
• Shareholders' funds excluding non-controlling interests	$640.3 million	(2017: $588.9m)
• Total assets	$898.2 million	(2017: $828.2m)
• Earnings per share (cents per share)	31.21 cents	(2017: 27.25 cents)

ENDS

Issued by Millennium & Copthorne Hotels New Zealand Limited

Enquiries to:

B K Chiu

Managing Director

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