



# SKYCITY 24/7 EXPERIENCE

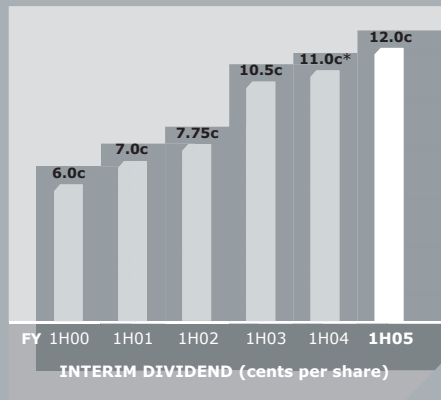
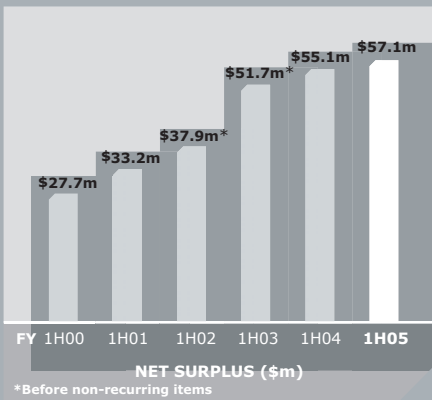
SKYCITY Entertainment Group Limited **Interim Report 2005**

# \$57.1 MILLION

net surplus after tax

# 12.0 CENTS PER SHARE

interim dividend



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## Key Features of the Half Year (6 months ended 31 December 2004)

- Net surplus after tax increased by 4% to \$57.1 million, from \$55.1 million in the previous corresponding period.
- Fully imputed interim dividend of 12.0 cents per share will be paid on 1 April 2005.
- Group operating revenues increased by 19% to \$351 million and earnings (as measured by earnings before interest and tax: EBIT) were up 13% to \$120 million.
- Whilst the Group's EBIT performance improved from \$106 million to \$120 million, increased interest costs associated with the fully debt-funded acquisitions of SKYCITY Darwin, the 40.5% shareholding in Christchurch Casino, the full takeover of SKYCITY Leisure and the acquisition of an additional 15% of SKYCITY Hamilton, reduced the impact on net surplus after tax. Growth in earnings from these acquisitions will more than offset the higher interest costs in future periods.
- The new SKYCITY Auckland Convention Centre opened in July 2004 and is trading well ahead of expectations.
- Acquisition of the SKYCITY Darwin casino and hotel was completed on 22 July 2004. Revenue and EBIT for the half year were up 18% and 16% respectively on the prior comparable period. SKYCITY Darwin continues to perform strongly and is significantly ahead of pre-acquisition expectations.
- Construction of the five-star SKYCITY Grand Hotel in Auckland has proceeded on time and to budget, with opening scheduled for April 2005.
- The A\$20 million first stage of the A\$70 million redevelopment of the SKYCITY Adelaide property is scheduled to open in May 2005. The first stage of the redevelopment project includes a bistro-style restaurant and upmarket bar, private function room and new gaming and entertainment facilities. This will help reposition the property as Adelaide's most popular entertainment destination.

## MANAGING DIRECTOR'S REPORT

**Operating and Financial Review**

SKYCITY Entertainment Group has reported an increased revenue and earnings performance for the six months ended 31 December 2004, with net surplus after tax up 4% on the previous corresponding half year period.

The 2005 first half result continues the sequence of strong revenue and earnings increases that have been reported since the company commenced operations in 1996. Over the last five years, SKYCITY's first half operating earnings, as measured by EBITDA (earnings before interest, tax, depreciation and amortisation of intangible assets), have more than doubled from \$69 million in first half 2000 to \$152 million in first half 2005.

SKYCITY continues to maintain its track record of delivering strong returns and wealth creation for shareholders with a 19% per annum pretax return, on the New Zealand Exchange, for the 18-month period from July 2003 to December 2004.

The 2005 interim dividend of 12.0 cents per share is up from the 11.0 cents per share paid for the April 2004 dividend. The interim dividend will be paid on 1 April to those shareholders on the company's share register as at 5:00pm (New Zealand time) on 18 March 2005. As announced, in conjunction with the interim result release on 21 February, SKYCITY is also reintroducing a dividend reinvestment plan with effect from and including the April 2005 dividend.



SKYCITY's capital management programme has included a restructuring of the company's debt, a consistent dividend policy, reintroduction of a dividend reinvestment plan and a sequence of on-market share buybacks, all of which have combined to create a strong balance sheet and efficient gearing.

During the half year, SKYCITY negotiated a US and Trans-Tasman private placement of US\$400 million long-term debt at maturities between 7 and 15 years, at equivalent interest cost to the existing senior debt. This facility has been fully hedged to eliminate foreign currency risk. The placement significantly extends SKYCITY's debt maturity profile and diversifies the company's sources of debt funding. The US\$400 million placement, which is noteworthy for its status as the first US private placement by an unrated New Zealand company and the first to include a foreign currency placement, will be used to repay existing senior debt.

SKYCITY has also announced the renewal of its NZ\$150 million capital notes programme, which matures in May 2005.

### **SKYCITY Auckland**

Revenues at SKYCITY Auckland increased by 4% over the previous corresponding half year.

Gaming operations experienced a difficult six-month period with revenues up marginally over first half 2004. An increase in table game revenues of 4% was offset by a 1% reduction in gaming machine revenues where the \$20 note acceptor limitation, imposed by legislation in March 2004, continued to impact on customer experience and operational efficiency.

Auckland's gaming machine performance was also impacted by technical problems associated with installation of new ticketing technology, which has restricted customer take-up of this feature. The problems are expected to be resolved by March 2005. The fully operational ticket facility is expected to contribute to improved customer experience and operational efficiency in the latter part of the second half year and then in future periods.

As a consequence of changes in revenue mix, initial costs associated with the convention centre operation, increased marketing expenditure to sustain visitation, and a number of other cost pressures, SKYCITY Auckland's EBITDA result was down marginally (0.6%) compared to the corresponding prior period.

The introduction of a smoking ban in December 2004 will be a significant factor in the performance of the Auckland business over the following 12–18 months. Given the short period since introduction, it is not possible at this stage to take a definitive view of the extent of the ban's impact. SKYCITY's previously advised assessment that the smoking ban will have a significant impact in the early stages and then gradually abate over a 12–18 month period, as appears to have been the case in Australia, remains the expectation at this time (March 2005).

SKYCITY Auckland was well prepared for the introduction of smoking restrictions. Completion of exterior smoking balconies, two from the main gaming floor and one each for Alto, PLAY and the Pacific Room, have ensured that SKYCITY's customers who choose to smoke can continue to do so without excessive interruption to their play experience.

More regular patterns of growth, subsequent to the various pressures being experienced during the 2004/05 year, are expected to return to the Auckland gaming operations during the 2006 financial year.

The new SKYCITY Auckland Convention Centre has been well received by local and international customers and has significantly exceeded pre-opening revenue expectations.

During the half year new product introductions, in addition to development of the Pacific Room (which caters for SKYCITY's VIP players and provides 14 table games, lounge bar, cashiering facilities and a smoking balcony), included 240 machine replacements and 300 conversions to new games.

SKYCITY Auckland continues its strong support of the community in which it operates through the SKYCITY Auckland Community Trust and also through sponsorship and support of Starship Children's Health, Kidz First Children's Hospital, The New Zealand Breast Cancer Foundation, Special Olympics New Zealand and Auckland's NPC and Super 12 rugby teams.



### **SKYCITY Adelaide**

First half revenues at SKYCITY Adelaide were up 6% compared to the corresponding prior period, with gaming machine and table game revenues both up 7%.

Increased marketing expenditure incurred in generating revenues, and new regulatory levies imposed for the first time in first half 2005, resulted in an unchanged EBITDA performance compared to first half 2004. The increased marketing expenditure is expected to have ongoing benefit for the balance of the 2005 financial year.

The A\$20 million first stage of SKYCITY Adelaide's A\$70 million redevelopment project, announced in December 2003 and scheduled to open in May 2005, will include a bistro-style restaurant and upmarket bar, private function room and new gaming and entertainment facilities.

The focus for the second half of the year will be on the successful launch of the new facilities.

### **SKYCITY Darwin**

The purchase of SKYCITY's newest property, SKYCITY Darwin, was completed on 22 July 2004. SKYCITY Darwin has performed strongly in the first half of 2005 with revenues for the 5.3 months since acquisition at A\$39 million, up 18% on the corresponding prior period.

All components of the SKYCITY Darwin operation contributed to the strong revenue growth, which was converted into an EBITDA result of A\$17 million, up 24% over the corresponding prior period.

SKYCITY Darwin's performance in the first half is equivalent to an after tax return in excess of 11% per annum, ahead of pre-acquisition expectations and significantly in excess of SKYCITY's average cost of capital of just over 8%.

Since acquisition, a VIP player programme has been initiated to take advantage of the close proximity of the property to the Asian market.

The positive regulatory environment under which the business operates in the Northern Territory, together with a strongly favourable economic outlook for the region, augurs well for SKYCITY Darwin's performance over the coming periods.

SKYCITY, as it has done at all of its locations, has commenced a programme of community involvement in Darwin with sponsorship of the Darwin V8 Supercar Championship and the AFL Northern Territory Football League competition.



### **SKYCITY Hamilton**

In the six-month period to 31 December 2004, SKYCITY Hamilton continued its record of growth with first half revenues up 5% at \$16.5 million and EBIT up 16% at \$5.0 million, compared to the corresponding prior period.

In July 2004 SKYCITY Hamilton's new function centre opened and has performed well, contributing to an improved food and beverage outcome for the period.

The continued sponsorship of Waikato rugby and the operation of the SKYCITY Hamilton Community Trust have helped establish SKYCITY Hamilton as a community-oriented enterprise within the Hamilton and Waikato regions.

### **SKYCITY Queenstown Casino**

New gaming machine product installed during the last 12-15 months has been well received by customers, with revenues growing strongly over the period, up 15% compared to first half 2004. Earnings performance improved, being marginally below breakeven at the EBIT line.

### **SKYCITY Cinemas**

It was predicted that revenue growth for the cinema operations, compared to first half 2004, would be difficult with films such as Harry Potter and the Prisoner of Azkaban, and Lord of the Rings: The Return of the King contributing to strong revenue performance in the comparative prior period. Shrek 2 and Spiderman 2 were the best performers in a period of relatively less popular film product.

Although revenues were down slightly at \$18.3 million, EBIT was steady with the previous corresponding period at \$3.3 million.

### **Regulatory and Compliance**

The Gambling Act 2003 (New Zealand) contains provisions relating to harm minimisation and restriction of opportunities to increase casino gambling. These provisions require a number of issues to be worked through and clarified by the industry and the regulatory agencies. We anticipate a period of approximately 12 months to establish the necessary clarity and foundation that will enable the industry to move forward positively and with confidence.

In South Australia (SKYCITY Adelaide), matters relating to the Codes of Practice have largely been resolved, with satisfactory outcomes being achieved for community groups and the company. The Northern Territory (SKYCITY Darwin) remains a positive regulatory environment in which to operate, with SKYCITY Darwin's significant contribution to the tourism and hospitality infrastructure well recognised in that region.

### **Outlook**

During the second half of the 2005 year we look forward to the opening of the SKYCITY Grand Hotel in Auckland (April), completion of the first phase of the SKYCITY Adelaide redevelopment project (May), and a continued strong performance from SKYCITY's newest property in Darwin.

Smoking restrictions will impact on the results that would have been otherwise achievable in the New Zealand business operations, but these impacts have been signalled previously and have been incorporated into SKYCITY's expectations for the balance of the current year and into 2006.



EVAN DAVIES  
MANAGING DIRECTOR

# A RESPONSIBLE HOST



**“SKYCITY has, in my mind, the best host responsibility programme in the world.”**

- Graham Payne, Operations Manager,  
New Zealand Gambling Helpline

SKYCITY Entertainment Group’s vision is to create fun and entertainment. Customers are the company’s greatest asset and providing positive, fun and memorable experiences for them is SKYCITY’s single most important priority.

However, for a small percentage of customers, gaming and alcohol consumption can become problematic. It is for this reason that SKYCITY operates a voluntarily developed Host Responsibility Policy, which extends across all properties. Host responsibility initiatives were introduced in 1996 following the opening of SKYCITY’s first property in Auckland.

The company has continued to develop its innovative harm minimisation programmes as the business has expanded.

SKYCITY’s programmes have been widely recognised as industry-leading and are endorsed by key stakeholders, including the New Zealand Gambling Helpline.

SKYCITY has always taken a proactive approach to host responsibility and acknowledges that management of the aspects of the business with the potential to cause harm to some customers is essential to the long-term sustainability of the wider gaming and hospitality sector. Recent legislative and regulatory changes in New Zealand (The Gambling Act 2003) and South Australia (Independent Gambling Authority Codes of Practice) require all gaming businesses to act responsibly. SKYCITY supports legislators’ recognition of the importance of harm minimisation, something the company has always prioritised. SKYCITY will continue to work with government agencies to ensure the regulatory initiatives achieve their stated objectives and are targeted appropriately.

In acknowledgement of the importance of harm minimisation, SKYCITY employs a dedicated host responsibility team to work closely with problem gambling treatment providers and academic experts in implementing host responsibility programmes. The team includes a senior manager based at SKYCITY’s corporate office and an assigned manager at each property. Together they administer responsible service of gaming and alcohol programmes and other host responsibility initiatives.

SKYCITY's site-specific host responsibility programmes have been developed over time to meet the needs of individual communities, ensuring they are carefully targeted and sensitively implemented, while also complying with the legislative requirements and licences specific to each region of operation. The strategies and tactics employed to intervene with customers who exhibit signs of problem gambling are often tailored to suit the individual site. Examples of site-specific initiatives implemented include SKYHost (a staff telephone helpline resource), currently being trialled at New Zealand sites, and the additional resource of four specific Host Responsibility Co-ordinators to work directly with customers and staff on site at SKYCITY Adelaide.

Alcohol consumption can also cause problems for some customers. SKYCITY follows a Responsible Service of Alcohol Policy, which includes a compulsory staff training programme for all staff involved in the sale, service and monitoring of the sale of alcohol. Staff involved in such areas as food and beverage, gaming and security are trained in the skills and knowledge to provide a safe, enjoyable and responsible environment for customers.

Breathalysers are offered at SKYCITY properties, providing the opportunity for customers to monitor their intoxication level. This plays a part in reducing the opportunity for customers to drive while under the influence of alcohol, creating a safer community.

### **SKYCITY's harm minimisation support initiatives include:**

- **Staff training**

All SKYCITY staff, irrespective of their area of operation, receive training in host responsibility.

- **Service provider and community liaison**

Each SKYCITY site establishes appropriate service provider and community liaison.

- **Problem gambling customer information and support**

Problem gambling posters, brochures and wallet cards in a range of relevant languages are displayed at key points at all SKYCITY properties.

- **Self-identified exclusion**

SKYCITY offers a self-identified exclusion option ("self-exclusion") to customers who believe they may have a gambling problem.

- **Customer intervention and potential exclusion**

SKYCITY sites maintain strategies to intervene with customers who exhibit signs of problem gambling.

- **Breaches**

Self-excluded and excluded customers attempting to re-enter the premises during their exclusion period may face a fine and/or Police prosecution.

- **Removal from loyalty programmes**

SKYCITY currently recognises loyal customers through its loyalty programme at all sites. It is the policy of SKYCITY to remove all excluded and trespassed customers from the programme.

- **Referrals to problem gambling helplines and service providers**

All self-excluded and excluded customers, and all third parties who contact SKYCITY about another's gambling problems, are actively encouraged to contact appropriate helplines and treatment service providers for help and support.

- **Information on gaming machines, gaming tables and near ATMs**

Gaming machines and all gaming tables at SKYCITY properties display gambling helpline information in appropriate languages. The information is also displayed on or near to all ATMs and public phones in gaming areas.

- **Clocks in gaming areas**

Clocks are on display at all SKYCITY gaming venues.

- **Community education modules**

SKYCITY has developed education modules, in consultation with problem gambling service providers, to assist health and community professionals to identify and treat problem gamblers.

- **Responsible service of alcohol**

The Responsible Service of Alcohol Policy includes a mandatory staff training programme for all staff involved in the sale, service and monitoring of the sale of alcohol.

- **Under-age restrictions**

SKYCITY is committed to keeping minors off all gaming floors and rigorously enforces the prevention of under-age gambling at all sites. Similarly, SKYCITY will not serve alcohol to underage customers.

- **Unattended children**

SKYCITY promotes parental responsibility and does not tolerate children being left unattended on any part of its properties.

- **Responsible marketing**

All SKYCITY sites comply with regulatory and legislative guidelines for responsible marketing and advertising of their facilities.

- **Funding for the provision of helpline and service providers**

SKYCITY contributes to a levy which funds the Ministry of Health's Public Health Strategy for Preventing and Minimising Gambling Harm. This strategy provides for research, public education and helpline and treatment services. SKYCITY Adelaide contributes to the Gambling Rehabilitation Fund (GRF) and is a member of the GRF committee.

"SKYCITY is committed to ensuring its customers are able to enjoy alcohol responsibly. They have developed their own model and training around it, tailored especially to their own environment, which emphasises the zero tolerance of intoxication. It is evident that they view the principles of host responsibility and good business practice as compatible."

- Dr Mike MacAvoy, Chief Executive Officer, Alcohol Advisory Council of New Zealand

# FINANCIAL STATEMENTS



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## ACCOUNTANTS' REPORT



17 February 2005

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**To the Shareholders of SKYCITY Entertainment Group Limited**

We have reviewed the summary financial report ("financial statements") on pages 14 to 23. The financial statements provide information about the past financial performance and cash flows of the Group, comprising SKYCITY Entertainment Group Limited and its subsidiaries for the half year ended 31 December 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out in the 30 June 2004 published financial statements.

**Directors' responsibilities**

The Company's directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 31 December 2004 and its financial performance and cash flows for the half year ended on that date.

**Accountant's responsibilities**

We are responsible for reviewing the 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 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 financial statements of the Group for the half year ended 31 December 2004 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.



We have no relationship with or interests in SKYCITY Entertainment Group Limited or its subsidiaries other than in our capacities as accountants conducting this review, auditors under the Companies Act 1993, tax and accounting advisors.

#### **Review opinion**

We have reviewed the financial performance and cash flows of the Group for the half year ended 31 December 2004 and its financial position as at that date.

Based on our review nothing has come to our attention that causes us to believe that the financial statements do not present fairly the financial position of the Group as at 31 December 2004 and its financial performance and cash flows for the half year ended on that date in accordance with Financial Reporting Standard No. 24.

Our review was completed on 17 February 2005 and our review opinion is expressed as at that date.



Chartered Accountants  
Auckland

## STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 31 December 2004

	6 months ended 31 December 2004 Unaudited \$'000	6 months ended 31 December 2003 Unaudited \$'000	12 months ended 30 June 2004 Audited \$'000
Operating revenue	<b>345,304</b>	296,632	590,479
Dividends received	<b>3,518</b>	–	163
Interest received	<b>2,290</b>	488	1,898
Share of associated company surplus/(deficit)	<b>23</b>	(1,449)	117
Foreign currency gains	–	101	1,500
Total operating revenue	<b>351,135</b>	295,772	594,157
Total operating expenses	<b>(198,950)</b>	(165,599)	(355,396)
<b>Earnings before interest expense, taxation, depreciation and amortisation (EBITDA)</b>	<b>152,185</b>	130,173	238,761
Depreciation	<b>(27,801)</b>	(21,473)	(44,668)
Amortisation of other intangibles and licenses	<b>(2,548)</b>	(1,427)	(2,464)
Amortisation of goodwill	<b>(2,213)</b>	(1,226)	(545)
Total depreciation and amortisation	<b>(32,562)</b>	(24,126)	(47,677)
<b>Earnings before interest expense and taxation (EBIT)</b>	<b>119,623</b>	106,047	191,084
Interest expense	<b>(38,607)</b>	(23,482)	(48,563)
<b>Surplus before taxation</b>	<b>81,016</b>	82,565	142,521
Taxation expense	<b>(23,356)</b>	(27,133)	(40,400)
<b>Surplus after taxation</b>	<b>57,660</b>	55,432	102,121
Net surplus attributable to minority interest	<b>(607)</b>	(369)	(1,899)
<b>Net surplus attributable to parent shareholders</b>	<b>57,053</b>	55,063	100,222

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

## STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 31 December 2004

	6 months ended 31 December 2004 Unaudited \$'000	6 months ended 31 December 2003 Unaudited \$'000	12 months ended 30 June 2004 Audited \$'000
<b>Net surplus for the period, comprising</b>			
Parent shareholders' interest	57,053	55,063	100,222
Minority interest	607	369	1,899
	<b>57,660</b>	<b>55,432</b>	<b>102,121</b>
<b>Other recognised revenues and expenses</b>			
Foreign currency translation reserve movement	(20,193)	(750)	(9,953)
<b>Total recognised revenues and expenses</b>	<b>37,467</b>	<b>54,682</b>	<b>92,168</b>
Buyback of shares	(6,453)	(27,656)	(27,656)
Movement in employee share entitlement reserve	(792)	(1,246)	511
Exercise of share options	4,547	2,001	4,193
Employee share entitlements issued	2,870	2,817	2,816
Distributions to owners	(64,528)	(54,313)	(100,004)
Acquisition of minority interest	–	–	(5,190)
Minority interest in contributions from owners	–	1,200	1,200
<b>Movements in equity for the period</b>	<b>(26,889)</b>	<b>(22,515)</b>	<b>(31,962)</b>
<b>Equity at beginning of period, comprising</b>			
Parent shareholders' interest	211,087	240,958	240,958
Minority interest	3,516	5,607	5,607
	<b>214,603</b>	<b>246,565</b>	<b>246,565</b>
<b>Equity at end of period, comprising</b>			
Parent shareholders' interest	183,591	216,874	211,087
Minority interest	4,123	7,176	3,516
	<b>187,714</b>	<b>224,050</b>	<b>214,603</b>

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

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2004

	31 December 2004 Unaudited \$'000	31 December 2003 Unaudited \$'000	30 June 2004 Audited \$'000
<b>Equity</b>			
Share capital	226,835	223,679	225,871
Reserves	(28,495)	(64)	(7,510)
Retained earnings	(14,749)	(6,741)	(7,274)
<b>Shareholders' equity</b>	<b>183,591</b>	216,874	211,087
Minority interests	4,123	7,176	3,516
<b>Total equity</b>	<b>187,714</b>	224,050	214,603
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	572,856	516,548	579,967
Deferred tax	32,150	27,093	27,216
Convertible notes	8,910	13,365	8,910
Capital notes	–	149,455	–
Total non-current liabilities	613,916	706,461	616,093
<b>Current liabilities</b>			
Bank overdraft	–	819	–
Payables and accruals	85,894	81,972	93,619
Borrowings	387,009	1,000	101,000
Capital notes	149,833	–	149,644
Total current liabilities	622,736	83,791	344,263
<b>Total liabilities</b>	<b>1,236,652</b>	790,252	960,356
<b>Total equity and liabilities</b>	<b>1,424,366</b>	1,014,302	1,174,959
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in associates	251	18,800	255
Other investments	94,859	–	94,609
Property, plant and equipment	902,621	697,905	750,267
Intangible assets	306,701	205,620	212,373
Future income tax benefit	19,211	–	14,645
Total non-current assets	1,323,643	922,325	1,072,149
<b>Current assets</b>			
Cash and bank balances	73,686	70,212	53,272
Receivables and prepayments	20,941	18,337	36,522
Income tax receivable	1,098	–	9,999
Inventories	4,998	3,428	3,017
Total current assets	100,723	91,977	102,810
<b>Total assets</b>	<b>1,424,366</b>	1,014,302	1,174,959

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

## STATEMENT OF CASH FLOWS

For the six months ended 31 December 2004

	6 months ended 31 December 2004 Unaudited \$'000	6 months ended 31 December 2003 Unaudited \$'000	12 months ended 30 June 2004 Audited \$'000
<b>Operating activities</b>			
<b>Cash was provided from</b>			
Receipts from customers	336,515	310,427	574,325
Interest received	2,290	2,682	6,421
Dividends received	3,518	–	163
	<b>342,323</b>	313,109	580,909
<b>Cash was applied to</b>			
Payments to suppliers and employees	(193,464)	(170,363)	(296,113)
Interest paid	(33,389)	(21,625)	(47,230)
Other taxes paid	(19,696)	(10,681)	(27,024)
Income taxes paid	(10,752)	(20,799)	(53,828)
	<b>(257,301)</b>	(223,468)	(424,195)
<b>Net cash flows from operating activities</b>	<b>85,022</b>	89,641	156,714
<b>Investment activities</b>			
<b>Cash was applied to</b>			
Purchase and construction of fixed assets	(67,285)	(74,919)	(145,874)
Capitalised interest paid	(2,849)	(1,781)	(6,784)
Purchase of subsidiaries	(202,733)	–	(33,270)
Purchase of investments	–	–	(94,609)
	<b>(272,867)</b>	(76,700)	(280,537)

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

## STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 31 December 2004

	6 months ended 31 December 2004 Unaudited \$'000	6 months ended 31 December 2003 Unaudited \$'000	12 months ended 30 June 2004 Audited \$'000
<b>Financing activities</b>			
<b>Cash was provided from</b>			
Proceeds from long-term borrowings	279,886	85,315	617,000
Exercise of share options	4,547	2,001	4,193
Advances from minority interests	–	–	1,200
Gains on foreign currency swaps hedging investment in foreign operations	–	42	1,500
	<b>284,433</b>	<b>87,358</b>	<b>623,893</b>
<b>Cash was applied to</b>			
Buyback of shares	(6,453)	(27,656)	(27,656)
Repayment of short-term borrowings	(800)	(500)	(1,000)
Repayment of long-term borrowings	–	(5,800)	(374,071)
Distributions to shareholders	(64,528)	(54,313)	(100,004)
	<b>(71,781)</b>	<b>(88,269)</b>	<b>(502,731)</b>
<b>Net cash flows from financing activities</b>	<b>212,652</b>	<b>(911)</b>	<b>121,162</b>
<b>Net increase/(decrease) in cash held</b>	<b>24,807</b>	<b>12,030</b>	<b>(2,661)</b>
Foreign currency translation adjustment	(4,393)	99	(1,331)
Opening cash and bank	53,272	57,264	57,264
<b>Cash at end of period</b>	<b>73,686</b>	<b>69,393</b>	<b>53,272</b>
<b>Composition of cash</b>			
Cash and bank	73,686	70,212	53,272
Bank overdraft	–	(819)	–
	<b>73,686</b>	<b>69,393</b>	<b>53,272</b>

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

## STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 31 December 2004

	6 months ended 31 December 2004 Unaudited \$'000	6 months ended 31 December 2003 Unaudited \$'000	12 months ended 30 June 2004 Audited \$'000
<b>Reconciliation with operating surplus</b>			
<b>Reported surplus after tax</b>	<b>57,053</b>	55,063	100,222
Less associated entity (surpluses)/deficits	(23)	1,449	(117)
Less minority interests	607	369	1,899
	<b>57,637</b>	56,881	102,004
<b>Items not involving cash flows and non-operating cash flows</b>			
Depreciation expense	27,801	21,473	44,668
Current period employee share entitlement	2,085	1,570	3,336
Amortisation expense	4,761	2,653	3,010
Amortisation of deferred expenditure	–	609	1,303
Increase in deferred taxation	4,934	2,410	2,533
Gain on foreign currency interest rate swap	–	–	(1,500)
Increase in future income tax benefit	(4,566)	–	(11,494)
Write-down of associate	–	–	20,904
Movement in foreign exchange	–	(42)	1,573
	<b>35,015</b>	28,673	64,333
<b>Impact of changes in working capital items</b>			
Decrease/(Increase) in receivables and prepayments	15,581	(7,548)	(29,742)
(Increase)/Decrease in inventory	(1,981)	(530)	(119)
(Decrease)/Increase in payables and accruals	(7,725)	17,136	28,783
Decrease/(Increase) in income tax receivable	8,901	(543)	(9,684)
	<b>14,776</b>	8,515	(10,762)
<b>Items classified as investing activities</b>			
Net surplus on disposal of fixed assets	–	126	–
Capital items included in working capital movements	(22,406)	(4,554)	1,139
	<b>(22,406)</b>	(4,428)	1,139
<b>Net cash flow from operating activities</b>	<b>85,022</b>	89,641	156,714

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

**STATEMENT OF ACCOUNTING POLICIES**

For the six months ended 31 December 2004

**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 2004 and the unaudited financial statements for the six months ended 31 December 2003.

The interim financial statements for the six months ended 31 December 2004 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 2004.

**Comparatives**

Certain comparatives have been restated in order to conform to current year presentation.

**Changes in accounting policies**

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

## NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2004

### 1. BORROWINGS

The Group has a NZ\$1,000,000,000 unsecured facility. NZ\$350,000,000 of this facility matures on 1 April 2005, of which \$320,000,000 has been drawn down and has been classified as current in the Statement of Financial Position.

The company has negotiated US\$400,000,000 of borrowings from the US private placement market. The amounts and terms are as follows: US\$291,000,000 seven years, US\$67,000,000 ten years, US\$27,000,000 twelve years and US\$15,000,000 fifteen years. Derivative instruments will be used to convert the funding to New Zealand and Australian dollars.

Draw down of the US private placement borrowings will be on 15 March 2005. NZ\$320,000,000 will be utilised to repay the current portion of the NZ\$1,000,000,000 facility.

### 2. COMMITMENTS

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

	31 December 2004 Unaudited \$'000	31 December 2003 Unaudited \$'000	30 June 2004 Audited \$'000
<b>Operating leases</b>			
Non-cancellable operating lease commitments:			
Payable not later than one year	<b>7,117</b>	7,376	5,710
Payable later than one, not later than two years	<b>5,509</b>	6,611	6,625
Payable later than two, not later than five years	<b>15,138</b>	14,905	14,967
Payable later than five years	<b>239,429</b>	246,147	241,405
<b>Total operating lease commitments</b>	<b>267,193</b>	275,039	268,707
<b>Capital expenditure</b>			
Amounts committed to capital expenditure	<b>53,586</b>	99,953	63,809
<b>Total capital expenditure commitments</b>	<b>53,586</b>	99,953	63,809

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**3. CONTINGENT GAINS AND LOSSES****SKYCITY Leisure Limited**

SKYCITY Leisure Limited is one of the guarantors for a loan facility utilised by Village Cinemas SA Argentina, an associate company. The maximum liability and exposure for SKYCITY as at 31 December 2004 under this guarantee is US\$4,000,000 (31 December 2003: US\$4,000,000; 30 June 2004: US\$4,000,000).

As part of the negotiations for recapitalisation of Village Cinemas SA, SKYCITY Leisure Limited has granted an option to Village Roadshow Limited for it to acquire 40% of its shareholding in Village Cinemas SA (10% of total shares) for US\$1.00. The option can be exercised at any time prior to the repayment of the Village Cinemas SA funding facility.

**4. SKYCITY DARWIN CASINO AND HOTEL**

On 22 July 2004 the company completed the purchase of the SKYCITY Darwin casino and hotel. The contracted purchase price was AU\$195,000,000 of which a AU\$19,500,000 deposit had been paid at 30 June 2004.

The financial effect of the acquisition including a provisional assessment of the fair value of net assets acquired has been completed and is detailed below.

Net assets acquired	NZ\$'000
Current assets	8,183
Fixed assets	114,762
Current liabilities	(6,927)
Other liabilities	(3,205)
Net tangible assets acquired	112,813
Casino licence	41,100
Goodwill	62,247
<b>Consideration paid (including costs and taxes)</b>	<b>216,160</b>

**5. EVENTS OCCURRING AFTER BALANCE DATE****Provision for Dividend**

On 17 February 2005 the directors resolved to provide for an interim dividend to be paid in respect of the six-month period ended 31 December 2004. The dividend will be paid at a value of 12.0 cents per share on issue as at 18 March 2005 with full imputation credits attached. The dividend will be paid on 1 April 2005.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. EARNINGS PER SHARE**

	6 months ended 31 December 2004 Unaudited \$'000	6 months ended 31 December 2003 Unaudited \$'000	12 months ended 30 June 2004 Audited \$'000
Weighted average number of ordinary shares on issue ('000)	<b>417,010</b>	415,371	417,828
Group surplus from operations per share (cents)	<b>13.7</b>	13.3	24.0

Earnings per share is calculated by dividing the Group operating surplus after income tax and minority interests by the weighted average of the number of ordinary shares on issue during the year.

# DIRECTORY

## **DIRECTORS**

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

## **COMPANY SECRETARY**

A B Ryan

## **REGISTERED OFFICE**

### **SKYCITY Entertainment Group Limited**

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## **AUDITOR**

PricewaterhouseCoopers, Auckland

## **SHARE REGISTRAR**

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## **BANKERS**

ANZ National Bank  
Bank of New Zealand  
Commonwealth Bank of Australia

## **SOLICITORS**

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

## **CAPITAL NOTES TRUSTEE**

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