



**SKY CITY ENTERTAINMENT  
GROUP LIMITED**

**Interim Result**

**Half Year Ended 31 December 2001**

# Interim Result :

## Six months ended 31 December 2001

### Sky City Entertainment Group Limited

	1H02	1H01
· Revenue	\$249.2	\$211.2
· EBITDA	\$103.4	\$93.1
· EBIT	\$ 79.5	\$ 74.3
· NSAT (after minorities)	\$ 37.9	\$ 33.2
· Force Write-off and Provision	\$ 27.8	
· NSAT (after non-recurring)	\$10.1	

# Force Write-Off and Provision

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- GAAP compliance requires write-offs/write-downs of value but does not accommodate recognition of asset value increase
- Value in Force will attach to the new “equity” which is being subscribed as shareholder debt (Mandatory Convertible Notes)
- As at 31 December 2001 Sky City is assuming (in its financial statements) that the value attaching to the existing equity (shareholders’ funds) in Force has (as at 31/12/01) been lost. Sky City’s goodwill attached to this equity. Therefore the goodwill must be written off under GAAP. Compliance with GAAP means that the value inherent in Force’s New Zealand and Fiji cinema operations is not fully recognised in the financial statements of either Force or Sky City

# Force Write-Off and Provision

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- As a consequence, Sky City's financial statements as at 31/12/01 record a write-off of the Force investment of \$27.8m comprising:
  - Goodwill (on acquisition) write-off : \$16.7m
  - Sky City's 50.2% of Force's write-off of its advances to VCSA (Argentina) : \$6.1m
  - Provision for write-off of (Sky City's 50.2%) of the further Force advance to VCSA post MCN recapitalisation : \$5.0m
  - For details refer page 26
- The result of these entries is:
  - full compliance with GAAP
  - conservative treatment of the Force investment in Sky City's financial statements
  - both the past investment and the to be incurred contribution (ex the MCN issue proceeds) re Argentina are fully accounted for. The additional contribution by Force to VCSA (US\$4.25m) ex the MCN issue, which is expected will be written off by Force in its financial statements for the period ending 30 June 2002, is provisioned in Sky City's financial statements as at 31 December 2001. This means no further adjustment will be required in Sky City's accounts as at June 2002.

# Financial Year 2002 - First Half Result

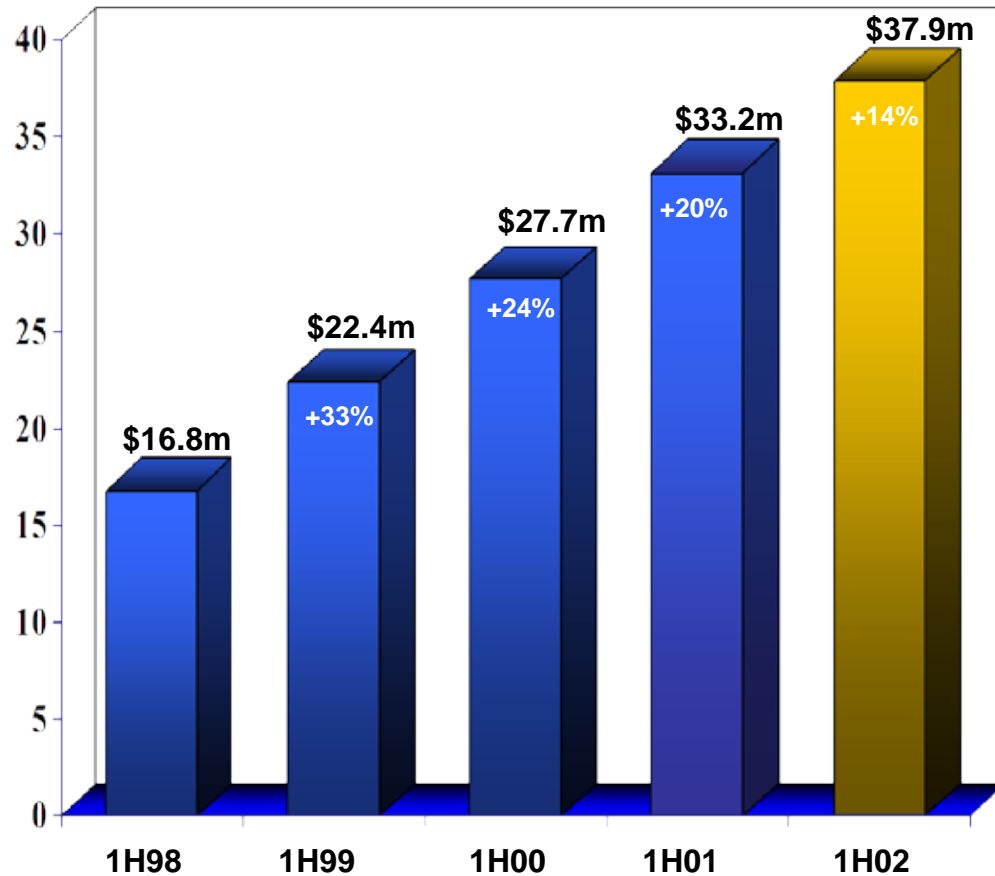
## Net Profit (NSAT)

- before non-recurring \$37.9m
- after non-recurring \$10.1m

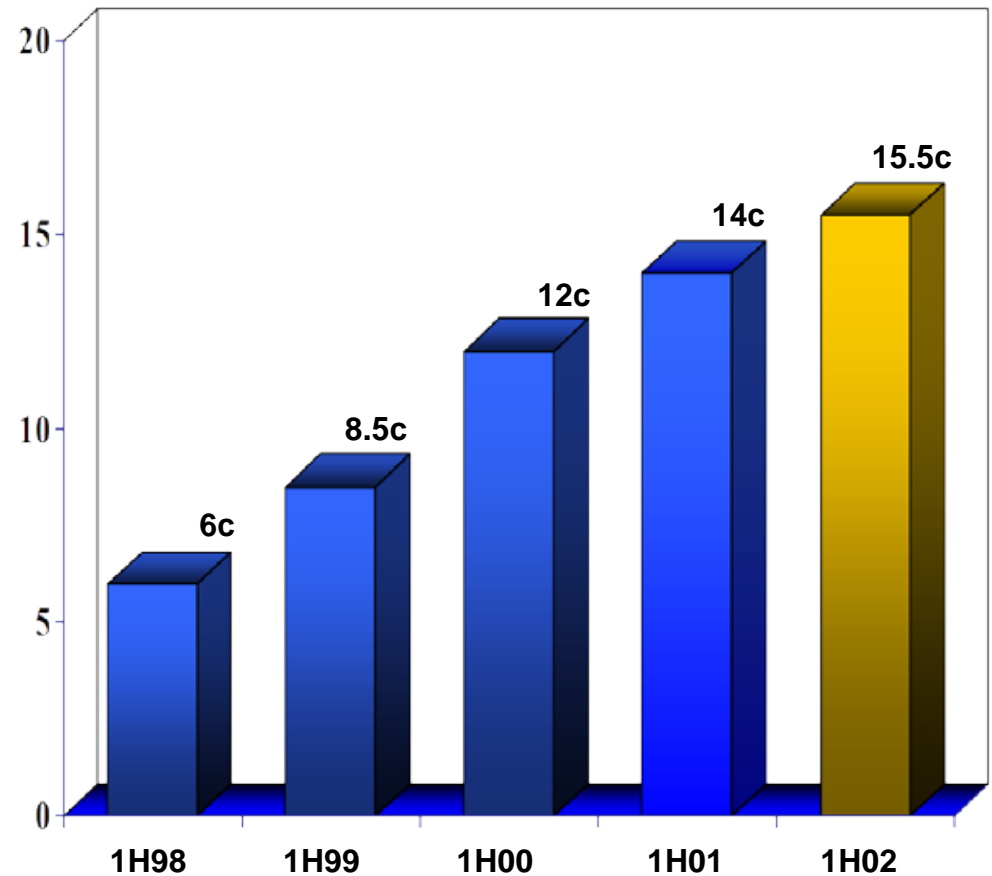
## Interim Dividend

15.5cps 5/4/02 (15/3/02)

\$M



cps

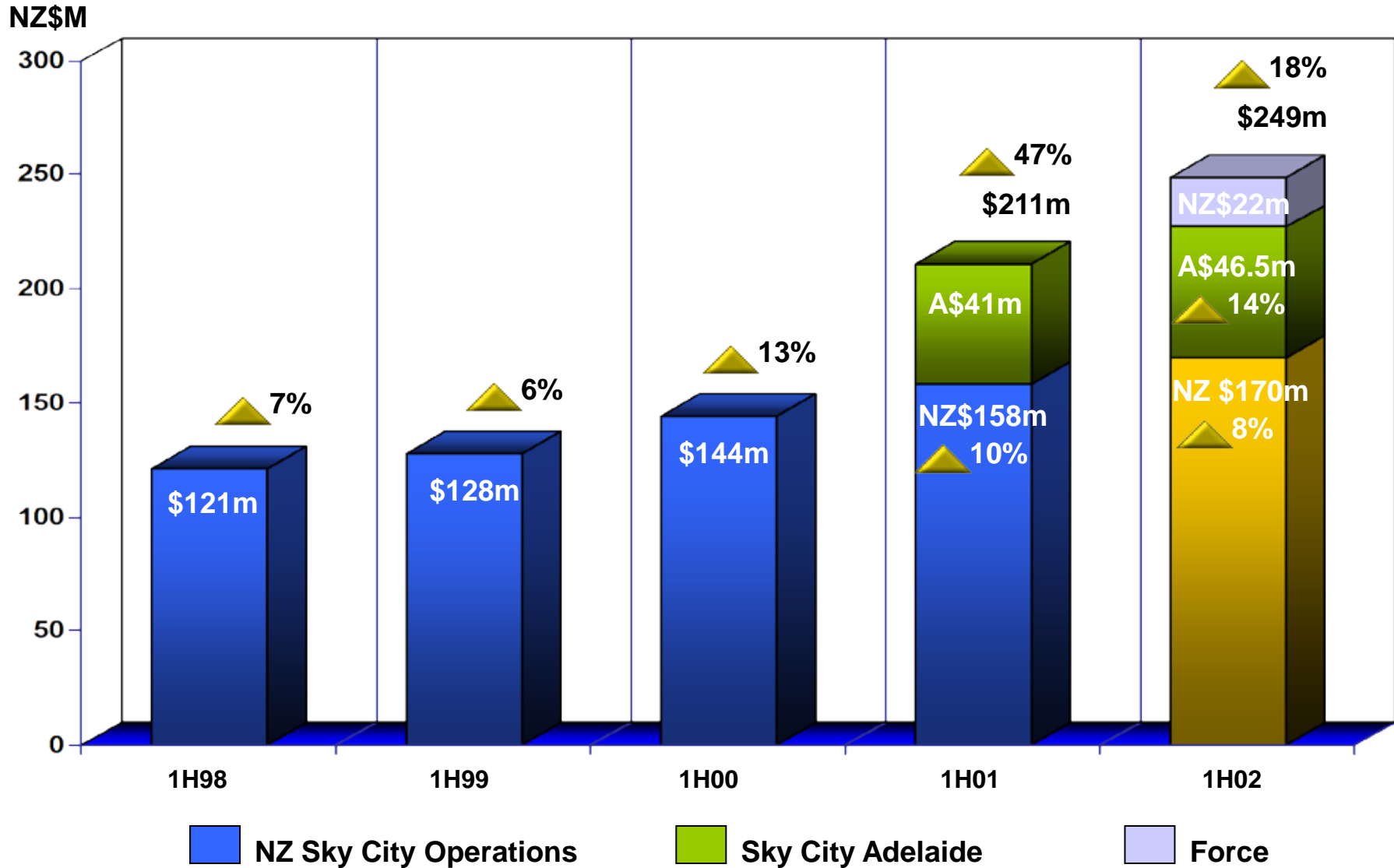


# Interim Dividend

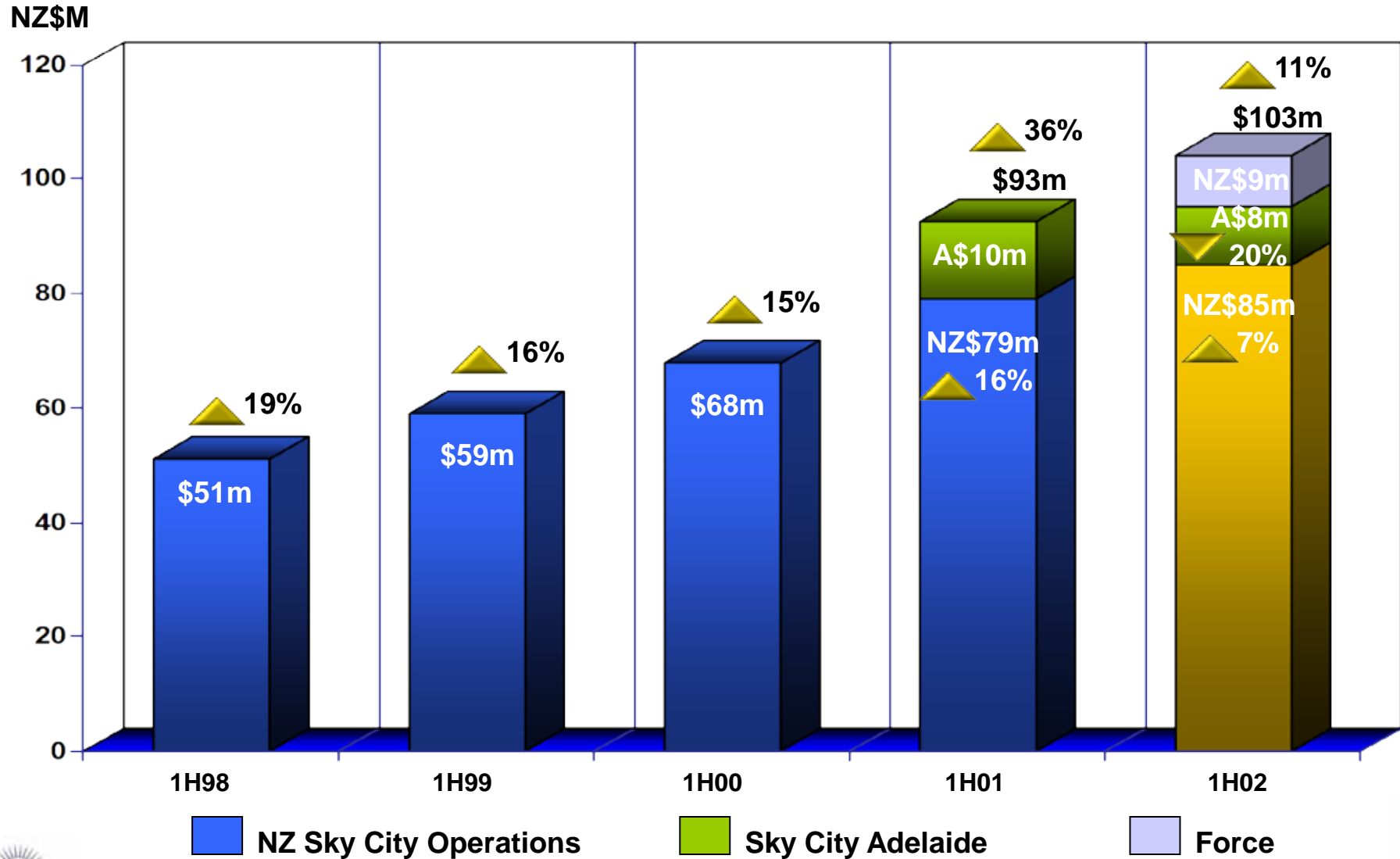
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- 15.5 cents per share (14 cps 2001)
- Entitlement date 15 March
- Payment date 5 April
- Fully-imputed
- Calculated at 45% of 90% of NSAT after adding-back non-recurring item (Force write-off) and Adelaide licence amortisation
- Dividend Reinvestment Plan. High level of participation (34% re October 2001 FY01 final dividend)  
Election date for participation in the DRP is 15 March  
Discount included in the DRP is 3%

# First Half Result : Revenue



# First Half Result : EBITDA



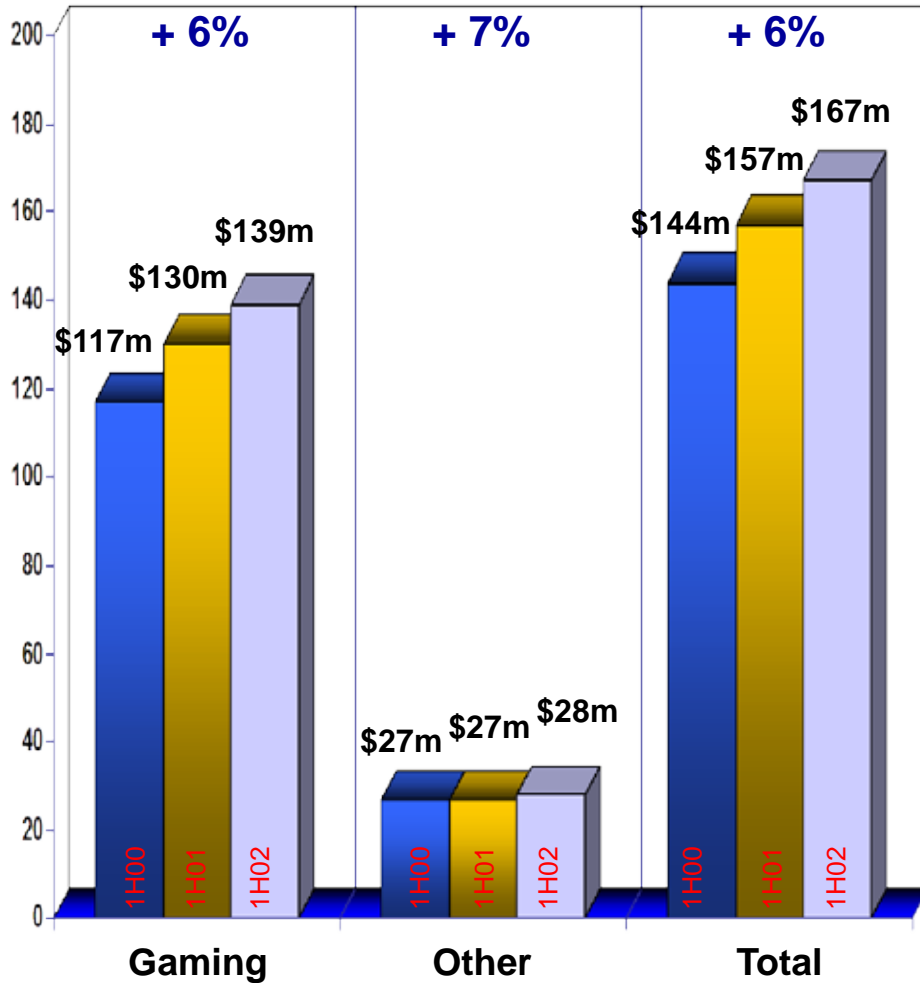


# First Half Result : Revenues

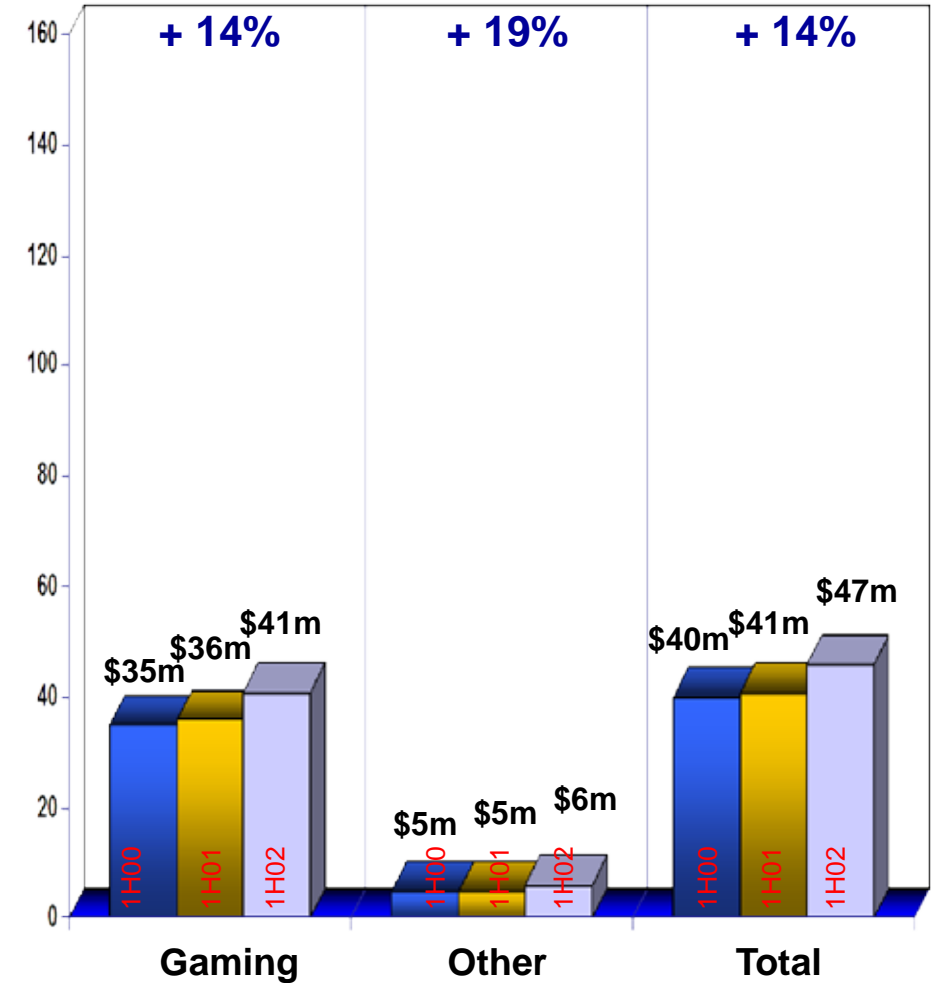
## Auckland

## Adelaide

NZ\$m



A\$m








Revenues are stated net of complimentary

# Key Elements of the 1H2002 Performance

- Financial performance \$37.9m, +14% (before non-recurring item re Force write-off)
- Continuing and consistent (all business units) revenue growth at Sky City Auckland (+6%)
- New facilities, experiences at Sky City Auckland
  - “Observatory” restaurant (April 2002)
  - Sky Jump
  - New Conference Centre. Completion anticipated 2H03
  - Main Gaming Floor Expansion and Sports Theme
- Growth in revenues at Sky City Adelaide (+14%). But cost levels require further management
- Queenstown performance has disappointed, but financial impact low
- Riverside (Hamilton) project on time and on budget for opening September 2002
- Force recapitalisation, Argentina write-offs taken to account and risk quarantined
- Canbet profit turnaround, from a loss of A\$3.4m (before non-recurring item) in 1H01 to a profit of A\$0.9m in 1H02
- Group EPS 18.7cps (17.1cps) before non-recurring items
- Strong share price since 31 December 2000 (\$4.06)

# SKY CITY AUCKLAND

# Sky City Auckland : First Half Result FY2002

- Strong result, growth continues, costs managed, margins maintained
- Revenues
  - Gaming  6% (+\$9.7m)
  - F&B  6% (+\$0.7m)
  - Sky City Hotel  8% (+\$0.6m)
  - Sky Tower  10% (+\$0.3m)
  - Carparking Steady (at \$3.3m)
- Gross Margin Steady at 63%
- EBITDA Steady at 51%
- EBIT  11% (+\$6.9m)

# Gaming +6%

- Continuing growth, upgrading and refreshment of the gaming products and facilities

- Revenue Growth

  - Tables





  - 7%

  - Gaming Machines





  - 6%

- 56 new machines added. Total gaming machines now 1,417 (maximum licensed number)
- 240 new (replacement and additional) machines and 85 machine conversions
- Gaming expansion approved


Subject to the Conference Centre completion, the additional gaming facility is anticipated to be operational in early FY04, comprising

- + 230 machines
    - + 12 tables
    - Sports Bar
- } +15% capacity

- Gaming/Entertainment experience (6 months ended 31/12/01)
  - 520 jackpots of more than \$10,000
  - 115 cars won
  - Sky High jackpot hit at \$1.3 million and \$620,000
  - Noodle Bar : popular new facility on main gaming floor
  - Entertainment, events
- Productivity initiatives
  - Continuous shuffler machines
  - Redesign of tables layouts to improve labour cost performance



# Auckland : Food and Beverage

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- Revenue  6% to \$11.7m (\$11.0m)
- Gross Margin Steady at 20% (21%)
- Fortuna (buffet restaurant) refurbished and verandah enclosed. Increased capacity to 420 seats
- “Observatory” restaurant on Sky Tower scheduled to open April. Food and Beverage productivity and positioning opportunity re “Orbit” and “Observatory” restaurants on Sky Tower
- Strong demand for Sky City outcatering services

# Auckland : Hotel and Sky Tower

## Sky City Hotel (and Conventions)

- Hotel Occupancy  from 78% to 86%
- Hotel Room Rate Steady at \$122
- Revenue  8% from \$7.9m to \$8.5m
- Strong visitor support across the sectors : domestic and international, leisure and corporate





## Sky Tower

- Visitation  7% from 1,270 to 1,360 per day  
(excluding Orbit restaurant) 250,000 during the six month period
- Orbit restaurant covers Steady at 400 per day (390)
- Telecommunications revenues
- Revenue  10% from \$3.1m to \$3.4m
- Profiles the Sky City complex within the Auckland community and the entertainment sector



# SKY CITY ADELAIDE



# Sky City Adelaide : First Half Result FY2002


- Revenue growth pleasing, to expectation  
But cost levels too high for revenues achieved  
As a result, EBITDA/EBIT disappointing at this stage
- Management focus is on
  - continuing revenue growth and entertainment positioning initiatives
  - controlling/managing the expense base
  - restoring/exceeding previous margins but at higher revenue levels
- Revenue  14% from A\$41m to A\$47m
- Expenses  26% from A\$30m to A\$38m  
(excl. depreciation, amortisation)
- EBITDA  from A\$10.4m to A\$8.3m  
(before rental, depreciation, amortisation)
- EBIT  from A\$7.4m to A\$3.8m

# Adelaide : Gaming +14%

- Growth, upgrade, refurbishment of the gaming products and facilities. Gaming, hospitality and entertainment orientation
- Revenue growth
  - Tables  13%
  - Gaming Machines  16%
- 170 new gaming machines introduced during the half year. Total machines currently 825
- New machines and features have been introduced. This renewal process will be continued
- “Action” (loyalty programme) turnover growing strongly
- Grange Room (VIP Player) programme : good support from interstate players and increasing international player visitation. Grange Room gross revenue up 11% on the corresponding period
- Productivity initiatives (table games supervision, table games hours of operation) effective from January 2002. Reduction in labour costs in 2H02
- Gaming machine promotions in response to the competitive nature of the South Australian gaming/entertainment market
- Actions and programmes to capitalise on
  - refurbished facilities
  - new products
  - entertainment concept

# Adelaide : Food and Beverage +13%

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- “The Grandstand” sports bar
- “Under the Dome” Marble Hall functions and entertainment events, occasions
- Increased food and beverage revenue from increased patronage
  - Revenues  13% from A\$4.5m to A\$5.1m
  - Gross Margin steady at 17%

# **SKY CITY ENTERTAINMENT GROUP OTHER NEW ZEALAND OPERATIONS**

- Queenstown**
- Hamilton**

# Queenstown

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- Revenues (patronage and spend per patron) below expectations at \$2.4m
- Two casinos in Queenstown is creating pressure for both operations
- Restructuring and cost reduction (reduced operating hours for table games, reduced supervisory levels agreed with CCA) have been implemented
- EBITDA (before rent) at break-even. Objective to break-even or better at NSAT
- Sky Alpine Queenstown is an important contributor to Sky City's gaming and entertainment brand positioning but the Queenstown operation is of less consequence to the Group's financial results (Sky City's investment is \$4.2m)

# Hamilton (Riverside)

- On time and on budget
- Opening scheduled for September 2002



# FORCE CORPORATION LIMITED




- capital restructuring
- strong trading in New Zealand
- Argentina risk capped/quarantined at US\$4 million
- Sky City : 50.2% of shares  
: 77% of MCNs

# Force Corporation : Restructuring

- Recapitalisation (debt, new equity and restructuring) has been essential to the survival of Force. Achieved via an “equity” issue of Mandatory Convertible Notes (\$31m), restructured debt facilities for the New Zealand operations and Village Cinemas S.A. (Argentina; Force 25% shareholder in VCSA), and sale of surplus property assets
- Cost structure rationalisation and revenue enhancement programmes to be implemented, following deferral pending the recapitalisation decision
- Force’s Argentina guarantee risk has been reduced from US\$15m to US\$4m and quarantined/capped at that level
- \$7.2m subscribed for the \$15.5m of non Sky City MCN’s, representing a 47% uptake of the rights issue by the minority shareholders in Force
- The MCN allotment is scheduled for 28 February/1 March. The new debt facilities will be put into effect and settlement of the Force Entertainment Centre with MTM will take place at that time
- Restructuring will
  - place Force on an appropriate financial footing in New Zealand
  - settle the FEC ownership dispute
  - quarantine the Argentina (VCSA) risk at US\$4 million
  - allow Sky City and Force to pursue the customer synergies and operational/performance efficiencies which comprised the financial rationale for Sky City’s investment in Force
  - allow the Sky City Entertainment Group to broaden its entertainment branding within its overall gaming/entertainment strategy



# Force : First Half Result 1H02

- NZ Operations
  - Cinema revenues  33% from \$11.7m to \$15.6m
  - Cinema EBITDA  118% from \$1.6m to \$3.5m
- Trading result (before non-recurring items)  82% from \$0.9m in 1H01 to \$1.7m in 1H02
- Force Result 1H02
  - Trading Surplus \$1.7m
  - Non-Recurring Items (\$7.2m)
  - Net Deficit (\$5.5m)
- Non-recurring items (\$7.2m)
  - FEC rents/interest + \$4.2m
  - Write-off of Argentina shareholder advances (\$12.1m)
  - Sale of non-core assets + \$0.5m

# Force Corporation Limited and Sky City Entertainment Group Limited as at 31 December 2001

## Treatment of Force Corporation in Sky City Financial Statements : Period Ended 31/12/01

- Goodwill amortisation (1/7/01-31/12/01) of \$0.9m
- Non-recurring item (loss) of \$27.8m

The non-recurring write-off and provision comprises

- 100% write-off of goodwill re Force investment = \$16.7m
- Write-off of Force's investment in Village Cinemas S.A. (Argentina)
  - 50.2% share of Force's write-off of its shareholder advances to VCSA (Argentina)  
= 50.2% x \$12.1m = \$6.1m
  - Provision to write-off Sky City's share of the additional payment to reduce VCSA debt (from US\$62m to US\$45m : Force's share 25%) following the MCN recapitalisation  
= 50.2% x US\$4.25m = 50.2% x NZ\$10m = NZ\$5.0m

# **CANBET LIMITED**

- ASX-listed**
- Profit for 1H02 of A\$865,000**

# Canbet : First Half Result 1H02

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- Sports wagering, internet-based, Canberra (Australia), ASX-listed
- Sky City 22% (put option to go to 33% at A15cps)
- Turnover up 40% on 1H01
- Profit (NSAT) at A\$865,000 represents a major turnaround from a loss of A\$3.4 million (before non-recurring item) in 1H01
- These performance levels are anticipated to continue in 2H02, but significant volatility is not untypical of the internet wagering sector



# **INTERIM RESULT**

## **Six months ended 31 December 2001**

### **SUMMARY**

# Sky City Group : Revenues and Cost and Margin Management

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- Revenues up by NZ\$38m
- Direct Expenses up by NZ\$24m
- Indirect Expenses (incl. depreciation, amortisation) up by NZ\$8.5m
- Funding costs down by NZ\$1.1m
- NSBT up by NZ\$6.3m
- NSAT (after minority interests, but before Force write-down and provision re Argentina) up by NZ\$4.7m
- NSAT % (after minority interests, but before Force write-down and provision re Argentina) maintained: 15.2% in 1H02 v 15.7% in 1H01

# Key Features of the Group Financial Result

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- Revenues increased
- Costs increased
- Margins maintained in Auckland
- Margin improvement required in Adelaide
- Queenstown breaking-even at EBITDA, but break-even or better at NSAT is required
- Force has been restructured (capital, some operational improvements implemented, new operational and marketing programmes to be initiated, surplus property assets sold, FEC dispute resolved)
- Canbet profitable
- Hamilton project on time and to cost

# REGULATORY AND COMMUNITY



# Regulatory, Compliance

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- The New Zealand Government Gaming Review (2001) has determined that no new casino licences, or expansion of existing facilities, will be approved
- Sky City operates comprehensive compliance, risk management, host responsibility and corporate governance programmes which are the cornerstones of excellent working relationships with the government and gaming agencies in both New Zealand and South Australia, and with the New Zealand and Australian Stock Exchanges

# Community Participation and Support

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The Sky City Entertainment Group participates in and contributes to the local communities within which it operates, in many ways, including:

- Sky City Community Trust
- Kidz First Children's Hospital and the Starship Foundation
- Safe & Sound Appeal
- Auckland Rugby
- Special Olympics New Zealand
- Sky City Starlight Symphony
- New Zealand Breast Cancer Foundation
- Rally of New Zealand
- Adelaide : South Australian Medical Research Trust, Juvenile Diabetes Research Foundation, McGuinness McDermott Foundation
- Host Responsibility programmes at all three Sky City properties
- Co-operative relationships with tourism providers and participation in tourism initiatives in New Zealand and South Australia

# AWARDS AND ACHIEVEMENTS

# Achievements by Sky City

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- Supreme Award Winner 2001 - New Zealand Tourism Awards (August 2001)
- Deloitte/Management Magazine “Company of the Year” Award (November 2001)
- New Zealand Society of Investment Analysts “Best Communicator” Award (November 2001)
- Enhanced shareholder value : financial results, distributions to shareholders, enhanced share price
- Recognised as the leading entertainment brand in New Zealand and South Australia