# PLAY

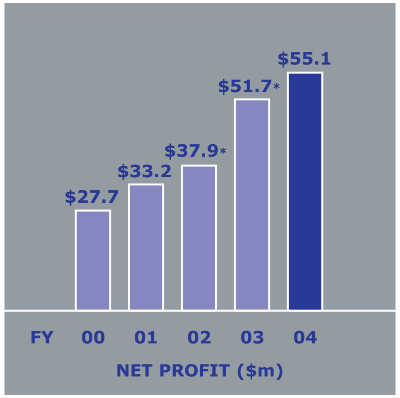
SKYCITY Entertainment Group Interim Report 2004

SKYCITY
ENTERTAINMENT GROUP

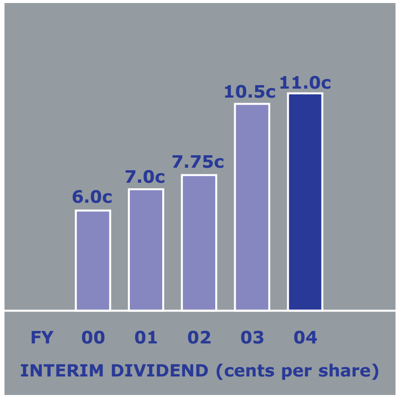
PLAY

# $55.1 million

net surplus after tax up 7%




*Half year to 31 December*
**Before non-recurring items*




*Half year to 31 December*

## Contents



## Key Features of the Half Year (6 months ended 31 December 2003)

- Net surplus after tax increased by 7% from $51.7 million (before non-recurring items) in the previous corresponding period, to $55.1 million.

- Fully-imputed interim dividend of 11.0 cents per share will be paid on 2 April 2004, calculated in accordance with the company's 90% payout policy.

- Group operating revenues increased by 6% to $297 million and earnings (as measured by earnings before interest and tax: EBIT) were up 8% to $107 million.

- Strong half year performances were achieved by SKYCITY Auckland and SKYCITY Hamilton.

– Auckland growth continued with EBIT up 7% on the previous half year despite an element of disruption on the main gaming floor associated with construction and fit-out of the new level three gaming area, and no conference revenues during the half. Opening of the new convention and exhibition centre is scheduled for April 2004.

– Auckland's EBITDA ratio (earnings before interest, tax, depreciation, and amortisation) of 53% continues to lead other gaming/entertainment operations in Australasia.

– Hamilton's EBIT result exceeded pre-opening expectations, at $4.2 million, and continued the strong results achieved by SKYCITY's newest property since it opened in September 2002. A strong revenue and cost management performance in Hamilton delivered an EBITDA ratio of 44%.

- SKYCITY Adelaide revenues were flat on the prior period, despite an overall increase in the gaming market in South Australia. An A$70 million redevelopment programme, to reposition the property as the entertainment destination of choice in Adelaide, was announced in December 2003. The upgraded facilities will significantly enhance the competitiveness of the Adelaide complex, and therefore the revenue potential of the business, by providing an increased range of entertainment and gaming experiences to appeal to existing and potential customers.



- SKYCITY Queenstown Casino's gaming machine upgrade programme is producing positive visitation and revenue response.
- SKYCITY Leisure's New Zealand cinema operations again reported strong revenue performance, up 14% over the first half of the 2003 financial year.
- SKYCITY Auckland's new PLAY casino and Bar3 facilities opened in early December 2003 with strong initial response from customers. The PLAY casino represents a 15% expansion of the gaming facilities at the Auckland property.
- Sky Tower was the winner of the Visitor Attraction category at the 2003 New Zealand Tourism Awards.
- SKYCITY's on-market share buyback was completed in November which, combined with the special dividend paid in November 2002, concluded the company's 2002/03 capital management programme at $83 million.
- The SKYCITY Auckland Convention Centre is nearing completion with forward bookings well ahead of expectations. This excellent new facility for the city of Auckland is scheduled to open on time and to budget in April 2004.
- The SKYCITY Grand Hotel (Auckland, 316 rooms) is well-progressed and on schedule for an April 2005 opening. Early customer response to this facility is also positive.
- In February 2004 SKYCITY announced, subject to regulatory approvals, the purchase of the Darwin hotel and casino from MGM Mirage for A$195 million. Following completion of approvals, approximately 30% of total Group revenues will then be derived from Australian operations.

## Operating and Financial Review

SKYCITY Entertainment Group has reported a further consecutive increased revenue and earnings performance for the six months ended 31 December 2003, up 7% and 6% respectively on the previous corresponding half year period.

This result continues the sequence of strong revenue and earnings increases that have been reported since the company commenced operations in February 1996. Over the last five years SKYCITY's first half operating earnings, as measured by EBITDA (earnings before interest, tax, depreciation and amortisation), have more than doubled from $59 million in first half 1999 to $134 million in first half 2004.

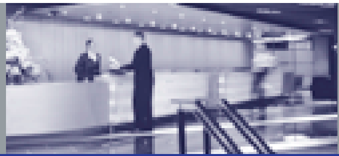
Dividends paid to shareholders have followed a similar pattern due to the company's consistent 90% dividend payout policy. The interim dividend for shareholders five years ago was 4.25 cents per share (share split adjusted) compared to 11.0 cents per share for the April 2004 dividend payment.

In the 2004 interim period, SKYCITY maintained its track record of delivering strong earnings performance, consistent dividend streams, and active capital management. Significant shareholder value continues to be delivered as a consequence of the company's operational and strategic initiatives.

Stern Stewart & Co, which developed the Economic Value Added approach to wealth measurement, recently reported on the value creation of New Zealand companies. SKYCITY is reported by Stern Stewart as having created wealth for shareholders of $866 million during the year ended 30 June 2003, which places the company at the top end of New Zealand company performance. SKYCITY's focus on its customers, its communities, and its shareholders has produced a stand-out result as measured independently by one of the world's leading analysts of shareholder value creation.

In October, we were also pleased to be included in Forbes magazine's "Best Under a Billion – 200 companies outside the USA" listing. Inclusion in the top 200 listing of non-US companies with turnover of up to US$1 billion for the second time in three years, was a significant achievement.

During the half year, SKYCITY negotiated an increased senior debt facility with our existing banking syndicate. The new facility of $1.0 billion reflects the confidence of our lenders in SKYCITY's business plans and provides liquidity headroom going forward. The new facility is well within the company's capability in terms of covenant and ratio compliance and results in appropriate gearing levels for an enterprise such as SKYCITY.





SKYCITY continues to focus on creating shareholder value through its various operations, in growing its business, and in returning revenue (dividends) and capital (two on-market share buyback programmes in 1998 and 2003) to shareholders. SKYCITY continues to be both a growth and a yield story.

### SKYCITY Auckland

In terms of revenue increase in Auckland over the previous corresponding half year, gaming and carparking were the top performers with both reporting revenue gains of 7%. Sky Tower revenues increased by 3% and food and beverage operations by 1%. Hotel and conference was the only business sector to report reduced revenues, due to conference facilities being unavailable during the period as a consequence of the level-three construction work and a lag in hotel bookings following the SARS concerns of March/April last year.

During the half year, new product introductions, in addition to the new PLAY casino and Bar3 facilities, included touchbet roulette, 160 machine replacements and 304 machine conversions to new games, a new hyperlink game "Jackpot Carnival", and a new entry/exit/retail facility for Sky Tower.

SKYCITY Theatre continued to offer a range of film, drama, and musical experiences for more than 56,000 patrons who attended during the six months to 31 December.

New Zealand film premieres screened at SKYCITY Theatre included *Finding Nemo*, *Legally Blonde 2*, *Perfect Strangers*, and the first public screening of *Lord of the Rings: The Return of the King* as a Starship Children's Hospital charity fundraiser.

### SKYCITY Hamilton

SKYCITY Hamilton produced an excellent half year result in terms of revenues, cost management and margins.

Given that SKYCITY Hamilton commenced operations in September 2002, comparison of first half 2004 with first half 2003 is not meaningful. At this stage in the Hamilton operation, the more useful comparison is with the immediately preceding half year period, ended 30 June 2003.

SKYCITY Hamilton revenues were up 23% over the previous six months (ended 30 June 2003) at $15.5 million and EBITDA, at $6.8 million, was well advanced on the $4.0 million reported for second half 2003.

The significant increase of first half 2004 over second half 2003 demonstrates a level of momentum in the business which augurs well for a strong result for the 12 months to 30 June 2004.

SKYCITY Hamilton is already well-established in the Hamilton/ Waikato/Bay of Plenty communities. A range of sponsorships and community support initiatives have been undertaken and $395,000 in donations and grants were awarded by the SKYCITY Hamilton Community Trust during the period.

### SKYCITY Adelaide

First half revenues at SKYCITY Adelaide were flat compared to the first half of 2003. Expense management maintained the Adelaide EBITDA ratio at 24% but the EBIT result was down marginally at A$7.2 million compared with A$7.6 million for the corresponding prior period.

Although SKYCITY Adelaide's revenues were flat period on period, the overall gaming sector in South Australia grew revenues. This indicates that the market is experiencing growth and the challenge for the SKYCITY Adelaide operation is to achieve an increased share of the available revenue streams in the Adelaide market.

A three-stage A$70 million redevelopment of SKYCITY Adelaide, announced in December 2003, will provide significantly enhanced restaurant, bar, entertainment and gaming facilities and on-site carparking incorporating 450 spaces. The redevelopment is designed to position the property as the preferred gaming and entertainment venue in the city.

The Adelaide project will take place in stages over the next 3-4 years. The first stage of the redevelopment is scheduled for completion by February 2005. Completion of each stage will improve the revenue growth prospects for the business with the timing (and scope) of each stage being dependant on customer response to the previous stage(s) and the regulatory environment prevailing at the time.

### Other Operations

**SKYCITY Queenstown** revenues were steady for the first half at $3 million. EBITDA was positive but a loss of $0.5 million was reported at the EBIT line. During the period October 2003 – January 2004, the Queenstown business updated the majority of its gaming machines with new replacements and the positive response from customers has been encouraging. SKYCITY Queenstown is expected to achieve EBIT breakeven, or better, for the full year ending 30 June 2004.

**SKYCITY Leisure Limited** (*SKYCITY 74% equity position on a fully diluted basis*) reported a 14% uplift in New Zealand cinema revenues to $15 million, but a reduction in property rentals at the SKYCITY Metro centre lowered the overall revenue increase to 10%. However, a number of tenancy issues at SKYCITY Metro were resolved and the quality of the leases has been enhanced as a consequence.



In terms of new facilities, the Village SKYCITY Cinemas complex at St Lukes in Auckland (opened in May 2003) is trading well, the company has acquired an existing five-screen cinema operation in Whangarei and a new eight-screen complex for Tauranga is expected to open in April 2005.

**Canbet Limited** returned a disappointing half year result, reporting a net loss of A$4.1 million, of which SKYCITY's share was 32.6%. The Canbet board has advised that it is concerned about the losses and is investigating the actions that will be necessary in order to turn around the first half performance.

## Regulatory and Compliance

SKYCITY is working to ensure a smooth transition to the new operating environment when smoke-free legislation takes effect in New Zealand in December 2004. The transition in New Zealand is not expected to be as difficult as it appears to have been in some states in Australia, as New Zealand is already well advanced towards a full non-smoking environment and the legislation provides 12 months notice of the new requirements.

In South Australia, the non-smoking requirement will apply in October 2007. As the Adelaide property is already at 50% non-smoking at the current time, the intermediate stages required by South Australian legislation will not impact the Adelaide operations prior to October 2007.

The new Gambling Act (2003) in New Zealand restricts casino licenses to those already on issue and imposes stricter supervision on non-casino gaming machines. The Act also requires gaming companies to adopt harm minimisation practices and procedures. SKYCITY properties have effectively operated extensive host responsibility programmes for a number of years and these voluntarily-introduced programmes exceed the requirements of the new legislation.

In South Australia, SKYCITY has worked with the Independent Gambling Authority and community services providers to develop Codes of Practice for gaming and gaming-related activities. This process has been ongoing for some time and an outcome, satisfactory to all interested parties, is expected to be achieved in the near future.

In February 2004, SKYCITY announced the acquisition of the Darwin hotel and casino, subject to regulatory approvals and this process has commenced. Our expectation is that the regulatory approvals will take 10-14 weeks to complete and this would see SKYCITY assume ownership and operation of the Darwin property in June 2004.



All SKYCITY's operations maintain continuous liaison and communication with the regulatory authorities in each of the jurisdictions in which the company operates and a high level of compliance is consistently achieved.

## Board Chair

After eight years as Chairman of SKYCITY Entertainment Group, Jon Hartley will retire as a director on 31 March 2004. Rod McGeoch will assume chairmanship of the company effective 1 April 2004.

## As at March 2004 SKYCITY Entertainment Group:

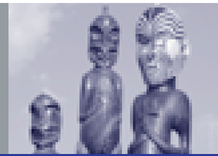
- can point to a history of consistent growth in earnings and dividends, superior returns and wealth creation for shareholders;
- has consistently demonstrated active capital management and effective use of its balance sheet;
- is a major gaming and entertainment company in both Australia and New Zealand and a leading company on both the New Zealand and Australian stock exchanges;
- has significant growth potential available from its existing asset base and from projects under construction and planned;
- has a strong balance sheet, which means the company is well-placed to respond to opportunities as they arise.

Looking ahead we eagerly anticipate the imminent opening of our state-of-the-art convention and exhibition centre in Auckland. The assumption of operational ownership of the Darwin complex will represent an exciting step forward in the growth of our Trans-Tasman interests.

E W Davies

Managing Director

12 March 2004





SKYCITY Entertainment Group is committed to supporting its communities through a wide variety of sponsorships and independent SKYCITY community trusts.

## Community Trusts

Since establishing the first SKYCITY trust in Auckland in 1996, nearly $12 million has been distributed to support a wide range of community initiatives. Established to provide funds for community and charitable purposes (with the annual funding amount based on a minimum percentage of each property's net profit or revenue), community trusts are one of the vehicles through which SKYCITY supports local organisations.

Trusts have been established in Auckland, Hamilton and Queenstown and plans are progressing for the establishment of a trust in Adelaide. Each independent trust aims to support local and regional organisations in undertaking community assistance and development work, focusing on community projects related to health, education, tourism, entertainment, arts and culture.

The 2004 interim period has been significant for the SKYCITY trusts, involving establishment of the SKYCITY Hamilton Community Trust, the first round of payments from the SKYCITY Queenstown Casino Community Trust and a record $2.8 million in grants paid out by the SKYCITY Auckland Community Trust.

Auckland trust grants supported a variety of causes and initiatives and ranged from the large ($225,000 towards redevelopment of the Auckland War Memorial Museum) to the small ($640 for the provision of Riding for the Disabled classes).

### Auckland grants included:

- $214,800 for the restoration of the original Titirangi home of Colin McCahon.
- $135,800 for the South Auckland Health Foundation to purchase medical equipment to measure bone density.
- $50,000 for the development of a dementia home at St Andrews Village.
- $40,000 for the Auckland Philharmonia to support three concerts.
- $21,000 for Great Barrier Island Rescue Service Charitable Trust to purchase a dinghy and safety and salvage equipment for its rescue vessel.
- $10,000 for the 'Festival of Kolors' to celebrate local arts and culture against the background of the Otara Markets.

In December 2003 the SKYCITY Hamilton Community Trust distributed its first round of grants. A total of 71 organisations benefited, with a total of $395,000 in grants distributed.

### Hamilton grants included:

- $20,000 for the Parentline Charitable Trust to provide education, counselling, training and therapy sessions for children and their families.
- $10,000 for the Mount Maunganui Lifeguard Service to assist in training programmes and for the construction of accommodation.
- $10,000 for Habitat for Humanity Waikato to construct a new home (built by Fraser High School students) for a family in need.
- $5,000 to support the 2004 Balloons Over Waikato Festival.
- $2,000 for the Te Hau Aroha Performing Arts to purchase traditional piupiu costumes for children and youth.

The SKYCITY Queenstown Casino Community Trust last year distributed its first round of grants. A total of 31 local organisations benefited, with grants ranging from a few hundred dollars to $25,000. A total of over $200,000 was distributed.

### Queenstown grants included:

- $25,000 for the Lakes District Air Rescue Trust to purchase a portable defibrillator.
- $10,000 for the 25th annual Queenstown Jazz Festival.
- $25,000 for the The Order of St John Wakatipu to fund the fit-out of a new ambulance.
- $5,000 for Queenstown Family Violence and Rape Crisis to support a 24 hour advocacy and counselling service.
- $5,000 for the Kapa Haka Performing Art Troop to stage the Primary School Maori Performing Arts competition for Southland, Central Otago and Otago school groups.
- $5,000 for the Glenorchy Community Association for upgrades to the Glenorchy Swimming Pool.

## Partnerships

SKYCITY is a proud sponsor of health, entertainment, arts, culture and sport in our communities. Since opening the first SKYCITY property in 1996, we have developed a significant community sponsorship portfolio across New Zealand and South Australia. Organisations that SKYCITY continues to support through sponsorship activity and fundraising initiatives include the SKYCITY Starlight Symphony, the Starship Foundation, Kidz First Children's Hospital, Special Olympics New Zealand, the New Zealand Breast Cancer Foundation and the McGuiness McDermott Foundation in Adelaide.

SKYCITY is also a major supporter of sporting teams and events in New Zealand and Australia, from Auckland Rugby, the SKYCITY Blues Cheer Team, Waikato Rugby, Boathouse 8's – a rowing event on the Waikato river, Vodafone Warriors (rugby league) to the Adelaide 36ers (basketball), Rally of New Zealand and the Placemakers V8 International.

As prominent local businesses within our regions of operation, we recognise the importance of community involvement and we strive to meet or exceed the expectations the public has of us in the same way we aim to meet or exceed the expectations of the 12 million customers who visit our properties every year.

## Host Responsibility

Recent legislative and regulatory changes in New Zealand (Gambling Act 2003) and South Australia (Codes of Practice) will require that gaming businesses act responsibly. SKYCITY has always taken a proactive approach to host responsibility and we welcome the clarity and certainty these developments represent for our business and the wider gaming and hospitality sector.





# Financial Statements

## Contents

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland, New Zealand
DX CP24073
Telephone +64 9 355 8000
Facsimile +64 9 355 8001

To the Shareholders of SKYCITY Entertainment Group Limited

We have reviewed the interim financial statements on pages 14 to 23. The interim financial statements provide information about the past financial performance and cash flows of the Group for the six months ended 31 December 2003 and the financial position as at that date. This information is stated in accordance with the accounting policies set out on page 20.

**Directors' responsibilities**

The company's directors are responsible for the preparation and presentation of the interim financial statements that present fairly the financial position of the Group as at 31 December 2003 and its financial performance and cash flows for the period ended on that date.

**Accountants' responsibilities**

We are responsible for reviewing the interim financial statements presented by the directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

**Basis of opinion**

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the interim financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements of the Group for the period ended 31 December 2003 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

PRICEWATERHOUSECOOPERS

We have no relationship with or interests in the company or its subsidiaries other than in our capacities as accountants conducting this review, as the company's statutory auditor and as internal auditors, tax and accounting advisers.

**Review opinion**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements do not:

- comply with generally accepted accounting practice in New Zealand for interim financial statements; and
- present fairly the financial position of the Group as at 31 December 2003 and its financial performance and cash flows for the period ended on that date.

Our review was completed on 26 February 2004 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Auckland

## CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 31 December 2003

| | Notes | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|---|
| Revenue | 1 | **297,947** | 283,174 | 564,313 |
| Expenses | 2 | **(215,382)** | (204,311) | (405,693) |
| **Surplus before income tax** | | **82,565** | 78,863 | 158,620 |
| Income tax | | **(27,133)** | (26,156) | (51,117) |
| **Surplus for the period** | | **55,432** | 52,707 | 107,503 |
| Net (surplus)/deficit attributable to minority interest | | **(369)** | 109 | (286) |
| **Net surplus attributable to parent shareholders** | | **55,063** | 52,816 | 107,217 |

*The above statements should be read in conjunction with the accompanying notes.*

## CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 31 December 2003

| | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|
| **Net surplus for the period, comprising** | | | |
| Parent shareholders' interest | **55,063** | 52,816 | 107,217 |
| Minority interest | **369** | (109) | 286 |
| | **55,432** | 52,707 | 107,503 |
| **Other recognised revenues and expenses** | | | |
| Foreign currency translation reserve | **(750)** | (2,814) | 1,111 |
| **Total recognised revenues and expenses** | **54,682** | 49,893 | 108,614 |
| Exercise of share options | **2,001** | 1,845 | 2,555 |
| Shares issued under dividend reinvestment plan | **–** | 22,373 | 22,372 |
| Employee share entitlements issued | **2,817** | 2,378 | 2,378 |
| Movement in employee share entitlement reserve | **(1,246)** | (586) | 1,107 |
| Repurchase of shares | **(27,656)** | – | (12,967) |
| Distributions to owners | **(54,313)** | (89,142) | (133,362) |
| Minority interest in contributions from owners | **1,200** | – | – |
| **Movements in equity for the period** | **(22,515)** | (13,239) | (9,303) |
| **Equity at beginning of period, comprising** | | | |
| Parent shareholders' interest | **240,958** | 250,547 | 250,547 |
| Minority interest | **5,607** | 5,321 | 5,321 |
| | **246,565** | 255,868 | 255,868 |
| **Equity at end of period, comprising** | | | |
| Parent shareholders' interest | **216,874** | 237,417 | 240,958 |
| Minority interest | **7,176** | 5,212 | 5,607 |
| | **224,050** | 242,629 | 246,565 |

*The above statements should be read in conjunction with the accompanying notes.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2003

| | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | **223,679** | 258,776 | 246,518 |
| Reserves | **(64)** | (3,686) | 1,932 |
| Retained earnings | **(6,741)** | (17,673) | (7,492) |
| **Shareholders' equity** | **216,874** | 237,417 | 240,958 |
| Minority interests | **7,176** | 5,212 | 5,607 |
| **Total equity** | **224,050** | 242,629 | 246,565 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | **516,548** | 430,207 | 437,113 |
| Deferred tax | **27,093** | 22,776 | 24,683 |
| Convertible notes | **13,365** | 13,365 | 13,365 |
| Capital notes | **149,455** | 149,019 | 149,266 |
| **Total non-current liabilities** | **706,461** | 615,367 | 624,427 |
| **Current liabilities** | | | |
| Bank overdraft | **819** | – | – |
| Payables and accruals | **81,972** | 59,161 | 64,836 |
| Borrowings | **1,000** | 1,000 | 1,000 |
| **Total current liabilities** | **83,791** | 60,161 | 65,836 |
| **Total liabilities** | **790,252** | 675,528 | 690,263 |
| **Total equity and liabilities** | **1,014,302** | 918,157 | 936,828 |
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments in associates | **18,800** | 22,456 | 21,586 |
| Property, plant and equipment | **697,905** | 616,124 | 636,990 |
| Intangible assets | **205,620** | 200,572 | 207,844 |
| **Total non-current assets** | **922,325** | 839,152 | 866,420 |
| **Current assets** | | | |
| Cash and bank balances | **70,212** | 56,682 | 57,264 |
| Accounts receivable | **18,337** | 19,055 | 10,246 |
| Inventories | **3,428** | 3,268 | 2,898 |
| **Total current assets** | **91,977** | 79,005 | 70,408 |
| **Total assets** | **1,014,302** | 918,157 | 936,828 |

*The above statements should be read in conjunction with the accompanying notes.*



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2003

| | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|
| **Operating activities** | | | |
| **Cash was provided from** | | | |
| Receipts from customers | **310,427** | 282,037 | 569,979 |
| Interest received | **2,682** | 2,856 | 3,009 |
| | **313,109** | 284,893 | 572,988 |
| **Cash was applied to** | | | |
| Payments to suppliers and employees | **(170,363)** | (149,044) | (281,034) |
| Interest paid | **(21,625)** | (21,046) | (44,847) |
| Net GST paid | **1,245** | (3,619) | (3,992) |
| Gaming taxes paid | **(11,926)** | (10,205) | (34,114) |
| Income taxes paid | **(20,799)** | (16,121) | (34,318) |
| | **(223,468)** | (200,035) | (398,305) |
| **Net cash flows from operating activities** | **89,641** | 84,858 | 174,683 |
| **Investment activities** | | | |
| **Cash was applied to** | | | |
| Purchase and construction of fixed assets | **(74,919)** | (42,745) | (80,760) |
| Capitalised interest paid | **(1,781)** | – | (1,173) |
| | **(76,700)** | (42,745) | (81,933) |
| **Net cash flows from investment activities** | **(76,700)** | (42,745) | (81,933) |

*The above statements should be read in conjunction with the accompanying notes.*

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 31 December 2003

| | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|
| **Financing activities** | | | |
| **Cash was provided from** | | | |
| Proceeds from long-term debt | **85,315** | 34,250 | 178,516 |
| Advances from minority interests | **–** | 446 | – |
| Proceeds from issue of convertible notes | **–** | – | 9,000 |
| Gains on foreign currency swaps hedging investment in foreign operations | **42** | 75 | 2,348 |
| Exercise of share options | **2,001** | 1,845 | 2,555 |
| | **87,358** | 36,616 | 192,419 |
| **Cash was applied to** | | | |
| Share repurchase | **(27,656)** | – | (12,967) |
| Repayment of short-term debt | **(500)** | (500) | (1,000) |
| Repayment of long-term debt | **(5,800)** | (1,876) | (146,947) |
| Purchase of convertible notes | **–** | – | (4,950) |
| Distributions to shareholders | **(54,313)** | (66,780) | (110,990) |
| | **(88,269)** | (69,156) | (276,854) |
| **Net cash flows from financing activities** | **(911)** | (32,540) | (84,435) |
| **Net increase in cash held** | **12,030** | 9,573 | 8,315 |
| Foreign currency translation adjustment | **99** | (975) | 865 |
| Cash and bank at beginning of period | **57,264** | 48,084 | 48,084 |
| **Cash and bank at end of period** | **69,393** | 56,682 | 57,264 |
| **Composition of cash** | | | |
| Cash and bank | **70,212** | 56,682 | 57,264 |
| Bank overdraft | **(819)** | – | – |
| | **69,393** | 56,682 | 57,264 |

| | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|
| **Reconciliation with operating surplus** | | | |
| **Reported surplus after tax** | **55,063** | 52,816 | 107,217 |
| Less associated entity deficits/(surpluses) | **1,449** | (175) | (246) |
| Less minority interests | **369** | (109) | 286 |
| | **56,881** | 52,532 | 107,257 |
| **Items not involving cash flows and non-operating cash flows** | | | |
| Depreciation expense | **21,473** | 20,470 | 40,980 |
| Decrease in provisions | **–** | (87) | – |
| Increase in employee share entitlement reserve | **1,570** | 1,877 | 3,502 |
| Amortisation expense | **2,653** | 2,858 | 5,052 |
| Amortisation of deferred expenditure | **609** | 298 | 628 |
| Increase in deferred taxation | **2,410** | 1,965 | 3,872 |
| Movement in foreign exchange | **(42)** | 13 | (2,351) |
| | **28,673** | 27,394 | 51,683 |
| **Impact of changes in working capital items** | | | |
| (Increase)/decrease in accounts receivable | **(7,548)** | (7,453) | (892) |
| (Increase)/decrease in inventory | **(530)** | (202) | 168 |
| Increase/(decrease) in payables and accruals | **17,136** | 4,062 | 3,696 |
| (Increase)/decrease in pre-paid income tax | **(543)** | 8,070 | 10,617 |
| | **8,515** | 4,477 | 13,589 |
| **Items classified as investing activities** | | | |
| Net (surplus)/loss on disposal of fixed assets | **126** | (13) | – |
| Non-operating payables, accruals and accounts receivable | **(4,554)** | – | – |
| Capitalised costs | **–** | 468 | 2,154 |
| | **(4,428)** | 455 | 2,154 |
| **Net cash flow from operating activities** | **89,641** | 84,858 | 174,683 |

*The above statements should be read in conjunction with the accompanying notes.*

*The above statements should be read in conjunction with the accompanying notes.*

## STATEMENT OF ACCOUNTING POLICIES

For the six months ended 31 December 2003

### ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows have been applied on a basis consistent with those used in the audited financial statements for the year ended 30 June 2003 and the unaudited interim financial statements for the six months ended 31 December 2002.

The interim financial statements for the six months ended 31 December 2003 have been prepared in accordance with the Institute of Chartered Accountants of New Zealand Financial Reporting Standard 24 "Interim Financial Statements" and should be read in conjunction with the Group's annual financial report for the year ended 30 June 2003.

### CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the current period. Accounting policies have been applied on a basis consistent with the prior half year and annual financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2003

| | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|
| **1. OPERATING REVENUE** | | | |
| Revenue | **296,632** | 280,139 | 556,493 |
| Interest received | **2,663** | 2,860 | 4,841 |
| Foreign currency gains | **101** | – | 2,212 |
| Share of associated company (deficit)/surplus | **(1,449)** | 175 | 246 |
| Other revenue | **–** | – | 521 |
| **Total revenue** | **297,947** | 283,174 | 564,313 |

### 2. EXPENSES

The following expenses are disclosed as required by Financial Reporting Standard 24 "Interim Financial Statements".

| | | | |
|---|---|---|---|
| Depreciation | **21,473** | 20,470 | 40,980 |
| Amortisation of other intangibles, patents and licenses | **1,427** | 1,621 | 2,680 |
| Amortisation of goodwill | **1,226** | 1,124 | 2,372 |
| Interest paid | **24,795** | 22,811 | 47,592 |
| Other funding expenses | **862** | 590 | 1,674 |

## 3. COMMITMENTS

The following amounts have been committed to by the Group or parent, but not recognised in the financial statements.

| | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|
| **Operating leases** | | | |
| Non cancellable operating lease commitments: | | | |
| Payable not later than one year | **7,376** | 6,720 | 8,430 |
| Payable later than one, not later than two years | **6,611** | 7,204 | 7,509 |
| Payable later than two, not later than five years | **29,454** | 36,441 | 39,310 |
| Payable later than five years | **148,809** | 136,303 | 148,985 |
| **Total operating lease commitments** | **192,250** | 186,668 | 204,234 |

Operating lease commitments include a sub-soil lease on the SKYCITY Auckland site (17 years remaining), a premises lease for the SKYCITY Adelaide site (81 years and 6 months remaining) and a premises lease for the SKYCITY Queenstown Casino site (3 years and 6 months remaining).

| | 6 months ended 31 December 2003 (Unaudited) $'000 | 6 months ended 31 December 2002 (Unaudited) $'000 | 12 months ended 30 June 2003 (Audited) $'000 |
|---|---|---|---|
| **Capital expenditure** | | | |
| Amounts committed to capital expenditure | **99,953** | 57,576 | 143,355 |
| **Total capital expenditure commitments** | **99,953** | 57,576 | 143,355 |

The above capital expenditure relates to purchases of plant and equipment for the Auckland, Adelaide, Hamilton and Queenstown complexes and fit-out costs associated with the SKYCITY Grand Hotel, and the SKYCITY Auckland Convention Centre.

## 4. CONTINGENT GAINS AND LOSSES

### SKYCITY Leisure Limited

SKYCITY Leisure Limited is one of the guarantors of a loan facility utilised by Village Cinemas SA Argentina (VCSA), an associate company. As part of the recapitalisation of VCSA in March 2002 SKYCITY Leisure negotiated a reduction in its exposure under this guarantee from a maximum of US$15 million down to US$4 million. As part of this negotiation SKYCITY Leisure also granted an option to Village Roadshow Limited for it to acquire 40% of SKYCITY Cinemas' shareholding in VCSA (10% of total shares) for US$1.00.

The contingent liability with respect to the guarantee at 31 December 2003 was US$4 million (31 December 2002: US$4 million; 30 June 2003: US$4 million).

### Canbet Limited

The directors believe that given Canbet's recent financial performance (1HO4), an impairment write-down may be required in respect of SKYCITY's 32.6% investment in associate Canbet Limited. However, until such time as Canbet's prospective financial performance can be clarified, it is not possible to quantify what, if any, write-down may be required.

## 5. EVENTS OCCURRING AFTER BALANCE DATE

### Provision for dividend

On 26 February 2004 the directors resolved to provide for an interim dividend to be paid in respect of the six month period ended 31 December 2003. The dividend will be paid at a value of 11.0 cents per share on issue as at 19 March 2004 with full imputation credits attached. The dividend will be paid on 2 April 2004.

### Acquisition of MGM Grand Darwin Hotel and Casino

SKYCITY Entertainment Group has entered into a conditional agreement to purchase the MGM Grand Darwin hotel and casino for A$195 million. The purchase is conditional on regulatory approvals and is expected to be completed in the second half of the financial year.

## 6. EARNINGS PER SHARE

As at 31 December 2003 the company had 415,371,432 shares on issue (31 December 2002: 423,136,482; 30 June 2003: 420,271,176). The Group net surplus per share for the six months ended 31 December 2003 was 13.3 cents (31 December 2002: 12.6 cents; 30 June 2003: 25.5 cents). All comparatives have been adjusted for a two for one share split that was completed on 14 November 2003.

## DIRECTORS

J P Hartley, Chairman
E W Davies, Managing Director
R H McGeoch
P L Reddy
D T Spring
E Toime
W R Trotter

## COMPANY SECRETARY

A B Ryan

## BANKERS

ANZ Banking Group (New Zealand) Limited
ASB Bank Limited
Bank of New Zealand Limited
Commonwealth Bank of Australia
The Hongkong and Shanghai Banking Corporation Limited

## SHARE REGISTRAR

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland
Telephone +64 9 488 8700
Facsimile +64 9 488 8787

## REGISTERED OFFICE

Level 6
Federal House
86 Federal Street
P O Box 6443
Wellesley Street
Auckland
New Zealand
Telephone +64 9 363 6141
Facsimile +64 9 363 6140

## AUDITOR

PricewaterhouseCoopers, Auckland

## SOLICITORS

Bell Gully Buddle Weir, Wellington
Minter Ellison Rudd Watts, Auckland
Finlaysons, Adelaide

## CAPITAL NOTES TRUSTEE

The New Zealand Guardian Trust Company Limited
48 Shortland Street
P O Box 1934
Auckland
Telephone +64 9 379 3630
Facsimile +64 9 377 7477

For shareholder and corporate enquiries please phone +64 9 363 6141 or fax +64 9 363 6140 or e-mail sceginfo@skycity.co.nz

For customer enquiries and reservations please phone +64 9 363 6000 or 0800 SKYCITY (0800 759 2489) or fax +64 9 363 6010 or e-mail reservations@skycity.co.nz

SKYCITY web site: www.skycitygroup.co.nz

SKYCITY
ENTERTAINMENT GROUP