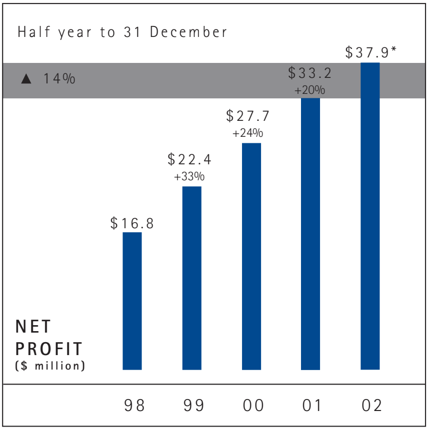
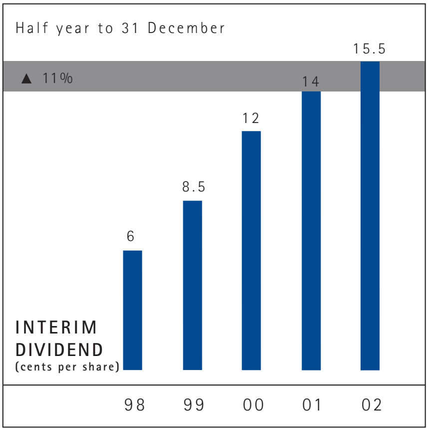
SKYCITY ENTERTAINMENT GROUP

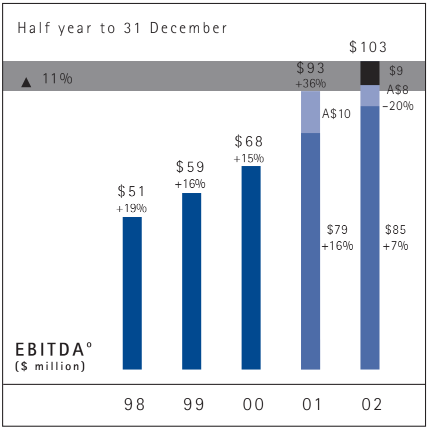
INTERIM REPORT 2002

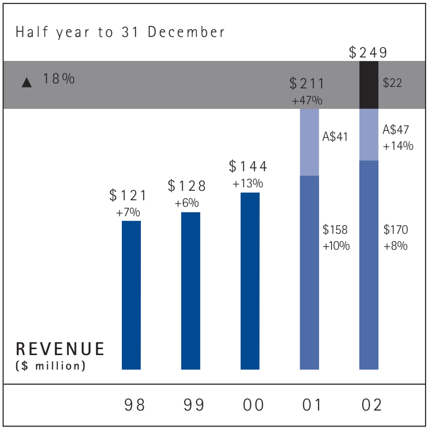
FINANCIAL HIGHLIGHTS





* $10.1 million after non-recurring items





° *earnings before interest, tax, depreciation and amortisation*

Sky City Entertainment Group | New Zealand Operations | Sky City Adelaide | Force Corporation

Operational and Financial Highlights

- Net surplus after tax increased 14% to $37.9 million before non-recurring items. After $27.8 million of non-recurring items (re Force Corporation write-off and provisioning re Argentina) the bottom line result was $10.1 million.
- Interim dividends increased to 15.5 cents per share from 14 cents per share in the previous corresponding period.
- Revenues increased 18% to $249 million. At Sky City Auckland revenues increased 6% to $167 million.
- EBITDA for the six month period topped the $100 million mark for the first time at $103 million.
- Sky City Auckland's business units increased revenues by at least 6% across the board during the period.
- Sky Tower increased revenues by 10%. New and future offerings including 'Sky Jump', 'The Observatory' buffet restaurant and 'Vertigo' mast climb are expected to increase Sky Tower visitation further during the second half of the year.
- The Riverside gaming and entertainment complex is on schedule to open in September 2002.
- Canbet Limited reported a profit of A$0.9 million for the first half of 2002, a turnaround from a A$3.4 loss (before non-recurring items) in the previous corresponding period.
- Subsidiary Force Corporation Limited achieved an operating profit (before non-recurring) of $1.7 million for the half year, driven by a strong performance from its New Zealand cinema business.

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Sky City Entertainment Group Limited achieved an after tax surplus, before non-recurring items, of $37.9 million for the six months to 31 December 2001. After $27.8 million of write-downs and provisions associated with the Group's investment in Force Corporation, Sky City's bottom line surplus was $10.1 million.

MANAGING DIRECTOR'S REPORT

Revenues increased 18% to $249 million with earnings before interest, tax, depreciation and amortisation (operating earnings) increasing 11% to $103 million from $93 million in the previous corresponding period.

The $37.9 million after tax surplus represents a 14% increase over the previous corresponding period. The result demonstrates both the resilience of the business in an otherwise uncertain global economy, and the ability of the company's management team to consolidate our investments in a range of related gaming and entertainment businesses, without sacrificing overall Group earnings in the short term.

While it is disappointing to have to report a write-off of our 50.2% investment in Force Corporation, the board felt it prudent to fully provision the remaining goodwill associated with Sky City's investment in addition to Sky City's share of the write-off associated with Force Corporation's investment in Argentinian cinema operator, Village Cinemas SA.

Our largest business, Sky City Auckland, remains one of the most profitable gaming and entertainment operations in the industry. In this six month period Sky City Auckland achieved record revenues of $167 million (first half 2001, $157 million) and operating earnings of $85 million (first half 2001, $80 million).

While we have made considerable progress with the refurbishment and repositioning of Sky City Adelaide, and this is reflected in revenue growth of 14% to A$46.5 million, operating earnings of A$8.3 million declined by 20%, indicating that our cost structure is not yet appropriate for the current volumes being achieved by this business. The focus in Adelaide will be on continuing the momentum of our revenue growth initiatives and managing the expense base in line with our margin and bottom line objectives.

Looking forward, our newest property, the Riverside casino and entertainment complex in Hamilton, is on target to open in September 2002. In Auckland the development of a purpose-built conference centre continues. However, we are currently participating in a tender initiated by the Auckland City Council to develop a larger convention facility for the city of Auckland. If Sky City's tender is successful, the floor space of the existing conference centre will almost double.

Dividend

A fully imputed dividend for the 2001/2002 financial year of 15.5 cents (first half 2001 – 14 cents adjusted for the two for one share split in November 2001) will be paid to shareholders on 5 April 2002. The dividend entitlement date will be 15 March 2002.

Key Features of the Half Year

Sky City Auckland

Sky City Auckland experienced steady growth across each of its businesses during the period resulting in revenue growth of 6.2% (net of complimentaries). Operating margins were steady at 63% maintaining Sky City Auckland's standing as one of Australasia's most efficient gaming and entertainment operators. Earnings before interest and tax increased 11% to $71.8 million for the period.

Sky City Auckland's gaming business experienced steady growth during the period with revenues increasing by 6%. Fifty six additional gaming machines were added to the main gaming floor and total machine numbers are now at the limit approved by the Casino Control Authority. The main floor gaming expansion project, approved by the CCA in August 2001, will allow an additional 230 gaming machines and 12 gaming tables to be added. During the half year, 240 new machines replaced older stock while 85 machines were converted to new formats.

Redesigning the layout of the gaming table pits has allowed for cost savings through revised supervision levels. Productivity was further enhanced through the introduction of 'No Commission Baccarat' and 20 additional continuous card shuffling machines.

During the second half of the 2001/2002 financial year the non-smoking area for gaming machines will be increased to create a distinct non-smoking environment for main gaming floor customers. This area will cover more than 300 gaming machines and will include increased service and new product offerings for customers choosing a smokefree environment.

Sky Tower's revenues increased 10% during the period driven by a combination of factors including continued sales and marketing focus, national and international media campaigns and new initiatives such as Sky Jump, adding to the already strong appeal of Auckland's landmark destination. In the second half of the year, a new restaurant offering, 'The Observatory', will be launched within Sky Tower. A buffet and a la carte offering focusing on seafood, 'The Observatory' will add a new option to the other restaurant destinations within the complex.

In addition, the 'Vertigo' mast climb is expected to open in April complementing 'Sky Jump', and providing the ultimate view of Auckland for thrill seekers. Promotions like the world first 'Car on Tower' campaign, where a Ford Explorer four wheel drive vehicle was placed on the side of Sky Tower, 60 metres above ground, add even more visual appeal to Sky Tower.

Sky City Hotel, notwithstanding the September 11 terrorist attacks in the United States, experienced 8% growth in revenue. Occupancy increased from 78% to 86% over the period with average room rate steady at $122 per night. Strong visitor support across all sectors of the business contributed to the increased visitation.

Food and beverage operations performed well during the period with revenues increasing by 6% and a strong gross margin of 20%. This growth was driven by a number of initiatives including dining packages linked to the 'Hair' season at Sky City Theatre, and Christmas and New Year promotions. The development of 'The Observatory' restaurant and a revamp of 'Orbit' restaurant are two key priorities for the second half of the financial year.

Sky City's participation in the Auckland economy was captured by a very successful advertising campaign. The focus of the campaign was on the integral role the business plays, not only as a gaming and entertainment destination, but also as a key purchaser of goods and services in the local economy and a supporter of a wide range of community activities such as Sky City Starlight Symphony.

As Sky City diversifies into related entertainment businesses through acquisitions such as cinema operator Force Corporation, which operates five multiplex cinemas in Auckland in addition to the 12 screen Force

Entertainment Centre in central Auckland, venues like the new conference centre and products such as ‘Sky Jump’ and ‘Vertigo’, Sky City’s role in, and importance to, the Auckland economy will increase.

In the short term, integrating these businesses is a key focus of our management team as we develop a customer base and product offerings that are larger and more diverse than those which existed when the Sky City Auckland complex opened six years ago in February 1996.

Sky City Adelaide

Revenues increased by 14%, during the period to A$46.5 million. Despite this growth, operating earnings decreased by 20% to A$8.3 million. The reduced profitability was due to higher expenses associated with managing the gaming operations of that business, and a key focus of the second half of the year will be to bring costs into line with revenues.

Operationally, considerable progress was made in completing the transformation of Sky City Adelaide to a broad-based gaming and entertainment venue. Development of the ‘Grandstand Sports Bar’ offering a sports themed venue for visitors to the property was completed in October. Marble Hall now offers entertainment through its ‘Under the Dome’ programme and is established as a venue for major functions surrounding events like the Melbourne Cup.

While the gaming floors have been completely refurbished, considerable emphasis has been placed on updating gaming machine product to the latest offerings and ensuring a variety of jackpot opportunities enhance the entertainment experience of customers. To this end, additional cash jackpots have been added to the product mix in addition to the very successful car jackpot, which was introduced at the re-launch in April 2001.

Sky City’s ‘Action’ loyalty programme has also proved to be popular with Sky City Adelaide customers with support for the programme growing strongly.

Sky Alpine Queenstown Casino

Revenues of $2.4 million for the first half of the financial year continue to be below expectations. Sky Alpine is breaking even at the operating earnings line with a number of cost cutting initiatives introduced last year contributing to improved operating performance. While Sky Alpine’s performance is marginal, the boutique nature of the business means its performance will never be material to the performance of the wider group, but as a destination with a number of differentiating features, Sky Alpine is an important component of the Group’s brand mix.

Riverside Casino Limited

The Riverside development is on track for completion in August this year with opening planned for September. The $55 million project will employ more than 250 staff when operational, with facilities including a casino with 300 gaming machines and 20 gaming tables, a lounge bar and restaurant.

The recruitment process for management positions at Riverside is expected to commence shortly with other positions progressively thereafter.

The external structure of the development is almost complete with glazing currently underway. The construction programme is focusing on the renovation of the historic Central Post Office arcade which adjoins the new development. A key architectural attribute of the post office building, the art deco “dome” ceiling is being strengthened and renovated to become a key visual feature of the new development.

Canbet Limited

Internet sports wagering business Canbet Limited reported a profit for the first half of the 2001/2002 financial year of A$865,000, compared to a loss for the previous corresponding period of A$3.4 million (before a non-recurring item). The turnaround was driven by an improvement in volumes and hold percentage, and a similar performance is anticipated for the second half of the financial year.

Force Corporation Limited

Led by a solid performance from its New Zealand cinema operations, 50.2% owned Force Corporation reported a net surplus before non-recurring items of $1.7 million for the six months ended 31 December 2001. Up more than 80% on the previous corresponding period, this improvement in the group’s underlying operating performance was very encouraging and was driven by some excellent film titles released during the period.

Force also completed a refinancing package in February 2002. Central to the recapitalisation is a debt funding package which has effectively quarantined Force Corporation’s exposure to Village Cinemas SA to a maximum of US$4 million (previously US$15 million). In addition, a $31 million Mandatory Convertible Notes (MCN) rights issue will inject new equity into the business. Sky City has agreed to underwrite the issue. Following completion of the issue Sky City will continue to hold 50.2% of the ordinary shares of Force in addition to 77% of the MCNs. When the MCNs are converted into ordinary shares in five years, Sky City would then hold 74% of the ordinary shares of Force.

The resolution of the issues surrounding Force Corporation's investment in Argentinian cinema operator, Village Cinemas SA, has been a complex process. This exposure has now been quarantined and the Force investment will now produce positive contributions going forward.

The board has adopted a prudent approach in relation to Sky City's original investment in Force and has taken a decision to write off all goodwill remaining on the Force investment as at 31 December 2001. This amounted to $16.7 million after amortisation of $895,000 in the six months ending 31 December 2001 and has been treated as a non-recurring item.

Sky City has also recognised as a non-recurring item, its share of Force's write-off of the balance of its 25% interest in Village Cinemas SA and has provided for all expected future exposure. This write-off and provisioning amounts to $11.1 million after allowing for minority interests.

As a result of these actions, Sky City management can now proceed with the task of growing shareholder value from the non-Argentinian assets of Force Corporation without a continuing sequence of balance sheet adjustments.

Future

We have been through an extremely busy 18 months at Sky City and a key task of our management team for the next period is to consolidate the acquisitions we have made, and address the many challenges inside these businesses.

We have made good progress, with the recapitalisation of Force Corporation and return to profitability of Canbet evidence of this. Sky City Adelaide is receiving considerable attention as we address the cost structure of that business while at the same time focusing on continuing to increase revenues. Sky Alpine is now at a break-even point operationally but obviously we are working to improve the bottom-line performance of that business.

Looking forward, the conference centre and expansion of the gaming facilities at Sky City Auckland as well as completing the Riverside complex in Hamilton are our key development projects.

The key objectives for the coming period will be on maintaining our revenue growth momentum and managing our cost base in each location.

Evan Davies
Managing Director

Making a positive contribution to the communities in which we operate is a key business objective for the Sky City Entertainment Group. Each of our properties is committed to building strong community relationships and supporting local organisations in need.

While many of the causes we support are similar across the Group, such as local health initiatives, help for disadvantaged peoples and educational programmes, all are identified as being of primary importance in the local environment.

Health and Well-being

Sky City Auckland continues its association with *Kidz First Children's Hospital* as a major sponsor of the Burns and Plastics Unit. It is also a leading supporter of the *Starship Foundation's* efforts to provide care and treatment for neglected and abused children through the *Safe & Sound Appeal*. Funds from the Appeal will assist Starship's medical specialists to join the Police and Child, Youth and Family Services in a ground breaking Multi-Agency Centre. Sky City launched phase one of the Safe & Sound Appeal in 2001 and activated the second phase in January 2002, by coordinating the collection of donations at *Sky City Starlight Symphony* in the Auckland Domain. The free open-air concert attracted an audience of more than 200,000, which was entertained by a host of well known and promising New Zealand performers while volunteers collected donations for the charity Appeal. A television campaign and fundraising activities will profile the cause throughout February/March 2002.

Sky Tower once again glowed pink to support fundraising and awareness campaigns for the *New Zealand Breast Cancer Foundation*. In October 2001 Sky Tower joined other international monuments floodlit in pink, including London's Big Ben, the Eiffel Tower in Paris and New York's Empire State building, in a Global Illumination Campaign to promote the cause.

Outside Sky City Adelaide the Path For Life was created in support of the *South Australian Medical Research Trust*. The project involved the sale of promotional slate pavers to South Australian businesses. Sky City Adelaide also supported the Walk To Cure annual national walkathon for the *Juvenile Diabetes Research Foundation* and hosted a gala dinner to launch a celebrity football match, raising funds for the *McGuinness McDermott Foundation*.

Education and Development

In 2000 Sky City signed an agreement with the New Zealand Government to pilot a *Modern Apprenticeships* programme for cookery apprentices, at Sky City Auckland. During 2001 our first two apprentices were joined by four more and a further two are expected to begin training this year, boosting the group to eight.

Special Olympics New Zealand makes a real difference to the lives of the country's intellectually disabled and in June 2001 Sky City Auckland launched an advertising campaign to increase awareness of the charity and raise funds for its major event, the National Games. Our support included an advertising campaign, the coordination of a letter-box drop donation appeal and street appeal, and a gala dinner and charity auction.

Sky City Community Trust

The *Sky City Community Trust* administered its sixth round of payments in June 2001, totalling $1,030,000, to a broad range of community groups. In addition the Problem Gambling Committee received $580,000 to assist with its treatment initiatives. Applications for round seven grants will close on 22 March 2002 with successful applications announced by June of this year.

A Responsible Host

Sky City takes its social responsibilities seriously. For this reason a dedicated *Host Responsibility Manager* has been appointed to oversee the implementation and continual development of our host responsibility initiatives across the Group, and in 2001 we also began a pilot programme to expand dialogue with community groups.

We believe our host responsibility initiatives lead the gaming industry in both New Zealand and Australia and have expressed this during our submissions to Government, in respect of recent reviews of gaming industry legislation in each country.

SKY CITY ENTERTAINMENT GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

for the six months ended 31 December 2001

	6 months ended 31 December 2001 (Unaudited) $'000	6 months ended 31 December 2000 (Unaudited) $'000	12 months ended 30 June 2001 (Audited) $'000
Revenue			
Sales	249,198	211,225	435,050
Interest received	670	2,216	3,331
Other revenue	438	221	4,033
Total Revenue	250,306	213,662	442,414
Expenses			
Operating expenses	148,869	119,276	254,366
Amortisation of licences	1,301	1,383	–
Amortisation of goodwill	1,461	–	–
Depreciation and disposals	18,475	16,460	33,130
Funding expenses	22,467	25,112	47,716
Non-Recurring Expenses			
Write-off of Argentinian investment[1]	12,148	–	–
Provision for Force advances to Argentina	5,000	–	–
Write-off of goodwill in Force Corporation	16,730	–	–
Total Expenses	226,451	162,231	335,212
Surplus before income tax	23,855	51,431	107,202
Income tax	18,757	18,342	39,829
Surplus after income tax	5,098	33,089	67,373
Minority interest in deficits of subsidiaries	4,699	86	1,832
Share of surpluses/(deficits) of associates	261	–	(897)
Net Surplus	10,058	33,175	68,308
Net Surplus Attributable to			
Operations	37,885	33,175	70,090
Non-recurring costs	(27,827)	–	(1,782)
	10,058	33,175	68,308

(1) Sky City share at 50.19% equals $6.097m

SKY CITY ENTERTAINMENT GROUP LIMITED

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

for the six months ended 31 December 2001

	6 months ended 31 December 2001 (Unaudited) $'000	6 months ended 31 December 2000 (Unaudited) $'000	12 months ended 30 June 2001 (Audited) $'000
Equity at the beginning of the period	232,075	157,394	157,394
Surplus and revaluations			
Net surplus for the period	10,058	33,175	68,308
Foreign currency translation reserve movement	(197)	23	(223)
Total Recognised Revenues and Expenses	9,861	33,198	68,085
Other Movements			
Distributions to owners	(35,277)	(27,608)	(27,715)
Exercise of share options	9,463	933	6,402
Employee share entitlements issued	1,579	730	730
Shares issued under dividend reinvestment plan	12,219	11,991	23,601
Movements in minority interests	(3,212)	(86)	2,438
Movement in share option reserve	–	584	(399)
Movement in employee share entitlement reserve	(712)	362	1,539
EQUITY AT THE END OF THE PERIOD	225,996	177,498	232,075

SKY CITY ENTERTAINMENT GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2001

	6 months ended 31 December 2001 (Unaudited) $'000	6 months ended 31 December 2000 (Unaudited) $'000	12 months ended 30 June 2001 (Audited) $'000
Equity			
Share capital	221,172	180,832	197,911
Reserves	2,962	3,924	3,872
Retained earnings	3,432	(6,376)	28,650
Shareholders' Equity	227,566	178,380	230,433
Minority interests	(1,570)	(882)	1,642
Total Equity	225,996	177,498	232,075
Capital Funds			
Capital Notes	150,000	150,000	150,000
Minority interests – convertible notes	9,315	9,315	9,315
Total Capital Funds	159,315	159,315	159,315
TOTAL EQUITY AND CAPITAL FUNDS	385,311	336,813	391,390
Current Assets			
Cash and bank	60,763	70,171	42,684
Receivables and prepayments	12,774	10,778	36,521
Inventories	3,555	3,677	3,296
Foreign currency hedge	175	980	–
Income tax paid in advance	10,377	914	9,628
Properties intended for sale	–	–	66,550
Total Current Assets	87,644	86,520	158,679
Non-Current Assets			
Property, plant and equipment	595,109	503,130	524,022
Deferred expenditure – operating rights	2,250	2,250	2,250
Deferred expenditure – funding	2,947	4,251	3,595
Other investments	5,029	7,705	8,414
Intangible assets	231,581	229,791	257,795
Total Non-Current Assets	836,916	747,127	796,076
TOTAL ASSETS	924,560	833,647	954,755

SKY CITY ENTERTAINMENT GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

as at 31 December 2001

	6 months ended 31 December 2001 (Unaudited) $'000	6 months ended 31 December 2000 (Unaudited) $'000	12 months ended 30 June 2001 (Audited) $'000
Current Liabilities			
Bank overdraft	369	–	1,081
Provision for Force advances to Argentina	5,000	–	–
Creditors and accruals	64,833	88,505	70,137
Short-term borrowings	76,173	–	88,572
Total Current Liabilities	146,375	88,505	159,790
Non-Current Liabilities			
Deferred tax	21,169	16,672	19,316
Borrowings	371,705	391,657	384,259
Total Non-Current Liabilities	392,874	408,329	403,575
TOTAL LIABILITIES	539,249	496,834	563,365
TOTAL NET ASSETS	385,311	336,813	391,390

SKY CITY ENTERTAINMENT GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2001

	6 months ended 31 December 2001 (Unaudited) $'000	6 months ended 31 December 2000 (Unaudited) $'000	12 months ended 30 June 2001 (Audited) $'000
Cash Flows Related to Operating Activities			
Cash was provided from:			
Receipts from customers	251,065	214,378	443,026
Interest received	979	2,031	3,285
Dividends received	–	–	1
	252,044	216,409	446,312
Cash was applied to:			
Payments to suppliers and employees	136,917	102,634	217,986
Interest paid	22,122	17,189	40,793
Gaming taxes paid	15,181	14,909	30,244
Income taxes paid	18,115	6,532	33,006
Net GST paid/(received)	629	2,423	(1,964)
	192,964	143,687	320,065
Net Cash Flows from Operating Activities	59,080	72,722	126,247
Cash Flows Related to Investing Activities			
Cash was provided from:			
Sale of property, plant and equipment	205	–	554
Sale of investments	21,927	–	–
	22,132	–	554
Cash was applied to:			
Funding facility and capital notes costs deferred	–	2,179	2,166
Purchase and construction of property, plant and equipment	27,649	22,338	52,172
Purchase of subsidiaries and associates	551	7,902	36,766
Payment for other intangibles	–	–	287
	28,200	32,419	91,391
Net Cash Flows from Investing Activities	(6,068)	(32,419)	(90,837)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

for the six months ended 31 December 2001

	6 months ended 31 December 2001 (Unaudited) $'000	6 months ended 31 December 2000 (Unaudited) $'000	12 months ended 30 June 2001 (Audited) $'000
Cash Flows Related to Financing Activities			
Cash was provided from:			
Proceeds of long-term debt	700	–	860
Exercise of share options	9,463	933	6,402
Proceeds of capital notes	–	90,858	90,858
Advances from minority interests	3,504	2,678	3,338
Gains on foreign currency swaps hedging foreign operations	1,356	936	2,726
	15,023	95,405	104,184
Cash was applied to:			
Repayment of long-term debt	21,599	84,138	94,990
Distributions to shareholders	23,047	18,880	34,894
Advances to associates and other related parties	4,421	–	6,276
	49,067	103,018	136,160
Net Cash Flows from Financing Activities	(34,044)	(7,613)	(31,976)
NET INCREASE IN CASH HELD	18,968	32,690	3,434
RECONCILIATION OF CASH			
Opening cash and bank	41,603	37,794	37,794
Net increase in cash held	18,968	32,690	3,434
Foreign currency translation adjustment	(177)	(313)	375
CLOSING CASH	60,394	70,171	41,603
COMPOSITION OF CASH			
Cash and bank	60,763	70,171	42,684
Bank overdraft	(369)	–	(1,081)
	60,394	70,171	41,603

Total distributions of $35,265,625 to shareholders include $23,047,000 of cash dividends, $12,218,625 of shares reinvested under the Dividend Reinvestment Plan, and $11,375 for prior-period dividend.

SKY CITY ENTERTAINMENT GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

for the six months ended 31 December 2001

	6 months ended 31 December 2001 (Unaudited) $'000	6 months ended 31 December 2000 (Unaudited) $'000	12 months ended 30 June 2001 (Audited) $'000
RECONCILIATION WITH OPERATING SURPLUS			
Reported surplus after taxation	10,058	33,175	68,308
Less minority interests	4,699	86	1,832
Less associated entity surpluses/(deficits)	261	–	(897)
	5,098	33,089	67,373
Items not involving cash flows			
Depreciation expense	18,426	16,308	32,502
Other amortisations	2,762	1,383	3,768
Write-off of investments	12,148	–	–
Goodwill impairment	16,730	–	–
Increase/(Decrease) in provisions	5,086	(15)	(109)
Increase in deferred taxation	1,853	749	3,033
Increase/(Decrease) in employee reserves	867	1,676	1,869
Amortisation of deferred expenditure	616	675	1,390
Movement in foreign exchange	175	–	(881)
Impact of changes in working capital items			
Decrease/(Increase) in accounts receivable and prepayments	2,247	(1,964)	(15,192)
Decrease/(Increase) in properties intended for resale	–	–	15,395
Decrease/(Increase) in inventory	(35)	86	477
(Increase)/Decrease/ in pre-paid income tax	(1,089)	11,388	1,542
Increase/(Decrease) in creditors and accruals	(6,219)	8,440	13,126
Movement in GST payable	171	1,045	1,703
Items classified as investing activities			
Net (surplus)/loss on disposal of assets	(17)	(138)	251
Capitalised costs	551	–	–
Surplus on sale of investments	(290)	–	–
NET CASH FLOWS FROM OPERATING ACTIVITIES	59,080	72,722	126,247

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 2001, with the exception of accounting for subsidiaries as set out below.

Early adoption of changes in Financial Reporting Standards

FRS37 Consolidating Investments in Subsidiaries is applicable to periods ending on or after 31 December 2002.

The Company has adopted the provisions of FRS37 in the preparation of these financial statements. Consequently, the policy for accounting for minority interests has been changed so that negative amounts of minority interest are recognised separately as a negative component of equity in the Statement of Financial Position.

The interim financial statements for the six months ended 31 December 2001 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 2001.

Revenue

Sales exclude the retail value of rooms, food, beverage and other promotional allowances provided on a complimentary basis to customers. The value of complimentaries for the six months to 31 December 2001 was $6,006,000 (31 December 2000: $4,512,000; 30 June 2001: $10,194,000).

Non-Recurring Costs

In January 2002 Argentina devalued its local currency, the peso. The effect of this devaluation on the operations of Village Cinemas SA, in which Force Corporation Limited holds a 25% interest, together with the carrying value of Force's investment is still uncertain. However, the directors of Force Corporation Limited believed it was prudent to write off the balance of this investment. The impact on the Sky City Entertainment Group financial statements is a write-off of $12.1 million before minority interests ($6.1 million after minority interests).

In addition, Sky City Entertainment Group has reviewed the carrying value of its investment in Force and made appropriate write-offs and provisions.

Commitments

Contractual commitments of up to $33,549,763 are outstanding as at 31 December 2001 (31 December 2000: $29,239,905; 30 June 2001: $39,009,106). These relate to purchases of plant and equipment for the Auckland, Adelaide and Queenstown complexes and construction and fitout costs associated with Riverside Casino completion.

As at 31 December 2001 $35,732,000 (31 December 2000: $13,156,000; 30 June 2001: $33,600,000) is payable within the next five years under non-cancellable operating leases, with $208,029,000 (31 December 2000: $156,334,000; 30 June 2001: $210,504,000) in total payable over the full term of the leases.

Contingent Liabilities

Taxation

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 $6,700,000 (31 December 2000: $15,000,000; 30 June 2001: $7,500,000) of income tax credit claimed in relation to these expenses may be re-assessed. The directors have received professional advice that it is not appropriate to recognise a liability and the company intends to contest any re-assessment received.

Argentina Debt

Force Corporation Limited is one of the guarantors for a loan facility being utilised by Village Cinemas SA (VCSA), an associate company. The maximum liability and exposure at balance date under this guarantee was US$15 million.

On 7 February 2002 Force Corporation Limited concluded negotiations with VCSA's bankers and shareholder partners to quarantine its debt exposure to VCSA, leaving a lower potential maximum exposure through a guarantee of US$4 million.

Earnings Per Share

During the period the company had a 1 for 1 share split. Comparatives have been restated where appropriate to reflect the increase in share capital.

As at 31 December 2001 the company had 205,634,514 shares on issue (31 December 2000: 98,296,256; 30 June 2001: 100,266,631). The group net surplus per share for the six months to 31 December 2001 is 5.0 cents after non-recurring items (31 December 2000: 17.1 cents (restated); 30 June 2001: 34.8 cents (restated)).

Events Occuring after Balance Date

Provision for Dividend

On 22 February 2002 the directors resolved to provide for an interim dividend to be paid in respect of the six months ended 31 December 2001. The dividend will be paid at a value of 15.5 cents per share on issue as at 15 March 2002, with full imputation credits attached (31 December 2000: 14 cents (restated); 30 June 2001 final dividend: 17.5 cents (restated)).

Sky City Underwrite of Force Mandatory Convertible Notes Rights Issue

On 7 February 2002 SkyCity Investments Limited confirmed it would take up its entitlement under Force Corporation Limited's issue of mandatory convertible notes (MCNs), and confirmed that it would underwrite the capital raising of up to $31 million, subject to the conditions set out in the underwriting agreement.

The issue of Force Corporation Limited mandatory convertible notes (MCNs) is to proceed subject to the conditions set out in the prospectus. The issue closed on 15 February 2002, with subscriptions (excluding SkyCity Investments Limited) totalling $7,195,648 (23.3% of the total pool). Allotment is expected to take place either on 28 February or 1 March 2002.

DIRECTORS

J P Hartley, Chairman
E W Davies, Managing Director
P H Elworthy
P L Reddy
E Toime
W R Trotter
B M Wickham

SECRETARY

A B Ryan

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Australia and New Zealand Banking Group
Bank of New Zealand Limited
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National Australia Bank Limited
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