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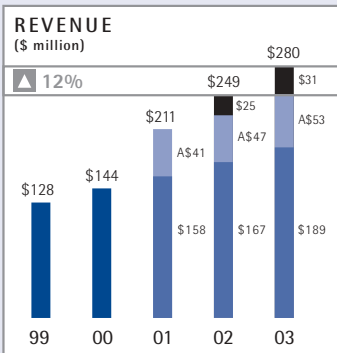


INTERIM REPORT 2003

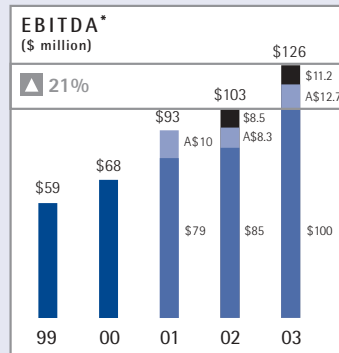


\$52.8 million

Net Surplus after tax up 39%

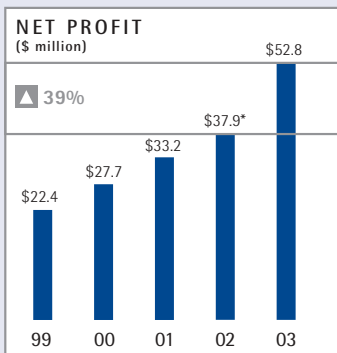


Half year to 31 December



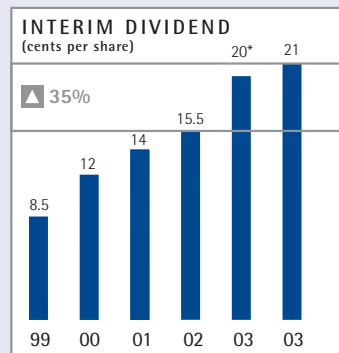
Half year to 31 December

* earnings before interest, tax, depreciation and amortisation



Half year to 31 December

* \$10.1 million after non-recurring items



Half year to 31 December

* Special dividend of 20 cents per share paid 20 November 2002

■ Sky City Entertainment Group
 ■ Sky City Auckland (including Group/Corporate)
 ■ Sky City Adelaide
 ■ Other New Zealand Operations

OPERATIONAL AND FINANCIAL HIGHLIGHTS OF THE HALF YEAR

- Net surplus after tax increased by 39%, from \$37.9 million (before non-recurring items) in the previous corresponding period, to \$52.8 million.
- Interim dividend increases to 21 cents per share from 15.5 cents per share in the previous corresponding period. This dividend is in addition to the 20 cents per share special dividend paid by the company in November 2002. Both dividends were fully imputed.
- Group operating revenues increased by 12%, from \$249 million to \$280 million. All group operations were ahead of the previous corresponding period, with Sky City Auckland and Sky City Adelaide both up by 13%, and other New Zealand Operations (Sky City Leisure, Sky Riverside Hamilton and Sky Alpine Queenstown) up 22% at \$31 million.
- Sky City Auckland recorded strong revenue growth, with gaming up 14%, food and beverage up 18%, hotel and conference up 9% and Sky Tower up 11%.
- Sky City Adelaide recorded revenue growth in both gaming and food and beverage operations, at 15% and 7% respectively.
- Group EBITDA (operating profit before interest, tax, depreciation and amortisation) was up 21% on the corresponding period last year, with Sky City Auckland ahead by 18% and Sky City Adelaide by 53%.
- Sky City's newest gaming and entertainment facility, Sky Riverside Hamilton, opened on time and to budget on 19 September 2002, to very favourable customer response.
- Sky City announced three important capital management and investment initiatives in November: a special dividend of 20 cents per share; a proposed share buyback of up to \$60 million to be undertaken during the 2003 calendar year (subject to market conditions prevailing at the time); and, in conjunction with the convention centre project, a new 320-room 5-star Qualmark-rated hotel, scheduled for completion by late calendar year 2004.
- Sky City's share price has reflected investor confidence in the company's performance and prospects during a time when equity market confidence generally, both in New Zealand and internationally, has been uncertain.

CONTENTS

Managing Director's Report	2
A Commitment to Care and Share	8
Financial Statements	11
Directory	24

MANAGING DIRECTOR'S REPORT

Operating and Financial Review

Sky City Entertainment Group Limited is pleased to again report a period of continued growth in revenues along with record earnings and dividends, and strong performance by the company's two key operations in Auckland and Adelaide.

Since opening in early 1996, the investment markets have become accustomed to the upward trend line in Sky City's key performance indicators and, as shown on the half-year graphs inside the front cover of this report, the company has continued the positive trend with the interim result for the 2002/03 financial year.

Group operating revenues increased strongly across all the company's major business sectors during the half year. This growth in revenues has delivered increased earnings performance and, as a consequence of continuation of Sky City's 90% dividend payout policy, will deliver an increased dividend to shareholders on 4 April.

Sky City shareholders who will receive the 2003 interim dividend in early April, and who have held shares since the FY02 result was released in August last year, will have enjoyed a sequence of three fully imputed dividend payments during the period totalling 63.5 cents per share. In addition to the dividends, shareholders during this period have also enjoyed a significant appreciation in the value of their investment through the strong upward trend of the Sky City share price.

Driving revenues and constraining costs are the keys to increasing shareholder returns. I am pleased to report that our strong growth in revenues has been converted into solid increases in earnings through effective supervision and cost control. Group operating profits (as measured by EBITDA) were up \$22 million (+21%) over the corresponding period last year, and bottom line profit (net surplus after tax) increased 39% from \$37.9 million (before non-recurring items) to \$52.8 million.

The Sky City group result is primarily driven by the performance of our Auckland and Adelaide operations, with important (but less material to overall earnings performance) support from Sky City Leisure, Sky Riverside Hamilton, Sky Alpine Queenstown and Canbet.

Sky City Auckland

Strong revenue growth in Auckland was converted into strong earnings performance.

- Operating revenues were up by 13%.
- Gaming revenues were up by 14%.
- Food and beverage revenues were up by 18%.
- Hotel and conference revenues were up by 9% on the back of an increase in hotel occupancy from 86% to 89%.
- Sky Tower revenues were up by 11% as a consequence of a substantial increase in the number of Tower visitors.



- The gross margin ratio was increased from 63% to 64%.
- The EBITDA ratio was increased from 51% to 53%.
- The EBIT ratio was increased from 43% to 46%.

Sky City Auckland continues to grow its business operations through a range of marketing and promotional initiatives whilst at the same time ensuring that the product offerings are aligned to customer preferences.

Construction of the new \$60 million convention and exhibition centre is now well advanced, with subsoil, piling and foundation works completed. Progress to date has been to plan and the opening of the convention centre is expected in the first quarter of 2004.

In November, Sky City announced a \$75 million, 320 room conference centre hotel project. This Qualmark 5-star rated hotel will be an excellent complement to the existing Sky City Auckland facilities and the convention centre currently under construction. Completion of the hotel is scheduled for the fourth quarter of the 2004 calendar year.

During the half-year period, the programmed refurbishment of the existing hotel property was continued and is now approximately 60% completed. The refurbishment project is phased in six room units so as not to impact

occupancy performance. The success of this approach is demonstrated in the 89% occupancy level achieved during the half year. Sky City Hotel continues to achieve the highest occupancy performance of any of the major Auckland hotels. Orbit restaurant in Sky Tower was fully refurbished during the first part of the year and was reopened in September. Customer and critical response to the new décor and positioning of the restaurant has been very favourable, as has the continued response to The Observatory premium buffet restaurant, which opened in Sky Tower in April 2002.

Further development of the main gaming floor will commence in April and is expected to be completed by the end of the calendar year. We anticipate that the extended facilities on level three of the main Auckland complex, and new product offerings, will be well received by our various customer groups. Also scheduled during the second half of the current financial year is a rejuvenation of the Sky Tower entry facility with a retail component added at the entry/exit level.

Sky City Adelaide

Sky City Adelaide performed well during the second half of the 2001/02 financial year and this growth in the business has continued into the first half of the current year.

The rate of turnaround progress achieved prior to the second half of last year had been slower than anticipated, but Sky City



Adelaide is now tracking in line with our pre-acquisition expectations. Total revenues at Sky City Adelaide were up 13% on the corresponding period and the range of initiatives to expand the gaming and entertainment experience at the Adelaide property have achieved a favourable response from the Adelaide market.

Strong revenue growth during the first six months of the 2002/03 year was converted into strong earnings performance, as evidenced by the key performance statistics below.

- Operating revenues were up by 13%.
- Gaming revenues were up by 15%.
- Food and beverage revenues were up by 7%.
- The gross margin ratio was increased from 30% to 35%.
- The EBITDA ratio was increased from 18% to 24%.
- The EBIT ratio was increased from 8% to 14%.

Sky City Adelaide has expanded its gaming machine options with total machine numbers lifting from 833 to 868. Included in this product upgrade has been the installation of 60 new Aristocrat "Excite" and "Cashman"

machines, 20 additional hyperlink "Cash Express" jackpot machines and IGT "Jetsetter" machine links.

The first half performance in Adelaide has continued the growth achieved during previous periods. However, as was the case in the second half of last year, effective cost management is ensuring that the growth in revenues is being converted into significant percentage improvements in profit performance.

Sky Riverside Hamilton

Sky Riverside's gala opening in September was enjoyed by many of Hamilton's business and community leaders and, during the subsequent weeks, a large number of Hamilton and Waikato residents visited their new entertainment facility. In the short time since opening, Sky Riverside has established itself as a popular Hamilton entertainment venue, with regular promotions and a variety of entertainment options being enjoyed by its many customers.

Sky Riverside sponsored the very successful Waikato NPC rugby team during the 2002 season – a sponsorship that continues to December 2004 – and recently extended its support of Waikato Rugby through a three-year sponsorship of the Chiefs Super 12 team.

Although initial post-opening results are not necessarily a reliable basis for estimating future revenue streams, it is clear that

Sky Riverside has begun well and, at this early stage, is on track to meet performance expectations for this important addition to the Sky City group of properties.

Sky Alpine Queenstown

Despite our continuing efforts, we are not yet able to report a satisfactory financial result in Queenstown but the breakeven target is coming within range, with a reduced EBIT loss of \$298k reported for the half year. The Sky Alpine operation is structured so that returns can be optimised within the constraint of the revenue potential of the Queenstown market.

Inevitably, the decision of the Casino Control Authority to award two casino licences in Queenstown will continue to make it difficult for either operator to achieve a satisfactory financial return on their investment. However, it is important to keep in perspective that Sky Alpine is a boutique-sized operation in relation to the overall context of the Sky City group.

Sky City Leisure (previously Force Corporation)

As reported in the Sky City 2002 Annual Report, Sky City Leisure's necessary capital and organisational restructuring had been largely completed by this time last year and, since then, Sky City Leisure's trading results

have been able to be reported unencumbered by the write-offs associated with those restructuring activities.

At bottom line, Sky City Leisure has reported a surplus of \$1.02 million for the period – a major turnaround from the loss of \$5.5 million for the corresponding period, which included the one-off costs associated with its 2002 capital restructuring.

The first half of last financial year was a particularly strong period for the cinema exhibition sector and those levels were always going to be difficult to repeat. However, despite a 5% drop in attendances, an offsetting increase in average ticket prices meant that New Zealand cinema revenues were maintained at last year's levels. Whilst cinema performance held up well, Planet Hollywood has continued to disappoint and the ongoing losses being incurred by this operation will need to be addressed as a matter of priority.

Despite overall revenues being down somewhat on the corresponding period last year, effective cost management has meant that Sky City Leisure's EBITDA result for the first half of 2002/03, at \$5.6 million, was up 11% over the corresponding period last year.

During the period, Sky City Leisure shareholders voted in favour of the entertainment operations being run by Sky City under a management



services contract. This has enabled a number of significant efficiencies to be achieved which will assist the company to optimise its revenue and cost performance in future periods.

Canbet

Canbet Limited has reported a profit for the first half of 2002/03 of A\$399k, up from a profit of A\$303k for the full year ended June 2002. Canbet's bookmaking operations are currently being relocated to the United Kingdom with operations there scheduled to commence in mid-April 2003.

Dividend

A fully imputed interim dividend of 21 cents per share (interim 2002 15.5 cents) will be paid to shareholders on 4 April 2003. The dividend entitlement date will be 21 March 2003.

Share Buyback

In November 2002, Sky City announced that, subject to market conditions at the time, it would commence an on-market share buyback programme aimed at buying back up to \$60 million of the company's shares over a 12 month period. The share buyback was advised as being one of two components of a \$100 million capital management strategy, with the first \$40 million of this strategy being a 20 cents per share special dividend which was paid to shareholders last November. The company

has advised that it will commence the buyback programme on 3 March 2003. The buyback is anticipated to continue for the subsequent 12 months but will remain subject to the board's assessment of market conditions during that period.

Growth

Continuing to grow the Sky City Entertainment Group will require an extension of the company's entertainment profile at each of its locations. We have been successful with this strategy to date and we expect to continue this success into the future.

Set out below is an outline of a number of the company's entertainment and customer development initiatives.

- Sky City Theatre has been the host venue for three major film premieres during the past six months: Men in Black II, Lilo and Stitch, and Austin Powers in Goldmember. These high-profile events have attracted strong media attention and tickets have been highly sought after. Sky City Theatre was also the venue for Auckland Theatre Company's highly successful production of the Rocky Horror Picture Show, with total attendances exceeding 35,000. In conjunction with Rocky Horror, Sky City's restaurants sold more than 2,000 dinner/theatre packages, contributing

to a very busy December/January period for our food and beverage operations.

- Sky City Catering has been contracted to provide onshore and on-the-water catering services to two of the America's Cup syndicates and, once again, Sky City provided the catering for the exclusive Millennium Cup super-yacht regatta at Kawau Island.
- In Adelaide, the entertainment offerings in Marble Hall have helped position Sky City Adelaide as one of the premier night-time entertainment venues in that city. Similarly, the live entertainment on offer at Sky Riverside Hamilton and Sky Alpine Queenstown is helping to make those venues the entertainment destination of choice in those locations.
- Sky Riverside Hamilton's sponsorship of the Waikato Rugby Union's NPC and Super 12 teams, and the opportunity to host public after-match functions, has provided a further opportunity to expand the entertainment experience for customers.

At all Sky City properties, our objective is to create fun and entertainment by offering customers a range of compelling experiences.

The examples noted above provide a snapshot of our wider business philosophy -

to grow the business by extending the range of services provided; to constantly improve and upgrade our existing services; and to maintain a standard of service excellence that ensures Sky City continues to develop its customer base at each of its properties.

The success of this approach continues to be confirmed by the strong financial results, consistently achieved by the company, since the Sky City Auckland complex opened in February 1996.



E W Davies

Managing Director

A COMMITMENT TO CARE AND SHARE

Sky City Entertainment Group continues to build on its contribution to the communities in which it operates.

The Sky City Auckland Community Trust donated more than \$2.8 million to community support projects during 2002. The Sky Alpine Queenstown Community Trust will call for applications for grant support during the first quarter of 2003, and the Sky Riverside Community Trust is currently in the process of establishment.

In addition to providing ongoing support to a range of community groups, Sky City has evolved both its customer care initiatives and employee benefits across the group, demonstrating its commitment to the people who ensure the company's success.

Caring for Customers

Sky City's commitment to the care of customers is evident in the extension of its host responsibility policy and programmes across all Sky City sites. The implementation and ongoing development of the programmes, which focus on responsible gambling behaviour and alcohol management, is coordinated through a dedicated Host Responsibility department based in Auckland.

Sky City believes its voluntarily developed host responsibility policy and programmes

lead the industry in terms of comprehensiveness and effectiveness. It has been the basis upon which many of Sky City's industry peers have begun to formulate their own programmes - a trend the company strongly encourages for the betterment of the industry as a whole.

All of the group sites' host responsibility programmes include:

- Staff training

All staff, irrespective of their area of operation, receive training in host responsibility, ranging from an introductory level of training for back-of-house staff to comprehensive training for front-line staff and management.

- Self-barring

A self-barring option is offered to customers who believe they may have a gambling problem. Under this option, customers volunteer to be barred from entering Sky City gaming venues - in New Zealand for a minimum period of two years; in South Australia indefinitely. Self-barrred customers attempting to re-enter the premises may face prosecution.

- Referrals to treatment providers

Customers who elect the self-barring option or contact Sky City about gambling

problems are actively encouraged to contact appropriate treatment providers for help and support.

- **Stickers on gaming machines and ATMs**

Electronic gaming machines and ATMs at Sky City properties display problem gambling helpline telephone numbers. A progressive introduction of gaming tabletop felts, which feature embedded helpline telephone details, is under way across all New Zealand sites and Sky City Adelaide is investigating options.

- **Problem gambling information**

Posters, brochures and wallet cards in various languages are displayed at key points at all Sky City gaming venues. The materials are also distributed to health providers, doctors' surgeries, and community organisations.

- **Education modules**

Sky City has developed education modules, in consultation with treatment providers, to assist health and community professionals to identify and treat problem gamblers.

- **Clocks in gaming areas**

Clocks are on display at all Sky City gaming venues.

- **Funding for the provision of treatment services**

Sky City's New Zealand properties contribute annually to the Problem Gambling Committee. In South Australia, Sky City is involved in discussions regarding contributing to the Gambling Rehabilitation Fund.

Sky City also welcomes the emphasis both the New Zealand and South Australian governments are placing upon the pursuit of legislative changes in respect of problem gambling management and host responsibility guidelines. The company looks forward to the introduction of clearly defined, industry-wide, operating parameters in this regard.

Sharing with staff

With an employee base of more than 3,500 across New Zealand and Australia, Sky City recognises the significant contribution that staff make to the operational achievements of the business, and importantly the customer experience delivered at each site.

All full-time and permanent part-time staff at Sky City are eligible to participate in an incentive scheme that is linked to customer service targets and business performance, ensuring staff have the opportunity to share in the company's success.



10

Sky City first introduced a Performance Pay Incentive (PPI) for salaried staff in 2000 and followed this in 2001 with the Customer Experience Incentive (CEI) for waged staff. During the interim period the Auckland CEI and PPI models were expanded across all Sky City sites, with Sky City Adelaide and Sky Riverside Hamilton completing their first CEI period this half year, and Sky Alpine Queenstown completing its first incentive period at the year-end.

The CEI bonus incentivises front-line staff to deliver outstanding customer service and a cash bonus is payable under the scheme, each half year, if both customer service target levels - measured by independent surveys - and company financial targets are met.

The PPI scheme for salaried staff rewards staff annually based on company performance targets and individual performance targets. For many salaried staff these individual targets are linked to the same customer service goals of CEI participants, ensuring equal ownership of customer service delivery from front-of-house personnel through to executive management.

The realisation this half-year of the incentive plan extension across all properties signals a strong, new group-wide culture of collective responsibility and internal ownership. The Sky City way is as much about our people - both customers and staff - as it is about the way we do business.

CONTENTS

Accountants' Report	12
Consolidated Statement of Financial Performance	14
Consolidated Statement of Movements in Equity	15
Consolidated Statement of Financial Position	16
Consolidated Statement of Cash Flows	17
Statement of Accounting Policies	20
Notes to the Consolidated Financial Statements	21
Directory	24

ACCOUNTANTS' REPORT

To the shareholders of Sky City Entertainment Group Limited

We have reviewed the consolidated financial statements on pages 14 to 23. The consolidated financial statements provide information about the past financial performance and cash flows of the Group for the six-month period ended 31 December 2002 and its 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 consolidated financial statements that present fairly the financial position of the Group as at 31 December 2002 and its financial performance and cash flows for the six-month period ended on that date.

Accountants' responsibilities

We are responsible for reviewing the consolidated 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 consolidated 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 financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the consolidated financial statements of the Group for the six-month period ended 31 December 2002 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

ACCOUNTANTS' REPORT (continued)

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors under the Companies Act 1993, internal auditors, tax advisers and consultants.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated financial statements do not present fairly the financial position of the Group as at 31 December 2002 and its financial performance and cash flows for the six-month period ended on that date.

Our review was completed on 21 February 2003 and our review opinion is expressed as at that date.



Chartered Accountants

Auckland

SKY CITY ENTERTAINMENT GROUP LIMITED
 CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
 for the six months ended 31 December 2002

		6 months ended 31 December 2002 Unaudited Notes \$'000	6 months ended 31 December 2001 Unaudited \$'000	12 months ended 30 June 2002 Audited \$'000
Revenue	1	283,174	250,567	513,151
Expenses	2	<u>(204,311)</u>	<u>(226,451)</u>	<u>(422,230)</u>
Surplus before income tax		78,863	24,116	90,921
Income tax		<u>(26,156)</u>	<u>(18,757)</u>	<u>(44,286)</u>
Surplus for the year		52,707	5,359	46,635
Minority interest in deficits of subsidiaries		109	4,699	10,518
Net surplus		<u>52,816</u>	<u>10,058</u>	<u>57,153</u>

SKY CITY ENTERTAINMENT GROUP LIMITED
CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
for the six months ended 31 December 2002

	6 months ended 31 December 2002 Unaudited \$'000	6 months ended 31 December 2001 Unaudited \$'000	12 months ended 30 June 2002 Audited \$'000
Net surplus for the year, comprising			
Parent shareholders' interest	52,816	10,058	57,153
Minority interest	(109)	(4,699)	(10,518)
	<u>52,707</u>	<u>5,359</u>	<u>46,635</u>
Other recognised revenues and expenses			
Foreign currency translation reserve movement	(2,814)	(197)	(5,107)
Minority interest in change in foreign currency translation reserves	-	-	(45)
	<u>49,893</u>	<u>5,162</u>	<u>41,483</u>
Total recognised revenues and expenses			
Exercise of share options	1,845	9,463	9,463
Shares issued under dividend reinvestment plan	22,373	12,219	23,227
Employee share entitlements issued	2,378	1,579	1,579
Movement in employee share entitlement reserve	(586)	(712)	949
Distributions to owners	(89,142)	(35,277)	(67,150)
Minority interest in contributions from owners	-	1,487	14,242
	<u>(13,239)</u>	<u>(6,079)</u>	<u>23,793</u>
Movements in equity for the year			
Equity at beginning of year, comprising			
Parent shareholders' interest	250,547	230,433	230,433
Minority interest	5,321	1,642	1,642
	<u>255,868</u>	<u>232,075</u>	<u>232,075</u>
Equity at end of year, comprising			
Parent shareholders' interest	237,417	227,566	250,547
Minority interest	5,212	(1,570)	5,321
	<u>242,629</u>	<u>225,996</u>	<u>255,868</u>

SKY CITY ENTERTAINMENT GROUP LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2002

	6 months ended 31 December 2002 Unaudited \$'000	6 months ended 31 December 2001 Unaudited \$'000	12 months ended 30 June 2002 Audited \$'000
Equity			
Issued and paid-up capital	258,776	221,172	232,180
Reserves	(3,686)	2,962	(286)
Retained earnings	(17,673)	3,432	18,653
Parent shareholders' equity	237,417	227,566	250,547
Minority interests	5,212	(1,570)	5,321
Total equity	242,629	225,996	255,868
Liabilities			
Non-current liabilities			
Borrowings	592,591	528,073	564,028
Deferred tax	22,776	21,169	20,811
Total non-current liabilities	615,367	549,242	584,839
Current liabilities			
Bank overdraft	-	369	372
Creditors and accruals	59,161	69,833	61,140
Short-term borrowings	1,000	76,173	1,000
Total current liabilities	60,161	146,375	62,512
Total liabilities	675,528	695,617	647,351
Total equity and liabilities	918,157	921,613	903,219
Assets			
Non-current assets			
Investments in associates	22,456	15,948	23,306
Property, plant and equipment	616,124	595,109	596,037
Intangible assets	200,572	222,912	212,384
Total non-current assets	839,152	833,969	831,727
Current assets			
Cash and bank	56,682	60,763	48,456
Receivables and prepayments	19,055	23,326	19,970
Inventories - finished goods	3,268	3,555	3,066
Total current assets	79,005	87,644	71,492
Total assets	918,157	921,613	903,219

SKY CITY ENTERTAINMENT GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 31 December 2002

	6 months ended 31 December 2002 Unaudited \$'000	6 months ended 31 December 2001 Unaudited \$'000	12 months ended 30 June 2002 Audited \$'000
Cash flows related to operating activities			
Cash was provided from			
Receipts from customers	282,037	251,065	514,913
Interest received	2,856	979	2,169
	<u>284,893</u>	<u>252,044</u>	<u>517,082</u>
Cash was applied to			
Payments to suppliers and employees	149,044	136,917	267,702
Interest paid	21,046	22,122	45,575
Net GST paid	3,619	629	747
Gaming taxes paid	10,205	15,181	32,202
Income tax paid	16,121	18,115	48,124
	<u>200,035</u>	<u>192,964</u>	<u>394,350</u>
Net cash flows from operating activities	<u>84,858</u>	<u>59,080</u>	<u>122,732</u>
Cash flows related to investment activities			
Cash was provided from			
Sale of fixed assets	-	205	3,384
Sale of investments	-	21,927	21,878
	<u>-</u>	<u>22,132</u>	<u>25,262</u>
Cash was applied to			
Purchase and construction of fixed assets	42,745	27,649	51,199
Purchase of investments	-	-	8,853
Purchase of subsidiaries	-	551	563
	<u>42,745</u>	<u>28,200</u>	<u>60,615</u>
Net cash flows from investment activities	<u>(42,745)</u>	<u>(6,068)</u>	<u>(35,353)</u>

SKY CITY ENTERTAINMENT GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the six months ended 31 December 2002

	6 months ended 31 December 2002 Unaudited \$'000	6 months ended 31 December 2001 Unaudited \$'000	12 months ended 30 June 2002 Audited \$'000
Cash flows related to financing activities			
Cash was provided from			
Proceeds from long-term debt	33,750	700	61,200
Advances from minority interests	446	3,504	7,203
Issue of mandatory convertible notes by Sky City Leisure Limited	-	-	7,196
Gains on foreign currency swaps hedging investment in foreign operations	75	1,356	2,251
Exercise of share options	1,845	9,463	9,463
Issue of shares in Queenstown Casinos Limited	-	-	880
	<u>36,116</u>	<u>15,023</u>	<u>88,193</u>
Cash was applied to			
Repayment of short-term debt	-	-	88,969
Repayment of long-term debt	1,876	21,599	21,095
Advances to subsidiaries and associates	-	4,421	14,103
Distributions to shareholders	66,780	23,047	43,923
	<u>68,656</u>	<u>49,067</u>	<u>168,090</u>
Net cash flows from financing activities	<u>(32,540)</u>	<u>(34,044)</u>	<u>(79,897)</u>
Net (decrease)/increase in cash held	9,573	18,968	7,482
Foreign currency translation adjustment	(975)	(177)	(1,001)
Opening cash and bank	48,084	41,603	41,603
Closing cash and bank	<u>56,682</u>	<u>60,394</u>	<u>48,084</u>
Composition of cash			
Cash and bank	56,682	60,763	48,456
Bank overdraft	-	(369)	(372)
	<u>56,682</u>	<u>60,394</u>	<u>48,084</u>

SKY CITY ENTERTAINMENT GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
for the six months ended 31 December 2002

	6 months ended 31 December 2002 Unaudited \$'000	6 months ended 31 December 2001 Unaudited \$'000	12 months ended 30 June 2002 Audited \$'000
Reconciliation with operating surplus to net cash flows from operating activities			
Reported surplus after tax	52,816	10,058	57,153
Less associated entity surpluses	(175)	(261)	(344)
Less minority interests	(109)	(4,699)	(10,518)
	<u>52,532</u>	<u>5,098</u>	<u>46,291</u>
Items not involving cash flows			
Depreciation expense	20,470	18,426	37,236
Goodwill impairment	-	16,730	16,730
(Decrease)/increase in provisions	(87)	5,086	239
Increase in employee share entitlement reserve	1,877	867	2,528
Amortisation expense	2,858	2,762	4,803
Amortisation of deferred expenditure	298	616	1,430
Increase in deferred taxation	1,965	1,853	1,495
Write-off of investments	-	12,148	22,422
Movement in foreign exchange	13	175	(133)
	<u>27,394</u>	<u>58,663</u>	<u>86,750</u>
Impact of changes in working capital items			
(Increase)/decrease in accounts receivable	(7,453)	2,247	2,175
(Increase)/decrease in inventory	(202)	(35)	230
Increase/(decrease) in creditors and accruals	6,218	(6,219)	(6,358)
Movement in GST payable	(2,156)	171	(1,394)
Decrease/(increase) in pre-paid income tax	8,070	(1,089)	(5,253)
	<u>4,477</u>	<u>(4,925)</u>	<u>(10,600)</u>
Items classified as investing activities			
Net (surplus)/loss on disposal of fixed assets	(13)	(17)	31
Surplus on sale of investments	-	(290)	(290)
Capitalised costs	468	551	550
	<u>455</u>	<u>244</u>	<u>291</u>
Net cash flow from operating activities	84,858	59,080	122,732

SKY CITY ENTERTAINMENT GROUP LIMITED
STATEMENT OF ACCOUNTING POLICIES
for the six months ended 31 December 2002

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 2002 and the unaudited interim financial statements for the six months ended 31 December 2001, with the exception of accounting for investments in associates as set out below.

The interim financial statements for the six months ended 31 December 2002 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 2002.

CHANGES IN ACCOUNTING POLICIES

Investment in associates

The Board of Directors has applied the requirements of Financial Reporting Standard 38 "Accounting for Investments in Associates" in the preparation of these financial statements. As a consequence of adopting this financial reporting standard the following accounting policies have been changed:

Goodwill on acquisition

Under the new policy, goodwill attributable to the acquisition of an associate is recognised as part of the carrying amount of the investment and is not recognised separately in the Statement of Financial Position. Previously, such goodwill was separately recognised and classified as an intangible asset.

This change in accounting policy has resulted in the unamortised balance of goodwill on acquisition of associates amounting to \$12,363,438 (31 December 2001: \$10,918,948; 30 June 2002: \$13,253,683) being transferred from intangible assets to investments in associates in the Statement of Financial Position. The comparative figures have been adjusted to comply with the new policy to assist readers of the financial statements.

Share of surpluses of associates

Under the new policy the Group's share of the net surpluses of associates is recognised as part of operating surplus before income tax. Previously, the Group recognised dividends received from associates in operating surplus before tax and recognised the Group's share of retained surpluses of associates in net surplus.

This change in accounting policy has resulted in an increase in operating surplus before income tax of \$175,000 (31 December 2001: \$261,000; 30 June 2002: \$344,000). However, this change in accounting policy has had no effect on net surplus. Comparative figures have been adjusted to comply with the new policy to assist readers of the financial statements.

SKY CITY ENTERTAINMENT GROUP LIMITED
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the six months ended 31 December 2002

6 months ended 31 December 2002	6 months ended 31 December 2001	12 months ended 30 June 2002
Unaudited	Unaudited	Audited
\$'000	\$'000	\$'000

1. REVENUE

Trading Revenue

Sales	280,139	249,198	510,243
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Investment revenue

Share of associated company surplus	175	261	344
Dividends from wholly owned entities	-	-	2
Interest received	2,860	670	2,150

Other revenue

Gain on disposal of property	-	-	52
Other revenue	-	438	360

Total revenue from continuing activities

<u>283,174</u>	<u>250,567</u>	<u>513,151</u>
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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 2002 was \$7.1 million (31 December 2001: \$6.0 million; 30 June 2002: \$12.2 million).

Interest received includes \$1.6 million of use of money interest receivable from the Department of Inland Revenue that is non-recurring.

2. EXPENSES

Operating expenses

Depreciation - buildings	3,910	3,826	7,989
Depreciation - plant and equipment	13,353	11,430	23,390
Depreciation - motor vehicles	27	16	38
Depreciation - furniture and fittings	3,180	3,154	5,819
Total depreciation	<u>20,470</u>	<u>18,426</u>	<u>37,236</u>

Amortisation of other intangibles	1,621	1,301	2,549
Amortisation of goodwill	1,124	1,461	2,254

Cost of borrowings

Interest paid	23,401	22,467	45,708
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SKY CITY ENTERTAINMENT GROUP LIMITED
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the six months ended 31 December 2002

6 months ended 31 December 2002	6 months ended 31 December 2001	12 months ended 30 June 2002
Unaudited	Unaudited	Audited
\$'000	\$'000	\$'000

2. EXPENSES (continued)

Non-recurring expenses

Write-off of Argentina investment	-	12,148	22,422
Provision for Sky City Leisure advances to Argentina	-	5,000	-
Write-off of goodwill in Sky City Leisure	-	16,730	16,730

3. COMMITMENTS

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

Operating leases

Non-cancellable operating lease commitments:

Within one year	6,720	7,161	6,921
Later than one, not later than two years	7,204	7,653	7,201
Later than two, not later than five years	36,441	20,918	14,324
Later than five years	136,303	172,297	168,031
	<u>186,668</u>	<u>208,029</u>	<u>196,477</u>

Contractual commitments of up to \$53,576,264 are outstanding at 31 December 2002 (31 December 2001: \$33,549,763; 30 June 2002: \$16,512,315). Current contractual commitments relate to the construction of the Auckland conference centre and purchases of plant and equipment for Auckland and Riverside complexes.

4. CONTINGENT LIABILITIES

Taxation

On 2 December 2002 the Inland Revenue Department advised that it would allow the income tax credit claimed in relation to the Harrah's contract termination fee. This resulted in a reduction in contingent liabilities reported at 30 June 2002 by \$6,700,000 to nil (31 December 2001: \$6,700,000).

Argentina debt

Sky City Leisure Limited is one of the guarantors for a loan facility utilised by Village Cinemas S.A. (Argentina), an associate company. The maximum liability and exposure at 31 December 2002 under this guarantee is US\$4 million (31 December 2001: US\$15 million; 30 June 2002: US\$4 million).

SKY CITY ENTERTAINMENT GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 31 December 2002

5. EVENTS OCCURRING AFTER BALANCE DATE

Provision for dividend

On 21 February 2003 the directors resolved to provide for an interim dividend to be paid in respect of the six months ended 31 December 2002. The dividend will be paid at a value of 21 cents per share on issue as at 21 March 2003 with full imputation credits attached.

Share buyback

The directors have resolved to commence a share buyback programme of up to \$60 million of the company's shares from 3 March 2003. The buyback programme is anticipated to continue for the subsequent 12 months.

6. EARNINGS PER SHARE

As at 31 December 2002 the company had 211,568,241 shares on issue (31 December 2001: 205,634,514; 30 June 2002: 207,593,422). The group net surplus per share for the six months ended 31 December 2002 is 25.2 cents (31 December 2001: 5.0 cents; 30 June 2002: 27.9 cents).

7. NON-CASH FINANCING ACTIVITIES

During the period the company issued \$22,371,523 in shares (31 December 2001: \$12,218,625; 30 June 2002: \$23,226,708) under the Dividend Reinvestment Plan. The shares were issued in lieu of a cash dividend. The Dividend Reinvestment Plan ceased in October 2002.

DIRECTORY

DIRECTORS

J P Hartley, Chairman

E W Davies, Managing Director

R H McGeoch

P L Reddy

E Toime

W R Trotter

SECRETARY

A B Ryan

BANKERS

ANZ Banking Group (New Zealand) Limited

ASB Finance Limited

Australia and New Zealand Banking Group

Bank of New Zealand Limited

Commonwealth Bank of Australia

National Australia Bank Limited

The Hongkong and Shanghai
Banking Corporation Limited

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