

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 1. GENERAL INFORMATION

SKYCITY Entertainment Group Limited (SKYCITY or the company and its subsidiaries or the Group) operates in the entertainment, leisure and recreation, and tourism sectors. The Group has operations in New Zealand, Australia and Fiji.

The company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Federal House, 86 Federal Street, Auckland. The company has its primary listing on the New Zealand stock exchange and is also listed on the Australian stock exchange.

These consolidated financial statements have been approved for issue by the board of directors on 21 August 2006.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These general purpose financial statements for the year ended 30 June 2006 have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards.

### (a) Basis of Preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### *Compliance with IFRS*

The separate and consolidated financial statements of SKYCITY also comply with International Financial Reporting Standards (IFRS).

#### *Entities Reporting*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at 30 June 2006 and the results of all subsidiaries, joint ventures and associates for the year then ended. SKYCITY Entertainment Group Limited and its subsidiaries together are referred to in these financial statements as the Group.

The financial statements of the 'Parent' are for the company as a separate legal entity.

The Parent company and the Group are designated as profit-oriented entities for financial reporting purposes.

#### *Statutory Base*

SKYCITY is a company registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

#### *Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

These financial statements are the first Group annual financial statements to be prepared in accordance with NZ IFRS. NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Group until 30 June 2005 were prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differ in certain respects from NZ IFRS. When preparing the financial statements, the company has amended certain accounting, valuation and consolidation methods applied in the NZ FRS financial statements to comply with NZ IFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under NZ IFRS 1 only to apply NZ IAS 32 and NZ IAS 39 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Group's equity and net income are given in note 41.

#### *Historical Cost Convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss and investment property.

#### *Critical Accounting Estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the company to exercise its judgement in the process of applying the Group's accounting policies.

### (b) Principles of Consolidation

#### *(i) Subsidiaries*

Subsidiaries are all those entities (including special purpose entities) over which the company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the company.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated Income Statement and Balance Sheet respectively.

## *(ii) Associates*

Associates are all entities over which the Group has significant influence but not control, generally evidenced by holdings of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity's financial statements using the cost method, and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post-acquisition movements in reserves is recognised in Reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## *(iii) Joint Ventures*

The proportionate interests in the assets, liabilities and expenses of a jointly controlled operation have been incorporated in the financial statements under the appropriate headings.

## **(c) Segment Reporting**

A geographical segment is engaged in providing products or services within a particular economic environment and may be subject to risks and returns that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that may be subject to risks and returns that are different to those of other business segments. SKYCITY has determined that its primary segments are geographical and its secondary are business segments.

## **(d) Foreign Currency Translation**

### *(i) Functional and Presentation Currency*

Items included in the financial statements of each of the company's operations are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that operation ('functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency.

### *(ii) Transactions and Balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

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*(iii) Foreign Operations*

The results and financial position of foreign entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each Income Statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**(e) Revenue Recognition**

Revenue is recognised as follows:

*(i) Operating Revenue*

Operating revenues include casino, hotel, food and beverage, tower admissions, cinema admissions and other revenues. Casino revenues represent the net win to the casino from gaming activities, being the difference between amounts wagered and amounts won by casino patrons.

Revenues exclude the retail value of rooms, food, beverage and other promotional allowances provided on a complimentary basis to customers.

*(ii) Interest Income*

Interest income is recognised on a time-proportion basis using the effective interest method.

*(iii) Dividend Income*

Dividend income is recognised when the right to receive payment is established.

**(f) Income Tax**

The income tax expense for the period is the tax payable on the current period's taxable income, based on the income tax rate for each jurisdiction. This is then adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and changes in unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(g) Leases**

*(i) The Group is the Lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

*(ii) The Group is the Lessor*

Assets leased to third parties under operating leases are included in property, plant and equipment in the Balance Sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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## (h) Impairment of Assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

## (i) Cash and Bank Balances

Cash and bank balances includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

## (j) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

## (k) Inventories

Inventories, all of which are finished goods, are stated at the lower of cost and net realisable value determined on a first in, first out basis.

## (l) Investments and Other Financial Assets

*From 1 July 2005*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. The company determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

### *(i) Financial Assets at Fair Value through Profit or Loss*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the company. The policy of the company is to designate a financial asset at fair value through profit and loss if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are held either for trading or are expected to be realised within 12 months of the Balance Sheet date.

### *(ii) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the Balance Sheet.

### *(iii) Held to maturity Investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

### *(iv) Available for sale Financial Assets*

Available for sale financial assets, comprising principally marketable equity securities, are non-derivative assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the company intends to dispose of the investment within 12 months of the balance sheet date.

Available for sale financial assets and financial assets at fair value through profit and loss are carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the Income Statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available for sale are recognised in equity in the available for sale investments revaluation reserve.

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When securities classified as available for sale are sold, the accumulated fair value adjustments are included in the Income Statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices.

#### **(m) Derivatives**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) or hedges of exposures to variability in cash flows associated with recognised assets or liabilities or highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, SKYCITY documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

##### *(i) Fair Value Hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

##### *(ii) Cash Flow Hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the Income Statement when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

*(iii) Derivatives that do not qualify for Hedge Accounting*  
Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

#### **(n) Property, Plant and Equipment**

Property, plant and equipment (except for investment properties refer to note 2(o)) is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Buildings 5-75 years
- Building fit-out 10 years
- Plant and equipment 2-75 years
- Vehicles 3 years
- Fixtures and fittings 3-20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## (o) Investment Property

Investment property is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open-market value determined annually by independent external valuers. Changes in fair values are recorded in the Income Statement as part of other income.

## (p) Intangible Assets

### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business/associate at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

### (ii) Casino Licences

The casino licences that have a finite useful life are carried at cost less accumulated amortisation. Amortisation of these casino licences is calculated on a straight-line basis so as to expense the cost of the licences over their legal lives.

The casino licences that have been determined to have an indefinite useful life for amortisation purposes are not amortised but rather are reviewed for impairment on an annual basis.

### (iii) Acquired Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to seven years).

## (q) Borrowings

Borrowings, including capital notes and Adjustable Coupon Exchangeable Securities (SKYCITY ACES), are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost unless part of an effective hedging relationship. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## (r) Borrowing Costs

Borrowing costs are expensed, except for costs incurred for the construction of any qualifying asset which are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

## (s) Employee Benefits

### (i) Wages, Salaries and Annual Leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

### (ii) Share-based Payments

SKYCITY operates an equity settled, share based compensation plan. The fair value of the employee services received in exchange for the grant of the options or shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to become exercisable or distributed. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable and shares expected to be distributed. It recognises the impact of the revision of original estimates, if any, in the Income Statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

## (t) Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of.

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Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

#### **(u) Dividends/Distributions**

Provision is made for the amount of any dividend/distribution declared on or before the end of the financial year but not distributed at balance date.

#### **(v) Earnings Per Share**

##### *(i) Basic Earnings per Share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

##### *(ii) Diluted Earnings per Share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### **3. TRANSITION TO NZ IFRS**

#### **Application of NZ IFRS 1**

These financial statements for the year ended 30 June 2006 are the first annual financial statements that comply with NZ IFRS and IFRS. These financial statements have been prepared as described in note 2(a). The Group has applied NZ IFRS 1 in preparing these consolidated financial statements.

The company's transition date is 1 July 2004 and the opening NZ IFRS balance sheet is prepared as at that date. The reporting date of these financial statements is 30 June 2006. SKYCITY's NZ IFRS adoption date is 1 July 2005. The company has restated the 2005 comparative figures as set out in these financial statements for compliance with NZ IFRS. This information was released to the New Zealand and Australian stock exchanges on 9 February 2006.

In preparing these consolidated financial statements in accordance with NZ IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of NZ IFRS.

The Group has elected to apply the following optional exemptions from full retrospective application.

##### *(a) Business Combinations Exemption*

The Group has applied the business combinations exemption in NZ IFRS 1. Business combinations that took place prior to the 1 July 2004 transition date have not been restated.

##### *(b) Fair Value as Deemed Cost Exemption*

The Group has elected to measure certain items of property, plant and equipment at fair value as at 1 July 2004 and use that fair value as its deemed cost as at 1 July 2004.

##### *(c) Cumulative Translation Differences Exemption*

The Group has elected to set the cumulative translation to zero at 1 July 2004. This exemption has been applied to all subsidiaries in accordance with NZ IFRS 1.

##### *(d) Exemption from Restatement of Comparatives for NZ IAS 32 and NZ IAS 39*

The Group elected to apply this exemption. The Group applies previous NZ FRS rules to derivatives, financial assets, financial liabilities and to hedging relationships for the 2005 comparative information. The adjustments required for differences between NZ FRS and NZ IAS 32 and NZ IAS 39 are determined and recognised at 1 July 2005.

##### *(e) Share-based Payment Transaction Exemption*

The Group has elected to apply the share-based payment exemption. The Group applied NZ IFRS 2 to those options that have been granted since 7 November 2002.

The reconciliations in note 41 provide a quantification of the effect of the transition to NZ IFRS.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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SKYCITY ENTERTAINMENT GROUP LIMITED

## 4. REVENUE

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Gaming	<b>578,391</b>	524,812	–	–
Non-gaming	<b>173,978</b>	145,116	–	–
	<b>752,369</b>	669,928	–	–

Non-gaming revenue includes revenues from hotels, cinemas, food and beverage, convention centre, car parking, property rentals and Sky Tower.

## 5. OTHER INCOME

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Fair value gains on financial assets at fair value through profit or loss	<b>4,107</b>	2,013	–	–
Fair value adjustment to investment property (note 14)	<b>(166)</b>	572	–	–
Interest income	<b>3,583</b>	4,846	971	2,505
Dividend income	<b>367</b>	5,624	–	–
Other income	–	–	2,131	2,653
Dividends from wholly-owned entities	–	–	106,251	133,467
	<b>7,891</b>	13,055	109,353	138,625

## 6. EXPENSES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Profit before income tax includes the following specific expenses:</b>				
<i>Depreciation</i>				
Buildings	18,081	12,969	–	–
Plant and equipment	33,889	30,796	131	14
Other	57	68	–	–
Furniture and fittings	6,534	6,171	–	–
Motor vehicles	275	175	–	–
Total depreciation	58,836	50,179	131	14
<i>Amortisation</i>				
Casino licences	2,341	5,467	–	–
Software	3,839	3,037	26	–
Rights and concessions	–	100	–	–
Total amortisation	6,180	8,604	26	–
<i>Finance costs</i>				
Interest and finance charges paid/payable	94,263	81,536	9,983	13,445
Exchange gains on foreign currency borrowings	(10,298)	(1,823)	–	–
Total finance costs	83,965	79,713	9,983	13,445
<i>Rental expense relating to operating leases</i>				
Lease payments	8,076	7,768	–	–
Total rental expense relating to operating leases	8,076	7,768	–	–

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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## 7. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>(a) Assurance Services</b>				
<i>Audit services</i>				
PricewaterhouseCoopers				
Compliance audit fees	36	15	36	15
Statutory audit fees	619	560	111	88
Other audit firms for the audit or review of financial reports of subsidiaries	55	38	–	–
Total remuneration for audit services	710	613	147	103
<i>Other assurance services provided by PricewaterhouseCoopers</i>				
Accounting advice and assistance	242	96	242	96
Financial due diligence	382	333	–	–
Systems assurance	68	–	68	–
IFRS accounting assistance	73	130	73	–
Tax compliance services	223	305	42	–
Total remuneration for other assurance services	988	864	425	96
Total remuneration for assurance services	1,698	1,477	572	199
<b>(b) Other Services</b>				
PricewaterhouseCoopers				
Taxation advisory services	1,429	1,097	617	–
Total other services	1,429	1,097	617	–

The Group employs PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important and auditor independence is not impaired. These assignments are principally tax advice and due diligence reporting on acquisitions. In all other cases other external advisers are used.

## 8. INCOME TAX EXPENSE

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>(a) Income Tax Expense</b>				
Current tax	22,880	31,414	–	–
Deferred tax	10,218	5,956	–	–
Under/(over) provided in prior years	(508)	708	–	–
Income tax expense	32,590	38,078	–	–
Deferred income tax/(revenue) expense included in income tax expense comprises:				
(Increase)/decrease in deferred tax assets (note 24)	(5,744)	87	–	–
Increase in deferred tax liabilities (note 25)	15,962	5,869	–	–
	10,218	5,956	–	–
<b>(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable</b>				
Profit from continuing operations before income tax expense	152,338	145,603	71,871	106,893
Tax at the New Zealand tax rate of 33% (2005: 33%)	50,272	48,049	23,717	35,275
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Inter-company eliminations	–	–	11,147	8,631
Acquisition of SKYCITY Darwin Holdings Pty Limited	–	(1,476)	–	–
Expenditure not deductible for tax	2,034	1,252	199	138
Share of net profit of associates	(1,424)	(9)	–	–
Additional depreciable value	–	(203)	–	–
Foreign exchange rate differences	(8,781)	(440)	–	–
Non-taxable income	(58)	(1,128)	–	–
Tax effect of imputation credits on taxable dividends	–	(1,503)	–	–
Exempt dividends received	–	–	(35,063)	(44,044)
Share of partnership expenditure	(3,639)	(3,595)	–	–
Other	(754)	–	–	–
	37,650	40,947	–	–
Difference in overseas tax rates	(4,651)	(3,577)	–	–
(Over)/under provision in prior years	(409)	708	–	–
	(5,060)	(2,869)	–	–
Income tax expense	32,590	38,078	–	–

The weighted average applicable tax rate was 21.4% (2005: 26.2%). The decrease in tax rate from 2005 to 2006 was primarily due to movements in the New Zealand dollar against the Australian dollar which resulted in tax deductible items but no associated profit before tax impact.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 9. EARNINGS PER SHARE

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Earnings per share for profit attributable to the shareholders of the company</b>				
Basic earnings per share (cents)	<b>28.5</b>	25.5	17.1	25.6
Diluted earnings per share (cents)	<b>26.9</b>	25.2	16.1	25.3
<b>(a) Reconciliations of Earnings used in Calculating Earnings Per Share</b>				
<i>Basic earnings per share</i>				
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<b>120,129</b>	106,414	71,871	106,893
<i>Diluted earnings per share</i>				
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<b>120,129</b>	106,414	71,871	106,893
Interest savings on capital notes	<b>9,892</b>	13,196	9,892	13,196
Interest savings on SKYCITY ACES	<b>6,379</b>	–	–	–
Tax on the above	<b>(5,369)</b>	(4,355)	(3,264)	(4,355)
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	<b>131,031</b>	115,255	78,499	115,734

### (b) Weighted Average Number of Shares used as the Denominator

	2006 NUMBER	2005 NUMBER
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<b>421,218,240</b>	417,436,317
Adjustments for calculation of diluted earnings per share:		
SKYCITY ACES	<b>33,942,891</b>	–
Options/share rights	<b>9,207,463</b>	12,445,344
Capital notes	<b>22,937,474</b>	27,122,768
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<b>487,306,068</b>	457,004,429

### (c) Information Concerning the Classification of Securities

#### (i) SKYCITY ACES

SKYCITY ACES are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The SKYCITY ACES have not been included in the determination of basic earnings per share. Details relating to the SKYCITY ACES are set out in note 23.

#### (ii) Options/Share Rights

Options and rights granted to employees under the SKYCITY Executive Share Option and Rights Plans are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options and rights have not been included in the determination of basic earnings per share. Details relating to the options and rights are set out in note 32.

#### (iii) Capital Notes

Capital notes are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share from their date of issue. The notes have not been included in the determination of basic earnings per share. Details relating to the notes are set out in note 22.

## 10. RECEIVABLES AND PREPAYMENTS

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Trade receivables	6,330	5,801	–	–
Advance to Christchurch Hotels Limited	16,422	16,584	–	–
Sundry receivables	5,933	10,889	92	2,662
Prepayments	2,118	2,609	170	156
Interest receivable	–	1,275	–	106
Amounts due from subsidiaries	–	–	33,904	–
	<b>30,803</b>	<b>37,158</b>	<b>34,166</b>	<b>2,924</b>

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

	FAIR VALUE		NOTIONAL PRINCIPAL	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Current Assets</b>				
Interest rate swaps – cash flow hedges	1,477	–	120,000	–
Total current derivative financial instrument assets	1,477	–	120,000	–
<b>Non-current Assets</b>				
Interest rate swaps – cash flow hedges	2,089	–	313,236	–
Cross-currency interest rate swaps – cash flow hedges	33,071	–	365,028	–
Cross-currency interest rate swaps – fair value hedges	1,895	–	21,592	–
Total non-current derivative financial instrument assets	37,055	–	699,856	–
<b>Current Liabilities</b>				
Forward foreign currency contracts	25	–	12,195	–
Total current derivative financial instrument liabilities	25	–	12,195	–
<b>Non-current Liabilities</b>				
Interest rate swaps – cash flow hedges	3,072	–	264,958	–
Total non-current derivative financial instrument liabilities	3,072	–	264,958	–

The Group is subject to currency risk, interest rate risk and credit risk as a result of its operations.

To manage and limit the effects of those financial risks, the board of directors has approved policy guidelines and authorised the use of various financial instruments. The policies approved and the financial instruments being utilised at balance date are outlined on the following page.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

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## 11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Currency Risk

Currency risk arises from movements in foreign exchange rates and can impact cash flows.

Payments to overseas suppliers are made using the currency conversion rate at the date of payment. The value of such transactions has been and will continue to be at a relatively low level.

For certain more significant committed expenditure it is the Group's policy to enter into forward foreign exchange contracts to manage the exposure to fluctuations in currency rates. There were no forward foreign exchange contracts hedging expenditure commitments as at 30 June 2006 (2005: nil).

The currency risk and interest rate risk in foreign currencies relates to funding facilities and Australian investments. To manage these, the Group utilises cross-currency interest rate swaps, forward foreign exchange contracts and interest rate swap contracts within parameters set out in the Group treasury policy.

### Credit Risk

Credit risk is the risk of the failure of a debtor or counterparty to honour its contractual obligation.

Financial assets, which potentially subject the Group and parent company to concentrations of credit risk, consist principally of cash, short-term deposits, trade receivables, interest rate swaps, cross-currency interest rate swaps and forward foreign exchange contracts. The maximum credit risk at 30 June 2006 is the fair value of the financial asset/liability. The Group and parent company's cash equivalents and short-term deposits are placed with high credit quality financial institutions. Trade receivables are presented net of the allowance for estimated doubtful receivables. Credit risk with respect to trade receivables is limited due to the relatively low value of receivables at any given time as the nature of the business is cash oriented. Concentration of credit exposure is managed within a Group policy approved by the directors.

### Interest Rate Risk

To ensure the Group's cost of funds is reasonably predictable from year to year, it is the Group's policy that floating rate debt not exceed 50% of total debt. Furthermore, of fixed rate debt 30% to 70% must re-price within one to five years, 30% to 70% in five to ten years and 0% to 20% in ten to fifteen years. The Group uses interest rate and cross-currency interest rate swaps to manage its interest rate risk. The interest on debt is either converted from fixed to floating or floating to fixed through entering into interest rate swaps or cross-currency interest rate swap agreements.

Gains and losses on derivatives which are part of an effective cash flow hedging relationship are recognised in the cash flow hedge reserve. The balance in the reserve is expected to be released to the Income Statement over the maturity profile of the underlying debt as detailed in note 21.

Refer to note 21 for the Group's exposure to interest rate risk.

### Transition to NZ IAS 32 and NZ IAS 39

SKYCITY has elected to take up the exemption available under NZ IFRS 1 to apply NZ IAS 32 and NZ IAS 39 from 1 July 2005. Previous NZ GAAP has been applied in the comparative information on financial instruments within the scope of NZ IAS 32 and NZ IAS 39. Therefore the following derivatives are not recognised on the balance sheet in the comparatives. The notional principal amounts outstanding at 30 June 2005 were \$887,500,000 (fair value negative \$8,764,032) interest rate swaps, \$248,200,000 (fair value positive \$9,087,056) cross-currency interest rate swaps, and \$81,900,000 (fair value positive \$1,614,355) forward foreign exchange contracts.

At the date of transition to these standards of 1 July 2005, an adjustment of a \$4,073,000 decrease in net assets was recognised. There was no impact on the parent entity.

## 12. ASSETS CLASSIFIED AS HELD FOR SALE

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
SKYCITY Metro Centre	52,400	–	–	–

During the year, SKYCITY announced its intention to sell the SKYCITY Metro Centre in Auckland. This building was previously classified as an investment property.

## 13. PROPERTY, PLANT AND EQUIPMENT

	LAND \$000	BUILDINGS \$000	PLANT AND EQUIPMENT \$000	FIXTURES AND FITTINGS \$000	MOTOR VEHICLES \$000	CAPITAL WORK IN PROGRESS \$000	TOTAL \$000
<b>CONSOLIDATED</b>							
<b>At 30 June 2004</b>							
Cost	152,190	412,947	201,787	58,936	358	128,680	954,898
Accumulated depreciation	–	(66,945)	(115,719)	(37,800)	(304)	–	(220,768)
Net book value	152,190	346,002	86,068	21,136	54	128,680	734,130
<b>Movements in the year ended 30 June 2005</b>							
Opening net book value	152,190	346,002	86,068	21,136	54	128,680	734,130
Exchange differences	–	(15)	(49)	–	–	(16)	(80)
Additions	10,956	202,288	26,381	24,090	483	–	264,198
Transfers	–	–	–	–	–	(30,102)	(30,102)
Depreciation charge	–	(12,969)	(30,796)	(6,171)	(175)	(68)	(50,179)
Closing net book value	163,146	535,306	81,604	39,055	362	98,494	917,967
<b>At 30 June 2005</b>							
Cost	163,146	627,829	225,981	82,044	811	98,494	1,198,305
Accumulated depreciation	–	(92,523)	(144,377)	(42,989)	(449)	–	(280,338)
Net book value	163,146	535,306	81,604	39,055	362	98,494	917,967
<b>Movements in the year ended 30 June 2006</b>							
Opening net book value	163,146	535,306	81,604	39,055	362	98,494	917,967
Exchange differences	1,564	12,027	2,705	457	40	3,216	20,009
Additions	25,554	43,847	49,690	5,791	318	–	125,200
Depreciation charge	–	(18,081)	(33,889)	(6,534)	(275)	(57)	(58,836)
Transfers	–	–	–	–	–	(69,217)	(69,217)
Closing net book value	190,264	573,099	100,110	38,769	445	32,436	935,123
<b>At 30 June 2006</b>							
Cost	190,264	685,812	279,694	88,823	1,207	32,436	1,278,236
Accumulated depreciation	–	(112,713)	(179,584)	(50,054)	(762)	–	(343,113)
Net book value	190,264	573,099	100,110	38,769	445	32,436	935,123

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

PARENT	PLANT AND EQUIPMENT \$000	FIXTURES AND FITTINGS \$000	CAPITAL WORK IN PROGRESS \$000	TOTAL \$000
<b>At 30 June 2004</b>				
Cost	232	243	–	475
Accumulated depreciation	(107)	(123)	–	(230)
Net book value	125	120	–	245
<b>Movements in the year ended 30 June 2005</b>				
Opening net book value	125	120	–	245
Additions	124	–	512	636
Disposals	–	(79)	–	(79)
Depreciation charge	(13)	(1)	–	(14)
Closing net book value	236	40	512	788
<b>At 30 June 2005</b>				
Cost	432	88	512	1,032
Accumulated depreciation	(196)	(48)	–	(244)
Net book value	236	40	512	788
<b>Movements in the year ended 30 June 2006</b>				
Opening net book value	236	40	512	788
Additions	449	44	811	1,304
Depreciation charge	(131)	–	–	(131)
Closing net book value	554	84	1,323	1,961
<b>At 30 June 2006</b>				
Cost	853	135	1,323	2,311
Accumulated depreciation	(299)	(51)	–	(350)
Net book value	554	84	1,323	1,961

Borrowing costs in relation to the funding of car park building purchases (2005: the SKYCITY Grand Hotel, SKYCITY Auckland Convention Centre, the gaming expansion and car park building purchases) have been capitalised to these projects, \$1,223,659 (2005: \$5,780,011). Total capitalised interest and facility fees included in the cost of land and buildings at 30 June 2006 is \$46,762,288 (2005: \$45,538,629). Interest is capitalised based on the interest rate on the syndicated bank facility.

A memorandum of encumbrance is registered against the title of land for the Auckland casino in favour of Auckland City Council. Auckland City Council requires prior written consent before any transfer, assignment or disposition of the land. The intent of the covenant is to protect the council's rights under the resource consent, relating to the provision of the bus terminus, public car park and the provision of public footpaths around the complex.

A further encumbrance records the Council's interest in relation to the sub-soil areas under Federal and Hobson Streets used by SKYCITY as carparking and a vehicle tunnel. The encumbrance is to notify any transferee of the council's interest as lessor of the sub-soil areas.

The Hamilton site is subject to the normal rights that the Crown reserves in respect of minerals and mining in relation to the sub-soil areas. Furthermore, the land title is subject to Section 27B of the State Owned Enterprises Act 1986 which does not provide for the owner of the land to be heard in relation to any recommendations of the Waitangi Tribunal for the resumption of the land. At balance date the company was not aware of any matters pertaining to the land under the State Owned Enterprises Act 1986. Drainage rights have been granted over parts of the land appurtenant to Lot 2 Plan 5.23789 (CT22C/1428). There is also a right of way granted over part of Lot 1 and part of Lot 2 DP580554.

## 14. INVESTMENT PROPERTIES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>At fair value</b>				
Balance at the beginning of the year	52,500	51,900	–	–
Acquisitions	8,593	–	–	–
Capitalised subsequent expenditure	66	28	–	–
Net (loss)/gain from fair value adjustment	(166)	572	–	–
Transfer to assets held for sale	(52,400)	–	–	–
Balance at the end of the year	8,593	52,500	–	–
Rental income	4,663	4,761	–	–
Direct operating expenses from property that generated rental income	953	880	–	–

The SKYCITY Metro Centre in Auckland was originally classified under NZ IFRS as an investment property. Investment properties are not depreciated and are required to be fair valued each year. The SKYCITY Metro Centre was valued with effective dates of 1 July 2004, 30 June 2005 and 30 June 2006 by DTZ New Zealand Limited, which employs registered valuers and members of the New Zealand Property Institute. The basis of valuation is fair value being the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

SKYCITY has announced its intention to sell the SKYCITY Metro Centre and this building has been transferred to assets held for sale.

On 29 June 2006, the Group purchased 97-101 Hobson Street in Auckland for \$8,593,000 (including costs). This amount was determined to be the fair value as at 30 June 2006.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 15. INTANGIBLE ASSETS

CONSOLIDATED	GOODWILL \$000	CASINO LICENCES \$000	COMPUTER SOFTWARE \$000	RIGHTS AND CONCESSIONS \$000	TOTAL \$000
<b>At 30 June 2004</b>					
Cost	24,555	195,519	16,906	2,250	239,230
Accumulated depreciation	–	(9,514)	(12,478)	(437)	(22,429)
Net book amount	24,555	186,005	4,428	1,813	216,801
<b>Movements in the year ended 30 June 2005</b>					
Opening net book amount	24,555	186,005	4,428	1,813	216,801
Exchange differences	–	(1,245)	–	–	(1,245)
Additions	–	–	4,097	–	4,097
Acquisition of subsidiary	129,100	38,580	–	–	167,680
Amortisation charge	–	(5,467)	(3,037)	(100)	(8,604)
Transfer following 100% purchase of SKYCITY Hamilton	–	–	–	(1,713)	(1,713)
Closing net book amount	153,655	217,873	5,488	–	377,016
<b>At 30 June 2005</b>					
Cost	153,655	232,610	21,008	–	407,273
Accumulated amortisation	–	(14,737)	(15,520)	–	(30,257)
Net book amount	153,655	217,873	5,488	–	377,016
<b>Movements in the year ended 30 June 2006</b>					
Opening net book amount	153,655	217,873	5,488	–	377,016
Exchange differences	12,180	25,326	189	–	37,695
Additions	2,608	44	14,828	–	17,480
Amortisation charge	–	(2,341)	(3,839)	–	(6,180)
Closing net book amount	168,443	240,902	16,666	–	426,011
<b>At 30 June 2006</b>					
Cost	168,443	259,926	38,043	–	466,412
Accumulated amortisation	–	(19,024)	(21,377)	–	(40,401)
Net book amount	168,443	240,902	16,666	–	426,011

## 15. INTANGIBLE ASSETS (continued)

PARENT	COMPUTER SOFTWARE \$000	TOTAL \$000
<b>Year ended 30 June 2006</b>		
Opening net book amount	–	–
Additions	173	173
Amortisation charge	(26)	(26)
Closing net book amount	147	147
<b>At 30 June 2006</b>		
Cost	173	173
Accumulated amortisation	(26)	(26)
Net book amount	147	147

### (a) Impairment Tests for Intangibles with Indefinite Lives

Goodwill and licences with indefinite lives are allocated to the Group's cash generating units (CGUs) identified below.

	REST OF NEW ZEALAND \$000	SKYCITY DARWIN \$000	TOTAL \$000
<b>2006</b>			
Goodwill	52,919	115,524	168,443
Casino Licence	–	38,798	38,798
	52,919	154,322	207,241
<b>2005</b>			
Goodwill	50,311	103,344	153,655
	50,311	103,344	153,655

The Group has reviewed the expected ongoing conditions associated with the SKYCITY Darwin casino licence and has determined that the licence should be accounted for as having an indefinite life with effect from 1 July 2005.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections approved by directors covering a three year period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. There is a significant surplus between the carrying values of indefinite life assets and value in use calculation.

### (b) Key Assumptions used for Value in Use Calculations

CASH GENERATING UNITS	GROSS MARGIN		GROWTH RATE		DISCOUNT RATE	
	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
Rest of New Zealand	49.4	52.9	3.0	3.0	8.6	8.7
SKYCITY Darwin	47.4	47.5	3.0	3.0	8.6	8.7

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 16. AVAILABLE FOR SALE FINANCIAL ASSETS

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at the beginning of the year	–	–	–	–
Adjustment on adoption of NZ IAS 32 and NZ IAS 39	2,578	–	–	–
Exchange differences	113	–	–	–
Revaluation surplus transfer to equity	(69)	–	–	–
Balance at the end of the year	2,622	–	–	–
Listed equity securities	1,600	–	–	–
Unlisted equity securities	1,022	–	–	–
	2,622	–	–	–

### Transition to NZ IAS 32 and NZ IAS 39

The Group has taken the exemption available under NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* to apply NZ IAS 32 *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards the Group reclassified the investments in Christchurch Hotels Limited and International All Sports Limited previously recognised as other investments.

## 17. INVESTMENTS IN ASSOCIATES

### (a) Carrying Amounts

Information relating to associates is set out below.

NAME OF COMPANY	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST		CONSOLIDATED		PARENT	
		2006 %	2005 %	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<i>Unlisted</i>							
Vista Entertainment Solutions Limited	Ticket software systems	25	25	254	281	–	–
Christchurch Casinos Limited	Casino operator	41	41	78,050	–	–	–
Village Cinemas SA Argentina	Cinemas	–	25	–	–	–	–
				78,304	281	–	–

Vista Entertainment Solutions Limited is incorporated in New Zealand and has a 31 December balance date. The directors are not aware of any significant events or transactions since Vista Entertainment Solutions Limited's balance date.

Christchurch Casinos Limited is incorporated in New Zealand and has a 31 March balance date. The directors are not aware of any significant events or transactions since Christchurch Casinos Limited's balance date.

## 17. INVESTMENTS IN ASSOCIATES (continued)

	2006 \$000	2005 \$000
<b>(b) Movements in Carrying Amounts</b>		
Balance at the beginning of the year	281	255
Share of profits after income tax	4,316	26
Christchurch Casinos Limited*	76,784	–
Dividends received/receivable	(3,077)	–
Carrying amount at the end of the year (including goodwill \$53,127,000 (2005: \$53,127,000))	<b>78,304</b>	281

\* With effect from 1 July 2005, SKYCITY Entertainment Group Limited has accounted for its investment in Christchurch Casinos Limited as an associate (previously accounted for as an investment).

## (c) Summarised Financial Information of Significant Associates

	GROUP'S SHARE OF			
	ASSETS \$000	LIABILITIES \$000	REVENUES \$000	PROFIT \$000
Christchurch Casinos Limited	16,774	1,712	19,803	4,316

## 18. OTHER INVESTMENTS

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Christchurch Casinos Limited	–	76,961	–	–
Christchurch Hotels Limited	–	1,022	–	–
International All Sports Limited	–	1,556	–	–
	<b>–</b>	<b>79,539</b>	<b>–</b>	<b>–</b>

With effect from 1 July 2005, Christchurch Casinos Limited has been accounted for as an associate.

In accordance with NZ IAS 39, with effect from 1 July 2005 the investments in Christchurch Hotels Limited and International All Sports Limited have been accounted for as available for sale financial assets.

## 19. PAYABLES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Trade payables	11,995	24,797	–	105
Accrued expenses	58,295	49,079	3,061	1,387
Employee benefits	30,486	23,129	–	–
Amounts due to subsidiaries	–	–	413,891	285,980
	<b>100,776</b>	<b>97,005</b>	<b>416,952</b>	<b>287,472</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 20. CURRENT INTEREST-BEARING LIABILITIES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Current</b>				
Bank loans	–	758	–	–
Subordinated debt – ANZ National Bank Limited	–	100,000	–	–
Total current interest-bearing borrowings	–	100,758	–	–

In June 2005, SKYCITY Cinemas Fiji Limited had a bank term loan facility of F\$908,432 (NZ\$758,000) secured by first mortgage over the Fiji multiplex. This facility was repaid and cancelled in August 2005.

In June 2005, SKYCITY Entertainment Group Limited arranged a fully subordinated facility with ANZ National Bank Limited for \$100,000,000. This facility was fully repaid in November 2005.

## 21. NON-CURRENT INTEREST-BEARING LIABILITIES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Secured</b>				
Bank loans SKYCITY Leisure Group	52	52	–	–
<b>Unsecured</b>				
United States private placement	640,408	565,670	–	–
Syndicated bank facility	314,007	396,001	–	–
Deferred funding expenses	(3,563)	(4,928)	–	–
Total unsecured non-current interest-bearing borrowings	950,852	956,743	–	–
Total non-current interest-bearing liabilities	950,904	956,795	–	–

### SKYCITY Leisure Group

At balance date, Village Rialto Cinemas Limited had a drawdown bank term loan facility of \$210,000, SKYCITY share \$52,500 (2005: \$52,500) secured by registered mortgage debenture over Village Rialto Cinemas Limited; SKYCITY has a 25% interest in Village Rialto Cinemas Limited. Village SKYCITY Cinemas Limited provides a guarantee for 50% of the outstanding facility.

### United States Private Placement

During the prior year, SKYCITY approached investors in the US private placement market with the intention of diversifying funding sources and lengthening the borrowing profile of the Group's debt. On 15 March 2005, SKYCITY borrowed NZ\$96,571,000, A\$74,900,000 and US\$274,500,000 with maturities between 2012 and 2020 from private investors (primarily US based) on an unsecured basis.

The US private placement fixed-rate US dollar borrowings have been converted to New Zealand dollar floating-rate borrowings by use of cross-currency interest rate swaps.

### Syndicated Bank Facility

At 30 June 2006, SKYCITY had in place a \$500,000,000 (2005: \$650,000,000) facility on an unsecured, negative pledge basis maturing April 2009. The funding syndicate is comprised of ANZ National Bank Limited, Bank of New Zealand Limited and Commonwealth Bank of Australia, New Zealand Branch. As at 30 June 2006, the undrawn amount was \$186,000,000 (2005: \$260,000,000).

## 21. NON-CURRENT INTEREST-BEARING LIABILITIES (continued)

### Interest Rate Risk

The following table sets out the Group's exposure to interest rate risk, including the contractual re-pricing dates and the effective weighted average interest rate.

		PRINCIPAL – INTEREST RATE RE-PRICING						
	%	1 YEAR OR LESS \$000	1-2 YEARS \$000	2-3 YEARS \$000	3-4 YEARS \$000	4-5 YEARS \$000	OVER 5 YEARS \$000	TOTAL \$000
<b>2006</b>								
Bank	7.25	42,624	–	–	–	–	–	42,624
Borrowings	7.65	(502,098)	–	–	–	–	(452,369)	(954,467)
Capital notes	8.00	–	–	–	(123,860)	–	–	(123,860)
SKYCITY ACES	5.75	(183,195)	–	–	–	–	–	(183,195)
IRS/CCIRS*	–	191,576	(51,639)	(15,000)	(24,426)	–	(100,511)	–
Re-pricing gap		(451,093)	(51,639)	(15,000)	(148,286)	–	(552,880)	(1,218,898)

		PRINCIPAL – INTEREST RATE RE-PRICING						
	%	1 YEAR OR LESS \$000	1-2 YEARS \$000	2-3 YEARS \$000	3-4 YEARS \$000	4-5 YEARS \$000	OVER 5 YEARS \$000	TOTAL \$000
<b>2005</b>								
Bank	6.75	35,458	–	–	–	–	–	35,458
Borrowings	7.76	(396,810)	–	–	–	–	(565,670)	(962,480)
Capital notes	8.00	–	–	–	–	(121,687)	–	(121,687)
ANZ National Bank Limited	8.24	(100,000)	–	–	–	–	–	(100,000)
IRS/CCIRS*	–	370,832	(136,397)	(47,794)	(131,863)	(40,000)	(14,778)	–
Re-pricing gap		(90,520)	(136,397)	(47,794)	(131,863)	(161,687)	(580,448)	(1,148,709)

\* Interest rate swaps and cross-currency interest rate swaps. Notional principal amounts.

For both 2006 and 2005 capital notes are the only interest-bearing debt within the parent entity. The parent entity is not party to any derivatives.

### Fair Values

The fair value of interest-bearing liabilities, capital notes and SKYCITY ACES is not materially different from the carrying values.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 22. SUBORDINATED DEBT – CAPITAL NOTES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at the beginning of the year	121,688	150,000	121,688	150,000
Matured during the year	–	(150,000)	–	(150,000)
Reissued during the year	2,172	121,688	2,172	121,688
Balance at the end of the year	123,860	121,688	123,860	121,688
Deferred expenses at cost	178	356	178	356
Accumulated amortisation	(38)	(178)	(38)	(178)
Balance at the end of the year	140	178	140	178
Net capital notes at the end of the year	123,720	121,510	123,720	121,510

In May 2000, SKYCITY Entertainment Group Limited issued 150 million unsecured subordinated capital notes at an issue price of \$1.00 per note.

Prior to the election date, the company must notify holders of the proportion of their capital notes it will redeem (if any) and, if applicable, the new conditions (including as to interest rate, interest dates, new election date, and other modifications to the existing conditions) that will apply to the capital notes from the election date. Holders may then choose either to retain some or all of their capital notes on the new terms, and/or to convert some or all of their capital notes into SKYCITY Entertainment Group Limited ordinary shares. SKYCITY Entertainment Group Limited may elect to redeem or purchase some or all of the capital notes that holders have elected to convert, at an amount equal to the principal amount plus any accrued but unpaid interest.

If capital notes are converted, holders will receive ordinary shares equal in value to the aggregate of the principal amount of the notes plus any accrued but unpaid interest. The value of the shares is determined on the basis of 95% of the weighted average sale price of an ordinary share on the New Zealand exchange during the 15 days prior to the election dates.

The capital notes do not carry voting rights. Capital note holders are not entitled to any distributions made by SKYCITY Entertainment Group Limited in respect of its ordinary shares prior to the conversion date of the capital notes, and do not participate in any change in value of the issued shares of SKYCITY Entertainment Group Limited.

On 16 May 2005, the capital notes were reissued for a new term of five years to 15 May 2010. The notes were reissued on the same terms and conditions except for the new coupon interest rate of 8.0% (previously 9.25%).

Of the 150,000,000 capital notes, the holders of 103,859,750 notes elected to retain capital notes for a further five-year term. The remaining 46,140,250 notes were repurchased by SKYCITY Entertainment Group Limited to be held as treasury stock. On 27 June 2005, 17,828,000 of the notes held as treasury stock were sold into the market. On 6 July 2005, a further 2,172,000 notes were sold. As at 30 June 2006, there were 150,000,000 (2005: 150,000,000) capital notes on issue, of which 123,859,750 (2005: 121,687,750) are issued with 26,140,250 (2005: 28,312,250) held as treasury stock by SKYCITY Entertainment Group Limited.

### 23. SUBORDINATED DEBT – SKYCITY ACES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
SKYCITY ACES	<b>183,195</b>	–	–	–
Deferred expenses	<b>(5,239)</b>	–	–	–
	<b>177,956</b>	–	–	–

In October 2005, SKYCITY Investments Australia Limited issued in Australia 1.5 million unsecured subordinated perpetual reset exchangeable securities (SKYCITY ACES) at an issue price of A\$100.00 per note. The SKYCITY ACES offer holders a fully franked variable rate coupon until the first reset date of 15 December 2010. The coupon is reset quarterly at the Australian 90 day bank bill rate plus 2.25%, net of the Australian corporate tax rate (30%) with franking credits attached.

On any reset date (the first being 15 December 2010 and every five years thereafter), the issuer may elect to exchange or redeem the SKYCITY ACES or change the coupon rate and certain other terms. The holder can request exchange of the SKYCITY ACES at any reset date. If the holder requests exchange, the issuer may elect to exchange for ordinary shares or redeem or repurchase for cash.

Coupons are payable unless the directors of the issuer determine that a coupon not be paid. If a coupon is not paid for this reason, the holder has no right to receive that coupon, as coupons are non-cumulative. However, if a coupon is not paid, SKYCITY Entertainment Group Limited will be prohibited from paying dividends on its ordinary shares until certain conditions are satisfied.

The SKYCITY ACES do not carry voting rights and holders are not entitled to any distributions made by SKYCITY Entertainment Group Limited in respect of its ordinary shares prior to exchange. There is a minimum exchange ratio so a SKYCITY ACES holder participates in any increase in the SKYCITY Entertainment Group Limited ordinary share price above A\$7.40.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 24. DEFERRED TAX ASSETS

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in profit or loss</i>				
Provision and accruals	14,096	3,928	–	–
Fixed assets	26	–	–	–
Foreign exchange differences	(4,322)	898	–	–
Tax losses	6,510	8,849	–	–
Other	1,889	–	–	–
	18,199	13,675	–	–
<i>Amounts recognised directly in equity</i>				
Cash flow hedges	8,468	–	–	–
Deferred tax assets	26,667	13,675	–	–
<b>Movements</b>				
Balance at the beginning of the year	13,675	14,645	–	–
Under-provided in prior years	–	392	–	–
Credited/(charged) to the income statement (note 8)	5,744	(87)	–	–
Credited to equity	8,468	–	–	–
Acquisition of subsidiary	–	1,451	–	–
Transfer to deferred tax liability	–	(2,709)	–	–
Foreign exchange differences	(1,220)	(17)	–	–
Balance at the end of the year	26,667	13,675	–	–
<b>Expected settlement</b>				
Within 12 months	4,237	4,526	–	–
In excess of 12 months	22,430	9,149	–	–
	26,667	13,675	–	–

## 25. DEFERRED TAX LIABILITIES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in profit or loss</i>				
Provisions and prepayments	2,314	(2,804)	–	–
Depreciation	54,818	48,141	–	–
Foreign exchange	4,869	101	–	–
	<b>62,001</b>	45,438	–	–
<i>Amounts recognised directly in equity</i>				
Cash flow hedges	(1,405)	–	–	–
Deferred tax liabilities	<b>60,596</b>	45,438	–	–
<b>Movements</b>				
Balance at the beginning of the year	45,438	26,051	–	–
Under-provided in prior years	–	1,100	–	–
Charged to the income statement (note 8)	15,962	5,869	–	–
Credited to equity	(1,405)	–	–	–
Acquisition of subsidiary	–	15,103	–	–
Transfer to deferred tax asset	–	(2,709)	–	–
Foreign exchange differences	601	24	–	–
Balance at the end of the year	<b>60,596</b>	45,438	–	–
<b>Expected settlement</b>				
Within 12 months	2,891	15,159	–	–
In excess of 12 months	57,705	30,279	–	–
	<b>60,596</b>	45,438	–	–

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 26. IMPUTATION CREDITS

	2006 \$000	2005 \$000
<b>Imputation credit account</b>		
Balance at the beginning of the year	(17,325)	9,636
Tax payments, net of refunds	36,499	18,716
Credits attached to dividends/distributions paid	(21,837)	(45,677)
Balance at the end of the year	<b>(2,663)</b>	(17,325)

As required by relevant tax legislation, the imputation credit account had a credit balance as at 31 March 2006. The current debit balance is a result of imputation credits attached to the interim distribution paid in April 2006.

## 27. SHARE CAPITAL

	2006 SHARES	2005 SHARES	2006 \$000	2005 \$000
Opening balance of ordinary shares issued	417,613,974	416,401,490	226,726	226,251
Shares issued under dividend reinvestment plan	1,353,016	1,212,484	6,431	6,106
Shares issued under profit distribution plan	10,320,187	–	50,450	–
Exercise of share rights/options	2,785,202	2,092,466	10,009	4,685
Issue of share options	–	–	874	569
Shares issued under employee bonus scheme	479,704	695,483	2,139	2,869
Shares repurchased and cancelled	(3,264,906)	(2,787,949)	(14,894)	(13,754)
Closing balance of ordinary shares issued	<b>429,287,177</b>	417,613,974	<b>281,735</b>	226,726

All ordinary shares rank equally with one vote attached to each fully-paid ordinary share.

### Repurchase and cancellation of shares

On 22 August 2005, SKYCITY Entertainment Group Limited announced that it would commence an on-market share buyback programme of the company's shares from 29 August 2005 to 28 August 2006. Summary details are set out below.

DATE	SHARES REPURCHASED	AVERAGE PURCHASE PRICE
August 2005	10,000	4.74
September 2005	10,000	4.80
October 2005	135,506	4.54
November 2005	960,130	4.63
Total shares purchased	1,115,636	4.62

## 28. RESERVES AND RETAINED PROFITS

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>(a) Reserves</b>				
Available for sale investments revaluation reserve	(69)	–	–	–
Hedging reserve – cash flow hedges	(26,173)	–	–	–
Foreign currency translation reserve	13,123	(8,429)	–	–
Employee share entitlement reserve	4,948	3,270	4,948	3,270
	(8,171)	(5,159)	4,948	3,270
<b>Available for sale investments revaluation reserve</b>				
<i>Movements:</i>				
Balance at the beginning of the year	–	–	–	–
Revaluations	(69)	–	–	–
Balance at the end of the year	(69)	–	–	–
<b>Hedging reserve – cash flow hedges</b>				
<i>Movements:</i>				
Balance at the beginning of the year	–	–	–	–
Adjustment on adoption of NZ IAS 32 and NZ IAS 39 (note 11)	(4,012)	–	–	–
Revaluation	24,048	–	–	–
Transfer to net profit	(56,082)	–	–	–
Deferred tax	9,873	–	–	–
Balance at the end of the year	(26,173)	–	–	–
<b>Foreign currency translation reserve</b>				
<i>Movements:</i>				
Balance at the beginning of the year	(8,429)	–	–	–
Exchange difference on translation of overseas subsidiaries	29,953	(8,429)	–	–
Effect of hedging the net investment of overseas subsidiaries	(8,401)	–	–	–
Balance at the end of the year	13,123	(8,429)	–	–
<b>Employee share entitlement reserve</b>				
<i>Movements:</i>				
Balance at the beginning of the year	3,270	5,360	3,270	5,360
Less value of shares issued during the year	(2,139)	(2,869)	(2,139)	(2,869)
Less cash issued in lieu shares	–	(9)	–	(9)
Plus value of share entitlements for the year	3,817	788	3,817	788
Balance at the end of the year	4,948	3,270	4,948	3,270

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 28. RESERVES AND RETAINED PROFITS (continued)

### (i) Available for sale investments revaluation reserve

Changes in the fair value of investments, such as equities, classified as available for sale financial assets, are taken to the available for sale investments revaluation reserve, as described in note 2(l). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

### (ii) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 2(m). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

### (iii) Foreign currency translation reserve

Exchange differences arising on translation of foreign-controlled entities are taken to the foreign currency translation reserve, as described in note 2(d). The reserve is recognised in profit and loss when the net investment is disposed of.

### (iv) Employee share entitlement reserve

Under the SKYCITY Performance Pay Incentive Plan (PPI), selected employees have been eligible for performance-related bonuses in respect of each of the financial years ending 30 June 2001 through 30 June 2006. The employee share entitlement reserve represents the value of ordinary shares to be issued in respect of the plan for the years ended 30 June 2004 through 30 June 2006.

PPI shares are issued in three equal instalments, being one-third of the shares on the bonus declaration date, and provided eligibility criteria continue to be met, one-third on the next entitlement date (approximately 12 months later) and one-third on the final entitlement date (approximately 24 months later).

Shares are issued at the average closing price of SKYCITY Entertainment Group Limited's shares on the New Zealand Exchange on the ten business days following the release to the New Zealand Exchange of the SKYCITY Entertainment Group Limited's annual result for the relevant year of the Plan.

Shares issued have the same rights as existing ordinary shares and are issued as soon as possible after the tenth business day following the release of SKYCITY Entertainment Group Limited's annual result.

### (b) Retained Profits

Movements in retained profits were as follows:

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Balance at the beginning of the year	13,355	21,599	(36,313)	(28,548)
Net profit for the year	120,129	106,414	71,871	106,893
Distributions/dividends	(100,667)	(114,658)	(100,667)	(114,658)
Adjustment on adoption of NZ IAS 39	(61)	–	–	–
Amalgamations accounted for at cost	–	–	(1,021)	–
Balance at the end of the year	32,756	13,355	(66,130)	(36,313)

## 29. MINORITY INTEREST

	CONSOLIDATED	
	2006 \$000	2005 \$000
Balance at the beginning of the year	2,844	3,516
Share of surpluses in subsidiaries	(381)	1,111
Increased shareholding in SKYCITY Hamilton Limited and SKYCITY Leisure Limited	–	(1,783)
Balance at the end of the year	2,463	2,844

The minority interest relates to the 40% of Queenstown Casinos Limited which is not owned by SKYCITY Entertainment Group Limited.

## 30. DISTRIBUTIONS/DIVIDENDS

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Prior year's final distribution/dividend	50,217	64,528	50,217	64,528
Interim distribution/dividend	50,450	50,130	50,450	50,130
Total distribution/dividend	100,667	114,658	100,667	114,658

On 21 February 2006, the directors resolved to make a pro rata issue of bonus shares representing a distribution of 12 cents per share, in respect of the six month period ended 31 December 2005. The bonus shares were issued to all shareholders on the company's register at the close of business on 10 March 2006. The number of bonus shares issued was calculated as 12 cents per share divided by the strike price. The strike price was set as the weighted average price of shares traded on the NZSX during the five days from 13 to 17 March inclusive, less a 2.5% discount. Shareholders were able to elect to have the company buy back some or all of their bonus shares on the day of issue at the strike price. The proceeds received by the shareholder as a result of having elected to sell some or all of their bonus shares were fully imputed by the company. The bonus shares were issued and buyback proceeds paid to shareholders on 7 April 2006.

On 21 August 2006, the directors resolved to make a pro rata issue of bonus shares in respect of the year ended 30 June 2006, (refer to note 40 for further details).

## 31. SEGMENT INFORMATION

### (a) Description of Segments

#### Geographic segments

The Group is organised on a global basis into the following main geographic areas:

#### SKYCITY Auckland

SKYCITY Auckland includes casino operations, hotels, food and beverage, convention centre, car parking and Sky Tower.

#### Rest of New Zealand

Rest of New Zealand includes the Group's interest in SKYCITY Hamilton, SKYCITY Queenstown, Christchurch Casino and the interest in the Village SKYCITY cinema joint venture.

#### SKYCITY Adelaide

SKYCITY Adelaide includes casino operations and food and beverage.

#### SKYCITY Darwin

SKYCITY Darwin includes casino operations, food and beverage and hotel.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
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## 31. SEGMENT INFORMATION (continued)

### Business segments

Although the Group is managed on a geographical basis, it operates in the following business segments:

#### Gaming machines

A gaming machine is a device that does not involve a human dealer and is totally or partly mechanically or electronically operated and designed for use in casino gambling.

#### Table games

Table games are all other methods of gaming, other than gaming machines.

#### Other

Other includes hotels, cinemas, food and beverage, convention centre, car parking, property rentals and Sky Tower.

### (b) Primary Reporting Format – Geographic Segments

	SKYCITY AUCKLAND \$000	REST OF NEW ZEALAND \$000	SKYCITY ADELAIDE \$000	SKYCITY DARWIN \$000	TOTAL \$000
<b>2006</b>					
Revenue from external customers	427,460	78,422	146,889	99,598	752,369
Shares of net profits of associates	–	4,316	–	–	4,316
Other revenue/income	5,795	1,279	295	522	7,891
Total segment revenue/income	433,255	84,017	147,184	100,120	764,576
Segment result	160,353	24,262	19,643	32,045	236,303
Finance costs					(83,965)
Profit before income tax					152,338
Income tax expense					(32,590)
Minority interest					381
Net profit for the year					120,129
Segment assets	847,661	294,654	272,195	311,322	1,725,832
Segment liabilities	1,320,891	43,440	20,184	32,534	1,417,049
Investments in associates	–	78,304	–	–	78,304
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	100,010	20,372	41,154	11,676	173,212
Depreciation and amortisation expense	40,174	7,504	11,045	6,293	65,016

### 31. SEGMENT INFORMATION (continued)

	SKYCITY AUCKLAND \$000	REST OF NEW ZEALAND \$000	SKYCITY ADELAIDE \$000	SKYCITY DARWIN \$000	TOTAL \$000
<b>2005</b>					
Revenue from external customers	396,054	75,394	116,391	82,089	669,928
Shares of net profits of associates	–	26	–	–	26
Other revenue	4,275	8,079	280	421	13,055
Total segment revenue/income	400,329	83,499	116,671	82,510	683,009
Segment result	163,498	27,523	9,523	24,772	225,316
Finance costs					(79,713)
Profit before income tax					145,603
Income tax expense					(38,078)
Minority interest					(1,111)
Net profit for the year					106,414
Segment assets	736,717	284,096	258,154	280,305	1,559,272
Segment liabilities	1,235,486	42,936	20,215	25,578	1,324,215
Investments in associates	–	281	–	–	281
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	98,841	63,889	26,748	234,266	423,744
Depreciation and amortisation expense	35,422	6,051	9,645	7,665	58,783

#### (c) Secondary Reporting Format – Business Segments

	SEGMENT REVENUES FROM EXTERNAL CUSTOMERS		SEGMENT ASSETS		ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLES AND OTHER NON-CURRENT SEGMENT ASSETS	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Gaming machines	345,865	321,126	36,225	40,628	26,446	13,955
Table games	232,526	203,686	3,999	5,041	1,972	2,976
Other	173,978	145,116	1,685,608	1,513,603	144,794	406,813
	752,369	669,928	1,725,832	1,559,272	173,212	423,744

#### Inter-segment transactions

Segment revenues, expenses and results include transactions between segments. Such transactions are accounted for in accordance with the Group's internal transfer pricing policies and are eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

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## 32. SHARE-BASED PAYMENTS

### Executive Share Option Plan 1999

Options issued prior to 2002 are pursuant to the Executive Share Option Plan approved by shareholders at the annual meeting of the company held on 28 October 1999. Options issued under the 1999 Plan are not exercisable until one year after the date of issue provided the terms and conditions of the Plan are met, and lapse if not exercised within five years of issue.

### Executive Share Option Plan 2002

Options have also been issued pursuant to the Executive Share Option Plan approved by the board in August 2002. Options issued to executives under the 2002 Plan are exercisable after the third anniversary of the date of issue provided the terms and conditions of the Plan are met, and lapse if not exercised within five years of issue.

The exercise price of options issued under both the 1999 and 2002 Plans is the relevant base exercise price of the option (as defined in the plans), adjusted for the company's estimated cost of equity and distributions/dividends between the issue date and the exercise date of the options.

As a result of one-for-one share splits on 16 November 2001 and 14 November 2003, the 2000 and 2001 options convert to four shares upon exercise, and the 2002 and 2003 options, with the exception of the 450,000 tranche issued on 9 September 2003, convert to two shares upon exercise.

The 450,000 options issued on 9 September 2003 and the 2004 (and subsequent) options convert to one share upon exercise.

### Executive Share Rights Plan 2005

The Executive Share Rights Plan (Rights Plan) was approved by directors in December 2004 and commenced on 1 July 2005 following expiry of the 2002 Executive Share Option Plan. Share rights issued under the Rights Plan are exercisable after the third anniversary of their date of issue provided the terms and conditions of the Plan are met, and lapse if not exercised within five years. As for the 1999 and 2002 option plans the exercise price of the share rights is the base exercise price adjusted for the company's estimated cost of equity and distributions/dividends between the issue date and the exercise date of the rights.

### 32. SHARE-BASED PAYMENTS (continued)

Movements in the number of share options outstanding under the 1999 and 2002 Executive Share Option Plans and 2005 Executive Share Rights Plan are as follows:

CONSOLIDATED AND PARENT – 2006								
GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	EXPIRED DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	EXERCISABLE AT END OF THE YEAR NUMBER
04/09/01	04/09/06	\$11.61	459,000	–	(309,000)	–	150,000	150,000
10/09/02	10/09/07	\$7.05	3,238,863	–	(560,333)	–	2,678,530	2,678,530
09/09/03	09/09/08	\$8.83	865,667	–	(133,334)	(115,333)	617,000	–
09/09/03	09/09/08	\$4.42	450,000	–	–	–	450,000	–
08/09/04	08/09/09	\$4.44	1,824,500	–	(149,333)	(344,000)	1,331,167	–
05/09/05	05/09/10	\$4.81	–	1,585,000	–	(119,000)	1,466,000	–
Total			6,838,030	1,585,000	(1,152,000)	(578,333)	6,692,697	2,828,530

Weighted average exercise price per share	\$4.04	\$4.81	\$3.80	\$4.70	\$4.39	\$3.74
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CONSOLIDATED AND PARENT – 2005								
GRANT DATE	EXPIRY DATE	BASE EXERCISE PRICE AT DATE OF ISSUE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	EXPIRED DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	EXERCISABLE AT END OF THE YEAR NUMBER
30/08/00	30/08/05	\$7.68	348,429	–	(348,429)	–	–	–
04/09/01	04/09/06	\$11.61	539,500	–	(80,500)	–	459,000	459,000
10/09/02	10/09/07	\$7.05	3,395,530	–	(77,666)	(79,001)	3,238,863	–
09/09/03	09/09/08	\$8.83	1,005,000	–	(20,000)	(119,333)	865,667	–
09/09/03	09/09/08	\$4.42	–	450,000	–	–	450,000	–
08/09/04	08/09/09	\$4.44	–	2,025,500	–	(201,000)	1,824,500	–
Total			5,288,459	2,475,500	(526,595)	(399,334)	6,838,030	459,000

Weighted average exercise price per share	\$3.58	\$4.44	\$2.29	\$4.34	\$4.04	\$3.04
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The weighted average exercise price at the date of exercise of options exercised regularly during the year ended 30 June 2006 was \$3.80 (2005: \$2.29).

The weighted average remaining contractual life of options outstanding at the end of the period was 2.40 years (2005: 2.85 years).

#### Fair value of share rights granted

The assessed fair value at grant date of share rights granted during the year ended 30 June 2006 was 38 cents per share right (2005: 31 cents per option). The fair value at grant date is prepared by Deloitte Corporate Finance using a binomial option pricing model that takes into account the exercise price, the term of the rights, the vesting criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and the volatility of the returns on the underlying share and the risk-free interest rate for the term of the right. The valuation is reviewed by PricewaterhouseCoopers as external auditors.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 32. SHARE-BASED PAYMENTS (continued)

The model inputs for share rights granted during the year ended 30 June 2006 (comparative information relates to options issued during the year ended 30 June 2005) included:

- rights are granted for no consideration
- exercise price: \$4.81 (2005: \$4.44)
- grant date: 5 September 2005 (2005: 8 September 2004)
- expiry date: 5 September 2010 (2005: 8 September 2009)
- share price at grant date: \$4.95 (2005: \$4.55)
- expected price volatility of the company's shares: 20% (2005: 20%)
- expected dividend yield: 4.6% (2005: 6.1%)
- risk-free interest rate: 5.6% (2005: 6.2%).

The expected price volatility is derived by analysing the historic volatility over a recent historical period similar to the term of the right.

### Non-Executive Director Share Options

Pursuant to the Non-Executive Directors' Share Option Plan (2000), approved by shareholders at the annual meeting of the company on 26 October 2000, 57,892 options (issued in September 2002) remain on issue to non-executive directors as at 30 June 2006 (2005: 62,892).

Options lapse if not exercised within five years of issue. The exercise price of the options issued under the Plan is the relevant base exercise price of the option (as defined in the Plan), adjusted for the company's estimated cost of equity and dividends between the issue date and the exercise date of the options.

The Non-Executive Directors' Share Option Plan (2000) expired in 2003 and was not renewed.

Movements in the number of share options outstanding under the Non-Executive Directors' Share Option Plan are as below.

CONSOLIDATED AND PARENT – 2006								
GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	EXPIRED DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	EXERCISABLE AT END OF THE YEAR NUMBER
10/09/02	10/09/07	\$7.05	62,892	–	(5,000)	–	57,892	57,982
Total			62,892	–	(5,000)	–	57,892	57,982
Weighted average exercise price per share			\$3.65		\$3.64		\$3.78	\$3.78

CONSOLIDATED AND PARENT – 2005								
GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	EXPIRED DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	EXERCISABLE AT END OF THE YEAR NUMBER
04/09/01	04/09/06	\$11.61	24,390	–	(24,390)	–	–	–
10/09/02	10/09/07	\$7.05	104,821	–	(41,929)	–	62,892	–
Total			129,211	–	(66,319)	–	62,892	–
Weighted average exercise price per share			\$3.47		\$3.33		\$3.65	\$3.65

### 32. SHARE-BASED PAYMENTS (continued)

The weighted average exercise price at the date of exercise of options exercised regularly during the year ended 30 June 2006 was \$3.64 (2005: \$3.33).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.20 years (2005: 2.19 years).

As a result of one for one share splits on 16 November 2001 and 14 November 2003, the 2001 options convert to four shares and the 2002 options will convert to two shares, when exercised.

#### Performance Pay Incentive Plan (PPI)

Salaried employees are eligible for performance related bonus partially paid in shares. Details of this plan are provided in note 28.

#### Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as below.

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Options/rights issued under executive option/rights plans	684	569	684	569
Shares issued under employee incentive share plan	4,007	1,842	1,733	738
	<b>4,691</b>	<b>2,411</b>	<b>2,417</b>	<b>1,307</b>

### 33. RELATED PARTY TRANSACTIONS

#### (a) Key Management and Personnel Compensation

Key management personnel and director compensation for the years ended 30 June 2006 and 2005 is set out below. The key management personnel include the directors of the company and the direct reports to the Managing Director.

	SHORT-TERM BENEFITS \$	SHARE-BASED PAYMENTS \$	TOTAL \$
<b>2006</b>	<b>5,614,741</b>	<b>1,617,072</b>	<b>7,231,813</b>
2005	5,493,272	467,585	5,960,857

Key management personnel exercised options previously granted as part of their compensation.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 33. RELATED PARTY TRANSACTIONS (continued)

### (b) Other Transactions with Key Management Personnel or Entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

Fees in the amount of \$82,503 (2005: \$2,120,701) were paid to First NZ Capital Group Limited (FNZC) on normal commercial terms for advisory, consulting and other work. W R Trotter, who is a director of SKYCITY Entertainment Group Limited, is executive chairman of FNZC. Mr Trotter declared an interest with respect to FNZC on each occasion when the board considered the engagement of advisory and consulting services with FNZC or when the board discussed or made a decision with respect to any matter that might involve FNZC.

In 2005 the Group borrowed \$100,000,000 from the ANZ National Bank Limited. R A McLeod and Sir Dryden Spring are directors of both SKYCITY Entertainment Group Limited and ANZ National Bank Limited. The facility was established on an arm's-length, commercial basis. Neither Sir Dryden nor Mr McLeod participated in the decision to enter into the facility.

The Group purchased voice services, data network services, and mobile network services for \$860,279 (2005: \$683,033) from Telecom Corporation of New Zealand Limited on an arm's-length, commercial basis. R H McGeoch, R A McLeod and P L Reddy are directors of both SKYCITY Entertainment Group Limited and Telecom Corporation of New Zealand Limited. Neither Messrs McGeoch, McLeod nor Ms Reddy are involved in the negotiation of supply contracts between Telecom and SKYCITY.

### (c) Subsidiaries

Interests in subsidiaries are set out in note 35.

## 34. BUSINESS COMBINATION

### Summary of the effect of acquisition of subsidiaries

On 22 July 2004, SKYCITY Australia Pty Limited, a wholly-owned subsidiary of SKYCITY Entertainment Group Limited, acquired 100% of the share capital of SKYCITY Darwin Holdings Pty Limited.

	CONSOLIDATED	
	2006 \$000	2005 \$000
<b>Net assets acquired – SKYCITY Darwin</b>		
Working capital balances	–	(15,919)
Property, plant and equipment	–	94,050
Casino licence	–	38,580
Goodwill	–	104,803
Consideration paid (including costs and taxes)	–	221,514
<b>Net cash impact of acquisition of subsidiaries</b>		
SKYCITY Darwin	–	221,514
Less deposit paid in 2004 for SKYCITY Darwin	–	(25,377)
SKYCITY Leisure final stepped acquisition	–	7,388
SKYCITY Hamilton Tainui stepped acquisition	–	11,102
SKYCITY Hamilton Perry stepped acquisition	–	33,283
Net cash impact of acquisitions	–	247,910

### 35. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(b).

All wholly-owned subsidiary companies and significant partly-owned subsidiaries have balance dates of 30 June.

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING	
			2006 %	2005 %
Abdiel Investments Limited (amalgamated)	New Zealand	Ordinary	–	100
Queenstown Casinos Limited	New Zealand	Ordinary	60	60
Riverside Fund Limited (amalgamated)	New Zealand	Ordinary	–	100
SKYCITY Action Management Limited	New Zealand	Ordinary	100	100
SKYCITY Auckland Holdings Limited	New Zealand	Ordinary	100	100
SKYCITY Auckland Limited	New Zealand	Ordinary	100	100
SKYCITY Casino Management Limited	New Zealand	Ordinary	100	100
SKYCITY Cinemas Limited	New Zealand	Ordinary	100	100
SKYCITY Hamilton Construction Limited	New Zealand	Ordinary	100	100
SKYCITY Hamilton Limited	New Zealand	Ordinary	100	100
SKYCITY International Holdings Limited	New Zealand	Ordinary	100	100
SKYCITY Investments Auckland Limited (amalgamated)	New Zealand	Ordinary	–	100
SKYCITY Investments (Australia) Limited	New Zealand	Ordinary	100	–
SKYCITY Investments (Christchurch) Limited	New Zealand	Ordinary	100	100
SKYCITY Investments Limited (amalgamated)	New Zealand	Ordinary	–	100
SKYCITY Leisure Holdings Limited	New Zealand	Ordinary	100	100
SKYCITY Leisure Limited (amalgamated)	New Zealand	Ordinary	–	100
SKYCITY Management (Auckland) Limited	New Zealand	Ordinary	100	100
SKYCITY Metro Limited	New Zealand	Ordinary	100	100
SKYCITY Queenstown Investments Limited	New Zealand	Ordinary	100	100
SKYCITY Wellington Limited	New Zealand	Ordinary	100	100
Sky Tower Limited	New Zealand	Ordinary	100	100
SKYCITY Adelaide Pty Limited	Australia	Ordinary	100	100
SKYCITY Australia Finance Pty Limited	Australia	Ordinary	100	100
SKYCITY Australia Limited Partnership	Australia	Ordinary	100	100
SKYCITY Australia Pty Limited	Australia	Ordinary	100	100
SKYCITY Darwin Holdings Pty Limited	Australia	Ordinary	100	100
SKYCITY Darwin Pty Limited	Australia	Ordinary	100	100
Territory Property Trust	Australia	Ordinary	100	100
SKYCITY International ApS	Denmark	Ordinary	100	100
SKYCITY Cinemas (Fiji) Limited	Fiji	Ordinary	100	100

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 36. INTERESTS IN JOINT VENTURES

### Joint Venture Operation

NAME OF ENTITY	PRINCIPAL ACTIVITIES	INTERESTS HELD BY THE GROUP	
		2006	2005
Village SKYCITY Cinemas JV	Cinema owner/operator	50	50
Village SKYCITY Hoyts Queen St Cinema JV*	Cinema owner/operator	–	33
Village Rialto Cinemas JV	Cinema owner/operator	25	25
Damodar Village SKYCITY Fiji Cinemas JV	Cinema owner/operator	33	33

\* Purchased by Village SKYCITY Cinemas JV.

Subsequent to year end, SKYCITY purchased Village Roadshow Limited's interest in the above joint ventures, resulting in the Group's interest in these joint ventures increasing by 100%.

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Share of partnership's revenue, expenses and results</b>				
Revenues	31,721	29,615	–	–
Expenses	(27,550)	(25,444)	–	–
Net contribution to Group operating surplus	4,171	4,171	–	–
Total share of net assets employed in joint venture	38,454	12,047	–	–

## 37. CONTINGENCIES

The contingent liability previously reported in respect of a guarantee for a loan facility utilised by Village Cinemas SA Argentina, an associate company, has been settled with no cost to SKYCITY. In addition, the option to Village Roadshow Limited to acquire 40% of SKYCITY's interest in Village Cinemas SA Argentina has lapsed. Village Cinemas SA Argentina is no longer an associate of SKYCITY.

### 38. COMMITMENTS

#### Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Property, plant and equipment	<b>10,888</b>	23,563	–	–

#### Operating Lease Commitments

The Group leases various offices and other premises under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	<b>7,335</b>	11,794	–	2
Later than one year but not later than five years	<b>26,759</b>	41,430	–	–
Later than five years	<b>259,039</b>	261,849	–	–
	<b>293,133</b>	315,073	–	2

### 39. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED		PARENT	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Profit for the year	<b>120,129</b>	106,414	71,871	106,893
Minority interest	<b>(381)</b>	1,111	–	–
Depreciation and amortisation	<b>65,016</b>	58,783	131	14
Interest expense	<b>74,838</b>	81,035	9,033	13,444
Current period employee share entitlement	<b>3,818</b>	788	3,818	788
Current period share options expense	<b>874</b>	569	874	569
Unrealised gain on investments	–	(1,488)	–	–
Dividend from subsidiary	–	–	(106,251)	(130,000)
Fair value adjustment to investment property	<b>166</b>	(572)	–	–
Fair value adjustment on financial assets at fair value through profit or loss	<b>(4,107)</b>	–	–	–
Subsidiary funding transactions	–	–	(97,909)	(424,699)
Share of profits of associates not received as dividends or distributions	<b>(1,239)</b>	(26)	–	–
Change in operating assets and liabilities				
Decrease/(increase) in receivables and prepayments	<b>6,355</b>	15,986	(31,242)	139,063
Decrease/(increase) in inventories	<b>141</b>	(2,391)	–	–
Increase in future income tax benefit	<b>(10,283)</b>	(1,739)	–	–
Increase in payables and accruals	<b>3,771</b>	4,153	129,480	286,285
Increase in provision for deferred income tax	<b>22,319</b>	9,344	–	–
Decrease in provision for income taxes receivable	<b>(34,533)</b>	(2,906)	–	–
Capital items included in working capital movements	<b>3,891</b>	(9,372)	–	–
Net cash inflow from operating activities	<b>250,775</b>	259,689	(20,195)	(7,643)

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 40. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

### Business Combination

Subsequent to year end, SKYCITY Entertainment Group Limited acquired all of Village Roadshow Limited's interest in the Village SKYCITY joint ventures for cash consideration of \$52,000,000.

Details of net assets acquired and goodwill are as follows:

	\$000
Purchase consideration	
Cash paid	52,000
Direct costs relating to the acquisition	250
Total purchase consideration	52,250
Fair value of net identifiable assets acquired	(19,905)
Goodwill	32,345

The financial effects of the above transaction have not been brought to account at 30 June 2006. The operating results and assets and liabilities of the company will be consolidated from 1 July 2006.

### Profit Distribution Plan

On 21 August 2006, the directors resolved to make a pro-rata issue of bonus shares in respect of a final distribution of profits of 14 cents per share for the year ended 30 June 2006. The bonus shares will be issued to all shareholders on the company's register at the close of business on Friday, 8 September 2006. The number of bonus shares to be issued is calculated as 14 cents per share divided by the strike price. The strike price will be set as the weighted average price of shares traded on the NZSX during the five days from 11 to 15 September inclusive, less a 2.5% discount. Shareholders will be able to elect to have the company buy back some or all of their bonus shares on the day of issue at the strike price. The proceeds received by shareholders as a result of having elected to sell some or all of their bonus shares will be treated as dividends and will be fully imputed by the company.

The bonus shares will be issued and buyback proceeds paid to shareholders on Friday, 6 October 2006.

## 41. EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS

### (1) Reconciliation of Equity Reported Under Previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to Equity Under New Zealand Equivalents to IFRS (NZ IFRS)

(a) At the date of transition to NZ IFRS: 1 July 2004

	CONSOLIDATED			PARENT		
	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION NZ IFRS \$000	NZ IFRS \$000	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION NZ IFRS \$000	NZ IFRS \$000
<b>ASSETS</b>						
<b>Current assets</b>						
Inventories	3,017	–	3,017	–	–	–
Current tax receivables	9,999	–	9,999	–	–	–
Receivables and prepayments	53,106	–	53,106	141,987	–	141,987
Cash and bank balances	53,272	–	53,272	2	–	2
<b>Total current assets</b>	<b>119,394</b>	<b>–</b>	<b>119,394</b>	<b>141,989</b>	<b>–</b>	<b>141,989</b>
<b>Non-current assets</b>						
Property, plant and equipment	750,267	(16,137)	734,130	245	–	245
Investment properties	–	51,900	51,900	–	–	–
Intangible assets	212,373	4,428	216,801	–	–	–
Deferred tax assets	14,645	–	14,645	–	–	–
Other investments	78,025	–	78,025	–	–	–
Investments in subsidiaries	–	–	–	211,660	–	211,660
Investments in associates	255	–	255	–	–	–
<b>Total non-current assets</b>	<b>1,055,565</b>	<b>40,191</b>	<b>1,095,756</b>	<b>211,905</b>	<b>–</b>	<b>211,905</b>
<b>Total assets</b>	<b>1,174,959</b>	<b>40,191</b>	<b>1,215,150</b>	<b>353,894</b>	<b>–</b>	<b>353,894</b>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Interest-bearing liabilities	101,000	–	101,000	–	–	–
Payables	93,619	(767)	92,852	1,891	(704)	1,187
Subordinated debt – capital notes	149,644	–	149,644	149,644	–	149,644
<b>Total current liabilities</b>	<b>344,263</b>	<b>(767)</b>	<b>343,496</b>	<b>151,535</b>	<b>(704)</b>	<b>150,831</b>
<b>Non-current liabilities</b>						
Interest-bearing liabilities	579,967	–	579,967	–	–	–
Deferred tax liabilities	27,216	(1,165)	26,051	–	–	–
Convertible notes	8,910	–	8,910	–	–	–
<b>Total non-current liabilities</b>	<b>616,093</b>	<b>(1,165)</b>	<b>614,928</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total liabilities</b>	<b>960,356</b>	<b>(1,932)</b>	<b>958,424</b>	<b>151,535</b>	<b>(704)</b>	<b>150,831</b>
<b>Net assets</b>	<b>214,603</b>	<b>42,123</b>	<b>256,726</b>	<b>202,359</b>	<b>704</b>	<b>203,063</b>
<b>EQUITY</b>						
Share capital	225,871	380	226,251	225,871	380	226,251
Reserves	(7,510)	12,870	5,360	6,662	(1,302)	5,360
Retained earnings	(7,274)	28,873	21,599	(30,174)	1,626	(28,548)
Shareholders' equity	211,087	42,123	253,210	202,359	704	203,063
Minority interest	3,516	–	3,516	–	–	–
<b>Total equity</b>	<b>214,603</b>	<b>42,123</b>	<b>256,726</b>	<b>202,359</b>	<b>704</b>	<b>203,063</b>

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## (b) At the end of the last reporting period under previous NZ GAAP: 30 June 2005

	CONSOLIDATED			PARENT		
	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION NZ IFRS \$000	NZ IFRS \$000	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION NZ IFRS \$000	NZ IFRS \$000
<b>ASSETS</b>						
<b>Current assets</b>						
Inventories	5,382	–	5,382	–	–	–
Receivables and prepayments	37,158	–	37,158	2,924	–	2,924
Cash and bank balances	62,849	–	62,849	3	–	3
<b>Total current assets</b>	105,389	–	105,389	2,927	–	2,927
<b>Non-current assets</b>						
Property, plant and equipment	932,658	(14,691)	917,967	788	–	788
Investment properties	–	52,500	52,500	–	–	–
Intangible assets	357,402	19,614	377,016	–	–	–
Deferred tax assets	13,675	–	13,675	–	–	–
Other financial assets	–	–	–	598,950	–	598,950
Other investments	79,539	–	79,539	–	–	–
Future income tax benefit	12,905	–	12,905	–	–	–
Investments in associates	281	–	281	–	–	–
<b>Total non-current assets</b>	1,396,460	57,423	1,453,883	599,738	–	599,738
<b>Total assets</b>	1,501,849	57,423	1,559,272	602,665	–	602,665
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Interest-bearing liabilities	100,758	–	100,758	–	–	–
Payables	97,297	(292)	97,005	287,755	(283)	287,472
<b>Total current liabilities</b>	198,055	(292)	197,763	287,755	(283)	287,472
<b>Non-current liabilities</b>						
Interest-bearing liabilities	956,795	–	956,795	–	–	–
Deferred tax liabilities	32,741	12,697	45,438	–	–	–
Subordinated debt – capital notes	121,510	–	121,510	121,510	–	121,510
<b>Total non-current liabilities</b>	1,111,046	12,697	1,123,743	121,510	–	121,510
<b>Total liabilities</b>	1,309,101	12,405	1,321,506	409,265	(283)	408,982
<b>Net assets</b>	192,748	45,018	237,766	193,400	283	193,683
<b>EQUITY</b>						
Share capital	225,777	949	226,726	225,777	949	226,726
Reserves	(17,948)	12,789	(5,159)	4,653	(1,383)	3,270
Retained profits	(17,925)	31,280	13,355	(37,030)	717	(36,313)
Shareholders' equity	189,904	45,018	234,922	193,400	283	193,683
Minority interest	2,844	–	2,844	–	–	–
<b>Total equity</b>	192,748	45,018	237,766	193,400	283	193,683

## 41. EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS (continued)

### (2) Reconciliation of Profit for the Year Ended 30 June 2005

	CONSOLIDATED			PARENT		
	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION NZ IFRS \$000	NZ IFRS \$000	PREVIOUS NZ GAAP \$000	EFFECT OF TRANSITION NZ IFRS \$000	NZ IFRS \$000
<b>Revenue</b>	669,928	–	669,928	–	–	–
Other income	12,483	572	13,055	138,625	–	138,625
Share of net profits of associates	26	–	26	–	–	–
Employee benefits expense	(185,790)	(963)	(186,753)	(10,985)	(909)	(11,894)
Depreciation and amortisation expense	(62,691)	3,908	(58,783)	(14)	–	(14)
Other expenses	(211,179)	–	(211,179)	(5,413)	–	(5,413)
Directors' fees	(978)	–	(978)	(966)	–	(966)
Finance costs	(79,713)	–	(79,713)	(13,445)	–	(13,445)
<b>Profit before income tax</b>	142,086	3,517	145,603	107,802	(909)	106,893
Income tax expense	(36,968)	(1,110)	(38,078)	–	–	–
<b>Profit before minority interest</b>	105,118	2,407	107,525	107,802	(909)	106,893
Profit attributable to minority interest	(1,111)	–	(1,111)	–	–	–
<b>Profit attributable to shareholders of the company</b>	104,007	2,407	106,414	107,802	(909)	106,893

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 41. EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS (continued)

### (3) Reconciliation of Cash Flow Statement for the Year Ended 30 June 2005

The impact of adopting NZ IFRS on the Cash Flow Statement is to reclassify both interest paid within operating activities and capitalised interest paid within investment activities to financing activities.

### (4) Notes to the Reconciliations

#### (a) Foreign currency translation reserve: cumulative translation differences

The Group has elected to apply the exemption in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* (NZ IFRS 1). The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero at the date of transition to NZ IFRS. The effect is as below.

##### *At 1 July 2004 and 30 June 2005*

The balance of the \$14,172,000 debit in the foreign currency translation reserve is reduced to zero and retained earnings are decreased by this amount.

There is no effect on the parent entity.

#### (b) Business combinations

The Group acquired a 100% interest in SKYCITY Darwin with effect from 22 July 2004. NZ IFRS 3 Business Combinations requires all assets and liabilities to be recognised at fair value and deferred tax calculated. The fair values previously reported have not changed under NZ IFRS with the exception of a deferred tax liability recognised with a resulting increase in goodwill of \$12,752,000. The quantification of this adjustment to deferred tax is detailed in 41 (4) (i).

There is no effect on the parent entity.

#### (c) Carrying value of land and other fixed assets

Under NZ IFRS 1 entities are permitted to adjust the carrying value of selected fixed assets to their fair value and use that fair value as deemed cost at the date of transition. SKYCITY has elected to revalue certain land and buildings within its Auckland complex. These assets were valued with an effective date of 1 July 2004 by DTZ New Zealand Limited, registered valuers and members of the New Zealand Property Institute. The basis of valuation is fair value being the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The impact of this is as below.

##### *(i) At 1 July 2004*

An increase in both retained earnings and property, plant and equipment of \$40,191,000. There is no effect on the parent entity.

##### *(ii) At 30 June 2005*

An increase in both retained earnings and property, plant and equipment of \$42,697,000. There is no effect on the parent entity.

##### *(iii) For the year ended 30 June 2005*

A decrease in depreciation expense of \$808,000. There is no effect on the parent entity.

#### (d) Investment properties

The SKYCITY Metro Centre in Auckland is classified under NZ IFRS as an investment property (previously part of property, plant and equipment). Investment properties are not depreciated and are required to be fair valued each year. SKYCITY Metro was valued with effective dates of 1 July 2004 and 30 June 2005 by DTZ New Zealand Limited, registered valuers and members of the New Zealand Property Institute. The basis of valuation is fair value being the estimated amount for which an asset should exchange on the date of

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valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The effect of this is as below.

*(i) At 1 July 2004*

Increase investment property and reduce property, plant and equipment by \$51,900,000. There is no effect on the parent entity.

*(ii) At 30 June 2005*

Increase (following revaluation as at 30 June 2005) in investment property by \$52,500,000 and reduction in property, plant and equipment by \$51,900,000. There is no effect on the parent entity.

*(iii) For the year ended 30 June 2005*

Reduction in depreciation expense by \$1,726,000 and recognition of a gain on revaluation in the Income Statement of \$572,000. There is no effect on the parent entity.

**(e) Share-based payments**

Under NZ IFRS 2 *Share-based Payment*, from 1 July 2004 the company is required to recognise an expense for options and share rights that were granted to employees under the company's various option and share right plans after 7 November 2002 and which had not vested by 1 January 2005. In addition, the company is required to recognise the cost of its salaried personnel incentive plan over the relevant vesting period. This was previously recognised within one financial year. The effect of this is as below.

*(i) At 1 July 2004*

Increase in share capital of \$380,000, reduction in the employee share entitlement reserve of \$1,302,000, reduction in payables of \$767,000 and an increase in retained profits of \$1,689,000. The effect is substantially the same for the parent entity.

*(ii) At 30 June 2005*

Increase in share capital of \$949,000, reduction in the employee share entitlement reserve of \$1,383,000, reduction in payables of \$292,000 and an increase in retained profits of \$726,000. The effect is substantially the same for the parent entity.

*(iii) For the year ended 30 June 2005*

For the Group and the parent entity there has been an increase in employee benefits expense of \$963,000 and \$909,000 respectively.

**(f) Financial instruments**

The Group has elected to apply the exemption from restatement of comparatives for NZ IAS 32 *Financial Instruments: Disclosure and Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*. It has therefore continued to apply the previous NZ GAAP rules to derivatives, financial assets and financial liabilities and also to hedging contracts for the year ended 30 June 2005. The adjustments required for differences between previous NZ GAAP and NZ IAS 32 and NZ IAS 39 have been determined and recognised at 1 July 2005. Refer to section (5) of this note for further details.

**(g) Reclassification of software**

Under NZ IFRS, software is classified as part of intangible assets rather than property, plant and equipment. This has resulted in intangible assets increasing and property, plant and equipment decreasing as at 1 July 2004 and 30 June 2005 by \$4,428,000 and \$5,488,000 respectively. While the amount previously depreciated on software is unchanged it is now classified as amortisation.

There is no effect on the parent entity.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2006  
SKYCITY ENTERTAINMENT GROUP LIMITED

## 41. EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS (continued)

### (h) Amortisation of goodwill

Goodwill is no longer amortised under NZ IFRS but is reviewed on an annual basis for impairment. SKYCITY has reviewed its goodwill balances and determined there is no impairment. The effect of the adjustment to amortisation is as below.

#### (i) At 1 July 2004

No effect on the Group or the parent entity.

#### (ii) At 30 June 2005

Increase in goodwill and retained profits by \$1,374,000.

There is no effect on the parent entity.

#### (iii) For the year ended 30 June 2005

Reduction in amortisation expense by \$1,374,000. There is no effect on the parent entity.

### (i) Deferred tax liability

Under previous NZ GAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. The adoption of NZ IFRS has resulted in a change in accounting policy. The application of NZ IAS 12 *Income Taxes* has resulted in the recognition of deferred tax liabilities on revaluations of non-current assets as well as deferred tax balances arising during the year in relation to fair value adjustments on the acquisition of a business.

The effects on the deferred tax liability of the adoption of NZ IFRS are as follows:

	1 JULY 2004		30 JUNE 2005	
	CONSOLIDATED \$000	PARENT \$000	CONSOLIDATED \$000	PARENT \$000
Adjustments arising from adoption of NZ IAS 12	7,318	–	8,513	–
Application of NZ IAS 12 to adjustments arising from adoption of other NZ IFRS:				
Revaluation of certain assets	(9,166)	–	(8,141)	–
Share-based payments	683	–	553	–
Acquisition of SKYCITY Darwin	–	–	11,772	–
(Decrease)/increase in deferred tax liability	(1,165)	–	12,697	–

There is no effect on the parent entity.

### (j) Retained profits

The effect on retained profits of the changes set out above are as follows:

	1 JULY 2004		30 JUNE 2005	
	CONSOLIDATED \$000	PARENT \$000	CONSOLIDATED \$000	PARENT \$000
Foreign currency translation reserve	(14,172)	–	(14,172)	–
Property, plant and equipment	40,191	–	40,997	–
Share-based payments	1,689	1,626	726	717
Deferred tax	1,165	–	57	–
Investment properties	–	–	2,298	–
Amortisation of goodwill	–	–	1,374	–
Total adjustment	28,873	1,626	31,280	717

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## 41. EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS (continued)

### (5) Other Effects of the Transition to NZ IFRS

#### Derivatives

##### Until 30 June 2005

The Group has taken the exemption available under NZ IFRS 1 to apply NZ IAS 32 and NZ IAS 39 from 1 July 2005. Previous NZ GAAP has been applied in the comparative information on financial instruments within the scope of NZ IAS 32 and NZ IAS 39.

##### Interest rate swaps

Under previous NZ GAAP, the net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

##### Adjustments on transition to NZ IAS 39: 1 July 2005

The nature of the main adjustments to make this information comply with NZ IAS 32 and NZ IAS 39 are that derivatives are recognised at fair value. Changes in fair value are either taken to the Income Statement or an equity reserve (refer below). At the date of transition (1 July 2005) the carrying amounts of derivatives were taken to retained earnings or reserves, depending on whether the criteria for hedge accounting were satisfied at the transition date. There has been no material impact on either basic or diluted earnings per share in the prior year.

##### From 1 July 2005

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or hedges of exposures to variability in cash flows associated with recognised assets or liabilities or a highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk of hedged items.

##### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

##### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss (for instance, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

##### (iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.