



FIRST HALF RESULT

The directors of Sky City Limited are pleased to announce an after tax surplus of \$22.4 million for the six months to 31 December 1998.

DIVIDEND

A fully-imputed interim dividend for the 1998/99 financial year of 17 cents (first half 1997/98, 12 cents) per share will be paid to shareholders on 30 April 1999. The dividend entitlement date is anticipated to be 16 April 1999.

KEY FEATURES OF THE HALF YEAR

The half year ended 31 December 1998 represented a period of continued growth in earnings and organisational consolidation following termination of the Harrah's management contract on 30 June 1998.

Some of the highlights of the half-year:

- one hundred new gaming machines were installed during December in response to continued growth in customer demand. Slot win averaged \$346 per unit per day during the six month period, up 14% on the same period last year.
- two new restaurants opened during the period. Rebo, our new cafe and bar located in the Atrium, opened in November, whilst Ming Court, a contemporary Asian restaurant, opened on 1 January 1999.
- an extensive programme to enhance the main gaming floor experience (product, service, environment) has commenced. A lighter, brighter, more service-oriented experience for our customers will result.
- gross margin performance of 65.5% increased from 63.3% in the corresponding period last year and EBITDA at 46.6% increased from 42.4%.
- our new gaming management team has delivered the results we were seeking and we have added additional top-level experience to manage our hotel operations. Jan Hunt (previously General Manager Millennium Hotel Queenstown) has joined Sky City as General Manager Hotel.
- a total of 1.8 million shares were purchased during the second phase of the share buyback programme at an average price of \$4.81. A total of 3.75 million shares were bought back during the 1998 calendar year at an average price of \$5.07.
- we were pleased to secure up to a 55% equity participation (and the operator contract rights) in the proposed Hamilton casino project.
- revenue increased by 5.6% (\$6.8 million) over the corresponding period last year, in line with our projection of a 5% increase, as foreshadowed at the release of the 1998 result in August.
- a net tax-paid surplus of \$22.4 million is reported for the half year and continuation of our 90% dividend payout policy (40% as the interim dividend) returns a record 17 cents per share interim dividend to shareholders. Previous interim dividends have been 13 cents in 1997 and 12 cents in 1998.
- this strong result, during a generally weak economic period, has reinforced the resilience of Sky City's trading performance.

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ELEMENTS OF THE RESULT

Revenues

- gaming revenues increased 7.7% over the corresponding period last year. Although casino patronage numbers remained flat at an average of 12,100 per day, win per customer increased to \$53.10.
- table game revenues were flat against first half 1997/98. However slot revenues increased by 15%, resulting in a gaming revenue average (including GST) of \$640,000 per day, compared to \$595,000 per day achieved during the corresponding period last year.
- Sky City Hotel and Sky Tower both felt the effects of adverse tourism sector impacts. The onset of the millennium year events is expected to improve the prospects for tourism-related activities in Auckland, but in the meantime Sky City Hotel and Sky Tower were down on the revenue levels they achieved in first half 1997/98; Sky City Hotel by 17% (a combination of occupancy and room rate pressures) and Sky Tower by 16%, when calculated on an average revenue per day basis.
- in making the half year comparisons, it is important to recognise especially in respect of Sky City Hotel and the Sky Tower that the Asian economic downturn affected only the month of December of the prior period, whereas the effects of the Asian crisis were still being felt throughout the full six month period to 31 December 1998.

Hotel revenues were impacted by the loss of a major aircrew contract to a competing property, the downturn in tourism numbers and an increase in Auckland hotel room supply as the city readies itself to take advantage of the Year 2000 opportunities, including of course the America's Cup regatta.

Sky Tower opened to huge public interest in August 1997. We are pleased with the level of on-going support for the Sky Tower experience.

- carpark revenues continue to increase, up 11% on the previous half year.
- total revenues, driven mainly by gaming revenue growth, increased 5.6% over the corresponding half year, during a period of some international and domestic uncertainty and a generally tight domestic economic environment.

Margin Performance and Cost Management

- ongoing attention to cost management (particularly labour scheduling) saw gaming gross margin break the 70% level, at 70.7% for the half year, up from 67.5% in the previous half year.
- whilst food and beverage revenues (first half 1998/99 cf first half 1997/98) were flat, gross margin performance improved to 21.2%, up from 17.7%.
- as a consequence of the reduction in revenues (both volume and price driven) and the relatively fixed cost nature of Sky City Hotel and the Sky Tower operations, gross margin results eased to 51% (from 59%) and 43% (from 52%) respectively.
- carpark gross margin continues to perform above 90%.
- overhead costs reduced by 4%, due to cessation of the Harrah's management fee, offset by increased marketing and promotions expenditure (to drive revenues) and our share of the Hamilton casino licence application costs incurred to date. We continue to focus on overhead expenditure levels as part of our ongoing cost management philosophy.

CASINO LICENCES

Sky City is currently involved in two casino licence applications. Our joint venture application (with Skyline Enterprises) for a casino licence in Queenstown is currently being considered by the Casino Control Authority

(CCA), with a decision expected sometime during February/March. In our 1998 Annual Report, we commented that our proposal for a boutique-sized casino is well-suited to the Queenstown environment and deserves to be favourably regarded by the CCA - we retain this view following completion of the licence hearings last December. The Hamilton casino licence hearings have recently commenced with a decision in Hamilton anticipated sometime mid-year 1999. If these applications are successful, the casino facilities could be expected to open in both Queenstown and Hamilton early in 2001.

SKY CITY AND THE COMMUNITY

Sky City employs over 2,000 people at its Auckland operation. The company is involved in a number of significant community sponsorships such as the Sky City Starlight Symphony, the Starship Children's Hospital, Auckland rugby and netball and the Special Olympics Foundation. In addition to these larger sponsorships, Sky City makes numerous grants and donations of funds and services to a wide range of community groups, schools and sports clubs throughout the Auckland area.

Sky City makes a substantial contribution to both central and local government revenues through taxes and levies and the regulatory costs of the Casino Control Authority and the Department of Internal Affairs are met in full through levies charged to the casino companies.

The Sky City Community Trust receives 2.5% of the net tax-paid surplus of Sky City's business operations. The Trust has recently invited applications for its fourth grants round. A wide range of community projects have benefited from grants made by the Trust since the commencement of operations in February 1996.

AFTER THREE YEARS

After only three years in operation, we can reflect on some major achievements. Our operational performance places us at the forefront of the listed casino companies in Australasia. We have provided a range of new and exciting entertainment options for Aucklanders and visitors to Auckland alike. And we have made a significant contribution to the Auckland community through grants, sponsorships, donations and other activities.

FY99 PROSPECT

In August last year, we estimated a revenue growth of 5% for the 1999 financial year and a net tax-paid profit result in the order of \$40-\$41 million. After the first six months of the current financial year, we remain confident of achieving our 5% revenue growth target and, after a strong profit performance in the first half and given a continuation of the first half trading performance, we believe a profit result in the order of \$42-\$43 million is in prospect for the financial year to 30 June 1999.



E W DAVIES
Managing Director
22 February 1999

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

for the six months ended 31 December 1998

	6 months ended 31 Dec 1998 (Unaudited) \$'000	6 months ended 31 Dec 1997 (Unaudited) \$'000	12 months ended 30 Jun 1998 (Audited) \$'000
CONTINUING ACTIVITIES			
Revenue			
Sales	127,672	120,969	239,065
Interest received	373	257	556
Other revenue	48	20	20
Total Revenue	<u>128,093</u>	<u>121,246</u>	<u>239,641</u>
Expense			
Operating expenses	68,284	69,780	138,146
Depreciation	12,396	11,459	23,790
Funding expenses	12,949	12,427	24,244
Pre-opening expenses	-	2,392	5,261
Total Expenses	<u>93,629</u>	<u>96,058</u>	<u>191,441</u>
Operating Surplus before Non-Recurring Expenses and Income Tax	<u>34,464</u>	<u>25,188</u>	<u>48,200</u>
Non-Recurring Expenses			
Pre-opening expenses	-	-	23,433
Management termination fee	-	-	20,370
Total Non-Recurring Expenses	<u>-</u>	<u>-</u>	<u>43,803</u>
SURPLUS BEFORE INCOME TAX	<u>34,464</u>	<u>25,188</u>	<u>4,397</u>
Income tax	12,026	8,417	1,926
SURPLUS AFTER INCOME TAX	<u>22,438</u>	<u>16,771</u>	<u>2,471</u>
SURPLUS AFTER INCOME TAX ATTRIBUTABLE TO:			
Operations	22,438	16,771	32,097
Non-recurring expenses	-	-	(29,626)
	<u>22,438</u>	<u>16,771</u>	<u>2,471</u>

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

for the six months ended 31 December 1998

Equity at the Beginning of the Period	152,895	189,588	189,588
Surplus and Revaluations			
Net surplus for the period	22,438	16,771	2,471
	<u>175,333</u>	<u>206,359</u>	<u>192,059</u>
Other Movements			
Distributions to owners	(16,362)	(12,000)	(28,663)
Over-provision of prior period dividend	142	-	-
Repurchase of shares	(8,511)	-	(10,501)
EQUITY AT THE END OF THE PERIOD	<u>150,602</u>	<u>194,359</u>	<u>152,895</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 1998

	31 Dec 1998 (Unaudited) \$'000	31 Dec 1997 (Unaudited) \$'000	30 Jun 1998 (Audited) \$'000
Equity			
Share capital	166,988	186,000	175,499
Retained earnings	(16,386)	8,359	(22,604)
TOTAL EQUITY	<u>150,602</u>	<u>194,359</u>	<u>152,895</u>
Current Assets			
Cash and bank	20,890	20,329	11,749
Receivables and prepayments	3,854	3,200	3,025
Inventories	1,781	1,845	1,709
Income tax	3,412	-	7,122
Total Current Assets	<u>29,937</u>	<u>25,374</u>	<u>23,605</u>
Non-Current Assets			
Property, plant and equipment	481,524	489,040	482,715
Pre-opening expenditure	-	26,291	-
Total Non-Current Assets	<u>481,524</u>	<u>515,331</u>	<u>482,715</u>
TOTAL ASSETS	<u>511,461</u>	<u>540,705</u>	<u>506,320</u>
Current Liabilities			
Creditors and accruals	30,399	29,488	46,269
Income tax payable	-	1,300	-
Provision for dividend	16,362	12,000	16,663
Short-term borrowings	36	10,036	36
Total Current Liabilities	<u>46,797</u>	<u>52,824</u>	<u>62,968</u>
Non-Current Liabilities			
Deferred tax	15,036	18,461	13,413
Borrowings	299,026	275,061	277,044
Total Non-Current Liabilities	<u>314,062</u>	<u>293,522</u>	<u>290,457</u>
TOTAL LIABILITIES	<u>360,859</u>	<u>346,346</u>	<u>353,425</u>
TOTAL NET ASSETS	<u>150,602</u>	<u>194,359</u>	<u>152,895</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 1998

	6 months ended 31 Dec 1998 (Unaudited) \$'000	6 months ended 31 Dec 1997 (Unaudited) \$'000	12 months ended 30 Jun 1998 (Audited) \$'000
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers	127,216	121,622	240,390
Interest received	369	256	551
Dividends received	38	20	20
	<u>127,623</u>	<u>121,898</u>	<u>240,961</u>
Cash was applied to:			
Payments to suppliers and employees	65,352	63,976	126,124
Management termination fee	20,328	-	-
Interest paid	9,731	12,193	26,164
Gaming taxes paid	4,509	4,359	8,805
Income taxes paid	6,692	283	7,262
Net GST paid/(received)	(2,469)	(2,428)	550
	<u>104,143</u>	<u>78,383</u>	<u>168,905</u>
Net Cash Flows from Operating Activities	<u>23,480</u>	<u>43,515</u>	<u>72,056</u>
CASH FLOWS RELATED TO INVESTING ACTIVITIES			
Cash was provided from:			
Sale of fixed assets	17	-	80
Cash was applied to:			
Purchase and construction of fixed assets	11,306	5,676	12,331
Interest paid - capitalised	-	1,399	1,399
Pre-opening expenses	-	1,438	1,512
Net GST received	-	(150)	(213)
	<u>11,306</u>	<u>8,363</u>	<u>15,029</u>
Net Cash Flows from Investing Activities	<u>(11,289)</u>	<u>(8,363)</u>	<u>(14,949)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Cash was provided from:			
Proceeds of short-term debt	-	15,000	15,000
Proceeds of long-term debt	44,000	-	8,000
	<u>44,000</u>	<u>15,000</u>	<u>23,000</u>
Cash was applied to:			
Repayment of short-term debt	18	24,000	34,034
Repayment of long-term debt	22,000	-	6,000
Distributions to shareholders	16,521	19,500	31,500
Repurchase of shares	8,511	-	10,501
	<u>47,050</u>	<u>43,500</u>	<u>82,035</u>
Net Cash Flows from Financing Activities	<u>(3,050)</u>	<u>(28,500)</u>	<u>(59,035)</u>
NET INCREASE/(DECREASE) IN CASH HELD	<u>9,141</u>	<u>6,652</u>	<u>(1,928)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

for the six months ended 31 December 1998

	6 months ended 31 Dec 1998 (Unaudited) \$'000	6 months ended 31 Dec 1997 (Unaudited) \$'000	12 months ended 30 Jun 1998 (Audited) \$'000
RECONCILIATION OF CASH			
Opening cash and bank	11,749	13,677	13,677
Net increase/(decrease) in cash held	9,141	6,652	(1,928)
CLOSING CASH AND BANK	<u>20,890</u>	<u>20,329</u>	<u>11,749</u>
RECONCILIATION WITH OPERATING SURPLUS			
Reported surplus after taxation	22,438	16,771	2,471
Items not involving cash flows			
Depreciation expense	12,396	11,459	23,790
Pre-opening expense	-	2,392	28,694
Increase/(Decrease) in provisions	35	241	(13)
Increase in deferred taxation	1,623	6,834	1,786
Impact of changes in working capital items			
Decrease/(Increase) in accounts receivable and prepayments	(875)	1,508	1,310
Decrease/(Increase) in inventory	(61)	(94)	42
Decrease/(Increase) in pre-paid income tax	3,710	1,300	(7,122)
Increase/(Decrease) in creditors and accruals	(18,170)	673	21,133
Movement in GST payable	2,384	2,431	(194)
Items classified as investing activities			
Loss on disposal of assets	-	-	159
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>23,480</u>	<u>43,515</u>	<u>72,056</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 31 December 1998

ACCOUNTING POLICIES

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements for the year ended 30 June 1998.

The interim financial statements for the six months ended 31 December 1998 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 1998.

INTERIM DIVIDEND

The directors have approved a fully imputed interim dividend for the 1998/99 financial year of 17 cents per ordinary share (31 December 1997 : 12 cents; 30 June 1998 final dividend : 17 cents).

REVENUE

Sales exclude the retail value of rooms, food, beverage and other promotional allowances provided on a complimentary basis to customers. The value of complimentary for the six months to 31 December 1998 was \$3,043,000 (31 December 1997 : \$3,308,000; 30 June 1998 : \$6,624,000).

COMMITMENTS

Contractual commitments of up to \$25,300,000 are outstanding as at 31 December 1998 (31 December 1997 : \$2,523,000; 30 June 1998 : \$2,966,000). These relate to purchases of plant and equipment for the Auckland complex and costs associated with Riverside Casino Limited which is an applicant for a casino premises licence in Hamilton. Prior to 31 December 1998 Sky City entered into agreements to acquire up to 55% of the shares of Riverside Casino Limited. The total commitment in relation to Riverside Casino Limited is contingent upon the issue of a casino premises licence and the terms of the purchase agreements.

CONTINGENT LIABILITIES

For the year ended 30 June 1998 income tax was recognised in the Statement of Financial Performance on the basis that various non-recurring expenditure items are deductible for tax purposes.

The Inland Revenue Department has indicated that some or all of the approximately \$15,000,000 of income tax credit claimed in relation to these expenses will be challenged. The directors have received professional advice that it is not appropriate to recognise a liability and the company is contesting any challenge received.

EARNINGS PER SHARE

The company has 96,249,100 shares on issue (31 December 1997 : 100,000,000; 30 June 1998 : 98,018,300). The group operating surplus per share for the six months to 31 December 1998 is 23.1cents (31 December 1997 : 16.8 cents; 30 June 1998 : 2.5 cents).

DIRECTORY

as at 31 December 1998

DIRECTORS

J P Hartley, Chairman
E W Davies, Managing Director
P H Elworthy
J A Hood
P L Reddy
E Toime
W G Ward-Holmes

SECRETARY

A B Ryan

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AUDITOR

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BANKERS

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

SOLICITORS

Bell Gully Buddle Weir
Rudd Watts and Stone

SHARE REGISTRAR

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