

Condensed Interim Income Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2020		Unaudited	Unaudited
		6 months	6 months
DOLLARS IN THOUSANDS	NOTE	to 30/06/20	to 30/06/19
Revenue		84,743	110,611
Cost of sales		(39,260)	(46,512)
Gross profit		45,483	64,099
Administrative expenses		(10,416)	(12,157)
Other operating expenses		(9,674)	(11,376)
Operating profit before finance income		25,393	40,566
Finance income		1,881	1,874
Finance costs		(1,017)	(1,441)
Net finance income		864	433
Profit before income tax		26,257	40,999
Income tax expense	9 (b)	(7,367)	(11,301)
Income tax credit arising from change in building depreciation	9 (b)	20,060	-
Profit for the period		38,950	29,698
Profit for the period attributable to:			
Equity holders of the parent		34,090	23,805
Non-controlling interests		4,860	5,893
Profit for the period		38,950	29,698
Basic earnings per share (cents)	4	21.55c	15.05c
Diluted earnings per share (cents)	4	21.55c	15.05c

The attached notes form part of, and are to be read in conjunction with, these financial statements.

Condensed Interim Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2020		Unaudited	Unaudited
		6 months	6 months
DOLLARS IN THOUSANDS	Note	to 30/06/20	to 30/06/19
Profit for the period		38,950	29,698
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Devaluation of property, plant and equipment	9 (c)	(49,963)	(7,565)
- Tax expense on devaluation of property, plant and equipment	9 (b)	13,990	-
		(35,973)	(7,565)
Items that are or may be reclassified to profit or loss			
Foreign exchange translation movements		1,350	39
- Tax (expense)/credit on foreign exchange	9 (b)	(2)	-
		1,348	39
Total comprehensive income for the period		4,325	22,172
Total comprehensive income for the period attributable to:			
Equity holders of the parent		(535)	17,098
Non-controlling interests		4,860	5,074
Total comprehensive income for the period		4,325	22,172

DETAILS OF SPECIFIC RECEIPTS/OUTLAYS, REVENUE/EXPENSES

Classified under:

Administrative expenses

Audit fees (159) (164)

Other operating expenses

Depreciation of Property, Plant & Equipment (4,292) (4,217)

Depreciation of Right-Of-Use Assets (823) (645)

Leasing and rental expenses (84) (106)

Finance income

Interest income 1,849 1,868

Foreign exchange gain 32 6

Finance costs

Interest expense (499) (867)

Interest expense on lease liability (499) (512)

Foreign exchange loss (4) (62)

Condensed Interim Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2020

DOLLARS IN THOUSANDS	NOTE	Attributable to Equity Holders of the Group					Unaudited Total	Unaudited Non-controlling Interests	Unaudited Total Equity
		Unaudited Share Capital	Unaudited Revaluation Reserves	Unaudited Exchange Reserves	Unaudited Accumulated Losses	Unaudited Treasury Stock			
Balance at 1 January 2019		383,266	236,999	(3,022)	23,042	(26)	640,259	83,614	723,873
Movement in revaluation reserve		-	(6,746)	-	-	-	(6,746)	(819)	(7,565)
Movement in exchange translation reserve		-	-	39	-	-	39	-	39
Income and expense recognised directly in equity		-	(6,746)	39	-	-	(6,707)	(819)	(7,526)
Profit for the period		-	-	-	23,805	-	23,805	5,893	29,698
Total comprehensive income for the period		-	(6,746)	39	23,805	-	17,098	5,074	22,172
Transactions with owners, recorded directly in equity :									
Dividends paid to:									
Equity holders of the parent	5	-	-	-	(11,866)	-	(11,866)	-	(11,866)
Non-controlling interests		-	-	-	-	-	-	(3,691)	(3,691)
Movement of non-controlling interests without a change in control		-	-	-	(1)	-	(1)	511	510
Supplementary dividends	5	-	-	-	(311)	-	(311)	-	(311)
Foreign investment tax credits		-	-	-	311	-	311	-	311
Balance at 30 June 2019		383,266	230,253	(2,983)	34,980	(26)	645,490	85,508	730,998
Balance at 1 January 2020		383,266	274,495	(3,319)	60,837	(26)	715,253	91,747	807,000
Movement in revaluation reserve		-	(35,973)	-	-	-	(35,973)	-	(35,973)
Movement in exchange translation reserve		-	-	1,348	-	-	1,348	-	1,348
Income and expense recognised directly in equity		-	(35,973)	1,348	-	-	(34,625)	-	(34,625)
Profit for the period		-	-	-	34,090	-	34,090	4,860	38,950
Total comprehensive income for the period		-	(35,973)	1,348	34,090	-	(535)	4,860	4,325
Transactions with owners, recorded directly in equity :									
Dividends paid to:									
Equity holders of the parent	5	-	-	-	(11,866)	-	(11,866)	-	(11,866)
Non-controlling interests		-	-	-	-	-	-	(3,679)	(3,679)
Movement of non-controlling interests without a change in control		-	-	-	(49)	-	(49)	1,329	1,280
Supplementary dividends	5	-	-	-	(256)	-	(256)	-	(256)
Foreign investment tax credits		-	-	-	256	-	256	-	256
Balance at 30 June 2020		383,266	238,522	(1,971)	83,012	(26)	702,803	94,257	797,060

Condensed Interim Statement of Financial Position

AS AT 30 JUNE 2020		Unaudited	Audited	Unaudited
		as at	as at	as at
DOLLARS IN THOUSANDS	NOTE	30/06/20	31/12/19	30/06/19
SHAREHOLDERS' EQUITY				
Issued capital	3	383,266	383,266	383,266
Reserves		319,561	332,013	262,250
Treasury stock	3	(26)	(26)	(26)
Non-controlling interests		94,259	91,747	85,508
Total equity		797,060	807,000	730,998
Represented by:				
NON CURRENT ASSETS				
Property, plant and equipment	9 (c)	539,953	591,749	539,492
Development properties		169,250	176,579	186,216
Investment in associates		2	2	2
Total non-current assets		709,205	768,330	725,710
CURRENT ASSETS				
Cash and cash equivalents		26,301	43,182	25,441
Short term bank deposits		156,045	122,049	116,812
Trade and other receivables		13,263	21,138	14,296
Trade receivables due from related parties	6	206	-	10
Inventories		1,315	1,615	1,518
Development properties		48,705	51,887	41,377
Total current assets		245,835	239,871	199,454
Total assets		955,040	1,008,201	925,164
NON CURRENT LIABILITIES				
Interest-bearing loans and borrowings		67,000	67,000	64,000
Lease Liabilities		14,219	14,370	14,541
Provision for deferred taxation	9 (b)	50,535	84,968	75,972
Total non-current liabilities		131,754	166,338	154,513
CURRENT LIABILITIES				
Interest-bearing loans and borrowings		297	-	3,000
Trade and other payables	9 (b)	19,084	24,562	22,431
Trade payables due to related parties	6	4,743	4,054	3,686
Loans due to related parties		-	-	9,000
Lease Liabilities		472	429	411
Income tax payable		1,630	5,818	1,125
Total current liabilities		26,226	34,863	39,653
Total liabilities		157,980	201,201	194,166
Net assets		797,060	807,000	730,998

The attached notes form part of, and are to be read in conjunction with, these financial statements.

Condensed Interim Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2020		Unaudited	Unaudited
		6 months	6 months
DOLLARS IN THOUSANDS	NOTE	to 30/06/20	to 30/06/19
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		92,404	115,797
Interest received		1,858	2,242
		<u>94,262</u>	<u>118,039</u>
Cash was applied to:			
Payments to suppliers and employees		(47,010)	(66,182)
Purchase of development land		-	(7,624)
Interest paid		(655)	(900)
Income tax paid		(11,977)	(17,017)
		<u>(59,642)</u>	<u>(91,723)</u>
Net cash inflow from operating activities		<u>34,620</u>	<u>26,316</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from/(applied to):			
Purchase of property, plant and equipment		(3,167)	(3,037)
Increase in short term bank deposits		(33,996)	(8,523)
Net cash outflow from investing activities		<u>(37,163)</u>	<u>(11,560)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of borrowings		297	3,000
Advance/(repayment) of related parties loans		-	9,000
Principal repayment of lease liability		(720)	(676)
Dividends paid to shareholders of Millennium & Copthorne Hotels New Zealand Ltd	5	(11,866)	(11,866)
Dividends paid to non-controlling interests		(3,679)	(3,691)
Net cash outflow from financing activities		<u>(15,968)</u>	<u>(4,233)</u>
Net (decrease)/increase in cash and cash equivalents		(18,511)	10,523
Add opening cash and cash equivalents		43,182	14,437
Exchange rate adjustment		1,630	481
Closing cash and cash equivalents		<u>26,301</u>	<u>25,441</u>

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Condensed Interim Statement of Cash Flows

FOR THE SIX MONTHS ENDED 30 JUNE 2020		Unaudited	Unaudited
		6 months	6 months
DOLLARS IN THOUSANDS	NOTE	to 30/06/20	to 30/06/19
RECONCILIATION OF NET PROFIT FOR THE PERIOD			
TO CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		38,950	29,698
Adjusted for non cash items:			
(Gain)/Loss on Sale of Fixed Assets		-	6
Foreign Exchange (Gain)/ Loss		(28)	56
Depreciation of Property, Plant & Equipment		4,290	4,217
Depreciation of Right-Of-Use Assets		823	645
Income tax expense / (credit)	9 (b)	(12,693)	11,301
Adjustments for movements in working capital:			
Decrease in receivables		7,670	5,560
Decrease in inventories		300	166
(Increase)/Decrease in development properties		11,576	(7,449)
Increase/(Decrease) in payables		(4,325)	(1,289)
Increase/(Decrease) in related parties		689	1,322
Cash generated from operations		47,252	44,233
Interest paid		(655)	(900)
Income tax paid		(11,977)	(17,017)
Net cash inflow from operating activities		34,620	26,316
Reconciliation of movement of liabilities to cash flows arising from financing activities			
As at 01 Jan		67,000	64,000
Proceeds from borrowings		297	3,000
Financing cash flows		297	3,000
As at 30 Jun		67,297	67,000

The attached notes form part of, and are to be read in conjunction with, these financial statements.

Millennium & Copthorne Hotels New Zealand Limited and Subsidiaries
Notes to the Condensed Interim Financial Statements
for the six months ended 30 June 2020 (unaudited)

1. 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 Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The condensed interim financial statements of the Company for the six months ended 30 June 2020 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; residential development and sale of land in New Zealand; and development and sale of residential units in Australia.

The condensed interim financial statements were authorised for issuance on 29 July 2020.

(a) Statement of compliance

The condensed interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 *Interim Financial Reporting*. The condensed interim financial statements do not include all of the information required for full annual financial statements.

The accounting policies and methods of computation applied by the Group in these condensed interim financial statements are the same as those applied by the Group in its financial statements for the year ended 31 December 2019, with the exception of the adoption of NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in the current reporting period (refer to Note 9(a)).

2. Segment reporting

Segment information is presented in the condensed interim financial statements 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.

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 property development, comprising the development and sale of residential apartments.

Geographical segments

The Group operates in the following main geographic segments:

- New Zealand
- Australia

Segment revenue is based on the geographical location of the asset. The Group has no major customer representing greater than 10% of the Group's total revenue.

Millennium & Copthorne Hotels New Zealand Limited and Subsidiaries
Notes to the Condensed Interim Financial Statements
for the six months ended 30 June 2020 (unaudited)

2. Segment reporting - continued

(a) Operating Segments

	Hotel Operations		Residential Land Development		Residential Property Development		Group	
	Unaudited 6 months to 30/06/20	Unaudited 6 months to 30/06/19	Unaudited 6 months to 30/06/20	Unaudited 6 months to 30/06/19	Unaudited 6 months to 30/06/20	Unaudited 6 months to 30/06/19	Unaudited 6 months to 30/06/20	Unaudited 6 months to 30/06/19
<i>Dollars in thousands</i>								
External revenue	35,755	64,463	40,955	40,291	8,033	5,857	84,743	110,611
Earnings before interest, depreciation & amortisation	8,582	22,636	18,589	20,494	3,337	2,298	30,508	45,428
Finance income	1,221	1,172	504	524	156	178	1,881	1,874
Finance expense	(1,015)	(1,437)	(1)	(2)	(1)	(2)	(1,017)	(1,441)
Depreciation and amortisation	(4,287)	(4,212)	-	-	(5)	(4)	(4,292)	(4,216)
Depreciation of Right-of-use assets	(811)	(634)	(7)	(7)	(5)	(5)	(823)	(646)
Profit before income tax	3,690	17,525	19,085	21,009	3,482	2,465	26,257	40,999
Income tax expense	(979)	(4,720)	(5,344)	(5,873)	(1,044)	(708)	(7,367)	(11,301)
Income tax credit arising from change in building depreciation	20,060	-	-	-	-	-	20,060	-
Profit after income tax	22,771	12,805	13,741	15,136	2,438	1,757	38,950	29,698
Segment assets	638,991	638,961	244,037	220,560	72,010	65,641	955,038	925,162
Investment in associates	-	-	2	2	-	-	2	2
Total assets	638,991	638,961	244,039	220,562	72,010	65,641	955,040	925,164
Segment liabilities	(102,470)	(112,922)	(1,755)	(2,955)	(1,590)	(1,192)	(105,815)	(117,069)
Tax liabilities	(49,347)	(75,704)	(1,511)	(1,135)	(1,307)	(258)	(52,165)	(77,097)
Total liabilities	(151,817)	(188,626)	(3,266)	(4,090)	(2,897)	(1,450)	(157,980)	(194,166)
Property, plant and equipment expenditure	3,157	3,025	6	2	5	10	3,168	3,037
Residential land development expenditure	-	-	11,841	19,874	-	-	11,841	19,874
Purchase of land for residential land development	-	-	-	7,624	-	-	-	7,624

Millennium & Copthorne Hotels New Zealand Limited and Subsidiaries
Notes to the Condensed Interim Financial Statements
for the six months ended 30 June 2020 (unaudited)

2. Segment reporting - continued

(b) Geographic Segments

	New Zealand		Australia		Group	
	Unaudited 6 months to 30/06/20	Unaudited 6 months to 30/06/19	Unaudited 6 months to 30/06/20	Unaudited 6 months to 30/06/19	Unaudited 6 months to 30/06/20	Unaudited 6 months to 30/06/19
<i>Dollars in thousands</i>						
External revenue	70,716	104,754	8,033	5,857	84,743	110,611
Earnings before interest, depreciation & amortisation	27,184	43,215	3,324	2,213	30,508	45,428
Finance income	1,725	1,696	156	178	1,881	1,874
Finance expense	(1,016)	(1,439)	(1)	(2)	(1,017)	(1,441)
Depreciation and amortisation	(4,287)	(4,212)	(5)	(4)	(4,292)	(4,216)
Depreciation of Right-of-use assets	(818)	(641)	(5)	(5)	(823)	(646)
Profit before income tax	22,788	38,619	3,469	2,380	26,257	40,999
Income tax expense	(6,326)	(10,596)	(1,041)	(705)	(7,367)	(11,301)
Income tax credit arising from change in building depreciation	20,060	-	-	-	20,060	-
Profit after income tax	36,522	28,023	2,428	1,675	38,950	29,698
Segment assets	883,333	859,742	71,705	65,420	955,038	925,162
Investment in associates	2	2	-	-	2	2
Total assets	883,335	859,744	71,705	65,420	955,040	925,164
Segment liabilities	(104,263)	(115,918)	(1,552)	(1,151)	(105,815)	(117,069)
Tax liabilities	(50,859)	(76,839)	(1,306)	(258)	(52,165)	(77,097)
Total liabilities	(155,122)	(192,757)	(2,858)	(1,409)	(157,980)	(194,166)
Property, plant and equipment expenditure	3,163	3,027	5	10	3,168	3,037
Residential land development expenditure	11,841	19,874	-	-	11,841	19,874
Purchase of land for residential land development	-	7,624	-	-	-	7,624

Millennium & Copthorne Hotels New Zealand Limited and Subsidiaries
Notes to the Condensed Interim Financial Statements
for the six months ended 30 June 2020 (unaudited)

3. Share capital

	Ordinary shares		Redeemable preference shares	
	Shares	\$ 000s	Shares	\$ 000s
Total shares issued – fully paid				
Balance at 30 June 2019	105,578,290	350,048	52,739,543	33,218
Balance at 30 June 2020	105,578,290	350,048	52,739,543	33,218
Ordinary shares repurchased and held as treasury stock				
Balance at 30 June 2019	(99,547)	(26)	-	-
Balance at 30 June 2020	(99,547)	(26)	-	-
Shares issued – fully paid				
Balance at 30 June 2019	105,478,743	350,022	52,739,543	33,218
Balance at 30 June 2020	105,478,743	350,022	52,739,543	33,218

At 30 June 2020, the authorised share capital consisted of 105,578,290 ordinary shares (2019: 105,578,290 ordinary shares) with no par value and 52,739,543 redeemable preference shares (2019: 52,739,543) with no par value.

4. Earnings per share

The basic earnings per share of 21.55 cents (30 June 2019: 15.05 cents) is based on the profit attributable to ordinary shareholders of \$34.09 million (30 June 2019: \$23.81 million) and weighted average number of ordinary shares and redeemable preference shares outstanding during the period ended 30 June 2020 of 158,218,286 (30 June 2019: 158,218,286).

The redeemable preference shares are included in the computation of earnings per share as they rank equally with ordinary shares in respect of distributions made by the Company except any distribution in the case of liquidation.

The calculation of diluted earnings per share of 21.55 cents (30 June 2019: 15.05 cents) is the same as basic earnings per share.

5. Dividends

The following dividends were paid during the interim periods:

<i>Dollars In Thousands</i>	Group	
	Unaudited 30/06/20	Unaudited 30/06/19
Ordinary dividend: 7.5 cents per qualifying share (2019: 7.5 cents)	11,866	11,866
Supplementary dividend: 1.3235 cents per qualifying share (2019: 1.3235 cents)	256	311
	12,122	12,177

Millennium & Copthorne Hotels New Zealand Limited and Subsidiaries
Notes to the Condensed Interim Financial Statements
for the six months ended 30 June 2020 (unaudited)

6. Related party transactions

Millennium & Copthorne Hotels New Zealand Limited is a 75.78% (2019: 75.78%) (economic interests from both ordinary and preference shares) owned 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 Limited in Singapore.

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

<i>Dollars In Thousands</i>	Nature of balance	Group	
		Unaudited 30/06/20	Unaudited 30/06/19
Trade payables and receivables due to related parties			
Millennium & Copthorne Hotels plc	Recharge of expenses	(3,536)	(2,791)
Millennium & Copthorne International Limited	Recharge of expenses & provision of management and marketing support	176	(27)
CDL Hotels Holdings New Zealand Limited	Recharge of expenses	30	10
CDLH (BVI) One Limited	Rent payment	(1,207)	(868)
		(4,538)	(3,676)
Loans due to related parties			
CDL Hotels Holdings New Zealand Limited	Inter-company loan	-	(9,000)
		-	(9,000)

No debts with related parties were written off or forgiven during the period. No interest was charged on these payables during 2020 and 2019. There are no set repayment terms.

As at balance date, inter-company loan with CDL Hotels Holdings New Zealand Limited was NIL (30 June 2019: \$9.0 million).

7. Capital commitments

As at 30 June 2020, the Group has entered into contractual commitments for capital expenditure and development expenditure.

<i>Dollars In Thousands</i>	Group	
	Unaudited 30/06/2020	Unaudited 30/06/2019
Capital expenditure	468	4,425
Development expenditure	19,160	21,252
Land purchases	1,272	33,717
	20,900	59,394

8. Changes in contingent liabilities and contingent assets since last annual balance sheet date

During the period, the Group settled an outstanding claim from the main contractor of the Copthorne Hotel Harbourcity City project. The adjudicator determined that the Group had to pay a total of \$455.4k to the main contractor, which included liquidated damages previously deducted from the contractor's progress payments, an amount for disputed variation work, interest, and half of the adjudicator's costs. The total cost of the determination has been recognised in the financial statements at balance date.

The Group has no other contingent liabilities or contingent assets at balance date.

Millennium & Copthorne Hotels New Zealand Limited and Subsidiaries
Notes to the Condensed Interim Financial Statements
for the six months ended 30 June 2020 (unaudited)

9. COVID-19 pandemic update

(a) Wage subsidy scheme

The Group applied for the Government's Wage Subsidy Scheme on 27 March 2020 and received a net sum of \$6.70 million. The Group's owned and managed hotels were eligible to apply as the hotels suffered a decline of 41.9% in total revenues in March 2020 against the comparative period in 2019. This amount covered a period of 12 weeks which ended on 21 June.

The Group subsequently applied for the Wage Subsidy Extension and received a total of \$1.82 million which covers the period from 22 June to 16 August. The Group's owned and managed hotels were eligible to apply for the Government's Wage Subsidy Extension Scheme as the hotels suffered a decline of 58.7% in total revenues in the 30 day period from 24 May to 23 June 2020 against the comparative period in 2019.

The wage subsidies were applied as a deduction against payroll costs in personnel expenses in accordance with NZ IAS 20. The personnel expenses are included in cost of sales, administration expenses and other expenses in the income statement.

Personnel expenses

<i>Dollars In Thousands</i>	Group	
	2020	2019
Wages and salaries	19,962	22,576
Wage subsidies	(5,507)	-
Employee related expenses and benefits	464	713
Contributions to defined contribution plans	369	419
Increase/(decrease) in liability for long-service leave	(51)	48
	15,237	23,756

The unapplied balance of \$1.51m in wage subsidies is included in Trade and other payables under current liabilities in the Balance Sheet.

(b) Tax changes

Included in the Government's Business Continuity Package (COVID-19 Response (Taxation and Social Assistance Urgent Measure) Act 2020) was the reintroduction of tax depreciation on commercial and industrial buildings. With effect from 1 January 2020, the Group is now able to depreciate, at 2.0% diminishing value method, the core components of the hotel buildings previously depreciated at 0.0% for tax purposes. As a result, the deferred tax liability is reduced by \$20.06 million with a deferred tax credit of the same amount booked into the profit and loss.

Income tax expense

Recognised in the income statement

<i>Dollars In Thousands</i>	Group	
	2020	2019
Current tax expense		
Current year	7,752	11,173
Adjustments for prior years	-	-
	7,752	11,173
Deferred tax expense		
Origination and reversal of temporary difference	(385)	129
Change in treatment of building depreciation	(20,060)	-
Adjustments for prior years	-	-
	(20,445)	129
Total income tax expense/(credit) in the income statement	(12,693)	11,301

Millennium & Copthorne Hotels New Zealand Limited and Subsidiaries
Notes to the Condensed Interim Financial Statements
for the six months ended 30 June 2020 (unaudited)

9. COVID-19 pandemic update -continued

Reconciliation of tax expense

<i>Dollars In Thousands</i>	Group	
	2020	2019
Profit before income tax	26,257	40,999
Income tax at the company tax rate of 28% (2019: 28%)	7,352	11,480
Adjusted for:		
Non-deductible expenses	-	-
Tax rate difference (if different from 28% above)	69	47
Tax exempt income	(54)	(226)
Change in treatment of building depreciation	(20,060)	-
Total income tax expense/(credit)	(12,693)	11,301
Effective tax rate	(48)%	28%

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

<i>Dollars In Thousands</i>	Group	
	2020	2019
Relating to devaluation of property, plant and equipment	(13,990)	-
Relating to foreign currency translation of foreign subsidiaries	2	-
	(13,988)	-

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.

(c) Property, Plant and Equipment

The Group's hotel properties were subjected to an internal review for fair value at the reporting date.

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 significant judgement in estimating future cash flows include the expected rate of recovery in revenue, projected occupancy and average room rates, operational and maintenance expenditure profiles and discount rates (internal rate of return). With the COVID-19 pandemic still at large globally, the recovery of tourism and accommodation sector is uncertain and is dependent on several factors which are currently unknown and evolving. These factors chiefly are: the success of health bodies worldwide to control the pandemic; the recovery of economies in key markets; the opening up of closed borders for international air travel; and the increase in domestic travel after lockdowns.

Annual growth rates appropriate to the hotels were applied over the five years projection. The average rates from the current year onwards are: -63.3% (Year 0); 49.0% (Year 1); 41.7% (Year 2); 16.6% (Year 3); 3.5% (Year 4); and 2.2% (Year 5). Pre-tax discount rates ranging between 7.50% and 10.75% were applied to the future cash flows of the individual hotels based on the specific circumstances of each property.

The Group's fair value of hotel properties is categorised as Level 3 based on the inputs to the valuation methodology. The following matrix shows the effect of the inputs on the fair value of the properties:

	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

Based on the review and in accordance with the Group's accounting policies the respective properties' land and buildings were revalued to their fair value. A total of \$49.96 million (31 December 2019: \$45.70 million increase) was deducted from the carrying values of land and buildings and the amount after tax was deducted from the asset revaluation reserves in equity.