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

Issuer & Securities

Issuer/ Manager

CITY DEVELOPMENTS LIMITED

Securities

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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 10 February 2020 relating to Full Year Results for the Year Ended 31 December 2019.

Attachments

10.02.2020_MCHNZ_2019_Full_Year_Results.pdf

Total size =507K MB

Millennium & Copthorne Hotels New Zealand Limited

Consolidated Income Statement

For the year ended 31 December 2019

DOLLARS IN THOUSANDS	Note	Group 2019	Group 2018
Hotel revenue		126,618	126,478
Rental income		2,698	3,009
Property sales		100,353	89,351
Revenue		**229,669**	**218,838**
Cost of sales	3,10	(97,628)	(89,004)
Gross profit		**132,041**	**129,834**
Administration expenses	2,3	(24,558)	(24,833)
Other operating expenses	2,3	(23,246)	(21,923)
Operating profit		**84,237**	**83,078**
Finance income	4	3,900	3,772
Finance costs	4	(2,735)	(1,748)
Net finance income		**1,165**	**2,024**
Profit before income tax		**85,402**	**85,102**
Income tax expense	5	(23,134)	(23,146)
Profit for the year		**62,268**	**61,956**
Attributable to:			
Owners of the parent		49,662	49,375
Non-controlling interests		12,606	12,581
Profit for the year		**62,268**	**61,956**
Basic earnings per share (cents)	8	31.39	31.21
Diluted earnings per share (cents)	8	31.39	31.21

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

DOLLARS IN THOUSANDS	Note	Group 2019	Group 2018
Profit for the year		**62,268**	**61,956**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation/impairment of property, plant and equipment	9	45,700	20,075
- Tax expense on revaluation/impairment of property, plant and equipment	5, 15	(8,886)	(5,541)
		36,814	**14,534**
Items that are or may be reclassified to profit or loss			
Foreign exchange translation movements	4	(298)	(3,060)
- Tax credit on foreign exchange translation movements	4, 5	1	(76)
		(297)	**(3,136)**
Total comprehensive income for the year		**98,785**	**73,354**
Total comprehensive income for the year attributable to :			
Owners of the parent		86,861	60,773
Non-controlling interests		11,924	12,581
Total comprehensive income for the year		**98,785**	**73,354**

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 2019

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 2019	383,266	236,999	(3,022)	23,042	(26)	640,259	83,614	723,873
Movement in exchange translation reserve, net of tax	-	-	(297)	-	-	(297)	-	(297)
Revaluation/impairment of property, plant & equipment, net of tax	-	37,496	-	-	-	37,496	(682)	36,814
Total other comprehensive income/(loss)	-	37,496	(297)	-	-	37,199	(682)	36,517
Profit for the year	-	-	-	49,662	-	49,662	12,606	62,268
Total comprehensive income for the year	-	37,496	(297)	49,662	-	86,861	11,924	98,785
Transactions with owners, recorded directly in equity:								
Dividends paid to:								
Owners of the parent	-	-	-	(11,866)	-	(11,866)	-	(11,866)
Non-controlling interests	-	-	-	-	-	-	(4,302)	(4,302)
Supplementary dividends	-	-	-	(311)	-	(311)	-	(311)
Foreign investment tax credits	-	-	-	311	-	311	-	311
Movement in non-controlling interests without a change in control	-	-	-	(1)	-	(1)	511	510
Balance at 31 December 2019	**383,266**	**274,495**	**(3,319)**	**60,837**	**(26)**	**715,253**	**91,747**	**807,000**

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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 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**

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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 Financial Position

As at 31 December 2019

DOLLARS IN THOUSANDS	Note	Group 2019	Group 2018
SHAREHOLDERS' EQUITY			
Issued capital	7	383,266	383,266
Reserves		332,013	257,019
Treasury stock	7	(26)	(26)
Equity attributable to owners of the parent		**715,253**	**640,259**
Non-controlling interests		91,747	83,614
Total equity		**807,000**	**723,873**
Represented by:			
NON CURRENT ASSETS			
Property, plant and equipment	9	591,749	532,124
Development properties	10	176,579	163,106
Investment in associates	11	2	2
Total non-current assets		**768,330**	**695,232**
CURRENT ASSETS			
Cash and cash equivalents	12	43,182	14,437
Short term bank deposits		122,049	108,289
Trade and other receivables	13	21,138	21,515
Inventories		1,615	1,684
Development properties	10	51,887	57,025
Total current assets		**239,871**	**202,950**
Total assets		**1,008,201**	**898,182**
NON CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	67,000	64,000
Lease liability	23	14,370	-
Provision for deferred taxation	15	84,968	75,844
Total non-current liabilities		**166,338**	**139,844**
CURRENT LIABILITIES			
Trade and other payables	16	24,562	25,132
Trade payables due to related parties	21	4,054	2,364
Lease liability	23	429	-
Income tax payable		5,818	6,969
Total current liabilities		**34,863**	**34,465**
Total liabilities		**201,201**	**174,309**
NET ASSETS		**807,000**	**723,873**

For and on behalf of the Board

R BOBB, DIRECTOR, 10 February 2020 **BK CHIU, MANAGING DIRECTOR, 10 February 2020**

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 2019

DOLLARS IN THOUSANDS	Note	Group 2019	Group 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		228,282	215,311
Interest received		4,002	3,511
Dividends received	4	2	2
Cash was applied to:			
Payments to suppliers and employees		(134,003)	(115,782)
Purchases of development land	10	(9,138)	(51,557)
Interest paid		(1,569)	(1,755)
Income tax paid		(24,040)	(20,044)
Net cash inflow from operating activities		**63,536**	**29,686**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was (applied to)/provided from:			
Proceeds from the sale of property, plant and equipment		113	46
Purchases of property, plant and equipment	9	(6,917)	(14,375)
Investments in short term bank deposits		(13,760)	(19,399)
Net cash outflow from investing activities		**(20,564)**	**(33,728)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was (applied to)/provided from:			
Drawdown/(Repayment) of borrowings	14	3,000	(2,000)
Principal repayment of lease liability	23(f)	(1,385)	-
Dividends paid to shareholders of Millennium & Copthorne Hotels New Zealand Ltd	7	(11,866)	(9,493)
Dividends paid to non-controlling shareholders		(4,302)	(4,231)
Net cash inflow/(outflow) from financing activities		**(14,553)**	**(15,724)**
Net increase/(decrease) in cash and cash equivalents		**28,419**	**(19,766)**
Add opening cash and cash equivalents		14,437	34,195
Exchange rate adjustment		326	8
Closing cash and cash equivalents	12	**43,182**	**14,437**

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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 – continued

For the year ended 31 December 2019

DOLLARS IN THOUSANDS	Note	Group 2019	Group 2018
RECONCILIATION OF NET PROFIT FOR THE YEAR TO CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		62,268	61,956
Adjusted for non-cash items:			
Gain on sale of property, plant and equipment	2	(26)	(2)
Depreciation of property, plant and equipment	9	8,420	8,188
Depreciation of Right-Of-Use assets	9	1,300	-
Unrealised foreign exchange (gain)/losses		74	13
Income tax expense	5	23,134	23,147
		95,170	**93,302**
Adjustments for movements in working capital:			
(Increase)/Decrease in trade & other receivables		(1,271)	(3,786)
(Increase)/Decrease in inventories		69	(38)
(Increase)/Decrease in development properties		(8,529)	(42,820)
Increase/(Decrease) in trade & other payables		2,016	4,445
Increase/(Decrease) in related parties		1,690	383
Cash generated from operations		**89,145**	**51,486**
Interest paid		(1,569)	(1,755)
Income tax paid		(24,040)	(20,045)
Cash inflows from operating activities		**63,536**	**29,686**

Reconciliation of movement of liabilities to cash flows arising from financing activities

		2019	2018
As at 01 January		64,000	66,000
Proceeds from borrowings		3,000	-
Repayment of term loans		-	(2,000)
Financing cash flows		3,000	(2,000)
As at 31 December		**67,000**	**64,000**

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

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 2019 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 10 February 2020.

(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 22 – Accounting Estimates and Judgements.

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

The Group has adopted one standard, NZ IFRS 16 Leases which is mandatory for the financial period beginning on 1 January 2019. Explanation and impact on adoption of NZIFRS 16 are in Note 23.

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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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	2019	2018	2019	2018	2019	2018	2019	2018
External revenue	126,618	126,478	91,794	85,030	11,257	7,330	229,669	218,838
Earnings before interest, depreciation & amortisation	43,404	43,826	46,416	45,069	4,137	2,370	93,957	91,265
Finance income	2,520	1,923	1,029	1,652	351	197	3,900	3,772
Finance expense	(2,728)	(1,748)	(4)	-	(3)	-	(2,735)	(1,748)
Depreciation and amortisation	(8,410)	(8,172)	(1)	(1)	(9)	(14)	(8,420)	(8,187)
Depreciation of Right-Of-Use Assets	(1,277)	-	(14)	-	(9)	-	(1,300)	-
Profit before income tax	33,509	35,829	47,426	46,720	4,467	2,553	85,402	85,102
Income tax (expense)/credit	(8,507)	(9,565)	(13,286)	(13,078)	(1,341)	(503)	(23,134)	(23,146)
Profit after income tax	25,002	26,264	34,140	33,642	3,126	2,050	62,268	61,956
Segment assets	700,509	617,040	240,697	217,613	66,993	63,527	1,008,199	898,180
Investment in associates	-	-	2	2	-	-	2	2
Total assets	700,509	617,040	240,699	217,615	66,993	63,527	1,008,201	898,182
Segment liabilities	(108,131)	(88,083)	(1,046)	(2,207)	(1,238)	(1,206)	(110,415)	(91,496)
Tax liabilities	(86,215)	(78,178)	(4,143)	(4,813)	(428)	178	(90,786)	(82,813)
Total liabilities	(194,346)	(166,261)	(5,189)	(7,020)	(1,666)	(1,028)	(201,201)	(174,309)
Material additions to segment assets:								
Property, plant and equipment expenditure	6,896	14,326	6	-	15	49	6,917	14,375
Residential land development expenditure	-	-	44,677	29,329	-	-	44,677	29,329
Purchase of land for residential land development	-	-	9,138	51,557	-	-	9,138	51,557

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	2019	2018	2019	2018	2019	2018
External revenue	218,412	211,508	11,257	7,330	229,669	218,838
Earnings before interest, depreciation & amortisation	89,842	88,909	4,115	2,356	93,957	91,265
Finance income	3,549	3,575	351	197	3,900	3,772
Finance expense	(2,732)	(1,748)	(3)	-	(2,735)	(1,748)
Depreciation and amortisation	(8,411)	(8,173)	(9)	(14)	(8,420)	(8,187)
Depreciation of Right-Of-Use Assets	(1,291)	-	(9)	-	(1,300)	-
Profit before income tax	80,957	82,563	4,445	2,539	85,402	85,102
Income tax (expense)/credit	(21,801)	(22,646)	(1,333)	(500)	(23,134)	(23,146)
Profit after income tax	59,156	59,917	3,112	2,039	62,268	61,956
Segment assets	941,656	835,080	66,543	63,100	1,008,199	898,180
Investment in associates	2	2	-	-	2	2
Total assets	941,658	835,082	66,543	63,100	1,008,201	898,182
Segment liabilities	(109,218)	(90,335)	(1,197)	(1,161)	(110,415)	(91,496)
Tax liabilities	(90,362)	(82,982)	(424)	169	(90,786)	(82,813)
Total liabilities	(199,580)	(173,317)	(1,621)	(992)	(201,201)	(174,309)
Material additions to segment assets:						
Property, plant and equipment expenditure	6,902	14,326	15	49	6,917	14,375
Residential land development expenditure	44,677	29,329	-	-	44,677	29,329
Purchase of land for residential land development	9,138	51,557	-	-	9,138	51,557

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.

2. Administration and other operating expenses

Dollars In Thousands	Note	Group 2019	Group 2018
Depreciation	9	9,720	8,187
Auditors remuneration			
Audit fees		327	317
Scrutineering fees		-	8
Tax compliance and tax advisory fees		52	56
Directors fees	20	322	303
Rental expenses		182	2,536
Provision for bad debts			
Debts written off		29	30
Movement in doubtful debt provision		44	(21)
Net gain on disposal of property, plant and equipment		26	(2)
Other		37,102	35,342
		47,804	**46,756**

3. Personnel expenses

Dollars In Thousands	Group 2019	Group 2018
Wages and salaries	44,531	42,946
Employee related expenses and benefits	1,337	1,211
Contributions to defined contribution plans	803	772
Increase in liability for long-service leave	99	59
	46,770	**44,988**

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 2019	Group 2018
Interest income	3,886	3,742
Dividend income	2	2
Foreign exchange gain	12	28
Finance income	3,900	3,772
Interest expense	(2,649)	(1,735)
Foreign exchange loss	(86)	(13)
Finance costs	(2,735)	(1,748)
Net finance income recognised in the income statement	**1,165**	**2,024**

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, interest costs on lease liability 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 2019	Group 2018
Foreign exchange translation movements	(297)	(3,136)
Net finance income recognised in other comprehensive income	**(297)**	**(3,136)**

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 2019	Group 2018
Current tax expense		
Current year	23,457	23,271
Adjustments for prior years	(562)	(107)
	22,895	23,164
Deferred tax expense		
Origination and reversal of temporary difference	232	93
Changes in Tax Rates	-	(104)
Adjustments for prior years	7	(7)
	239	(18)
Total income tax expense in the income statement	**23,134**	**23,146**

Reconciliation of tax expense

Dollars In Thousands	Group 2019	Group 2018
Profit before income tax	85,402	85,102
Income tax at the company tax rate of 28% (2018: 28%)	23,913	23,829
Adjusted for:		
Non-deductible expenses	1	7
Tax rate difference (if different from 28% above)	88	(54)
Tax exempt income	(313)	(523)
Under/(Over) - provided in prior years	(555)	(113)
Total income tax expense	**23,134**	**23,146**
Effective tax rate	27%	27%

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

Dollars In Thousands	Group 2019	Group 2018
Relating to revaluation of property, plant and equipment	8,886	5,541
Relating to foreign currency translation of foreign subsidiaries	(1)	76
	8,885	5,617

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.

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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

	Group	
Dollars In Thousands	2019	2018
Imputation credits available for use in subsequent reporting periods	106,337	93,071

The KIN Holdings Group has A$6.3 million (2018: A$5.5 million) franking credits available as at 31 December 2019.

7. Capital and reserves

Share capital

	Group		Group	
	2019 Shares	2019 $000's	2018 Shares	2018 $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 2019, the authorised share capital consisted of 105,578,290 ordinary shares (2018: 105,578,290 ordinary shares) with no par value and 52,739,543 redeemable preference shares (2018: 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.

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7. Capital and reserves – continued

Dividends

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

Dollars In Thousands	Parent 2019	Parent 2018
Ordinary Dividend – 7.5 cents per qualifying share (2018: 6.0 cents)	11,866	9,493
Supplementary Dividend – 1.3235 cents per qualifying share (2018: 1.0588 cents)	311	242
	12,177	9,735

After 31 December 2019, 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 (2018: 7.5 cents)	11,866
Supplementary Dividend – 1.3235 cents per qualifying share (2018: 1.3235 cents)	311
Total Dividends	12,177

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 2019 was based on the profit attributable to ordinary and redeemable preference shareholders of $49,662,000 (2018: $49,375,000) and weighted average number of shares outstanding during the year ended 31 December 2019 of 158,218,286 (2018: 158,218,286), calculated as follows:

Profit attributable to shareholders

Dollars In Thousands	Group 2019	Group 2018
Profit for the year	62,268	61,956
Profit attributable to non-controlling interests	(12,606)	(12,581)
Profit attributable to shareholders	49,662	49,375

Weighted average number of shares

	Group 2019	Group 2018
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.

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9. Property, plant and equipment

Group

Dollars In Thousands	Freehold Land	Leasehold Land	Buildings	Plant, Equipment, Fixtures & Fittings	Motor Vehicles	Work In Progress	Right Of Use Asset	Total
Cost								
Balance at 1 January 2018	160,075	8,305	333,899	96,283	66	1,598	-	600,226
Acquisitions	2,500	-	6,925	1,525	-	3,425	-	14,375
Disposals	-	-	-	(114)	-	-	-	(114)
Transfers between categories	-	-	1,686	2,498	10	(4,194)	-	-
Transfer from accumulated depreciation following revaluation	-	-	(399)	-	-	-	-	(399)
Movements in foreign exchange	-	-	-	(18)	-	-	-	(18)
Revaluation surplus/(deficit)	387	(100)	19,787	-	-	-	-	20,074
Balance at 31 December 2018	**162,962**	**8,205**	**361,898**	**100,174**	**76**	**829**	**-**	**634,144**
Balance at 1 January 2019	162,962	8,205	361,898	100,174	76	829	-	634,144
Recognition of ROU asset on initial application of IFRS16	-	-	-	-	-	-	16,701	16,701
Acquisitions	-	-	-	6	-	6,911	114	7,031
Disposals	-	-	-	(366)	-	-	-	(366)
Transfers between categories	(30)	(700)	1,444	4,178	-	(5,622)	730	-
Transfer from accumulated depreciation following revaluation	-	-	(1,551)	-	-	-	-	(1,551)
Movements in foreign exchange	-	-	-	(2)	-	-	-	(2)
Revaluation surplus/(deficit)	22,065	(7,505)	25,493	-	-	-	5,647	45,700
Balance at 31 December 2019	**184,997**	**-**	**387,284**	**103,990**	**76**	**2,118**	**23,192**	**701,657**
Depreciation and impairment losses								
Balance at 1 January 2018	-	-	(19,626)	(74,633)	(59)	-	-	(94,318)
Depreciation charge for the year	-	-	(4,086)	(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	**-**	**-**	**(23,313)**	**(78,643)**	**(64)**	**-**	**-**	**(102,020)**
Balance at 1 January 2019	-	-	(23,313)	(78,643)	(64)	-		(102,020)
Depreciation charge for the year	-	-	(4,283)	(4,134)	(3)	-	(1,300)	(9,720)
Disposals	-	-	-	279	-	-	-	279
Transfer accumulated depreciation against cost following revaluation	-	-	1,551	-	-	-	-	1,551
Movements in foreign exchange	-	-	-	2	-	-	-	2
Balance at 31 December 2019	**-**	**-**	**(26,045)**	**(82,496)**	**(67)**	**-**	**(1,300)**	**(109,908)**
Carrying amounts								
At 1 January 2018	160,075	8,305	314,273	21,650	7	1,598	-	505,908
At 31 December 2018	**162,962**	**8,205**	**338,585**	**21,531**	**12**	**829**	**-**	**532,124**
At 31 December 2019	**184,997**	**-**	**361,239**	**21,494**	**9**	**2,118**	**21,892**	**591,749**

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 on a staged triennial basis. In the intervals between each triennial cycle an internal valuation and impairment assessment is performed for each hotel asset to ensure its carrying value continues to reflect its fair value. 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 $591.75 million (2018: $532.12 million) to be within a range of $591.75 to $597.49 million (2018: $532.12 to $543.10 million). This is substantiated by valuations completed by Bower Valuations Limited, registered valuers, on:eight hotels assets valued in total at $297.54 million; five hotel assets valued in total at $157.54 million in December 2018 and three hotel assets valued in total at $251.48 million in December 2017. 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 2019, eight (2018: five) of the Group's 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 $45.70 million (2018: $20.07 million) was added to the carrying values of land and buildings.

The Group's fair value of hotel properties 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 and require judgement in estimating future cash flows include the expected rate of growth in revenue and costs, projected occupancy and average room rates, operational and maintenance expenditure profiles and discount rates (internal rate of return). Average annual growth rates appropriate to the hotels range from 0.99% to 4.7% (2018: 1.19% to 6.00%) over the five years projection. Pre-tax discount rates ranging between 7.25% and 10.50% (2018: 7.25% and 11.25%) were applied to the future cash flows of the individual hotels based on the specific circumstances of the property.

	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

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

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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.

For greater visibility following the adoption of IFRS 16, leasehold land has been separated from buildings and recognised as a right of use asset. Comparatives have been adjusted accordingly to recognise leasehold land and buildings separately.

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	Leasehold Land	Buildings	Plant, Equipment, Fixtures and Fittings	Motor Vehicles	Work In Progress	Right Of Use Asset	Total
Cost less accumulated depreciation								
At 1 January 2018	38,659	700	134,276	21,653	7	1,598	-	196,893
At 31 December 2018	**41,159**	**700**	**138,801**	**21,534**	**12**	**829**	**-**	**203,035**
At 31 December 2019	**41,159**	**-**	**136,662**	**21,498**	**9**	**2,118**	**15,515**	**216,961**

The accounting policy for right of use asset has been disclosed in Note 23.

10. Development properties

	Group	
Dollars In Thousands	**2019**	**2018**
Development land	182,678	169,724
Residential development	45,788	50,407
	228,466	220,131
Less expected to settle within one year	(51,887)	(57,025)
	176,579	**163,106**
Development land recognised in cost of sales	40,861	35,861
Residential development recognised in cost of sales	4,587	2,216

Development land is carried at the lower of cost and net realisable value. Interest of $Nil (2018: $287,000) was capitalised during the year. The fair value of development land held at 31 December 2019 was determined by an independent registered valuer, DM Koomen SPINZ, of Extensor Advisory Limited as $315.62 million (2018: $337.77 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 2019 was determined by R Laoulach AAPI of Laoulach & Company Pty Ltd, registered valuers as $88.41 million (A$84.84 million) (2018: $90.98 million (A$86.99 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

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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 2019 are:

	Principal Activity	Principal Place of Business	Holding % by CDL Land New Zealand Limited 2019	Holding % by CDL Land New Zealand Limited 2018
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 (2018: 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	**2019**	**2018**
Cash	12,682	8,313
Call deposits	30,500	6,124
	43,182	**14,437**

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	**2019**	**2018**
Trade receivables	11,846	13,147
Less provision for doubtful debts	(106)	(69)
Other trade receivables and prepayments	9,398	8,437
	21,138	**21,515**

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. The Group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. The allowance for doubtful debts on trade receivables are either individually or collective assessed based on number of days overdue. The Group takes into account the historical loss experience and incorporate forward looking information and relevant macroeconomic factors.

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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

				31 December 2019		31 December 2018	
Dollars in Thousands	**Currency**	**Interest Rate**	**Facility Total**	**Face Value**	**Carrying Amount**	**Face Value**	**Carrying Amount**
Revolving credit	NZD	2.01%	**53,000**	35,000	35,000	35,000	35,000
Revolving credit	NZD	2.01%	**46,000**	32,000	32,000	29,000	29,000
Overdraft	NZD	2.01%	**6,000**	-	-	-	-
TOTAL			**105,000**	**67,000**	**67,000**	**64,000**	**64,000**
Current				-	-	-	-
Non-current				67,000	67,000	64,000	64,000

Terms and debt repayment schedule
The bank loans are secured over hotel properties with a carrying amount of $510.85 million (2018: $475.86 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. 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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Property, plant and equipment	-	-	91,092	78,063	91,092	78,063
Development properties	(660)	(876)	-	-	(660)	(876)
Provisions	(96)	(75)	-	-	(96)	(75)
Employee benefits	(1,326)	(1,276)	-	-	(1,326)	(1,276)
Lease liability	(4,140)	-	-	-	(4,140)	-
Trade and other payables	(754)	(849)	-	-	(754)	(849)
Net investment in foreign operations	-	-	852	857	852	857
Net tax (assets) / liabilities	**(6,976)**	**(3,076)**	**91,944**	**78,920**	**84,968**	**75,844**

Movement in deferred tax balances during the year

	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**

	Group			
Dollars In Thousands	**Balance 1 Jan 19**	**Recognised in income**	**Recognised in equity**	**Balance 31 Dec 19**
Property, plant and equipment	78,063	4,143	8,886	91,092
Development properties	(876)	213	3	(660)
Provisions	(75)	(21)	-	(96)
Employee benefits	(1,276)	(50)	-	(1,326)
Lease liability	-	(4,140)	-	(4,140)
Trade and other payables	(849)	94	1	(754)
Net investment in foreign operations	857	-	(5)	852
	75,844	**239**	**8,885**	**84,968**

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16. Trade and other payables

Dollars In Thousands	Group 2019	Group 2018
Trade payables	2,494	2,900
Employee entitlements	4,595	4,372
Non-trade payables and accrued expenses	17,473	17,860
	24,562	**25,132**

Trade and other payables are stated at cost.

17. 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.

The following table sets out the undiscounted contractual and expected cash flows for all financial liabilities (without interest):

2019

DOLLARS IN THOUSANDS	Statement of Financial Position	Contractual Cash Out Flows	6 Months or Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Interest-bearing loans and borrowings	67,000	67,000	-	-	-	67,000	-
Trade Payables	2,494	2,494	2,494	-	-	-	-
Other payables	22,068	22,068	22,068	-	-	-	-
Trade payables due to related parties	4,054	4,054	4,054	-	-	-	-
Total non-derivative liabilities	95,616	95,616	28,616	-	-	67,000	-

2018

DOLLARS IN THOUSANDS	Statement of Financial Position	Contractual Cash Out Flows	6 Months or Less	6-12 Months	1-2 Years	2-5 Years	More than 5 Years
Interest-bearing loans and borrowings	64,000	64,000	-	-	-	64,000	-
Trade Payables	2,900	2,900	2,900	-	-	-	-
Other payables	22,232	22,232	22,232	-	-	-	-
Trade payables due to related parties	2,364	2,364	2,364	-	-	-	-
Total non-derivative liabilities	91,496	91,496	2,496	-	-	64,000	-

17. Financial instruments - continued **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 $23,000 (2018: $42,000). 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 $0.59 million (2018: $0.40 million increase), assuming all other variables remained constant.

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		2019				2018			
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	0.00% to 1.68%	43,182	43,182	-	0.25% to 3.05%	14,437	14,437	-
Short term bank deposits *		1.25% to 3.25%	122,049	55,901	66,148	2.18% to 3.64%	108,289	33,886	85,403
Secured bank loans *	14	2.01%	(67,000)	(67,000)	-	2.70%	(64,000)	(64,000)	-
Bank overdrafts *	14	2.01%	-	-	-	2.70%	-	-	-

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

(ii) Foreign currency risk
The Group owns 100.00% (2018: 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 externally 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.

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17. Financial instruments - continued

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

Group		Carrying amount	Fair value	Carrying amount	Fair value
Dollars In Thousands	Note	2019	2019	2018	2018
LOANS AND RECEIVABLES					
Cash and cash equivalents	12	43,182	43,182	14,437	14,437
Short term bank deposits		122,049	122,049	108,289	108,289
Trade and other receivables	13	21,138	21,138	21,515	21,515
OTHER LIABILITIES					
Secured bank loans and overdrafts	14	(67,000)	(67,000)	(64,000)	(64,000)
Trade and other payables	16	(24,562)	(24,562)	(25,132)	(25,132)
Trade payables due to related parties	21	(4,054)	(4,054)	(2,364)	(2,364)
		90,753	**90,753**	**52,745**	**52,745**
Unrecognised (losses) / gains		-	-	-	-

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.

18. Operating leases

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

	Group	
Dollars In Thousands	2019	2018
Less than one year	-	1,357
Between one and five years	-	2,722
More than five years	-	2,201
	-	**6,280**

Operating lease payments – Accounting policy applicable at 31 December 2018

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.

19. Capital and land development commitments

As at 31 December 2019, 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 2020 in accordance with the Group's development programme.

	Group	
Dollars In Thousands	2019	2018
Capital expenditure	3,041	3,057
Development expenditure	30,845	42,496
Land purchases	15,674	46,132
	49,560	**91,685**

20. Related parties

Identity of related parties
The Group has a related party relationship with its parent, subsidiaries (see Note 21), associates and with its directors and executive officers.

Transactions with key management personnel
Directors of the Company and their immediate relatives control nil (2018: Nil) of the voting shares of the Company. There were no loans (2018: $nil) advanced to directors for the year ended 31 December 2019. Key management personnel include the Board and the Executive Team.

20. Related parties -continued

Total remuneration for key management personnel

Dollars In Thousands	Group 2019	Group 2018
Non-executive directors	322	303
Executive director	588	599
Executive officers	873	856
	1,783	**1,758**

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).

21. Group entities

Control of the Group

Millennium & Copthorne Hotels New Zealand Limited is a 75.78% (2018: 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:

Dollars In Thousands	Nature of balance	Group 2019	Group 2018
Trade payables and receivables due to related parties			
Millennium & Copthorne Hotels plc	Recharge of expenses	(3,290)	(871)
Millennium & Copthorne International Limited	Recharge of expenses	(26)	(35)
CDL Hotels Holdings New Zealand Limited	Recharge of expenses	-	3
CDLHT (BVI) One Ltd	Rent payment	(738)	(1,461)
		(4,054)	**(2,364)**
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 2019 and 2018. There are no set repayment terms. During this period costs amounting to $250,000 (2018: $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.

From September 2019, the Group renewed the management agreement of Grand Millennium Auckland 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 $0.74 million (2018: $1.46 million) being rent payable with respect to the leasing of the property. During the year ended 31 December 2019, the Group received $1.57 million (2018: $1.58 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 at 2.20% (2018: 1.75% to 2.07%).

During the year consulting fees of $10,400 (2018: $10,500) were paid to Bobb Management Pty Ltd of which Mr. R Bobb (Director) is a shareholder and director.

21. Group entities - continued

Subsidiary companies
The principal subsidiary companies of Millennium & Copthorne Hotels New Zealand Limited included in the consolidation as at 31 December 2019 are:

	Principal Activity	Principal Place of Business	Group Holding % 2019	Group Holding % 2018
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	66.26	66.42
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.

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.

22. 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 involves 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 $228.47 million (2018: $220.13 million) while the fair value determined by independent valuers is $404.03 million (2018: $428.75 million).

22. Accounting estimates and judgements -continued

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.

23. Lease

During the period, the Group adopted one new accounting standard, NZ IFRS 16 "Leases", using the modified retrospective approach. 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 lease expenses will be replaced with an interest expense and a depreciation expense in the income statement.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in NZ IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset was recognised at cost on initial recognition, which comprised the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

On 31 December 2019, the Group changed its accounting policy to recognise the right of use asset relating to leasehold land at fair value. Management believe this provides more reliable information which is consistent with the recognition of freehold land. The right of use asset is depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

23(a) Lease Liability

The expected contractual undiscounted cash outflows of lease liabilities are as follows:

	Group	
Dollars In Thousands	**2019**	**2018**
Less than 6 months	188	-
More than 6 months but within 12 months	241	-
More than 1 year but within 2 years	370	-
More than 2 years but within 5 years	542	-
After 5 years	13,458	-
	14,799	**-**

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in the statement of financial position.

23. Lease -continued

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

23(b) Summary of the effect of NZ IFRS 16 on the Consolidated Statement of Financial Position on transition

Statement of Financial Position *Dollars In Thousands*	Note	Record new assets and new liabilities	Impact on opening balances @ 01/01/19
Right-of-use assets	23(b)(i)	16,701	16,701
Prepayments		(1,649)	(1,649)
Deferred tax asset		4,215	4,215
Total assets		**19,267**	**19,267**
Current lease liabilities	23(b)(i)	404	404
Non current lease liabilities	23(b)(i)	14,648	14,648
Deferred tax liability		4,215	4,215
Total liabilities		**19,267**	**19,267**
Net Assets		**-**	**-**
Net Asset Value			**Nil cents per share**

23(b)(i) The long term leases of the land and carpark at the hotels and the motor vehicles were recorded as right-of-use assets totalling $16.70 million and classified under property, plant and equipment. Their corresponding lease liabilities were recorded under current liabilities of $0.40 million and non-current liabilities of $14.65 million. The lease payments for the land at Copthorne Hotel & Resort Bay of Islands were prepaid up to May 2021. The amount of the right-of-use assets equals to lease liabilities and prepayment at the transition date.

When measuring lease liabilities, the Group discounted lease payments using present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at date of initial application i.e. 1 January 2019. The weighted average rate applied is 6.70%. The increment borrowing rates used to discount the leased assets and liabilities required significant judgement and had a material impact on the calculation of the lease liability and right-of-use asset.

23(c) Schedule of right-of-use assets by class

Right-of-use Assets *Dollars In Thousands*	Lease term	Carrying value recognized on transition @ 01/01/19	Depreciation on right-of-use asset for the year	Addition during the year	Transfer from leasehold land	Revaluation	Carrying value @ 31/12/19
Land sites at hotels	Renewal at 21 year cycles for perpetuity	14,245	(876)	-	730	4,327	18,426
Corporate office building and hotel carpark	Between 5 to 23 years	2,128	(282)	-	-	1,320	3,166
Motor vehicles	Between 12 to 45 months	328	(142)	114	-	-	300
Totals		16,701	(1,300)	114	730	5,647	21,892

23 Lease - continued

23(d) Summary of the effect of NZ IFRS 16 on the Consolidated Statement of Comprehensive Income for the period

Statement of Comprehensive Income *Dollars In Thousands*	Lease payments booked to lease liabilities in the Balance Sheet	Additional depreciation of right-of-use assets booked to the Profit & Loss	Additional interest on lease liabilities booked to Profit & Loss	Revaluation movement for right-of-use assets	Impact on performance for the year ended 31/12/19
Other operating expenses	(1,385)	1,300	-	-	(85)
EBITDA	1,385	(1,300)	-	-	85
Net finance income	-	-	(1,017)	-	(1,017)
Net profit/(loss) before tax	1,385	(1,300)	(1,017)	-	(932)
Less income tax (expense)/credit	(388)	364	285	-	261
Net profit/(loss) after tax	**997**	**(936)**	**(732)**	**-**	**(671)**
Revaluation/impairment of property, plant and equipment	-	-	-	5,647	5,647
Tax on revaluation	-	-	-	(1,581)	(1,581)
Total comprehensive income	**997**	**(936)**	**(732)**	**4,066**	**3,395**
Earnings per Share					**0.424 cents per share**

Based on the above table, this standard has an immaterial impact on the Net Profit after Tax in the Income Statement for the year ended 31 December 2019.

23(d)(i) On application of NZ IFRS 16, lease payments were no longer expensed into the income statement. Instead, they were accounted as reductions in the lease liabilities in the statement of financial position. There were additional expense of $1.30 million (Note 23(c)), due to the straight line depreciation of the right-of-use assets over the term of the leases. Interest costs, computed at the relevant incremental borrowing rates totalling $1.017 million were additional expenses in the income statement.

23(e) Exemptions and exclusions

Exempted were motor vehicle leases shorter than 12 months and leased assets with value below $8,000. Excluded were variable rentals and lease payments. The following table summarizes these leases by class:

Dollars In Thousands	Expense recognized in the Profit & Loss	Lease commitments @ 31/12/19	Lease commitments within one year	Lease commitments between one and 5 years	Lease commitments more than 5 years
Short term leases <12 months	78	67	67	-	-
Low value leased assets	1	4	1	3	-
Variable lease payments under service and management contracts	103	335	103	232	-
Total	182	406	171	235	-

23(f) Summary of the effect of NZ IFRS 16 on the Condensed Statement of Cash Flows

There are no impacts on the cash flows and the loan covenants of the Group. However, NZ IFRS requires separate classifications:

i) Cash payments for the principal portion of the lease liability within financing activities;
ii) Cash payments for the interest portion of the lease liability applying the requirements in NZ IAS 7 "Statement of Cash Flows" for interest paid; and
iii) Short-term lease payments, payments for low value assets and variable lease payments excluded from lease liabilities within operating activities.

The cash outflow for the lease of right-of-use assets for the year period ended 31 December 2019 totalled $1.385 million.

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23 Lease - continued

23(g) Reconciliation between operating lease commitments under NZ IAS 17 at 31 December 2018 and lease liabilities recognised on transition at 1 January 2019

Dollars In Thousands	Audited @ 01/01/19
Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements	6,280
Discounted using incremental borrowing rates at 1 January 2019	4,452
Less recognition exemption for:	
- Short term leases <12 months	(16)
- Low value leased assets	-
Add extension options reasonably certain to be exercised on long term leases	10,616
Lease liabilities recognised at 1 January 2019	15,052

24. New standard and interpretations issued but not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standard in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to Reference to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to ARFS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

25. Contingent liability

The Group has outstanding claims from the main contractor of the Copthorne Hotel Harbourcity project (M Social Auckland). The Group has received a notice for an arbitration but no date has been set. The total amount of the claims and the likely outcome of 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 audit of 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 FIN 28:

i. present fairly in all material respects the Group's financial position as at 31 December 2019 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 2019;
- 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 and taxation advisory. 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 $4.1million 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 \$546.2 million (representing 68% 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 internal valuation assessment, and assess whether the carrying value of each hotel continues to reflect fair value. The external valuations and internal valuation 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 appropriate in the context of the group's property portfolio. For those hotels assets that were not independently valued within the tri-annual valuation cycle, we performed the following procedures to ensure these assets continue to reflect fair value. – We reviewed the valuation methodology applied to the internal valuation models and involved our valuation specialists. – We reviewed key assumptions against budget, past performance and the previous external valuation and identified properties where there were indicators of a significant change in fair value. – Where indicators of a change in fair value were identified we performed a detailed review the internal valuation model applying procedures consistent with those we performed for external valuations. Our testing indicated that the estimates and assumptions used were appropriate 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

10 February 2020

CHAIRMAN'S REVIEW

Financial Performance & Financial Position

Millennium & Copthorne Hotels New Zealand Limited (NZX:MCK) is pleased to report that, for the year ended 31 December 2019, it generated a profit attributable to owners of the parent of $49.7 million (2018: $49.4 million).

MCK also noted an increase in revenue for the year to $229.7 million (2018: $218.8 million). Its 2019 profit before tax and non-controlling interests was $85.4 million (2018: $85.1 million) reflecting consistent performance in more challenging market conditions for its hotel and residential property development operations. Despite these challenges, MCK's earnings per share increased to 31.39 cents per share (2018: 31.21 cents per share).

As at 31 December 2019, MCK recorded shareholders' funds excluding non-controlling interests of $715.3 million (2018: $640.3 million) and total assets of $1,008.2 million (2018: $898.2 million) with net asset backing (with land and building revaluations and before distributions) increasing to 451.78 cents per share (2018: 404.41 cents per share).

New Zealand Hotel Operations

In an environment which has seen increased inventory in key tourism centres coupled with a slowing in the growth of international visitors to New Zealand, the New Zealand hotels were able to maintain their revenue at levels seen over the past three years which totaled $126.6 million (2018: $126.5 million) and Revenue per Available Room (RevPAR) increasing slightly to $132.46 (2018: $130.63). Occupancy for the year remained steady at 80.8% (2018: 80.9%). Gross Operating Profit decreased by 1.9 %. This was due to increasing cost pressures during 2019 such as utility and payroll cost increases which are expected to continue into 2020.

In 2019 MCK's "book direct" and "think local" initiatives saw increases in the number of bookings made by customers directly with MCK. This is an encouraging trend and one which MCK is keen to see improve further.

Geographically, MCK's marketing operations focused on diversifying its customer base originating from new and emerging markets such as South-East Asia and India. With some key markets showing signs of weakness, we believe that growth from such emerging markets will be a key factor in maintaining market share and growing future revenues.

Within New Zealand itself, MCK was pleased with the performance of several of its regional hotels such as Kingsgate Hotel Dunedin, Copthorne Hotel Palmerston North, and Kingsgate Hotel Te Anau which traded positively during the year and indicate an increasing strength in such hotels.

2019 also saw MCK's talent pool upskilling with completions through the Service IQ programmes which assisted with retaining key operational staff at a number of our hotels. MCK continues to be focused on development of employees in an environment where attracting and retaining skilled employees will continue to contribute to productivity gains.

MCK is disappointed by the judgment in relation to the Accommodation Provider Targeted Rate handed down by the High Court last week. We are reviewing our options with our external lawyers and will determine whether an appeal should be pursued in the next few weeks.

CDL Investments New Zealand Limited ("CDLI")

CDLI announced an operating profit after tax for the year ended 31 December 2019 of $34.1 million (2018: $33.6 million). This marks ten successive years of profit growth. Given slowing markets, this is a very creditable result and reflected a resourceful sales strategy in the latter half of 2019.

MCK is encouraged that CDLI is progressing well with development works and has commenced sales at Dominion Road (South Auckland) and Kewa Road (North Shore) already.

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

Australia Update

During 2019, six apartments at the Zenith Residences were sold and achieved attractive margins. Other units are being actively marketed for sale and we expect that these sales will boost MCK's 2020 results.

Leasing of the remaining portfolio continues at an annual average occupancy rate of 92.6%. The Board is targeting further sales in 2020.

Dividend Announcement

MCK's Board has resolved to declare and pay all shareholders a fully imputed dividend of 7.5 cents per share which is the same as 2018 and reflects MCK's stable earnings profile. The dividend, payable to all shareholders, will be paid on 15 May 2020 with a record date of 8 May 2020.

Outlook

The recent travel issues associated with the Novel Coronavirus will impact on MCK's first quarter operations and results. A number of our hotels in high tourism areas are receiving cancellations from several Chinese operators as the Chinese and New Zealand Governments' travel bans and other containment measures come into effect. Cancellations received to date will result in revenue loss of between NZ$2 million and NZ$3 million with more cancellations expected for future months. We have been advised that this revenue loss will not be covered by insurance. Management is implementing urgent response plans to mitigate the effect of these cancellations. A health and safety plan is now in full effect at MCK's hotels. Given that the situation is extremely fluid, the Board will monitor the situation carefully and will update shareholders if the position changes.

With increased hotel inventory in Auckland and other key tourism hotspots in New Zealand, MCK's hotels will need to work resourcefully to ensure that they are well positioned in key segments throughout this year without the benefit of any major events in New Zealand until 2021 and with tourism coming off its historic peak. We expect that MCK's land development operations will deliver positive contributions to the bottom line during the coming year and sales of the Zenith Residences units will add to overall profitability.

The Board will continue to oversee progress against Management's targets closely to ensure that shareholders are able to receive positive returns despite what are expected to be difficult trading conditions during this year.

On behalf of my fellow MCK directors, I thank all of MCK's management and staff for their efforts in 2019.

Colin Sim
Chairman
10 February 2020

MILLENNIUM & COPTHORNE HOTELS NEW ZEALAND DELIVERS CONSISTENT PROFIT AND DIVIDEND TO SHAREHOLDERS

Millennium & Copthorne Hotels New Zealand Limited (**NZX: MCK**) today reported its preliminary results for the year ended 31 December 2019 and announced a profit after tax and attributable to owners of the parent of $49.7 million on total revenue of $229.7 million.

"The Board and I are pleased that we have been able to deliver a consistent profit result in what was a difficult year for our property development and hotel operations", said MCK's Chair Colin Sim.

MCK's results showed consistent occupancy, gross profit and yield across its hotel portfolio despite falling overseas visitor numbers. Its majority-owned subsidiary CDL Investments also contributed to the profit result having made good sales progress in the second half of 2019.

MCK's Managing Director BK Chiu noted that the challenging factors that MCK had to overcome over the last two years would continue to have an effect for the foreseeable future.

"Cost increases, a tight employment market and government policies impacted on our results during 2019. Tourism and the residential property market are now into their slower stages of the business cycle. Being nimble and the ability to flex our organization and processes on both costs and revenue, will help us to achieve meaningful productivity gains. These are being implemented with People, Planet and Profit lines of sight metrics and to deliver outstanding service experiences to our guests and customers," he said.

Mr. Chiu said that MCK was disappointed by the judgment in relation to the Accommodation Provider Targeted Rate handed down by the High Court last week and would review its options with MCK's external lawyers as to whether to appeal the decision.

MCK has resolved to maintain its fully imputed dividend of 7.5 cents per share to all shareholders. The dividend will be paid to shareholders on 15 May 2020. The record date will be 8 May 2020.

Mr. Sim noted that the Novel Coronavirus issues including the government travel bans were impacting on MCK's operations and future bookings. Several MCK hotels had received cancellations and the revenue lost to date would be between $2 million to $3 million which would not be covered by insurance. MCK was therefore implementing mitigation measures in place urgently and the Board would be monitoring the situation carefully.

He also said that the MCK Board would continue to oversee progress to ensure that shareholders were able to receive positive returns despite what are expected to be difficult trading conditions during this year.

Summary of results:

• Profit after tax and non-controlling interests	$49.7 million	(2018: $49.4m)
• Profit before tax and non-controlling interests	$85.4 million	(2018: $85.1m)
• Group revenue	$229.7 million	(2018: $218.8m)
• Shareholders' funds excluding non-controlling interests	$715.3 million	(2018: $640.3m)
• Total assets	$1,008.2 million	(2018: $898.2m)
• Earnings per share (cents per share)	31.39 cents	(2018: 31.21 cents)

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Issued by Millennium & Copthorne Hotels New Zealand Limited

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