



# PLAY

SKYCITY Entertainment Group Limited Annual Report 2003

**PLAY: Amuse, entertain, enjoy, have fun! A vision to 'create fun and entertainment' for customers is at the heart of every experience SKYCITY offers**

## Financial Summary

**\$107.2 million**  
net surplus after tax up 26%

	2003	2002	Change(%)
Sales Revenues	\$556m	\$510m	+9%
EBITDA*	\$252m	\$221m	+14%
Net Surplus after tax	\$107.2m	\$85.1m <sup>†</sup>	+26%
Earnings per Share	51cps	41.5cps <sup>†</sup>	+23%
Dividends per Share	67cps <sup>‡</sup>	38cps	+76%

\* EBITDA: Earnings before interest, tax, depreciation and amortisation

† before non-recurring item

‡ including special dividend of 20cps paid November 2002

## Highlights

- Superior pre-tax returns to SKYCITY shareholders of 72.2% for the 2002/03 financial year compared with the NZX50 average of 10.5% for the corresponding period
- A record interim plus final dividend of 47 cents per share (cps) – up from 38cps in 2001/02 – increased to 67cps for the year, as a result of the special dividend of 20cps paid in November 2002
- \$100 million capital management programme announced in November 2002, comprising a 20cps special dividend (\$42 million) paid in November 2002 and a \$40-\$60 million on-market share buyback programme being undertaken during the 2003 calendar year
- SKYCITY Hamilton opened on time and to budget in September 2002 and has performed to expectations for its initial trading period to 30 June 2003
- Record revenues and earnings were recorded across the Group. Group revenues were up 9% to \$556 million and Group EBITDA increased by 14% to \$252 million
  - Auckland revenues were up 8% to \$374 million and EBITDA was up 9% to \$199 million
  - Adelaide revenues were up 9% to A\$103 million and EBITDA was up 31% to A\$26 million
  - SKYCITY Hamilton added a new revenue stream of \$20 million and EBITDA of \$7 million (for its first trading period of 9.3 months)

- New product innovations and a continuously refreshed entertainment experience for customers at all SKYCITY properties continues to be the primary focus, leading to continuing increases in revenues across the Group

### Other highlights of the 2002/03 year included:

- Cost management across the Group's properties, resulting in improved margin performance, with SKYCITY Adelaide increasing its EBITDA ratio (to revenues) from 21% to 25%
- SKYCITY Adelaide increased its entertainment profile in South Australia, with a number of popular entertainers performing on property
- New Village SKYCITY Cinemas eight-screen multiplex opened at Westfield St Lukes (Auckland) in May 2003, with a new eight-screen complex scheduled to open in Tauranga in April/May 2004

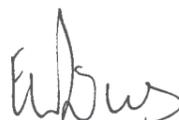
## Contents

2003 Highlights	1
Chairman's Report	2 – 5
Managing Director's Review	6 – 9
Experiences	10 – 13
Involvement	14 – 17
Evolution	18 – 21
Financial and Operating Review	22 – 28
Corporate Governance	29 – 39
Financial Statements and Notes	41 – 76
Additional Statutory Information	77 – 87
Directory	88

The Board of Directors is pleased to present the Annual Report of SKYCITY Entertainment Group Limited for the year ended 30 June 2003. For, and on behalf of, the Board.



**Jon Hartley**  
Chairman



**Evan Davies**  
Managing Director

26 September 2003

# Shareholders and the investment community have come to expect outstanding results from SKYCITY and this year the company extended its record of growth and success

## Chairman's Report



In 2002/03, in conditions that challenged many businesses, SKYCITY delivered a superior financial result: a record \$107.2 million net surplus – up 26% on the previous year's net surplus of \$85.1 million (before non-recurring item). This excellent result is consistent with our record of growth and success, and recognises our strong and responsible strategic and operational focus on our customers, our people, and our business processes.

In a wider market context, SKYCITY again outperformed: pre-tax annual return to shareholders for the year ended 30 June 2003 was 72.2%, compared to 10.5% for the NZX50. SKYCITY is one of New Zealand's top companies by market capitalisation, with each separate business a significant regional economic contributor and employer in its own right.

This year's strong financial result has demonstrated the company's resilience in the face of a range of external influences and is confirmation of the value that can be delivered through providing relevant and integrated entertainment experiences. This result is a credit to all of our people and we thank them for a great year.

### Strategic Development

SKYCITY has continued its strategic objective to extend, broaden and diversify its entertainment profile and to further capitalise on its transformation from a single property undertaking (SKYCITY Auckland) to a diverse entertainment and gaming business.

In my 2002 report to shareholders, I referred to the focus for 2002/03 being on the realisation of value and on continuing to build on the growth and consolidation opportunities that had been established by the business.

During the 2002/03 year, the Group expanded its activities through the opening of the SKYCITY Hamilton property in September 2002 and through the commencement of three major development projects at SKYCITY Auckland. The \$25 million gaming expansion project is scheduled for completion in December 2003, the \$65 million convention and exhibition centre for April 2004, and the \$75 million five-star SKYCITY Grand Hotel for April 2005. Completion of the SKYCITY Grand will increase the number of hotel rooms at SKYCITY Auckland to 660 rooms.

These major projects will enable the company to capitalise on growth opportunities in Auckland, and the new Hamilton business will make an important contribution to SKYCITY's revenue streams.

During the 2003/04 financial year, the company will consider the opportunities that may be able to be created at SKYCITY Adelaide through an increase in the range of services and facilities offered at that property.

We continue to assess opportunities that fit within our strategic criteria while ensuring our focus on optimising the returns from our existing operations remains a priority.

- Six consecutive years of profit and dividend growth
- Return to shareholders of 455% in the 7½ years since listing
- Share price has appreciated by more than 250% since listing in 1996
- Earnings per share up from 18cps in FY97 to 51cps in FY03

In last year's Annual Report I commented that SKYCITY has delivered a combination of both yield and growth to its shareholders and that it remained our intention to continue with this dual focus into the future. We are pleased to reflect on a significant increase in the market price of SKYCITY shares during the 12 months since the 2002 Annual Report was circulated to shareholders. At the same time 67 cents per share has been paid to shareholders as fully-imputed dividends and the number of shares on issue has been reduced via the company's on-market share buyback programme.

At an operational level, SKYCITY's broad range of customer service and marketing initiatives is a key strategic driver for providing our customers with a range of exciting and memorable entertainment experiences. We are very aware that our customers enjoy their entertainment experience with us more if we meet or exceed their expectations. The company's strategic objectives remain focused on ensuring that the best possible entertainment experience is provided for all customers at all times.

### Sustainability and Responsibility

Central to SKYCITY's ongoing success has been a proactive industry-leading approach to community participation and host responsibility.

We have in place effective corporate citizenship and host responsibility programmes at all properties. We are proud to report that SKYCITY continues to go much further than simply meeting legal obligations in this regard and that we consistently seek to enhance this area of our business.

The board believes that showing leadership and best practice in these areas is central to the long-term sustainability and viability of not only SKYCITY's business but also the wider gaming and hospitality sector.

Proactive and innovative initiatives to minimise harm relating to the service of gaming and alcohol are critical business strategies, as are our community sponsorship and support activities.

The 2002/03 Community Report, circulated to shareholders with this Annual Report, identifies the core areas of community participation and support undertaken by the various SKYCITY properties.

### Capital Management

SKYCITY maintained its 90% dividend payout policy during the 2002/03 year and also paid out a special fully-imputed dividend of 20 cents per share in November 2002. Dividends for the year, including the special dividend, totalled 67 cents per share.

The first period of SKYCITY's share buyback programme was undertaken during March/April 2003. The second period of the buyback programme is being undertaken between August and November 2003.

In the long term, the company remains committed to delivering value to shareholders through its capital management programmes and the judicious pursuit of investment opportunities. A number of new investments are being made at existing properties, including the major expansion and refurbishment projects currently underway at our flagship SKYCITY Auckland property. We will also look to invest in new opportunities that fit appropriately within the scope of our gaming and entertainment framework.

### Governance

SKYCITY Entertainment Group has been committed to international best practice in corporate governance since commencement.

In March 2003 the Australian Stock Exchange Corporate Governance Council released its Principles of Good Corporate Governance and Best Practice Recommendations and in August 2003 the New Zealand Exchange released its Corporate Governance Best Practice Code. Such regulatory responses are to restore overall confidence, not to give rise to a 'governance industry'. Of itself, governance is not black and white, nor is it satisfied by relentless box-ticking. The SKYCITY board has reviewed the ASX and NZX pronouncements on corporate governance best practice and we are pleased to report a high level of compliance with the requirements and recommendations as set out in those documents.

The board of the company currently comprises six directors of whom five are non-executive and a majority of whom meet the independence tests of the ASX and the NZX.



## Chairman's Report (continued)

All directors of the company are governed by formal terms of appointment and terms of reference, which identify the corporate and regulatory responsibilities of directors.

The board has three committees – the Audit and Risk Committee, the Governance and Remuneration Committee and the Nomination Committee, each of which operates under a specific charter. In addition to the board and committee charters, the company has a formal code of business practice, which all personnel must comply with at all times, and a code for securities transactions which governs company personnel when buying or selling SKYCITY shares.

SKYCITY receives favourable feedback from the investment community and from shareholders about the quality of the company's information disclosure. Our objective is to ensure that the market, and the investment community in general, are well informed on the key performance parameters relevant to each of our major areas of business activity.

Ultimately, strong corporate governance requires a set of practices and procedures which determine the actions and behaviours of all personnel, but which also incorporate actions and intentions that lead to increased value for shareholders and other stakeholders of the company and for the communities in which we operate. As such, good governance lies at the heart of our business.

Whilst this increased focus on compliance with new governance standards is important, we continue to understand that the nature of business is one of risk-taking within appropriate frameworks. To this end, the wisdom, candour, commonsense and experience of our board is of primary importance.

A ten-page section of this Annual Report is devoted to explaining SKYCITY's approach to, and current procedures with respect to, corporate governance best practice. For further information about the company's corporate governance, please refer to the section of this Annual Report at pages 29-39.

Shareholders are again encouraged (via the SKYCITY website [www.skycitygroup.co.nz](http://www.skycitygroup.co.nz)) to forward questions they would like addressed at this year's Annual Meeting. Questions can be posted to the website by 5.00pm New Zealand time on 28 October, two days prior to the meeting. Due to major construction work, SKYCITY's Auckland conference facilities are currently closed and the 2003 Annual Meeting will, as a consequence, be held at SKYCITY Hamilton.

### Adoption of International Financial Reporting Standards (IFRS)

The New Zealand Accounting Standards Review Board has recommended that listed issuers should comply with IFRS for their 2007 financial years, or earlier, with early adoption permitted from 1 January 2005. The SKYCITY board has determined to adopt IFRS for its financial year commencing 1 July 2005. The first set of fully IFRS-compliant financial statements will therefore be the SKYCITY interim accounts for the half-year ending 31 December 2005.

### Directors

This year, two directors – Patsy Reddy and Bill Trotter – are standing for re-election at the Annual Meeting. Both Patsy and Bill have provided excellent contribution to board and committee discussion, debate, and decision-making. On behalf of the board, I strongly endorse both directors for re-election.

### Directors' Fees

At the company's 2000 Annual Meeting, shareholders approved a resolution for directors' fees to be \$450,000 plus GST (if any) in total in any financial year.

In the year ended 30 June 2003, SKYCITY directors, other than the chairman of the board, were paid directors' fees of \$50,000 per annum. The chairman of the board was paid \$100,000.

In addition to directors' fees, Sir Peter Elworthy, a founder director of the company who retired in October 2002 after 10 years of excellent service, was paid a retirement amount of \$107,507. The amount of the retirement allowance paid to Sir Peter was calculated as a

proportion of three years of his directors' fees, as provided for by the company's constitution.

Agenda item 3 for the 2003 Annual Meeting proposes an increase in directors' fees to \$65,000 per non-executive director per annum (other than for the chairperson of the board), with the chairperson's fee proposed at \$130,000 per annum. In addition, to recognise the extra work undertaken by the chairpersons of the Audit and Risk and the Governance and Remuneration committees, a committee chairperson fee of an additional \$10,000 per annum is proposed.

The resolution for consideration at the 2003 Annual Meeting proposes a total directors' fees amount of \$600,000 per annum. This amount is calculated based on provision for up to six non-executive directors each at \$65,000 per annum, the chairperson of the board at \$130,000 per annum, two committee chairperson fees each at \$10,000 per annum, and a provision for special work, which may be undertaken by one or more directors from time to time, of up to \$60,000 per annum.

Since the directors' fees were set at the company's Annual Meeting in 2000, the scope and scale of the SKYCITY Entertainment Group has expanded significantly and the returns to shareholders have been well in excess of the average of returns experienced by shareholders of NZX50 companies. On behalf of shareholders, the board has obtained independent advice when considering the fees proposal, which is being put to the Annual Meeting. The directors believe that the recommended fee levels are fair and reasonable, both for their stewardship of the company's assets and as a reflection of their responsibilities under corporate and securities legislation and the ASX and NZX listing rules. A letter from John Egan Associates, which is included with the 2003 Notice of Annual Meeting, provides independent confirmation that the proposed fee levels are appropriate for a company of the scale of SKYCITY, when compared with directors' fees for publicly-listed companies in Australasia.

### Looking Forward

During 2002/03 SKYCITY demonstrated its resilience amid a set of challenging external business conditions and continued its track record of delivering outstanding results to shareholders.

SKYCITY is a company of considerable economic significance to New Zealand and South Australia. At a regional level – in Auckland, Adelaide, Hamilton, and Queenstown – SKYCITY has established a presence as a significant employer and contributor to its local economies and communities.

The company's maturity as a pre-eminent entertainment destination in each of its locations has been demonstrated by extension of the SKYCITY brand identity across all properties.

The platform has been set for the further expansion of SKYCITY's interests and profile and we are well positioned to execute the growth strategies and plans we have in place at individual properties, and for the Group overall.

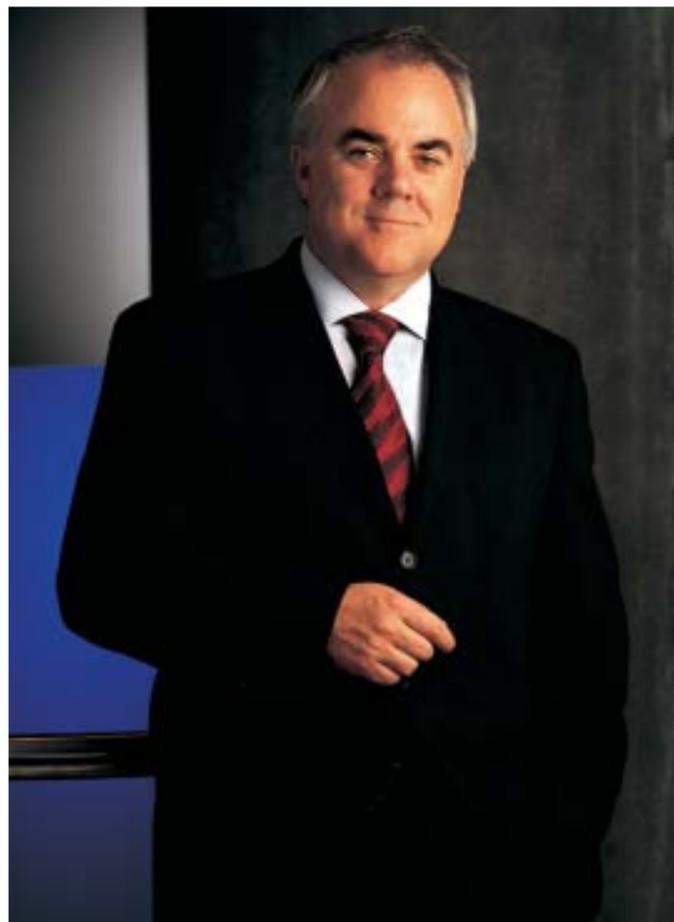
At SKYCITY, we believe the way forward is both clear and exciting.

**Jon Hartley**  
Chairman

With the Group in excellent financial health and with considerable opportunities ahead, SKYCITY is in a strong position to continue its growth record over the coming years

PLAY

## Managing Director's Review



2002/03 was SKYCITY's sixth consecutive year of profit increase and earnings growth

In 2002/03 more than 10 million visitors from throughout New Zealand, Australia and the world came out to play at SKYCITY - whether it was to hear live music, see a movie, relax in superior accommodation, play the tables and gaming machines, or enjoy a great variety of other entertainment and hospitality options.

With the Group's net surplus after tax reaching a record high of \$107.2 million, 2002/03 was SKYCITY's sixth consecutive year of profit increase and earnings growth.

Behind these milestones is a single-minded focus on creating fun and entertainment for our customers and a robust philosophy: to provide an integrated entertainment experience - more than just gaming - at each of our properties.

The year's achievements also signal a decisive step in our growth as a multi-property Group that offers a broad range of entertainment experiences on both sides of the Tasman.

### SKYCITY Entertainment Group

The 2002/03 year was a demanding but satisfying one for the Group. Strategically, our focus was on adding further depth to our broad entertainment business while sustaining earnings growth from our core gaming operations.

Key to the Group's result was a commitment to creating value from the extensive mix of entertainment offered at each of our properties. The company will continue to make the most of its gaming and non-gaming operations in order to provide a complete entertainment experience and to attract new and repeat visitors to our complexes.

Our successes in 2002/03 are particularly pleasing. They provide further evidence of our business's resilience to external uncertainty and our well-established position in the entertainment market.

### Highlights of the 2002/03 result included:

- Operating revenues up 9% to \$556 million
- EBITDA\* up 14% to \$252 million
- EBIT up 16% to \$201 million

\* Earnings before interest, tax, depreciation and amortisation

Our successes in 2002/03 are particularly pleasing. They provide further evidence of our business's resilience to external uncertainty and our well-established position in the entertainment market

### SKYCITY Auckland

Our flagship property SKYCITY Auckland recorded another outstanding performance in 2002/03, with revenue growth across all sectors of the business.

Revenues were up 8% (to \$374 million), with gaming revenues growing 8% (to \$313 million). Table games recorded 7% growth and gaming machines were up 8%.

Food and beverage revenues were up 10% (to \$30 million), Sky Tower revenues were up 7% (to \$7.6 million), and hotel and conference revenues also increased by 7% (to \$20 million) despite the closure of our conference facilities, in mid-April 2003, in preparation for the expansion of the main gaming floor. Development of the new SKYCITY Auckland convention and exhibition centre, adjacent to SKYCITY Auckland, progressed well throughout the 2002/03 year.

These two construction projects, along with the new five-star SKYCITY Grand Hotel, provide SKYCITY Auckland with a clear path for future growth. They represent a \$165 million investment in Auckland and the largest commercial capital project currently underway in the city.

Based on the track record of our Auckland business, this is an investment that we make with confidence - and, as a New Zealand business, with a great deal of pride.

We expect SKYCITY Auckland to deliver further revenue growth in 2003/04 and beyond; supported by the additional gaming machines and tables on level three of the main complex and cross-promotional opportunities between the main site and the new developments. We will also further leverage our relationship with

SKYCITY Leisure's cinema operations and our association with organisations such as Auckland Rugby, with whom we announced a three-year sponsorship partnership in July 2003.

### SKYCITY Adelaide

SKYCITY Adelaide continued to show solid growth in 2002/03. At A\$15.2 million, EBIT was up 48% on the previous year.

Product developments, marketing initiatives, and a continued focus on enhancing SKYCITY Adelaide's reputation as a leading entertainment destination, were central to the result. A focus on customer service and the successful integration of our Action loyalty programme into the Adelaide business were also important contributors to the growth in revenues.

SKYCITY Adelaide revenues were up 9% (to A\$103 million), with gaming revenues up 10% (to A\$92 million). Revenue growth from tables increased by 10%, gaming machine revenues were up 9%, and food and beverage revenues were up 5% (to A\$13 million).

Converting revenue growth into profit performance continues to be a key focus at SKYCITY Adelaide and we are pleased to report that operating earnings (as measured by EBITDA) increased 31% from A\$19.7 million to A\$25.9 million.

While the South Australian gaming market is more developed than in New Zealand, many opportunities remain. The Adelaide business is now tracking in line with our pre-acquisition expectations and we anticipate continuing growth in visitation, revenues and margins over the coming year.



## Managing Director's Review (continued)

### SKYCITY Hamilton

Since opening on time and to budget in September 2002, SKYCITY Hamilton has delivered an excellent record of achievements.

While the processes involved in establishing a new business are significant and require a concerted effort beyond the initial set-up period, we are confident that the customer interest SKYCITY Hamilton has attracted as a new complex will be sustained – and grown – over time.

SKYCITY Hamilton enjoyed a very strong six-to-eight week period immediately post-opening, with visitation then settling into a more 'business as usual' pattern. Revenues were \$20.4 million over the nine-month period, with earnings before interest and tax (EBIT) at \$3.5 million.

SKYCITY Hamilton has raised its profile in the Waikato community through its sponsorship of the Chiefs Super 12 and Waikato NPC rugby teams, and the property has also received two major building awards – one from the Property Council of New Zealand and the other from the Master Builders' Association.

A range of new initiatives provide for continued growth at SKYCITY Hamilton. These include the opening of a VIP gaming room in July 2003, extension of casino opening hours from August 2003, and the development of a full-service conference facility within the complex, expected to open in April/May 2004.

### SKYCITY Queenstown Casino

SKYCITY Queenstown Casino recorded a significant turnaround in financial performance during the year, reducing an EBIT loss of \$1.3 million in 2001/02 to an EBIT loss of \$0.3 million for the 2002/03 year.

In Queenstown, revenues were up 15% to \$6.0 million and gross margin increased from 24% to 35%.

These gains are encouraging and our breakeven target is now well within range. In a town built on the leisure market, SKYCITY Queenstown

Casino is establishing itself as a leading entertainment and function venue. Despite its small size, it remains an important part of the SKYCITY mix and we look forward to another improved result in 2003/04.

### SKYCITY Leisure

SKYCITY Leisure made significant gains during 2002/03, based on the sound platform provided by the capital restructuring of the previous year and a strong focus on marketing, operational efficiency, and leveraging of its association with the SKYCITY Group.

Significant achievements included the re-brand of IMAX/Force Entertainment Centre as SKYCITY Metro, re-opening of the IMAX theatre as Megascreen Queen Street, and the opening of the first Village SKYCITY Cinemas multiplex at Westfield St Lukes. The Village SKYCITY brand is also being progressively rolled out across other jointly-owned cinemas.

Additional highlights included implementation of the management services agreement, which was approved at SKYCITY Leisure's 2002 annual meeting. Under that agreement, SKYCITY Entertainment Group is responsible for managing SKYCITY Leisure's business and corporate activities.

SKYCITY Leisure announced a net profit of \$3.4 million for 2002/03, the first fiscal year surplus by the company since 1999. In 2003/04 SKYCITY Leisure is poised for a further year of strong earnings performance.

### Canbet

The past year saw ASX-listed Canbet Limited, in which SKYCITY holds a 32.6% shareholding, make a successful transition to a new base in the United Kingdom. The move to the U.K. will help the company to benefit from a more accommodating operational environment and greater growth opportunities.

Net surplus for the year was A\$499,000, up from A\$304,000 in 2001/02, on turnover of A\$547 million (up 33%).

## Alongside our physical expansion, our involvement in the communities in which we participate, continues to grow

### Our People

SKYCITY has developed a reputation as an employer of choice and a great place to work. Performance excellence is the SKYCITY standard and we are focused on ensuring that our customers' experiences are second-to-none in the entertainment market.

Highlights of the 2002/03 year included the recruitment and training of more than 200 staff in time for the opening of SKYCITY Hamilton in September 2002. At SKYCITY Auckland we also graduated our first cookery apprentices after three years of training under the Modern Apprenticeship programme.

Following the success in Auckland of our unique employee incentive schemes – the 'Customer Experience Incentive' (CEI) and the 'Performance Pay Incentive' (PPI) – these programmes were rolled out across the Group in 2002/03 to include staff in Adelaide, Hamilton and Queenstown.

A key priority is to further enhance the SKYCITY culture to support the delivery of excellent service at all of our properties.

### Regulatory Developments

SKYCITY operates in a sector in which regulatory developments and issues will continue to be significant.

Increased restrictions on environmental tobacco smoke and a greater focus by government on problem gambling management are considerations for business planning in New Zealand and South Australia. In both areas, changes have been signalled for some time, and SKYCITY is well placed to address these.

Our existing host responsibility and problem gambling management initiatives are industry-leading, and are an important part of the way

we conduct our operations. We welcome the introduction of clear, industry-wide guidelines in both New Zealand and Australia.

With regard to environmental tobacco smoke, preparing customers for increased restrictions and making physical changes to our properties will be a primary focus in the time between the passage of the proposed legislation and it taking effect.

### Continuing the Momentum

2002/03 was a highly successful year for SKYCITY and one in which we further delivered on our ambitions as a serious trans-Tasman participant in the gaming and entertainment sector.

We have cemented our position as one of New Zealand's top listed companies, our brand has become significantly more visible and, with considerable growth opportunities remaining in both New Zealand and Australia, all of our properties and businesses are well positioned for future development.

Alongside our physical expansion, our involvement in the communities in which we participate continues to grow. This year was notable for the establishment of the third SKYCITY community trust, in Hamilton.

Further information about our operational achievements, new products and facilities, and our community involvement is available on pages 16 and 17 of this report. A separate Community Report is also available and has been distributed to shareholders with this Annual Report.

SKYCITY has created a culture of performance and achievement, and I thank each member of staff for their commitment and contribution to creating the experiences we provide for our customers.

We can look forward with confidence to the challenges of 2003/04 and beyond.

**Evan Davies**  
Managing Director



PLAY: Customers, come out to play! SKYCITY's entertainment and leisure options are endless: roulette to restaurants; hotels to hors d'oeuvres; movies to meetings

# PLAY

In 2002/03 more than 10 million visitors enjoyed SKYCITY's broad range of experiences





## Experiences

### A single-minded vision underpins every SKYCITY operation: to create fun and entertainment for our customers

In line with this vision, our strategy is to offer integrated, locally-relevant entertainment at each of our properties – broad-based entertainment experiences that range from: gaming to theatre; dining to conferences; cocktails to dancing.

Keeping our facilities and the experiences we offer compelling – providing new and different reasons for people to visit SKYCITY – is fundamental to our business. We continue to create new products and to refine our existing offerings based on customer feedback and extensive market research programmes.

#### New Gaming Options

New gaming options were a priority this year. SKYCITY Hamilton opened a VIP gaming area in June, adding to the property's gaming options and providing customers with a more private and personalised gaming experience. New gaming machine products and technologies were also introduced in Queenstown during the year.

In Adelaide, changes to machine layouts and a series of exclusive product launches, supported by strong advertising campaigns, created interest and excitement on the gaming floor. SKYCITY Auckland's main gaming floor expansion is well underway and will be fully operational by December 2003. A new upper floor, and reconfigured existing facilities, will offer the latest technology in gaming machine products to complement customer favourites. A highlight of Auckland's expanded gaming floor will be a new bar, featuring a dramatic floor-to-ceiling window over the gaming floor.

#### Sky Tower

In recent years Sky Tower's adventure activities, Sky Jump and Vertigo, have added a new dimension to the Sky Tower experience. This year the enhancements continued, with Sky Tower's signature restaurant, Orbit, being refurbished in September 2002.

Since opening six years ago, Orbit has become a favourite à la carte dining option for New Zealanders and visitors alike, serving thousands of meals a year to satisfied diners, including former U.S. President Bill Clinton and movie star Michael Douglas. This year's restaurant revitalisation included a complete interior refurbishment, an acclaimed new menu, and the appointment of a SKYCITY-led management team.

A major redevelopment of the Sky Tower entry and exit areas has also been undertaken, including the construction of a new theatrette and a significant expansion of retail offerings. The changes have extended space for visitors on the main observation level, through the relocation of retail facilities, and enhanced Sky Tower's appeal as a destination in its own right.

### Keeping our facilities and the experiences we offer compelling – providing new and different reasons for people to visit SKYCITY – is fundamental to our business

#### Live Music, Film, Plays, and Concerts

This year all SKYCITY properties cemented their reputations as leading entertainment destinations.

At SKYCITY Auckland, we continued to provide Aucklanders with free live music and entertainment seven days a week. Highlights of the year included the film premieres of *Whale Rider* and *Austin Powers – Goldmember*; a very popular season of the *Rocky Horror Show*; a songwriters' night in support of NZ Music Month; and the 2003 Auckland Film Festival.

In addition, we brought the SKYCITY Starlight Symphony to more than 250,000 Aucklanders for the fifth time, with thousands of corporate guests enjoying out-catering under the stars, courtesy of SKYCITY Cuisine and Events.

A series of major concerts and events at SKYCITY Adelaide enhanced the complex's reputation as one of South Australia's leading entertainment venues, with special highlights including three semi-acoustic concerts by rock icon Jimmy Barnes.

SKYCITY Hamilton has quickly developed a reputation as one of Hamilton's leading live music venues with local bands proving to be popular attractions.

Stand-up comedy, local musicians, and quiz-nights are just some of the regular live entertainment featured at SKYCITY Queenstown. The Wild Thyme bar and restaurant is becoming a local favourite with the business market for functions and events, and the bar's big screen is a fixture on major sporting occasions.

#### Art and Architecture

Special artistic and architectural highlights add to the visitor experience at all SKYCITY properties. Carefully selected local artworks and interior-design elements reflect the unique environs of each property and, in several instances, heritage and cultural considerations.

Highlights this year included the restoration and raising of the superb art deco dome ceiling at SKYCITY Hamilton and a pre-dawn ceremony to unveil five carved Maori Pou (memorial posts) along the Waikato riverbank. Local students and connoisseurs of art have also come to frequent the property to view the 35 square metre glass artwork by well-known New Zealand artist Dick Frizzell, which depicts the Waikato River, clouds, rain and mist and adds to the visual appeal of SKYCITY's newest entertainment complex.

This year all SKYCITY properties cemented their reputations as leading entertainment destinations





PLAY: Each SKYCITY property plays a significant community role: from employment to sponsorship, purchasing local produce and services, to regional tourism generation

PLAY

Integral to each SKYCITY business is a commitment to community involvement



## Involvement

### SKYCITY is an active and positive contributor to the communities in which we operate

As a leading corporate citizen, and the host of more than 10 million visitors each year, we have significant community responsibilities.

#### Host Responsibility

Our approach to host responsibility is widely acknowledged as industry-leading.

Taking host responsibility seriously – doing more than we are required to do legislatively – makes sound business sense. A proactive approach to problem gambling support helps us deliver on our fun and entertainment promise to customers and aids our long-term sustainability as a business.

Central to our approach is a commitment to train all of our 3,500-plus staff in awareness regarding responsible provision of gaming and service of alcohol.

New host responsibility initiatives in 2002/03 included the roll-out of problem gambling support materials in multiple languages to all SKYCITY properties, and the production of information kits for medical practitioners. Developed with input from treatment providers, these kits are distributed free of charge to help the medical community identify and treat problem gamblers.

#### SKYCITY Community Trusts

Since establishing our first community trust in Auckland in 1996, SKYCITY operations have contributed nearly \$12 million to a wide range of community initiatives.

This year's highlights included the establishment of the SKYCITY Hamilton trust and the first round of grants by the Queenstown trust. Grants by the Auckland trust reached a record annual level of \$2.8 million.

Major grants included \$215,000 to restore the original Titirangi home of Colin McCahon, arguably New Zealand's greatest artist, and \$225,000 to the Auckland War Memorial Museum for the fit-out of its new auditorium.

#### Community Sponsorship

We focus our multi-million dollar sponsorship portfolio on three broad areas: health; the arts, culture and entertainment; and sport.

We provide more than just financial support to the organisations with which we work. Our involvement extends to creating fundraising opportunities, making our facilities available free of charge or at cost, and providing our expertise in marketing, communications and project management.

We believe longevity has also been a successful element of our community support. Our association with Starship Children's Hospital is now entering its eighth year. Recent highlights included the opening of the SKYCITY-funded Puawaitahi multi-agency centre for abused children, and fundraising for the hospital's paediatric heart unit.

This year was also a significant one for our involvement with Kidz First Children's Hospital in South Auckland, with an award-winning advertising campaign to improve public awareness about how to treat burns, and a special screening of *Harry Potter and the Philosopher's Stone* for young burns patients. SKYCITY is the founding sponsor of Kidz First's Burns and Plastics Unit.

During the year Sky Tower and SKYCITY Hamilton were lit pink in support of breast cancer awareness and several new initiatives were implemented to raise funds for the Adelaide Woman's and Children's Hospital.

#### Destination Marketing

SKYCITY continues to lead national and regional efforts in promoting New Zealand and South Australia as tourist destinations.

Our Auckland-based sales team, which supports the Group, is travelling constantly – internationally and nationally – marketing the destinations in which we do business, and promoting the broad-based offerings of all our properties. We take a leading role in tourism industry forums and work closely with other major tourism organisations and operators.

Successes in the 2002/03 year included the tourism contribution of SKYCITY Hamilton – promoted alongside the new Waikato Stadium, Hobbiton tours, and the Novotel Tainui Hamilton hotel – in raising the profile of the Waikato region as a domestic and international destination. In addition, sales for our new Auckland convention centre and five-star hotel have been a focus, with significant interest

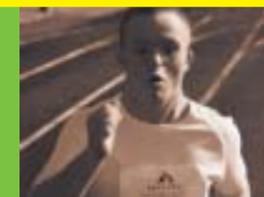
### We continue to lead national and regional efforts in promoting New Zealand and South Australia as tourist destinations

The year was capped off with a highly successful trip by the New Zealand Special Olympics team to the World Summer Games in Dublin. Fundraising at the SKYCITY Starlight Symphony, the Sky Tower Vertical Challenge, and other SKYCITY events gave the team the extra lift needed to 'Go for Gold' in Dublin. SKYCITY has been the New Zealand Special Olympics Foundation's key sponsor since 1996.

from a variety of markets translating into strong advance bookings.

It is also with great pleasure that we note Sky Tower's receipt of the top Visitor Attractions award at the September 2003 New Zealand Tourism Awards, cementing its reputation as Auckland city's favourite landmark.

### Our approach to host responsibility is widely acknowledged as industry-leading



PLAY: Whether it's work or play, or a combination of both, SKYCITY presents the ideal solution for any occasion

PLAY

Continual evolution of products and experiences is central to SKYCITY's success





## Evolution

# The 2002/03 year was one in which SKYCITY came of age as a truly diversified entertainment Group

In just a few years, SKYCITY has rapidly evolved from a single-site gaming business based in Auckland, to a multi-property Group that offers a variety of entertainment experiences on both sides of the Tasman.

We are one of New Zealand's largest listed companies by market capitalisation, and each of our properties is a significant employer and business in its own right.

A number of notable milestones were reached during the 2002/03 year.

### SKYCITY Hamilton Opening

Our third New Zealand property, SKYCITY Hamilton, opened in September 2002 to an extremely favourable customer response.

Since then the complex has continued to perform well, with opening hours being extended in response to customer demand. New conference facilities are due for completion in early 2004, further positioning SKYCITY Hamilton as the Waikato region's leading entertainment and leisure venue.

### SKYCITY Adelaide

We have accomplished the integration of SKYCITY Adelaide into the overall Group and, this year, the benefits were realised in the business's strong performance.

### Group-wide ACTION

2002/03 was a watershed year for Action, SKYCITY's award-winning customer loyalty programme. Action, which rewards customers for spend throughout SKYCITY's business – from gaming to retail, restaurants to hotel accommodation – is a core customer-retention and acquisition tool across the Group.

In place at SKYCITY Hamilton from opening day, in September 2002, Action has proved very popular with customers. It has also been integral in driving repeat visitation and customer acquisition at SKYCITY Adelaide over the past year.

In November 2002, Action was recognised internationally as a top customer-loyalty programme, being the only non-American award winner at the 2002 U.S. National Centre for Database Marketing Awards. In February 2003, Action won five major awards from the New Zealand Direct Marketing Association.

### SKYCITY Auckland Expansion

This year we made excellent progress on our \$165 million SKYCITY Auckland expansion and refurbishment projects, with construction of the new SKYCITY Auckland Convention Centre, on target for completion in April 2004, and the new five-star SKYCITY Grand Hotel scheduled to open in April 2005.

SKYCITY is continually refreshing and developing the products we offer to provide compelling customer experiences. Significant to SKYCITY Auckland is the development of a third public gaming area, incorporating the introduction of 12 additional tables and 230 more machines, which is on schedule to commence operation early in December 2003. The capital works programme in Auckland includes the refreshment of the Sky Tower entry and new retail facilities, as well as a major refurbishment of the existing SKYCITY Hotel – the last stage of which will be completed during 2003/04.

### SKYCITY Leisure

Good progress was made during 2002/03 in maximising our operational, marketing and branding opportunities with cinema operator and property company SKYCITY Leisure.

The re-naming of Force Corporation as SKYCITY Leisure, the re-branding of the Force Entertainment Centre as SKYCITY Metro and the opening of the first branded Village SKYCITY Cinemas multiplex, at Westfield St Lukes, were major achievements. The new brand will be applied progressively to existing and new sites, including a development at Fraser Cove, Tauranga, due to open in April/May 2004.

### SKYCITY = Entertainment

Our vision to create fun and entertainment reached a new level this year. One of the most visible indicators of SKYCITY's maturity as a company has been the adoption of a master-brand strategy across all our operations. This decision reflects our intention to build a robust and internationally recognised SKYCITY brand and creates significant value through increased visibility in the communities in which we operate.

Central to the strategy is a desire to ensure our customers recognise and enjoy a distinctive SKYCITY experience at every one of our entertainment properties. The common brand identity also demonstrates SKYCITY's clear corporate vision and the application of a consistent, proven approach to governance, performance and professional practice throughout the Group.

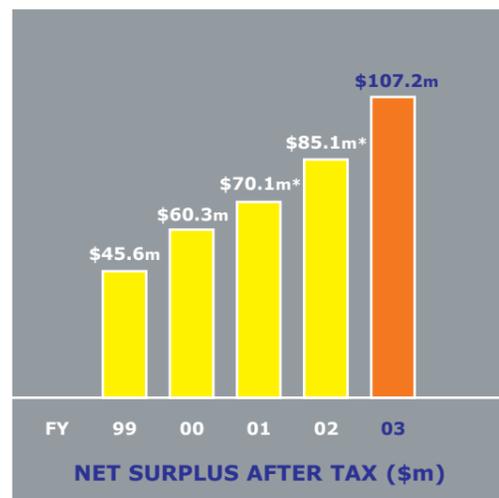
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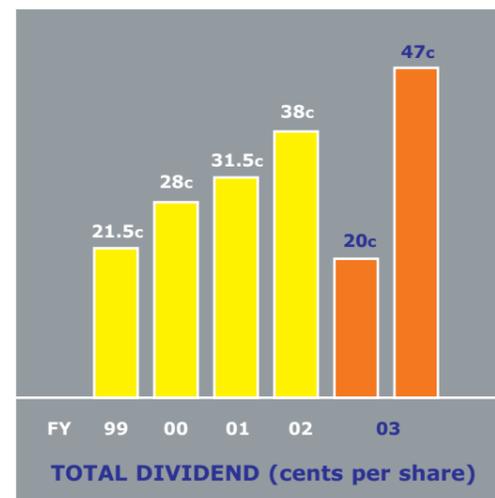


## Financial and Operating Review

### Net Surplus \$107.2 million (+26%)



### Total Dividend 67cps Special Dividend (11/02) 20cps Interim Dividend (4/03) 21cps Final Dividend (10/03) 26cps



The \$107.2 million net surplus after tax reported for the year ended June 2003 was up 26% on the \$85.1 million\* reported for the prior year

#### Earnings and Dividends

Earnings per share increased from 41.5 cents\* to 51.0 cents per share (cps) in 2002/03 and, as a result, dividends paid to shareholders increased from 38cps in 2001/02 to 47cps, plus an additional 20cps special dividend for the 2002/03 year.

A final dividend for the 2002/03 financial year of 26cps has been declared and will be paid on 3 October 2003 to those shareholders on the SKYCITY register as at 5:00pm on 19 September 2003. As for previous dividends, the FY03 final dividend will be fully imputed.

\* before non-recurring items

#### Group Operating Revenues (\$556 million)

The increased earnings for the Group were driven by increased revenue performance at SKYCITY's Auckland, Adelaide and Queenstown properties and from the new revenue stream generated by SKYCITY Hamilton, following its opening in September 2002.

Across the Group, operating revenues were up 9% (+\$46 million) over the previous year, operating earnings (as measured by EBITDA – earnings before interest, tax, depreciation and amortisation) increased by 14% (+\$31 million), and net surplus after tax increased by 26% (+\$22.1 million).

The revenue growth was accompanied by effective cost management with performance ratios improved across the Group – gross operating margin was increased from 54% to 55%, the EBITDA ratio (to revenue) was increased from 43% to 45%, and the EBIT ratio was increased from 34% to 36%. Effective interest rate management then helped convert the EBIT gain to a pre-tax profit gain, up from 25% to 28% of revenue.

Group revenues increased by 9% to \$556 million, with SKYCITY Auckland up 8% from \$374 million to \$374 million, SKYCITY Adelaide up 9% from A\$95 million to A\$103 million, and other New Zealand operations (SKYCITY Hamilton, SKYCITY Queenstown Casino, and SKYCITY Leisure) up 38% from \$49 million to \$68 million.

Of Group revenues, SKYCITY Auckland provided 67% of the total, SKYCITY Adelaide 21%, SKYCITY Leisure 7%, SKYCITY Hamilton 4% (for its nine-month trading period), and SKYCITY Queenstown Casino 1%.

#### Group Earnings

• EBITDA	\$252m
• EBIT	\$201m
• NSBT	\$159m

At the EBITDA level, the Group result was up 14% to \$252 million, with SKYCITY Auckland up 9% from \$183 million to \$199 million, SKYCITY Adelaide up 31% from A\$20 million to A\$26 million, and other New Zealand operations up 63%, from \$14 million to \$24 million, with SKYCITY Hamilton contributing \$7.2 million of that increase.

Of particular note within the EBITDA results was the increase in the SKYCITY Adelaide ratio from 21% (of revenues) in FY02 to 25% in FY03.

At the Group EBIT line, SKYCITY Auckland contributed 86% of total earnings (\$173 million), SKYCITY Adelaide 9% (A\$15.2 million), and other New Zealand operations 5% (\$10.5 million).

#### SKYCITY Auckland

SKYCITY Auckland's 2002/03 result was characterised by strong revenue growth across all business units, an increase in EBITDA ratio from 52.7% to 53.3%, and an increase in EBIT ratio by 1.3% points to 46.2%.

The key results for SKYCITY Auckland showed revenue growth being converted into strong operating earnings performance, as set out below:

• Revenues	up \$27 million (+8%) to \$374 million
• EBITDA	up \$16.6 million (+9%) to \$199 million
• EBIT	up \$17.4 million (+11%) to \$173 million

In Auckland, the three major expansion projects were commenced: the level three gaming expansion is due for completion in December 2003; the convention and exhibition centre was well advanced towards its scheduled opening in April 2004; and the new 320-room Qualmark-rated five-star hotel project was announced last November. The new hotel is currently scheduled to open in April 2005.

#### Gaming

As has been the case for the last two years, the 2002/03 Auckland gaming result reflects significant growth in both table games and gaming machine revenues of 7% and 8% respectively.

During the year, 270 new gaming machines were introduced to replace existing machines. These new machines were from a range of suppliers including Aristocrat, Konami, AGT, and IGT and the new game types have been well received by customers.

The gaming expansion will add a further 230 machines and 12 tables to the total gaming presentation in Auckland. Following the opening of the gaming expansion (and new bar) in December, SKYCITY Auckland will have increased its gaming supply from 98 tables and 1,417 machines to 110 tables and 1,647 machines, a 15% increase in overall gaming capacity.



## Financial and Operating Review (continued)

During the year, the company expanded its positioning in the premium play/VIP sector, which provides an important component of the overall revenue mix.

On the cost management side, implementation of a new rostering system for scheduling labour is expected to produce ongoing cost efficiencies and improved flexibility.

### Food and Beverage

Food and beverage revenues increased by 10% to \$30 million during the 2002/03 financial year.

During the year, Sky Tower's Orbit restaurant was refurbished, with the restaurant closed during these renovations for only a short two-week period. The 2002/03 year was the first full year for the Observatory restaurant (the new seafood buffet restaurant in Sky Tower) which recorded more than 60,000 covers, 5% ahead of pre-opening expectations.

SKYCITY Catering and SKYCITY Cuisine and Events both established excellent reputations for quality and service at off-site locations throughout the Auckland region.

During the 2003/04 year, SKYCITY looks forward to the opening of the new bar on level three of the main complex as part of the new expanded gaming facility.

### Hotel and Conference

Hotel and conference revenues were up 7% to \$20 million, despite a number of pressures on the revenue stream exerted by a reduction in inbound visitors during the SARS period of concern, and the closure of the SKYCITY conference facilities in mid-April – being

demolished to make way for the gaming expansion. Conference revenues will not resume until the new facilities become operational in April 2004.

Despite SARS-related reductions in hotel patronage and the closure of the conference facilities, second-half FY03 hotel occupancy held up well at 80%, resulting in an overall average occupancy for the year of 84%.

During the year, stage two of the three-stage hotel refurbishment programme was completed, with the third and final stage being undertaken during the 2003/04 year.

### Sky Tower

Sky Tower revenues were up 7% to \$7.6 million. This revenue performance continues an impressive trend of revenue growth, given that Sky Tower has now passed its sixth anniversary since opening in August 1997.

Sky Tower attractions such as the Vertigo mast climb and the 192-metre Sky Jump are continuing to maintain a very high profile for Auckland's most recognised landmark. The most recent addition to the Sky Tower experience has been the opening of a new retail and theatre facility at the entry/exit station, in August 2003.

### Other Revenues

As a result of car parking capacity being at peak at busy times, car parking revenue growth in the 2002/03 year was inevitably constrained. However, revenues still inched up to \$9.3 million.

During 2002/03 more than 120,000 theatre-goers were treated to a range of entertainment events at SKYCITY Theatre. Of this total, more than 35,000 attended the very successful season of Auckland Theatre Company's *Rocky Horror Picture Show* and more than 20,000 attended the films presented at the Auckland International Film Festival. Other productions at SKYCITY Theatre during the year included: Roger Hall's *Middle Age Spread*; the 70's musical *Boogie Nights*; and NBR Opera's production of the *Barber of Seville*. New Zealand film premieres staged at SKYCITY Theatre during the year included: *Men in Black 2*; *Lilo and Stitch*; *Austin Powers – Goldmember*; and the world premiere of *Whale Rider*.

## SKYCITY Adelaide's 2002/03 result was characterised by strong revenue growth in both gaming and food and beverage with overall revenues up by 9% at A\$103 million

### SKYCITY Adelaide

During 2002/03 SKYCITY Adelaide's earnings margins were improved and the growth and development of the business as a key entertainment destination in Adelaide was further progressed.

A number of major entertainment events were hosted at SKYCITY Adelaide including performances by Jimmy Barnes, Marcia Hines, James Reyne, Diesel, Russell Morris, and Mark Seymour. A segment of the very popular *Simply Footy* show is filmed at SKYCITY Adelaide and the final eviction episode of the Australian *Big Brother* television programme included a live crossing to SKYCITY Adelaide's Marble Hall. These, and other events, demonstrate that SKYCITY Adelaide has become one of the most popular entertainment venues in South Australia.

Revenue growth and cost management were combined to increase the gross margin ratio from 32% in FY02 to 35% in FY03, the EBITDA ratio from 21% to 25%, and the EBIT ratio from 11% to 15%.

As was the case for the Auckland operation, the key performance results for SKYCITY Adelaide showed continuing revenue growth being converted into strong operating earnings performance, as set out below:

• Revenues	up A\$8.2 million (+9%) to A\$103 million
• EBITDA	up A\$6.2 million (+31%) to A\$25.9 million
• EBIT	up A\$4.9 million (+48%) to A\$15.2 million

Significant capital expenditure committed at SKYCITY Adelaide related to new gaming machines and gaming machine conversions, for a number of gaming floor reconfigurations (to more closely align layout with customer preference), and for refurbishment of the Pullman restaurant.

### Gaming

Gaming revenue growth for the 2002/03 year of 10% was contributed to almost equally by table games at +10% and gaming machines at +9%.

As a result of revenue growth and direct cost management, gaming gross margin was increased from 35% to 38%.

During the year, 113 new gaming machines and 180 gaming machine conversions were introduced at SKYCITY Adelaide. Of the new machines, 58 were additional machines and 55 were replacements for existing machines. Total machine count increased during the year from 831 to 889.

A number of new productivity initiatives introduced during the year assisted in achieving the increase in gross margin performance. These included a new table games rostering and scheduling system and the introduction of chipping machines, deck checkers, and shuffling machines.

The Grange Room for premium/VIP players enjoyed a good year and this facility has become a popular venue for visiting higher-end players. The new TAB facility in the Westend Grandstand Bar on the second gaming level has also proved popular.

### Food and Beverage

Food and beverage revenues increased by 5% to A\$13 million during the 2002/03 financial year.

The Pullman refurbishment was commenced during the year and will significantly enhance the attraction of this restaurant within the overall entertainment mix at the property.

## SKYCITY looks forward to the opening of the new bar on level three of the main complex as part of the new expanded gaming facility



## Financial and Operating Review (continued)

The Hamilton facility was completed on time, and to budget, and has generated a highly favourable response from the people of Hamilton and the Waikato/Bay of Plenty region

### SKYCITY Hamilton

(55% ownership, SKYCITY as operator)

Since opening on 19 September 2002, SKYCITY Hamilton has become a popular entertainment destination for local and regional visitors alike. The first few weeks post-opening proved very busy. After approximately six weeks, visitation eased back to more 'business as usual' levels. The busy opening period provided an excellent start for the business and the strong EBITDA result for the first 'year' (41 weeks) of 35% is expected to be maintainable at, or about, the same level into the 2003/04 year.

Initial expectations for SKYCITY Hamilton were for first full-year revenues to be in the order of \$27-\$28 million at an EBITDA of around \$10 million. Those expectations have been confirmed by the business result to date - at \$20.4 million in revenues and \$7.2 million in EBITDA for the initial operating period of 9.3 months.

A comprehensive recruitment and training effort for SKYCITY's Hamilton property produced excellent results in terms of the level of customer service and cost attitude, which has been delivered within the Hamilton operation during its first year.

The Hamilton facility was completed on time, and to budget, and has generated a highly favourable response from the people of Hamilton and the Waikato/Bay of Plenty region.

SKYCITY Hamilton is contributing to the Hamilton and Waikato communities including through sponsorship of both the Chiefs Super 12 and the Waikato NPC rugby teams.

Since opening in September 2002, the gaming facilities have been extended from 20 gaming tables and 300 gaming machines to 23 tables and 339 machines. A new VIP room, comprising 4 tables and 6 machines, has been established and trading hours have been extended. A new conference fit-out of currently unused space within the Hamilton complex has been announced and this facility is scheduled to open in April/May next year.

### SKYCITY Queenstown Casino

(60% owned, SKYCITY as operator)

The 2002/03 financial statements report a significant improvement in the bottom-line performance of SKYCITY's boutique gaming property in Queenstown. Although the targeted breakeven EBIT position was not achieved, the business did get close to this objective through a substantial gain in revenues, whilst maintaining a firm line on costs.

SKYCITY Queenstown's revenues were increased by 15% in FY03, gross margin was improved from 24% to 35%, and EBITDA was increased from \$0.3 million to \$1.2 million. The EBIT line loss of \$1.3 million in FY02 was almost turned around with a \$1.0 million recovery leading to a small EBIT loss of \$0.3 million in 2002/03. A positive EBIT result for FY04 is anticipated.

### SKYCITY Leisure Limited

(74% ownership on a fully diluted basis - MCNs and shares. SKYCITY provides operational and corporate services under a Management Services Agreement)

SKYCITY Entertainment Group Limited, as majority shareholder (50.2% of Leisure's shares and 77% of its Mandatory Convertible Notes: an effective holding of 74.4% on a fully diluted basis), consolidates the SKYCITY Leisure result and then accounts for the minority interest.

SKYCITY Leisure reported a net surplus of \$3.4 million for the 2002/03 year, well ahead of previous years' results, which had been adversely impacted by significant non-recurring items and write-offs. Having attended to the historical problems during the 2001/02 year,

2002/03 was the first year in which the SKYCITY Leisure result was able to be reported unimpeded by significant one-off items.

SKYCITY Leisure's EBITDA of \$12.2 million was up 17% on the prior year and at the EBIT line the result showed a 28% gain at \$8.4 million. Net surplus (before non-recurring items re FY02) was up 16% on the previous year at \$3.4 million.

SKYCITY Leisure's cinema operations performed well during 2002/03, with cinema revenues up 5% on the previous year (to \$31.4 million) and cinema gross margin up 10% to \$8.6 million.

SKYCITY Metro (previously the Force Entertainment Centre) on Auckland's Queen Street performed well, despite reduced revenue results by the IMAX theatre and losses incurred by the Planet Hollywood restaurant. During the year, the IMAX theatre was converted into the Queen Street Megascreeen, which is proving to be a major attraction for movie-goers. The Planet Hollywood restaurant is being replaced by a new restaurant facility which will be operated by one of Auckland's leading restaurateurs. Resolution of these two issues (IMAX and Planet Hollywood) and the impending fit-out of the previously vacant Teatro restaurant space will allow the SKYCITY Metro facility to show improved returns in 2003/04 and beyond.

SKYCITY Leisure's cinema operations performed well, during 2002/03, with cinema revenues up 5% on the previous year (to \$31.4 million) and cinema gross margin up 10% to \$8.6 million

Commencing with the opening of the new eight-screen cinema complex at Westfield St Lukes in Auckland in May 2003, the cinema operations are being progressively re-branded as Village SKYCITY Cinemas. A new eight-screen Village SKYCITY Cinemas complex is scheduled to open in Tauranga in April/May 2004 and other relocations of existing cinema complexes into Westfield shopping centres are planned over the next four to five years. The cinema exhibition business is expanding and prospects for the near to medium term are looking very positive.

### Canbet Limited

(32.6% shareholding)

Canbet reported a net surplus of A\$499k for the year ended 30 June 2003.

Canbet relocated its internet sports wagering operations from Canberra, Australia to Fareham, England in April 2003. The relocation of the business was a major undertaking but the change-over from Canberra operations to U.K. operations was achieved without any significant downtime or other problems.

During the 2002/03 year, revenues continued to grow strongly. Despite an adverse change in the USD/AUD exchange rate, Canbet still managed to grow its turnover by 33% to A\$547 million.

The internet sports wagering business is characterised by inherent volatility, but Canbet has shown the potential to create earnings based on a high-volume low-margin business model. The U.K. operations will result in an increased cost base for the company, but the prospects for continued growth in turnover remain strong.

In last year's Annual Report, it was stated that Canbet needed to improve its earnings performance before SKYCITY could confirm its longer-term intentions with respect to its investment. This position remains unchanged, with Canbet not able to improve its net earnings position to a significant extent during 2002/03, given the costs associated with moving its business operations to the United Kingdom. That relocation is complete and the business result for the 2003/04 year should reflect the medium-term prospects for Canbet's sports wagering operations.



## Looking Ahead

## Corporate Governance

SKYCITY's priorities for the current financial year were advised to the market at the time of the 2002/03 result release in August. These priorities are set out below:

### SKYCITY Auckland

- Continue revenue growth initiatives across all business units
- Open the new gaming facilities (December 2003) and the convention and exhibition centre (April 2004) on time and to budget
- Progress the hotel project towards its scheduled opening in April 2005
- Further develop/grow the premium play/VIP table games sector

### SKYCITY Adelaide

- Enhance the gaming and entertainment attraction of the Adelaide property
- Continue to grow revenues and improve profitability

### SKYCITY Hamilton

- Consolidate/grow revenues and earnings, based on the first year's successful operating period

### SKYCITY Queenstown Casino

- Achieve a surplus EBIT result
- Further develop VIP/commission table games play

### SKYCITY Leisure

- Grow cinema earnings
- Enhance the cinema offerings and facilities

### Canbet

- Increase turnover and profitability

### Community Participation

- Continue/increase the company's participation in all the communities within which it operates

At SKYCITY, governance reflects the tone and behaviour expectations that the board sets on behalf of stakeholders and encompasses the company's decision-making structures and the mechanisms used to manage the organisation

## Board of Directors

The SKYCITY Entertainment Group board of directors is responsible for supervising the management of the company and has a comprehensive set of corporate governance practices and procedures in place to ensure that its responsibilities to shareholders and other stakeholders are fully complied with

The board currently comprises five non-executive directors and one executive director. The chairpersons of the board and the board committees are non-executive directors.

Patsy Reddy and Bill Trotter, current directors of the company, retire by rotation at the 2003 Annual Meeting and offer themselves for re-election.

Sir Peter Elworthy, a founder director of the company, retired at the 2002 Annual Meeting. Bridget Wickham, former director, resigned in December 2002.

During the 2002/03 year, the board formally met on eight occasions, the board's Audit and Risk Committee met four times, and the Governance and Remuneration Committee met three times. In addition, directors met informally on a number of occasions to consider specific issues.



**Jon Hartley**  
Chairman

Jon Hartley was appointed a director and chairman of SKYCITY Entertainment Group Limited in February 1996 and is a member of the Audit and Risk Committee. In addition, he serves on several advisory groups.



**Evan Davies**  
Managing Director

Evan Davies has been Managing Director of SKYCITY Entertainment Group Limited since February 1996. Mr Davies is an executive director of the board and is also a director of SKYCITY's subsidiary companies. He served in 2001/02 as a director of the Tourism Industry Association of New Zealand and is a trustee of the Melanesian Mission Trust.



**Patsy Reddy**  
Deputy Chairperson

Patsy Reddy is deputy chairperson of the board and chairperson of the Governance and Remuneration Committee. Ms Reddy is an executive director of Active Equities Limited, a director of Telecom Corporation of New Zealand Limited, Infinity Group Limited, and the Adam Art Gallery Advisory Board. She is a trustee of the New Zealand International Festival of the Arts and of the Victoria University of Wellington Art Collection Trust.



**Rod McGeoch**

Rod McGeoch is the chairman emeritus of Corrs Chambers Westgarth, solicitors, of Australia. Mr McGeoch is a director of Telecom Corporation of New Zealand Limited, deputy chairman of Australian Pacific Airports Corporation Limited, chairman of Australian Growth Properties Limited and Saatchi & Saatchi's Trans Tasman Advisory Board, a director of Ramsey Health Care Limited and Frontiers Group Limited and a trustee of the Sydney Cricket and Sports Ground Trust. Mr McGeoch is a member of SKYCITY's Governance and Remuneration Committee.



**Elmar Toime**

Elmar Toime was chairman of the Audit and Risk Committee until December 2002. Mr Toime is executive deputy chairman of Royal Mail Holdings plc. He was formerly the chief executive officer of New Zealand Post Limited. He is a director of Post Office Limited, chairman of General Logistics Systems, and a board member of the International Postal Corporation. Mr Toime has been based in London since March 2003.



**Bill Trotter**

Bill Trotter was appointed to the SKYCITY board in March 2000 and is a member of SKYCITY's Governance and Remuneration Committee. Mr Trotter is chairman of First NZ Capital Group Limited, a director of New Zealand Exchange Limited and a director of NZX Index Management Limited.



**Alistair Ryan**  
Company Secretary

Alistair Ryan has been SKYCITY's company secretary since 1995. Mr Ryan is General Manager Corporate for the SKYCITY Group and is a director of SKYCITY's subsidiary companies.

## Corporate Governance



### Governance at SKYCITY

At SKYCITY governance reflects the tone and behaviour expectations that the board sets on behalf of stakeholders and encompasses the company's decision-making structures and the mechanisms used to manage the organisation.

SKYCITY's board and management are committed to ensuring that the company maintains best practice governance structures and principles. In this regard, the board is developing a Board Charter which will ensure that the recent ASX (Australian Stock Exchange) and NZX (New Zealand Exchange) corporate governance requirements, recommendations, and guidelines are embedded in the governance structures and principles of the company. This Charter will pull together many of the existing elements of corporate governance at SKYCITY.

The Board Charter will be finalised before the end of the 2003 calendar year and a copy of the Charter will be posted on the company's website for access by any interested party.

The board will continue to monitor best practice recommendations and developments as they occur, as has been the case in the past.

### SKYCITY's Governance Principles

The board has adopted the ten governance principles, as set out below. These principles reflect the Corporate Governance Guidelines of the ASX and the Corporate Governance Best Practice Code of the NZX.

The board of SKYCITY Entertainment Group, through a set of formal policies and procedures comprising the corporate governance framework of the company:

- establishes a clear framework for oversight and management of the company's operations and for defining the respective roles and responsibilities of the board and management
- structures itself to be effective in discharging its responsibilities and duties
- sets standards of behaviour expected of company personnel
- safeguards the integrity of the company's financial reporting
- ensures timely and balanced disclosure
- respects and facilitates the rights of shareholders
- recognises and manages risk
- encourages board and management effectiveness
- remunerates fairly and responsibly, and
- recognises its obligations to all stakeholders.

There are a number of supporting charters and policies already in place, which will combine with the Board Charter to comprise SKYCITY's governance framework. These support charters and policy statements, in addition to the company's constitution, comprise the following:

- Terms of Appointment and Terms of Reference for Directors
- Code of Business Practice
- Audit and Risk Committee Charter
- Governance and Remuneration Committee Charter
- Nomination Committee Charter
- Code for Securities Transactions and Insider Trading Policy
- Delegated Authorities Policies
- Protected Disclosures Policy
- Risk Management Programme

### Role of the Board

SKYCITY's board of directors is responsible for supervising the management of the company on behalf of the shareholders.

The board establishes the company's objectives, the major strategies for achieving those objectives, the overall policy framework within which the business of the company is conducted, and monitors management's performance with respect to these matters.

The board is also responsible for ensuring that the company's assets are maintained under effective stewardship, that decision-making authorities within the organisation are clearly defined, that the letter and intent of New Zealand and Australian company and casino law is complied with, and that the company is well managed for the benefit of its shareholders.

Specific responsibilities of the board include the following:

- oversight of the company, including its control and accountability procedures and systems
- appointment, performance, and removal of the Managing Director (chief executive officer)

- confirmation of the appointment and removal of the senior executive group (being the direct reports to the Managing Director)
- setting the remuneration of the Managing Director and approval of the remuneration of the senior executive group
- approval of the corporate strategy and objectives and oversight of the adequacy of the company's resources required to achieve the strategic objectives
- approval of the annual plan/budget (including the capital expenditure plan) and monitoring of actual results against budget
- review and ratification of the company's systems of risk management and internal compliance and control, codes of conduct, and legal compliance
- approval and monitoring of the progress of significant capital expenditure projects, capital management initiatives, and acquisitions and divestments.

The board has appointed three committees, being:

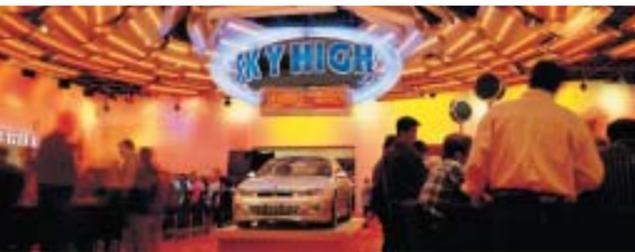
- The Audit and Risk Committee
- The Governance and Remuneration Committee, and
- The Nomination Committee.

Each committee is authorised to deal with matters as set out in its committee charter and/or falling within its intended mandate, on the following basis;

- to submit recommendations to the board on matters for which decision-making authority has not been delegated by the board
- to make decisions on matters for which decision-making authority has been delegated by the board.

The board maintains a formal set of delegated authorities (including a Treasury Policy) which clearly define the responsibilities that are delegated to management and those which are retained by the board. These delegated authorities are approved and are subject to annual review by the board.

The board appoints new directors under formal terms of reference/appointment. Directors must comply with the terms of reference at all times.



## Corporate Governance (continued)

### Structure of the Board and Commentary on 2002/03 Matters

The board currently comprises six directors, five of whom are non-executive. Evan Davies, Managing Director of the company, is the only executive director.

Board changes during the 2002/03 year were:

- Rod McGeoch was appointed to the board in September 2002 and was then elected a director by shareholders at the company's Annual Meeting on 30 October 2002
- Sir Peter Elworthy, a founder director of the company, retired after 10 years' service as a director at the 2002 Annual Meeting. In accordance with provisions contained in the company's constitution, the board resolved to make a retirement payment to Sir Peter of \$107,507 (before tax). This payment represented a proportion of the director's fees paid to Sir Peter during the three years prior to his retirement and was consistent with the retirement provisions for directors as set out in the company's constitution
- Bridget Wickham resigned from the board in December 2002.

Bill Trotter and Patsy Reddy, current directors of the company, retire by rotation at the 2003 Annual Meeting and, being eligible, offer themselves for re-election.

Following the resignation of Bridget Wickham as a director in December 2002 and until a new director is appointed, the Audit and Risk Committee has been constituted as comprising all non-executive directors of the company. Meetings of the Audit and Risk Committee held during the 2002/03 year and comprising all non-executive directors as the committee occurred in February and June 2003.

The Governance and Remuneration Committee is chaired by Patsy Reddy. Rod McGeoch and Bill Trotter are the other members of the Committee.

The Managing Director, Evan Davies, attends meetings of each of the board committees.

The board is of the view that it has appropriate composition and competence to effectively deal with current and emerging issues of the business, can effectively review and challenge the performance of management, and can exercise independent judgement. Application for approval of an additional director by the regulatory authorities, to bring the board size up to seven directors, is currently in process.

Directors are appointed for a term of three years or are subject to re-appointment on a more frequent basis in order for the company to comply with the listing rules of the NZX and the ASX.

The board contains a majority of its number who are independent of management, substantial shareholders, or other parties with whom SKYCITY has a business or other relationship that could reasonably be perceived to interfere with the exercise of unfettered and independent judgement.

The board chairperson, Jon Hartley, is an independent director, is not the company's chief executive officer, and has ensured that he has the time necessary to discharge the role effectively.

The board has established the Nomination Committee to recommend the appointment and removal of directors.

The board meets at least six times per annum on a formal, scheduled basis and on other occasions as required. During the 2002/03 year, the board met formally on eight occasions, six of which were scheduled meetings and two of which were called to attend to particular items of business. The Audit and Risk Committee met four times and the Governance and Remuneration Committee met three times during the 2002/03 year.

The number of board meetings attended by each director during the year ended 30 June 2003, with the number of meetings held while each director was in office shown in brackets, is noted on page 35.

• J P Hartley	7	(8)
• E W Davies	8	(8)
• R H McGeoch	7	(7)
• P L Reddy	8	(8)
• E Toime	7	(8)
• W R Trotter	8	(8)
• P H Elworthy*	2	(2)
• B M Wickham*	4	(4)

\* Retired/resigned from the board during the 2002/03 year

The non-executive directors met independently of the executive director and management personnel on a number of occasions during the course of the year to discuss a number of specific issues.

During August 2003, the board was assisted by an external consultant in carrying out a formal review of its composition, performance, and effectiveness.

### Matters Relating to Directors

Directors are required to advise the chairperson of all outside directorships or other appointments which, may have a bearing on their role as a SKYCITY director, prior to taking up any such appointment.

Directors must ensure that all relationships and appointments bearing on their independence (whether generally or for a specific matter) are disclosed on a timely basis and must provide any further information required to enable the board to make an informed assessment of their independence on a continuous basis.

The company has signed a deed of indemnity in favour of each director (and senior executives) which covers acts or omissions of directors (or executives) in their capacity as such.

The company also provides professional indemnity insurance cover for directors acting in good faith in the conduct of the company's affairs.

On 23 September 2002, the company effected directors' and officers' liability insurance coverage through Royal and SunAlliance Liability Insurance Limited and American Home Assurance Company (AIG) for the period 30 September

2002 to 30 September 2003, with an aggregate limit of liability of \$50 million. The premium cost of this cover was \$72,000 (plus GST).

Also on 23 September 2002, the company effected statutory liability insurance through Royal and SunAlliance for the period 30 September 2002 to 30 September 2003, with an aggregate limit of liability of \$5 million, and employer's liability insurance with an aggregate limit of liability of \$1 million. The premium cost of these covers was \$14,760 (plus GST) and \$6,600 (plus GST) respectively.

On 16 September 2003, the company renewed the three policies referred to above for a further period of 12 months (from 30 September 2003 to 30 September 2004) on the same terms and conditions and at the same premiums as applied for the year ending 30 September 2003.

The disclosure of existing interests is an ongoing responsibility of each director. Where a conflict of interest arises (or where a potential conflict of interest may arise), each director must formally advise the company about any matter relating to that conflict (or potential conflict) of interest.

Directors are entitled to obtain independent professional advice (at the expense of the company) on any matter relating to their responsibilities as a director or to the company's affairs, provided they have previously notified the board chairperson of their intention to do so. No such requests or notifications occurred during the 2002/03 year.

### Committees of the Board

During the 2002/03 year, the board had two committees: the Audit and Risk Committee; and the Governance and Remuneration Committee. In August 2003, the board resolved to establish a Nomination Committee. Each committee operates under a charter document as agreed by the board and each committee charter is subject to formal review by the board on an annual basis. The board appoints the chairperson of each committee.



## Corporate Governance (continued)

All directors are entitled to attend any committee meeting. All directors receive the agenda and the papers for each committee meeting and the minutes of each meeting.

From time to time the board creates specific sub-committees to deal with a particular matter or matters and/or to have certain decision-making authority as the board may elect to delegate to that sub-committee. The minutes of any such sub-committee meetings are circulated to all directors.

### Integrity and Ethical Behaviour Expectations

Members of the board (and management) must at all times comply with the express terms and spirit of their fiduciary obligations to the company, including acting honestly and in good faith and in what they reasonably believe to be the best interests of the company.

Members of the board (and management) must ensure that sensitive information they hold about the company is treated in strict confidence and that property of the company (including information) is used solely in the best interests of the company.

The company operates in accordance with a Code of Business Practice, which sets out the guiding principles of its relationships with stakeholder groups such as regulators, shareholders, customers, and employees.

The company has adopted a policy for employees to report instances of suspected breaches of laws, or wrongdoing, by the company and/or any of its employees or directors, without fear of adverse consequences, and for such reporting to be properly investigated.

The company maintains a code of practice for directors and senior executives which sets out the procedures that must be followed before trading in the company's securities. The company's insider trading policy is supported by education for directors and executives about their obligations when trading in the company's securities. The current procedures are set out in

the SKYCITY 'Code for Securities Transactions and Insider Trading Policy'.

Directors and staff are not permitted to participate in any gaming or wagering activity at any SKYCITY property or with any related company, eg Canbet.

The board, through its committees and reporting structures, monitors compliance with the company's regulatory obligations and internal policies and procedures.

### Financial Reporting

The board ensures that effective policies and procedures are in place to ensure the integrity of the company's financial reporting.

The Audit and Risk Committee comprises at least three directors all of whom are independent non-executive directors and must be financially literate. At least one member of the committee must have financial expertise (ie has knowledge and experience of accounting, and of financial matters and regulations).

The Audit and Risk Committee has responsibility for oversight of the quality, reliability, and accuracy of the company's internal and external financial statements, for the quality of the company's external result presentations, for its internal control environment and risk management programmes, and for its relationships with its internal and external auditors.

The Audit and Risk Committee has a formal charter setting out its role and responsibilities, authority, relationship with the board, reporting requirements, composition, structure, and membership requirements. The board, on an annual basis, reviews the performance of the committee in accordance with its charter.

The Audit and Risk Committee undertakes sufficient inquiry of the company's management and the company's internal and external auditors in order to be satisfied as to the validity and accuracy of the company's financial reporting.

The Audit and Risk Committee meets with the internal and external auditors independently of management as often as is appropriate, but not less than twice per annum.

The Audit and Risk Committee oversees the independence of the company's internal and external auditors and monitors the scope and quantum of work undertaken, and fees paid, to the auditor for other than audit work.

During the 2002/03 year, John Harvey, PricewaterhouseCoopers' SKYCITY audit partner since 1995, was replaced as audit partner by David Randell, consistent with the agreed policy for audit partner rotation.

The Annual Report, at Note 3 to the Financial Statements, identifies the level of non-audit fees paid to PricewaterhouseCoopers during the 2002/03 financial year. In the year ended 30 June 2003, assurance services provided by PricewaterhouseCoopers totalled \$823,000 and non-audit services (mainly tax advisory services) totalled \$554,000. Non-audit services therefore represented 40% of the total fees paid to the company's external audit firm, PricewaterhouseCoopers. Of that 40%, tax advisory services comprised 38%.

In addition to external audit, PricewaterhouseCoopers also provides internal audit services. PricewaterhouseCoopers has developed expertise in the operational review of gaming and hospitality activities and it is the view of the committee and the board that a separation of external auditor and internal auditor is neither necessary nor of advantage to the business.

The committee is satisfied that the independence of PricewaterhouseCoopers, as the company's external auditor, is not compromised as a consequence of other than audit work undertaken for the company. PricewaterhouseCoopers has confirmed to the board that it is not aware of any matters that could affect its independence in performing its duties.

### Timely and Balanced Disclosure

The company seeks to communicate its financial and key operational performance results (both positive and negative) in a clear, effective, balanced, and timely manner to its shareholders, analysts and other market commentators, and to the stock exchanges on which the company's securities are listed. This information is available on the company's website.

The board ensures that all directors and senior management are aware of, and comply with, the company's reporting responsibilities and disclosure requirements under stock exchange listing rules applicable to the company and in accordance with the company's internal policies.

The board (and the Audit and Risk Committee as appropriate) ensures that company announcements are made in a timely manner, are factual, do not omit any material information, and are expressed in a clear and objective manner.

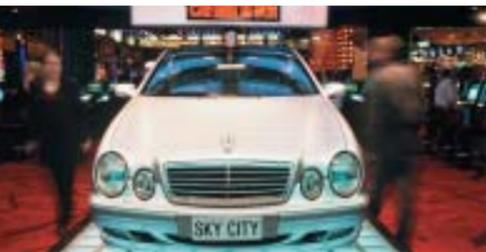
The agenda for each board meeting includes formal consideration of the company's disclosure obligations and any matters relevant thereto.

The company maintains internal policies and procedures, and monitors compliance with those policies and procedures, in order to protect the confidentiality of its commercially sensitive information.

### Recognition and Management of Risk

The company maintains a programme for the identification, assessment, monitoring, and management of risk to the company's business. The risk management programme is approved and overseen by the Audit and Risk Committee in accordance with the charter for that committee.

The company maintains an up-to-date risk profile for each of its business operations and ensures that business continuity/disaster recovery plans are in place and are well understood throughout the organisation.



## Corporate Governance (continued)

The company also maintains comprehensive business continuity programmes, together with material damage and liability insurance covers to ensure that the earnings of the business are well protected from adverse circumstances.

### Performance Evaluation

The Nomination Committee's charter includes assessment of the role and responsibilities, performance, composition, structure, training, and membership requirements of the board, with this assessment to be formally undertaken on an annual basis.

Directors are expected to maintain an up-to-date knowledge of the company's business operations and of the industry sectors within which the company operates. Briefings, circulation of information, and site visits are organised as appropriate to assist directors to be aware of, and to understand, company and industry issues.

### Remuneration

The board is supported by the Governance and Remuneration Committee on matters relating to staffing and personnel (human resources) and remuneration. The role and responsibilities, composition, structure and membership of the Governance and Remuneration Committee is set out in the committee's charter.

#### • Non-Executive Director Fees

Non-executive director remuneration is paid in the form of directors' fees. Fees may be paid in cash or in shares. For the year ended 30 June 2003, directors' fees were paid as a combination of cash and share options issued under the terms of the Non-Executive Director Share Option Plan approved by shareholders at the company's 2000 Annual Meeting. The 2000 Non-Executive Director Share Option Plan had a term of three years which has now expired. It is not the intention of the directors to renew the Plan and director fees for the 2003/04 will be paid in cash.

Non-executive directors are paid the same base fee but additional remuneration may be paid for additional work undertaken by any director, at the discretion of the board, and subject to the maximum remuneration amount which has been approved by the shareholders of the company.

The chairpersons of the board and the committees are paid additional remuneration to reflect the additional responsibilities of their positions. Where the board chairperson is also the chair of the Nomination Committee, no additional remuneration is paid for that committee chairperson role.

The company's constitution permits the company to make a retirement payment to a director (or his or her dependants), provided that the total amount of the payment does not exceed the total remuneration of the director in his or her capacity as a director in any three years chosen by the company, or that the payment has been authorised by an ordinary resolution of the company's shareholders.

Non-executive directors are currently paid directors' fees of \$50,000 per annum plus GST (if any) and the chairperson of the board is paid \$100,000 per annum plus GST (if any). From 1 July 2003, the board has resolved that the chairpersons of the Audit and Risk and Governance and Remuneration Committees should receive an additional payment of \$10,000 per annum plus GST (if any), in recognition of the additional work required to discharge the responsibilities of the committee chairperson role.

The directors' fees currently prevailing are as authorised by the resolution passed by shareholders at the 2000 Annual Meeting, providing for up to \$450,000 plus GST (if any), to be paid in total for director remuneration in any year.

The Notice of Meeting for the 2003 Annual Meeting proposes that total director remuneration be increased from \$450,000 per annum plus GST (if any) to \$600,000 per annum plus GST (if any). Jon Hartley refers to the proposed fee increase in his chairman's report included in this Annual Report and a letter from John Egan Associates providing an independent view in support of the proposal is included with the Notice of Annual Meeting.

#### • Managing Director Remuneration

The Managing Director is paid a salary plus annual performance-related remuneration, as approved by the board. Currently the performance-related remuneration is paid in cash.

Following approval by shareholders at the 2002 Annual Meeting, a total of 2,338,530 share options were issued to the Managing Director, Evan Davies, under the terms of the Managing Director Share Option Plan 2002. These options, plus options issued between 1999 and 2002 and as approved by shareholders at the company's 1999 Annual Meeting, comprise the longer-term, equity-based incentive plan for the Managing Director.

### Internal and External Stakeholders and Community Responsibility

All SKYCITY personnel must comply with the company's Code of Business Practice which sets out how company personnel should undertake their business dealings and the behaviours that are expected of them.

The company operates remuneration structures, which are sufficient and reasonable to attract and retain talented and motivated directors and employees, and which define the relationship of remuneration to individual and corporate performance

## Financial Statements and Statutory Information

### Contents

Auditors' Report	42
Statements of Financial Performance	43
Statements of Movement in Equity	44
Statements of Financial Position	45
Statements of Cash Flows	46
Statement of Accounting Policies	49
Notes to the Financial Statements	54

The board of directors of SKYCITY Entertainment Group Limited authorised these financial statements for issue on 22 August 2003.



**J P Hartley**  
Chairman



**E W Davies**  
Managing Director

**PricewaterhouseCoopers**  
 188 Quay Street  
 Private Bag 92162  
 Auckland, New Zealand  
 DX CP24073  
 Telephone +64 9 355 8000  
 Facsimile +64 9 355 8001

**STATEMENTS OF FINANCIAL PERFORMANCE**

For the year ended 30 June 2003

**AUDITORS' REPORT**

to the shareholders of SKYCITY Entertainment Group Limited

We have audited the financial statements on pages 43 to 76. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2003 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 49 to 53.

**Directors' Responsibilities**

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2003 and their financial performance and cash flows for the year ended on that date.

**Auditors' Responsibilities**

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

**Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 43 to 76:
  - (i) comply with generally accepted accounting practice in New Zealand; and
  - (ii) give a true and fair view of the financial position of the Company and Group as at 30 June 2003 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 22 August 2003 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland

	Notes	Consolidated		Parent Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue	2	564,313	513,300	139,494	99,106
Expenses	3	(405,693)	(422,379)	(30,695)	(31,755)
<b>Surplus before income tax</b>		<b>158,620</b>	<b>90,921</b>	<b>108,799</b>	<b>67,351</b>
Income tax	12	(51,117)	(44,286)	–	–
<b>Surplus for the year</b>		<b>107,503</b>	<b>46,635</b>	<b>108,799</b>	<b>67,351</b>
Net (surplus)/deficit attributable to minority interest	9	(286)	10,518	–	–
<b>Net Surplus Attributable to Parent Shareholders</b>		<b>107,217</b>	<b>57,153</b>	<b>108,799</b>	<b>67,351</b>

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

**STATEMENTS OF MOVEMENTS IN EQUITY**

For the year ended 30 June 2003

	Notes	Consolidated		Parent Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Net surplus for the year, comprising</b>					
Parent shareholders' interest	6	107,217	57,153	108,799	67,351
Minority interest	9	286	(10,518)	–	–
		<b>107,503</b>	<b>46,635</b>	<b>108,799</b>	<b>67,351</b>
<b>Other recognised revenues and expenses</b>					
Foreign currency translation reserve	5	1,111	(5,107)	–	–
Total minority interest in changes in revaluation and foreign currency translation reserves		–	(45)	–	–
<b>Total recognised revenues and expenses</b>		<b>108,614</b>	<b>41,483</b>	<b>108,799</b>	<b>67,351</b>
Buyback of shares	4	(12,967)	–	(12,967)	–
Movement in employee share entitlement reserve	5	1,107	949	1,107	949
Exercise of share options	4	2,555	9,463	2,555	9,463
Shares issued under dividend reinvestment plan	4	22,372	23,227	22,372	23,227
Employee share entitlements issued	4	2,378	1,579	2,378	1,579
Distributions to owners	7	(133,362)	(67,150)	(133,362)	(67,150)
Minority interest in contributions from owners	9	–	14,242	–	–
<b>Movements in equity for the year</b>		<b>(9,303)</b>	<b>23,793</b>	<b>(9,118)</b>	<b>35,419</b>
<b>Equity at the beginning of year, comprising</b>					
Parent shareholders' interest		250,547	230,433	226,786	191,367
Minority interest		5,321	1,642	–	–
		<b>255,868</b>	<b>232,075</b>	<b>226,786</b>	<b>191,367</b>
<b>Equity at end of year, comprising</b>					
Parent shareholders' interest		240,958	250,547	217,668	226,786
Minority interest		5,607	5,321	–	–
		<b>246,565</b>	<b>255,868</b>	<b>217,668</b>	<b>226,786</b>

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

**STATEMENTS OF FINANCIAL POSITION**

As at 30 June 2003

	Notes	Consolidated		Parent Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Equity</b>					
Share capital	4	246,518	232,180	246,518	232,180
Reserves	5	1,932	(286)	6,151	5,044
Retained earnings	6	(7,492)	18,653	(35,001)	(10,438)
<b>Shareholders' equity</b>		<b>240,958</b>	<b>250,547</b>	<b>217,668</b>	<b>226,786</b>
Minority interests	9	5,607	5,321	–	–
<b>Total equity</b>		<b>246,565</b>	<b>255,868</b>	<b>217,668</b>	<b>226,786</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	10	437,113	405,825	–	–
Convertible notes	10	13,365	9,315	–	–
Capital notes	10	149,266	148,888	149,266	148,888
Deferred tax	11	24,683	20,811	–	–
<b>Total non-current liabilities</b>		<b>624,427</b>	<b>584,839</b>	<b>149,266</b>	<b>148,888</b>
<b>Current liabilities</b>					
Bank overdraft		–	372	–	–
Payables and accruals	13	64,836	61,140	2,378	3,061
Borrowings	10	1,000	1,000	–	–
<b>Total current liabilities</b>		<b>65,836</b>	<b>62,512</b>	<b>2,378</b>	<b>3,061</b>
<b>Total liabilities</b>		<b>690,263</b>	<b>647,351</b>	<b>151,644</b>	<b>151,949</b>
<b>Total Equity and Liabilities</b>		<b>936,828</b>	<b>903,219</b>	<b>369,312</b>	<b>378,735</b>
<b>Assets</b>					
<b>Non-current assets</b>					
Investments in subsidiaries	16	–	–	209,860	206,710
Investments in associates	17	21,586	23,306	–	–
Property, plant, and equipment	14	636,990	596,037	137	152
Intangible assets	19	207,844	212,384	–	–
<b>Total non-current assets</b>		<b>866,420</b>	<b>831,727</b>	<b>209,997</b>	<b>206,862</b>
<b>Current assets</b>					
Cash and bank balances		57,264	48,456	–	1
Accounts receivable	20	10,246	19,970	159,315	171,872
Inventories		2,898	3,066	–	–
<b>Total current assets</b>		<b>70,408</b>	<b>71,492</b>	<b>159,315</b>	<b>171,873</b>
<b>Total Assets</b>		<b>936,828</b>	<b>903,219</b>	<b>369,312</b>	<b>378,735</b>

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

**STATEMENTS OF CASH FLOWS**

For the year ended 30 June 2003

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Operating activities</b>				
<b>Cash was provided from</b>				
Receipts from customers	569,979	514,913	60	76
Interest received	3,009	2,169	–	36
	<b>572,988</b>	<b>517,082</b>	<b>60</b>	<b>112</b>
<b>Cash was applied to</b>				
Payments to suppliers and employees	(281,034)	(267,702)	(16,103)	(15,708)
Interest paid	(44,847)	(45,575)	(13,982)	(14,140)
Net GST (paid) / received	(3,992)	(747)	60	40
Gaming taxes paid	(34,114)	(32,202)	–	–
Income taxes paid	(34,318)	(48,124)	(32,160)	(44,639)
	<b>(398,305)</b>	<b>(394,350)</b>	<b>(62,185)</b>	<b>(74,447)</b>
<b>Net cash flows from operating activities</b>	<b>174,683</b>	<b>122,732</b>	<b>(62,125)</b>	<b>(74,335)</b>
<b>Investment activities</b>				
<b>Cash was provided from</b>				
Sale of fixed assets	–	3,384	–	–
Sale of investments	–	21,878	–	–
	<b>–</b>	<b>25,262</b>	<b>–</b>	<b>–</b>
<b>Cash was applied to</b>				
Purchase and construction of fixed assets	(80,760)	(51,199)	(7)	–
Capitalised interest paid	(1,173)	–	–	–
Purchase of investments	–	(8,853)	–	–
Purchase of subsidiaries	–	(563)	–	(4,202)
	<b>(81,933)</b>	<b>(60,615)</b>	<b>(7)</b>	<b>(4,202)</b>
<b>Net Cash Flows from Investment Activities</b>	<b>(81,933)</b>	<b>(35,353)</b>	<b>(7)</b>	<b>(4,202)</b>

**STATEMENTS OF CASH FLOWS (CONTINUED)**

For the year ended 30 June 2003

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Financing activities</b>				
<b>Cash was provided from</b>				
Proceeds from long-term debt	178,516	61,200	–	–
Proceeds from issue of convertible notes	9,000	–	–	–
Exercise of share options	2,555	9,463	2,555	9,463
Dividends from subsidiaries	–	–	125,000	92,000
Advances from subsidiaries	–	–	58,533	63,979
Advances from minority interests	–	7,203	–	–
Issue of shares in Queenstown Casinos Limited	–	880	–	–
Issue of mandatory convertible notes by SKYCITY Leisure Limited	–	7,196	–	–
Gains on foreign currency swaps hedging investment in foreign operations	2,348	2,251	–	–
	<b>192,419</b>	<b>88,193</b>	<b>186,088</b>	<b>165,442</b>
<b>Cash was applied to</b>				
Share repurchase	(12,967)	–	(12,967)	–
Repayment of short-term debt	(1,000)	(88,969)	–	–
Repayment of long-term debt	(146,947)	(21,095)	–	–
Purchase of convertible notes	(4,950)	–	–	–
Advances to subsidiaries and associates	–	(14,103)	–	(42,982)
Distributions to shareholders	(110,990)	(43,923)	(110,990)	(43,923)
	<b>(276,854)</b>	<b>(168,090)</b>	<b>(123,957)</b>	<b>(86,905)</b>
<b>Net cash flows from financing activities</b>	<b>(84,435)</b>	<b>(79,897)</b>	<b>62,131</b>	<b>78,537</b>
<b>Net increase/(decrease) in cash held</b>	<b>8,315</b>	<b>7,482</b>	<b>(1)</b>	<b>–</b>
Foreign currency translation adjustment	865	(1,001)	–	–
Opening cash and bank	48,084	41,603	1	1
<b>Cash at End of Year</b>	<b>57,264</b>	<b>48,084</b>	<b>–</b>	<b>1</b>
<b>Composition of cash</b>				
Cash and bank	57,264	48,456	–	1
Bank overdraft	–	(372)	–	–
	<b>57,264</b>	<b>48,084</b>	<b>–</b>	<b>1</b>

## STATEMENTS OF CASH FLOWS (CONTINUED)

For the year ended 30 June 2003

### Reconciliation with operating surplus

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Reported surplus after tax</b>	<b>107,217</b>	57,153	<b>108,799</b>	67,351
Less associated entity deficits	(246)	(344)	–	–
Less minority interests	286	(10,518)	–	–
	<b>107,257</b>	46,291	<b>108,799</b>	67,351
<b>Items not involving cash flows and non-operating cash flows</b>				
Depreciation expense	40,980	37,236	20	28
Goodwill impairment	–	16,730	–	–
Increase in provisions	–	239	–	–
Increase in employee share entitlement reserve	3,502	2,528	3,502	2,528
Amortisation expense	5,052	4,803	–	–
Amortisation of deferred expenditure	628	1,430	378	378
Increase in deferred taxation	3,872	1,495	–	–
Write-off of investments	–	22,422	–	–
Dividend from subsidiary	–	–	(125,000)	(92,000)
Subsidiary transactions	–	–	(61,834)	(54,640)
Movement in foreign exchange	(2,351)	(133)	136	1,230
	<b>51,683</b>	86,750	<b>(182,798)</b>	(142,476)
<b>Impact of changes in working capital items</b>				
(Increase)/decrease in accounts receivable	(892)	2,175	9,883	(437)
(Increase)/decrease in inventory	168	230	–	–
Increase/(decrease) in creditors and accruals	3,696	(7,752)	(683)	(655)
(Increase)/decrease in pre-paid income tax	10,617	(5,253)	2,674	1,882
	<b>13,589</b>	(10,600)	<b>11,874</b>	790
<b>Items classified as investing activities</b>				
Net loss on disposal of fixed assets	–	31	–	–
Loss on sale of investments	–	(290)	–	–
Capitalised costs	2,154	550	–	–
	<b>2,154</b>	291	–	–
<b>Net Cash Flow from Operating Activities</b>	<b>174,683</b>	122,732	<b>(62,125)</b>	(74,335)

## STATEMENT OF ACCOUNTING POLICIES

For the year ended 30 June 2003

### ENTITIES REPORTING

The financial statements presented are for the reporting entity SKYCITY Entertainment Group Limited (the parent company) and the consolidated financial statements of the group comprising SKYCITY Entertainment Group Limited, its subsidiaries, associates, and joint ventures.

### STATUTORY BASE

SKYCITY Entertainment Group Limited 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.

### MEASUREMENT BASE

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

### ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position, and cash flows are set out below.

#### Principles of consolidation

The consolidated financial statements include those of the parent company and its subsidiaries accounted for using the purchase method, and include the results of associates using the equity method. Subsidiaries are entities that are controlled, either directly or indirectly, by the parent. Associates are entities in which the parent, either directly or indirectly, has a significant but not controlling interest. All material intercompany transactions, balances and unrealised surpluses and deficits on transactions between group members have been eliminated on consolidation.

The results of subsidiaries or associates acquired or disposed of during the year are included in the consolidated Statements of Financial Performance from the date of acquisition or up to the date of disposal.

#### Operating revenue recognition

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 the casino patrons.

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

#### Income tax

The company follows the liability method of accounting for deferred taxation. The taxation charge against surplus for the year is the estimated liability in respect of that surplus after allowance for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. Timing differences relating to interest capitalised to buildings are determined on a net present value basis over the estimated life of the buildings.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

For the year ended 30 June 2003

### Goods and Services Tax (GST)

The Statements of Financial Performance and Statements of Cash Flows have been prepared so that all components are stated net of GST. All items in the Statements of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

### Foreign currencies

#### Transactions

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction, except when forward currency contracts have been taken out to cover short-term forward currency commitments. Where short-term forward currency contracts have been taken out, the transaction is translated at the rate contained in the contract.

Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange gains and losses are brought to account in determining the surplus for the year, except where monetary liabilities are identified as a hedge against an independent foreign operation.

#### Foreign operations

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the date of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date.

Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations.

### Property, plant, and equipment

#### Initial recording

The cost of assets is the value of the consideration given to acquire the assets, and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service. Funding costs incurred during the period of construction are capitalised as part of the total cost of the assets.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, costs of obtaining Resource Management Act consents, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

#### Depreciation

As construction is completed and property, plant, and equipment are used in operations, depreciation is charged on a straight-line basis (other than freehold land) so as to write off the cost of the assets to their estimated residual value over their expected useful lives. Gains and losses on disposals of property, plant, and equipment are taken into account in determining the operating result for the year. The estimated economic lives are as follows:

Category	Estimated useful life
Buildings	5–75 years
Building fit-out	10 years
Plant and equipment	2–75 years
Fixtures and fittings	3–20 years
Software	3–5 years
Vehicles	3 years

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

For the year ended 30 June 2003

### Deferred expenditure

Costs directly incurred in obtaining and operating funding arrangements, such as origination, commitment and transaction fees, are amortised to earnings over the period of the funding arrangement. If an arrangement does not proceed, costs incurred in setting up the arrangement are expensed to earnings immediately.

Operator rights are expensed to earnings over the period of each management contract.

### Leased assets – operating leases

Leases under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the periods of expected benefit.

### Investments

The parent company's investment in the share of its subsidiaries are stated at cost in the Statements of Financial Position.

### Joint ventures

When a member of the group participates in a joint venture arrangement, that member recognises its proportionate interest in the individual assets, liabilities, revenues and expenses of the joint venture. The liabilities recognised include its share of those for which it is jointly liable.

### Intangible assets

#### Amortisation of casino licences acquired

Amortisation of casino licences is calculated on a straight-line basis so as to expense the cost of the licences over their legal lives. The directors review the carrying amounts annually and adjust the value of amortisation if impairment in value above normal amortisation has occurred.

#### Goodwill

Goodwill represents the excess of purchase consideration over the fair value of the net identifiable assets held by a subsidiary at the time of acquisition of shares in that subsidiary. Goodwill is capitalised and amortised over the period of expected benefit, which may be up to twenty years from the time of acquisition. The directors review the carrying amount annually and adjust the value of goodwill if impairment in value above normal amortisation has occurred.

#### Impairment

Annually, the directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the Statements of Financial Performance.

#### 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.

#### Accounts receivable

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the year in which they are identified.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

For the year ended 30 June 2003

### Employee entitlements

Employee entitlements to salaries and wages, non-monetary benefits, annual leave and other benefits are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date.

### Financial instruments

#### Recognised

Financial instruments carried on the Statements of Financial Position include cash and bank balances, investments, receivables, trade creditors, and borrowings. These instruments are carried at their estimated fair value. For example, receivables are carried net of the estimated doubtful receivables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Where possible, financial assets are supported by collateral or other security. These arrangements are described in the individual policy statements associated with each item.

#### Unrecognised

The parent company and group are also parties to financial instruments that have not been recognised in the financial statements. These instruments reduce exposure to fluctuations in interest rates and include fixed rate borrowings, cross currency interest rate swaps, interest rate swap and forward rate agreements, which have been transacted. Any risks associated with these instruments are not recorded in the financial statements. The net differential paid or received is recognised as a component of interest expense over the period of the agreement.

Forward exchange contracts entered into as hedges of foreign exchange assets and liabilities are valued at exchange rates prevailing at period end. Any unrealised gains or losses are offset against foreign exchange gains and losses on the related asset or liability. Premiums paid on currency options are amortised over the period to maturity.

Full disclosure of information about financial instruments to which the group is a party is provided in note 21.

### Statements of Cash Flows

The following are definitions of the terms used in the consolidated and parent company's Statements of Cash Flows:

- Operating activities are those activities relating to the trading and management of the business and include all transaction and other events that are not investing or financing activities. Cash receipts from customers are net of complimentary.
- Investing activities are those activities relating to the acquisition, holding, and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the capital structure of the group. This includes both equity and debt not falling within the definition of cash. Share issues, repurchases, and dividends paid in relation to the capital structure are included in financing activities.
- Cash is considered to be cash on hand including cash for use within the casino and current accounts in banks, net of bank overdrafts and short-term deposits.

### Capital note interest

Interest on capital notes is expensed to earnings consistent with other interest costs and is included in funding expenses in the Statements of Financial Performance.

### Share options

No remuneration expense is recognised in respect of share options issued pursuant to Executive and Non-executive Director Share Option Plans. When the options are exercised, the proceeds received are credited to share capital.

## STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

For the year ended 30 June 2003

### Pre-licence expenditure

Pre-licence expenditure relates to expenditure incurred to obtain a casino premises licence. Pre-licence expenditure is expensed as incurred.

## CHANGES IN ACCOUNTING POLICIES

During the year the Group and the Parent Company changed the following accounting policies.

### Investment in associates

The board of directors has applied the requirements of Financial Reporting Standard No.38 Accounting for Investments in Associates in the preparation of these financial statements. As a consequence of adopting this financial reporting standard the following accounting policies have been changed:

#### Goodwill on acquisition

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

This change in accounting policy has resulted in the unamortised balance of goodwill on acquisition of associates amounting to \$11,536,400 (30 June 2002: \$13,253,683) being transferred from intangible assets to investments in associates in the Statements of Financial Position. The comparative figures have been adjusted to comply with the new policy.

#### Share of surpluses/(deficits) of associates

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

This change in accounting policy has resulted in an increase in operating surplus before income tax of \$246,066 (30 June 2002: \$344,000). However, this change in accounting policy has had no effect on net surplus. Comparative figures have been adjusted to comply with the new policy.

There have been no other changes in accounting policies.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

### 1. SEGMENT INFORMATION

Geographic segments	New Zealand		Australia		Total	
	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>	<b>673,671</b>	643,714	<b>263,157</b>	259,505	<b>936,828</b>	903,219
<b>Revenue</b>	<b>448,328</b>	398,698	<b>115,985</b>	114,602	<b>564,313</b>	513,300
<b>Result</b>						
Segment	<b>189,964</b>	163,215	<b>17,922</b>	12,566	<b>207,886</b>	175,781
Interest expense	<b>(35,649)</b>	(31,847)	<b>(13,617)</b>	(13,861)	<b>(49,266)</b>	(45,708)
Unusual items						
Write-off of Argentina investment by SKYCITY Leisure Limited	–	(22,422)	–	–	–	(22,422)
Write-off of goodwill on consolidation of SKYCITY Leisure Limited	–	(16,730)	–	–	–	(16,730)
<b>Net Segment Result</b>	<b>154,315</b>	92,216	<b>4,305</b>	(1,295)	<b>158,620</b>	90,921

The surplus/(deficit) is that of the group before income tax, minority interest and extraordinary items.

The group currently operates in the entertainment, leisure and recreation sector.

### 2. REVENUE

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Sales revenue	<b>556,493</b>	510,243	–	–
<b>Investment revenue</b>				
Share of associated company profit before tax	<b>246</b>	344	–	–
Dividends from wholly owned entities	–	2	<b>125,000</b>	92,000
Interest received	<b>2,795</b>	2,150	<b>1,695</b>	367
Inter-company interest received	–	–	<b>5,695</b>	944
<b>Other revenue</b>				
Use of money interest received	<b>2,046</b>	–	–	–
Foreign currency gains	<b>2,212</b>	149	–	–
Gain on disposal of property, plant, and equipment	–	52	–	–
Other – group companies	–	–	–	73
Other revenue	<b>521</b>	360	<b>7,104</b>	5,722
<b>Total Revenue</b>	<b>564,313</b>	513,300	<b>139,494</b>	99,106

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 3. EXPENSES

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Included within expenses are the following expense items:				
<b>Operating expenses</b>				
Depreciation – buildings	<b>7,501</b>	7,989	–	–
Depreciation – plant and equipment	<b>26,890</b>	23,390	<b>5</b>	12
Depreciation – motor vehicles	<b>47</b>	38	–	–
Depreciation – furniture and fittings	<b>6,542</b>	5,819	<b>15</b>	16
Total depreciation	<b>40,980</b>	37,236	<b>20</b>	28
Amortisation of other intangibles, patents, and licenses	<b>2,680</b>	2,549	–	–
Amortisation of goodwill	<b>2,372</b>	2,254	–	–
Rental expense on operating leases	<b>6,897</b>	7,668	<b>36</b>	17
Loss on disposal of property, plant, and equipment	–	83	–	–
Employee remuneration	<b>148,904</b>	131,751	<b>8,481</b>	2,941
Foreign currency translation losses	–	495	–	1,230
<b>Costs of offering credit</b>				
Bad debts written off	<b>30</b>	4	–	–
Increase in estimated doubtful debts	<b>294</b>	344	–	–
<b>Cost of borrowings</b>				
Interest paid	<b>47,592</b>	44,030	<b>13,837</b>	13,675
Other funding expenses	<b>1,674</b>	1,678	–	378
<b>Governance expenses</b>				
Directors' remuneration	<b>466</b>	321	<b>436</b>	337
<b>Amounts paid to auditors</b>				
<b>Fees paid to principal auditors</b>				
Assurance services:				
Statutory audit fees	<b>232</b>	228	<b>35</b>	80
Compliance audit fees	<b>349</b>	367	–	–
Accounting advice and assistance	<b>21</b>	108	<b>88</b>	87
Tax compliance services	<b>221</b>	339	<b>226</b>	266
	<b>823</b>	1,042	<b>349</b>	433
Other services:				
Taxation consulting services	<b>518</b>	512	<b>212</b>	246
Consulting services	<b>36</b>	83	–	62
Accounting assistance to group companies	–	331	–	94
	<b>554</b>	926	<b>212</b>	402
<b>Audit fees paid to other auditors</b>	<b>114</b>	88	–	–
<b>Total Amounts Paid to Auditors</b>	<b>1,491</b>	2,056	<b>561</b>	835

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

#### 3. EXPENSES (continued)

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Sundry expenses</b>				
Community Trust and donations	3,187	2,620	–	111
<b>Unusual items</b>				
Write-off of Argentinian investment by SKYCITY Leisure Limited	–	22,422	–	–
Write-off of goodwill on consolidation of SKYCITY Leisure Limited	–	16,730	–	–
	<u>–</u>	<u>39,152</u>	<u>–</u>	<u>–</u>

#### 4. SHARE CAPITAL

##### Issued and Paid-up Capital

##### Ordinary shares

	2003	2002	2003	2002
Balance at beginning of year	232,180	197,911	232,180	197,911
Shares issued under dividend reinvestment scheme	22,372	23,227	22,372	23,227
Exercise of share options	2,555	9,463	2,555	9,463
Shares issued under employee bonus scheme	2,378	1,579	2,378	1,579
Shares repurchased and cancelled	(12,967)	–	(12,967)	–
<b>Closing Share Capital</b>	<u>246,518</u>	<u>232,180</u>	<u>246,518</u>	<u>232,180</u>

##### Ordinary shares

As at 30 June 2003 there were 210,135,588 shares issued and fully paid (2002: 207,593,422). All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

##### Dividend Reinvestment Plan

Pursuant to the Dividend Reinvestment Plan approved by the board of directors on 15 August 2000, 3,220,407 (2002: 4,323,582) shares were issued in lieu of cash dividend of \$22,371,523 (2002: \$23,227,334). The strike price was \$6.95 per share (2002: 2,364,674 at \$5.167; 1,958,908 at \$5.620). The Dividend Reinvestment Plan ceased in October 2002.

##### Executive Share Option Plan

##### 1999 Plan

All options issued pursuant to the Executive Share Option Plan approved by shareholders at the Annual Meeting of the company held on 28 October 1999 are exercisable 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. The exercise price of the options issued under the 1999 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.

Subsequent to the share split on 16 November 2001 all options exercised will receive two shares.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

#### 4. SHARE CAPITAL (continued)

Movements in the number of share options outstanding under the Executive Share Option Plan are as follows:

	Consolidated		Parent Company	
	2003	2002	2003	2002
Balance at beginning of year	1,450,110	1,549,110	1,450,110	1,549,110
Granted	3,516,030	886,000	3,516,030	886,000
Exercised	(152,000)	(985,000)	(152,000)	(985,000)
Lapsed	(16,000)	–	(16,000)	–
<b>Balance at End of Year</b>	<u>4,798,140</u>	<u>1,450,110</u>	<u>4,798,140</u>	<u>1,450,110</u>

Executive share options outstanding at the end of the year have the following terms:

Vesting Date	Expiry Date	Base Exercise Price	Option Value	2003	2002	2003	2002
26/08/99	26/08/04	\$7.52	\$0.45	114,110	124,110	114,110	124,110
30/08/00	30/08/05	\$7.68	\$0.37	435,000	435,000	435,000	435,000
04/09/01	04/09/06	\$11.61	\$0.82	733,000	891,000	733,000	891,000
10/09/02	10/09/07	\$7.05	\$0.46	3,516,030	–	3,516,030	–
<b>Balance at End of Year</b>				<u>4,798,140</u>	<u>1,450,110</u>	<u>4,798,140</u>	<u>1,450,110</u>

The 1999, 2000 and 2001 options all convert to two shares upon exercise. The 2002 options convert to one share upon exercise. The 2002 options include 2,338,530 options issued to the Managing Director as approved by shareholders by the 2002 Annual Meeting of the company. These options cannot be exercised prior to 10 September 2005.

##### Non-Executive Directors' Share Option Plan

Pursuant to the Non-Executive Directors' Share Option Plan approved by shareholders at the Annual Meeting of the company held on 26 October 2000, 150,175 options are on issue to non-executive directors as at 30 June 2003 (2002: 85,365).

Options are exercisable 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. The exercise price of the options issued under this 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.

Subsequent to the share split on 16 November 2001 all options exercised will receive two shares.

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

	2003	2002	2003	2002
Balance at beginning of year	85,365	216,216	85,365	216,216
Granted	125,785	85,365	125,785	85,365
Exercised	(60,975)	(216,216)	(60,975)	(216,216)
<b>Balance at End of Year</b>	<u>150,175</u>	<u>85,365</u>	<u>150,175</u>	<u>85,365</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 4. SHARE CAPITAL (continued)

Non-executive share options outstanding at the end of the year have the following terms:

Vesting Date	Expiry Date	Base Exercise Price	Option Value	Consolidated		Parent Company	
				2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
04/09/01	04/09/02	\$11.61	\$0.82	24,390	85,365	24,390	85,365
10/09/02	10/09/03	\$7.05	\$0.48	125,785	–	125,785	–
<b>Balance at End of Year</b>				<b>150,175</b>	<b>85,365</b>	<b>150,175</b>	<b>85,365</b>

#### Option valuation

The options are valued using the Black-Scholes model, as at the vesting date. The calculations were prepared by First NZ Capital Group Limited and Deloitte Touche Tomatsu, and were reviewed by PricewaterhouseCoopers as auditors. Under this calculation the value of all options issued during the year was \$1,655,182 (2002: \$796,519).

#### Repurchase and cancellation of shares

On 5 November 2002 SKYCITY Entertainment Group Limited announced that it would commence an on-market share buyback programme of up to \$60 million of the company's shares. Details of the share buyback programme up until 30 June 2003 are detailed below.

Date	Shares Repurchased	Average Purchase Price
March 2003	1,390,283	\$8.36
April 2003	168,370	\$7.98
<b>Total Shares Repurchased</b>	<b>1,558,653</b>	<b>\$8.31</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 5. RESERVES

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Balances</b>				
Foreign currency translation reserve	(4,219)	(5,330)	–	–
Employee share entitlement reserve	6,151	5,044	6,151	5,044
<b>Total Reserves</b>	<b>1,932</b>	<b>(286)</b>	<b>6,151</b>	<b>5,044</b>
<b>Analysis</b>				
<b>Foreign currency translation reserve</b>				
Balance at beginning of year	(5,330)	(223)	–	–
Effect of hedging the net investment of overseas subsidiaries	(134)	(5,344)	–	–
Exchange difference on translation of overseas subsidiary	1,245	237	–	–
<b>Balance at End of Year</b>	<b>(4,219)</b>	<b>(5,330)</b>	<b>–</b>	<b>–</b>
<b>Employee share entitlement reserve</b>				
Balance at beginning of year	5,044	4,095	5,044	4,095
Less value of shares issued during the year	(2,378)	(1,571)	(2,378)	(1,571)
Less forfeiture of entitlements for prior years	–	(80)	–	(80)
Less cash issued in lieu of shares	(17)	(8)	(17)	(8)
Plus value of share entitlements for current year	3,502	2,608	3,502	2,608
<b>Balance at End of Year</b>	<b>6,151</b>	<b>5,044</b>	<b>6,151</b>	<b>5,044</b>

Under the SKYCITY Performance Pay Incentive Plan, selected employees have been eligible for performance related bonuses in respect of the financial years ending 30 June 2000, 2001, 2002 and 2003. 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 2000, 2001, 2002 and 2003.

Shares are issued in three equal installments, 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 to the New Zealand Exchange for the relevant year of the Plan.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 6. RETAINED EARNINGS

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Analysis</b>				
Balance at beginning of year	18,653	28,650	(10,438)	(10,639)
Net surplus for the year	107,217	57,153	108,799	67,351
Dividends paid and provided	(133,362)	(67,150)	(133,362)	(67,150)
<b>Balance at End of Year</b>	<b>(7,492)</b>	<b>18,653</b>	<b>(35,001)</b>	<b>(10,438)</b>
<b>Composition</b>				
Parent and subsidiaries	(8,082)	18,309	(35,001)	(10,438)
Associates	590	344	–	–
	<b>(7,492)</b>	<b>18,653</b>	<b>(35,001)</b>	<b>(10,438)</b>

### 7. DIVIDENDS

<b>Ordinary dividends</b>				
<b>Interim dividend paid</b>				
Dividend paid in cash	44,217	20,864	44,217	20,864
Dividend reinvestment in shares	–	11,009	–	11,009
<b>Prior year final dividend paid</b>				
Dividend paid in cash	24,478	23,059	24,478	23,059
Dividend reinvestment in shares	22,372	12,218	22,372	12,218
<b>Special dividend</b>	<b>42,295</b>	<b>–</b>	<b>42,295</b>	<b>–</b>
<b>Total Dividends</b>	<b>133,362</b>	<b>67,150</b>	<b>133,362</b>	<b>67,150</b>

The dividends are fully imputed.

On 22 August 2003 the board of directors resolved to pay a final dividend of 26 cents per ordinary share, a total at that date of \$54,635,000. The actual total dividend will differ as a result of shares issued under the employee bonus scheme, and through the buyback and cancellation of shares, subsequent to 22 August 2003. The dividend will be paid on 3 October 2003 to all shareholders on the company's share register at the close of business on Friday, 19 September 2003.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 8. IMPUTATION BALANCES

	Consolidated	
	2003	2002
	\$'000	\$'000
<b>Movements</b>		
<b>Imputation credit account</b>		
Balance at beginning of year	38,868	23,817
Tax payments, net of refunds	27,514	44,294
Credits attached to dividends received	(65,688)	(32,930)
Supplementary tax credits	6,741	3,687
<b>Balance at End of Year</b>	<b>7,435</b>	<b>38,868</b>

### 9. MINORITY INTERESTS

Balance at beginning of year	5,321	1,642
Acquisition of SKYCITY Leisure Limited	–	3,563
Share of surpluses/(losses) in subsidiaries	286	(10,518)
Adjustment to fair value of assets acquired in SKYCITY Leisure Limited	–	1,485
Increase in shareholding of subsidiaries	–	8,076
Share of movements in reserves	–	(45)
Acquisition of Planet Hollywood	–	1,118
<b>Balance at End of Year</b>	<b>5,607</b>	<b>5,321</b>

#### Mandatory Convertible Notes

As SKYCITY Leisure is part of the consolidated group, the Mandatory Convertible Notes (MCNs) are eliminated from the group financial statements on consolidation and are effectively represented by the assets and liabilities of the SKYCITY Leisure group as included in the consolidated Statements of Financial Position.

On 1 March 2002 the subsidiary company SKYCITY Leisure Limited issued 30,980,023 MCNs for every five ordinary shares held at an issue price of \$1.00 per MCN. Each MCN converts to ordinary shares on the earlier of the maturity date (31 December 2006) and the date selected by SKYCITY Leisure Limited following an election by a holder to convert as a result of a take-over offer. At this date each MCN will convert to two ordinary shares or such a number that is equal in value to the principal amount of MCNs converted, whichever is greater. 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 20 days prior to maturity date.

Each MCN carries an interest coupon equivalent to (i) the amount of the dividend paid in respect of each ordinary share multiplied by (ii) the sum of ordinary shares which a note would convert to if conversion occurred on that interest payment date, including any bonus issue the holder might have been entitled to. This interest is payable at the option of SKYCITY Leisure Limited.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 10. BORROWINGS

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Borrowings due within 12 months</b>				
<b>Secured</b>				
Bank loans (i)	1,000	1,000	–	–
<b>Total Borrowings Due Within 12 Months</b>	<b>1,000</b>	<b>1,000</b>	<b>–</b>	<b>–</b>
<b>Non-current borrowings</b>				
<b>Secured</b>				
Bank loans (i)	439,810	408,241	–	–
Less deferred funding expenses	(2,697)	(2,416)	–	–
	<b>437,113</b>	<b>405,825</b>	<b>–</b>	<b>–</b>
<b>Unsecured</b>				
Convertible notes (ii)	13,365	9,315	–	–
Capital notes (iii)	149,266	148,888	149,266	148,888
	<b>162,631</b>	<b>158,203</b>	<b>149,266</b>	<b>148,888</b>
<b>Total Non-Current Borrowings</b>	<b>599,744</b>	<b>564,028</b>	<b>149,266</b>	<b>148,888</b>

#### (i) Bank loans

At balance date, a bank loan secured by a composite debenture over the assets and undertakings of certain members of the group was outstanding to the amount of \$361,275,578 (2002: \$344,533,654). The interest rate, inclusive of bank margin and hedging instruments, at 30 June 2003 was 7.38% on NZ borrowings (2002: 7.26% on New Zealand borrowings and 7.31% on Australian borrowings).

A facility of NZ\$493,615,645 (2002: NZ\$513,262,176), secured by way of composite debenture, was available to the group as at 30 June 2003. The facility comprises:

- A fixed term facility of NZ\$326,275,578 and a revolving credit facility of NZ\$167,340,067 (2002: NZ\$193,560,000 and NZ\$100,000,000).
- The available fixed term facility reduces by NZ\$15,000,000 every 31 March over the duration of the facility. The current maturity of the facility is November 2005. There is a one-year extension each anniversary at the option of the bank.
- The Australian dollar facility of A\$130,930,000 was repaid during the year and replaced by an increased NZ\$ facility. The 30 June 2002 balance of this facility was A\$191,800,000 converted at 0.8730 to NZ\$219,702,176, comprising a A\$131,800,000 (NZ\$150,973,654) fixed term facility and a revolving credit facility of A\$60,000,000 (NZ\$68,728,522).

#### Queenstown Casinos Limited

- At balance date, Queenstown Casinos Limited had a bank facility of \$5,500,000 (2002: \$6,000,000), of which \$3,000,000 was drawn down (2002: \$3,000,000). The loan is secured by a debenture (floating charge) over the assets of the company. This facility expires on 31 December 2004.

#### Riverside Casino Limited

- At balance date, Riverside Casino Limited had a bank facility of \$20,000,000 (2002: nil), of which \$15,000,000 was drawn down (2002: nil). The loan is secured by a composite general security over the assets of the company and a mortgage over real property owned by the company. This facility expires on 16 September 2005.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 10. BORROWINGS (continued)

#### SKYCITY Leisure Group

At balance date, SKYCITY Leisure Limited had four secured loans totalling \$61,534,834 (2002: four secured loans totalling \$61,706,850).

The loans are secured by a variety of registered mortgages or debentures over individual properties and the assets and undertakings of the SKYCITY Leisure group as follows:

- A bank term loan facility of \$38,405,000 (2002: \$40,000,000) secured by an assignment by way of security of SKYCITY Leisure's interest in the New Zealand and Fiji cinema joint ventures, assignment by way of security of SKYCITY Leisure's interest in Planet Hollywood (Civic Centre) Limited, a first registered mortgage over and assignment by way of security of all lease agreements of SKYCITY Metro, and a first registered mortgage over 82 Symonds Street, Auckland. The interest rate, inclusive of bank margin, at 30 June 2003 was 8.24% (2002: 8.09%). Reductions of \$250,000 per quarter are made against the facility as well as half-yearly payments based on the net rental of SKYCITY Metro.
- A bank cash advance facility with a limit of \$22,000,000, drawn to \$22,000,000 as at 30 June 2003 (2002: \$20,500,000). This facility has the same security as the bank term loan facility above. There are no scheduled amortisations and the interest rate, inclusive of bank margin, at 30 June 2003 was 7.19% (2002: 7.57%).
- A bank term loan facility of \$1,062,334 (2002: \$1,127,000) secured by first mortgage over the Fiji multiplex. The interest rate, inclusive of bank margin, at 30 June 2003 was 8.25% (2002: 9.00%). The final repayment is to be made on 30 September 2003.
- A bank term loan facility to Village Rialto Cinemas Limited of \$67,500 (2002: \$80,000) secured by registered mortgage debenture over Village Rialto Cinemas Limited. Village SKYCITY Cinemas Limited provides a guarantee for 50% of the outstanding facility. The interest rate, inclusive of bank margin, at 30 June 2003 was 7.10% (2002: 7.60%). The final payment is to be made on 30 September 2004.

The SKYCITY group has not provided any guarantees in relation to any of the SKYCITY Leisure group loans.

#### Weighted Average Interest Rate

The weighted average interest rate on banking facilities (inclusive of margin) on the group's NZ\$ debt, incurred during the year ended 30 June 2003, was 7.38% (2002: 7.20%). The weighted average interest rate (inclusive of margin) on the Australian debt incurred during the year ended 30 June 2003, was 7.10% (2002: 7.13%).

#### (ii) Convertible notes

Convertible notes were issued by subsidiary company Riverside Casino Limited as follows:

Class	Price	Number of notes	Rate of interest
A – issued 21 March 2000	\$1.00	5,619,888	15.00%
A – issued 2 September 2002	\$1.00	2,700,000	10.00%
B – issued 21 March 2000	\$1.00	4,683,240	15.00%
B – issued 2 September 2002	\$1.00	2,250,000	10.00%
C – issued 21 March 2000	\$1.10	4,683,240	15.00%
C – issued 2 September 2002	\$1.00	2,250,000	10.00%
D – issued 21 March 2000	\$1.40	3,746,592	15.00%
D – issued 2 September 2002	\$1.00	1,800,000	10.00%
		<b>27,732,960</b>	

The amount appearing in the consolidated Statements of Financial Position (\$13,365,000; 2002: \$9,315,000) represents the minority shareholders' portion of the notes issued by Riverside Casino Limited.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 10. BORROWINGS (continued)

A total of 9,000,000 convertible notes were issued during the year with an interest rate of 10%.

Interest payable on the convertible notes accrues from 1 October 2002. Accrued interest will be paid quarterly in arrears. During the year convertible noteholders approved a change in interest rate to 15% for the C and D convertible notes (2002: C notes 13.64%, D notes 10.71%).

The convertible notes have been issued on the basis that payments by note holders will be due at such time or times and in such installments as is determined from time to time by the board of directors of Riverside Casino Limited. The convertible notes are unsecured and rank without any preference among the classes and all classes are pari passu in all respects.

The convertible notes will be converted into ordinary shares on the maturity date 21 March 2010. Riverside Casino Limited may elect that all or some of the notes be converted at an earlier date.

The convertible notes do not carry any voting rights. Convertible notes are not entitled to any distributions made by Riverside Casino Limited in respect of its ordinary shares prior to the conversion date of the convertible notes.

#### iii) Capital notes

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Balance at beginning of year	150,000	150,000	150,000	150,000
<b>Balance at end of year</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>
<b>Deferred expenses at cost</b>	<b>1,875</b>	<b>1,875</b>	<b>1,875</b>	<b>1,875</b>
Accumulated amortisation	(1,141)	(763)	(1,141)	(763)
Balance at end of year	734	1,112	734	1,112
<b>Net Capital Notes at End of Year</b>	<b>149,266</b>	<b>148,888</b>	<b>149,266</b>	<b>148,888</b>

On 5 May 2000 SKYCITY Entertainment Group Limited issued a prospectus offering up to 150 million unsecured subordinated capital notes at an issue price of \$1.00 per note. At 30 June 2000 60.072 million of capital notes had been issued. The offer closed on 28 July 2000, and 150 million capital notes had been issued at that date. The capital notes offer holders a fixed interest rate until the first election date, being 15 May 2005. Election dates will occur every five years after the first election date.

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 date.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 11. DEFERRED TAX LIABILITY

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Non-current</b>				
Balance at beginning of year	20,811	19,316	–	–
Prior year timing differences	1,049	335	–	–
Current year movements	2,823	1,160	–	–
<b>Balance at End of Year</b>	<b>24,683</b>	<b>20,811</b>	<b>–</b>	<b>–</b>

### 12. INCOME TAX

Surplus before tax	158,620	90,921	108,799	67,351
<b>Permanent differences</b>				
Dividends received	–	–	(125,000)	(92,000)
Inter-company eliminations	–	–	15,803	25,121
Share of associates' tax paid earnings	–	(344)	–	–
Non-taxable income	(3,724)	–	–	–
Expenditure not deductible for tax	5,837	36,409	503	–
Additional depreciable value	(3,010)	–	–	–
Future income tax benefits not recognised	483	8,730	–	–
Adjustment for other tax rates (Australia)	(220)	(258)	–	–
Over provision in prior years	(3,086)	(1,258)	(105)	(472)
Surplus subject to tax	154,900	134,200	–	–
Tax at 33%	51,117	44,286	–	–
<b>Income Tax Recognised in the Statements of Financial Performance</b>	<b>51,117</b>	<b>44,286</b>	<b>–</b>	<b>–</b>
<b>Comprising</b>				
Estimated current period tax assessment	49,342	43,267	–	–
Future income tax benefit	(2,096)	(476)	–	–
Deferred income tax liability	3,871	1,495	–	–
	51,117	44,286	–	–

The parent company, together with its New Zealand based wholly-owned subsidiary companies, excluding SKYCITY Management (Auckland) Limited, and SKYCITY Wellington Limited form a consolidated group for income tax purposes. Accordingly, income tax payments and imputation credit movements are generally reported on a consolidated basis and are available to shareholders through their shareholding in the parent company.

At 30 June 2003 the group has income tax receivable of \$315,071 (2002: pre-paid tax of \$13,290,711).

During the year the New Zealand Inland Revenue Department advised that it would allow the income tax credit claimed in relation to the Harrah's contract termination fee. This resulted in use of money interest of \$2,045,920 being transferred to pre-paid income tax.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 13. PAYABLES AND ACCRUALS

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Current</b>				
Trade creditors	8,709	19,940	89	561
Accrued expenses	37,900	21,157	2,289	2,500
Advance from minority interests	–	3,604	–	–
Employee entitlements	18,227	16,439	–	–
<b>Total Payables and Accruals</b>	<b>64,836</b>	<b>61,140</b>	<b>2,378</b>	<b>3,061</b>

### 14. PROPERTY, PLANT, AND EQUIPMENT

	2003			2002		
	Cost \$'000	Acc Depn \$'000	Book Value \$'000	Cost \$'000	Acc Depn \$'000	Book Value \$'000
<b>Group</b>						
<b>Buildings</b>						
Buildings at cost	447,770	(42,033)	405,737	419,360	(33,330)	386,030
<b>Land</b>						
Land at cost	84,296	–	84,296	79,481	–	79,481
<b>Plant and equipment</b>						
Plant and equipment at cost	214,078	(117,428)	96,650	189,521	(103,052)	86,469
<b>Motor vehicles</b>						
Motor vehicles at cost	334	(256)	78	356	(265)	91
<b>Furniture, fixtures, and fittings</b>						
Furniture, fixtures, and fittings at cost	58,413	(33,405)	25,008	43,942	(28,682)	15,260
<b>Other capital assets</b>						
Capital work in progress	25,221	–	25,221	28,706	–	28,706
	<b>830,112</b>	<b>(193,122)</b>	<b>636,990</b>	<b>761,366</b>	<b>(165,329)</b>	<b>596,037</b>
<b>Parent</b>						
<b>Plant and equipment</b>						
Plant and equipment at cost	153	(103)	50	111	(98)	13
<b>Furniture, fixtures, and fittings</b>						
Furniture, fixtures, and fittings at cost	201	(114)	87	238	(99)	139
	<b>354</b>	<b>(217)</b>	<b>137</b>	<b>349</b>	<b>(197)</b>	<b>152</b>

Borrowing costs in relation to the funding of the SKYCITY Grand Hotel, convention and exhibition centre and the gaming expansion have been capitalised to these projects, \$1,172,706 (2002: nil). Total capitalised interest and facility fees included in the cost of land and buildings at 30 June 2003 is \$34,147,706 (2002: \$32,975,000).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

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

A memorandum of encumbrance is registered against the title of land for 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 council's interest as lessor of the sub-soil areas.

Part of the Riverside Casino (Hamilton) property (an area of airspace over the land) is held on trust for Perry Developments Limited. This area may be used for strata title apartments to be held by Perry Developments Limited. 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.

The Riverside Casino site is also 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.

### 15. COMMITMENTS

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

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Operating leases</b>				
Non-cancellable operating lease commitments:				
Payable not later than one year	8,430	6,921	7	42
Payable later than one, not later than two years	7,509	7,201	7	7
Payable later than two, not later than five years	39,310	14,324	2	7
Payable later than five years	148,985	168,031	–	–
<b>Total Operating Lease Commitments</b>	<b>204,234</b>	<b>196,477</b>	<b>16</b>	<b>56</b>
<b>Capital expenditure</b>				
Amounts committed to capital expenditure	143,355	16,512	–	–
<b>Total Capital Expenditure Commitments</b>	<b>143,355</b>	<b>16,512</b>	<b>–</b>	<b>–</b>

The above capital expenditure relates to purchases of plant and equipment for the Auckland, Adelaide and Queenstown complexes and construction and fit-out costs associated with the SKYCITY Grand Hotel, convention and exhibition centre and the gaming expansion.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 16. INVESTMENTS IN SUBSIDIARIES

The Parent company's investment in subsidiaries comprises shares at cost. Significant subsidiaries comprise:

Name of entity	Principle activities	Interest held by the group	
		2003	2002
SKYCITY Auckland Holdings Limited	Group funding	100%	100%
SKYCITY Auckland Limited	Casino premises licence holder	100%	100%
SKYCITY Casino Management Limited	Casino operator's licence holder	100%	100%
SKYCITY Management (Auckland) Limited	Employment of staff	100%	100%
Abdiel Investments Limited	Property owner	100%	100%
SKYCITY Construction Limited	Non-trading	100%	100%
Sky Tower Limited	Non-trading	100%	100%
SKYCITY Wellington Limited	Promotion company	100%	100%
Riverside Fund Limited	Holding company	100%	100%
SKYCITY International Holdings Limited	Holding company	100%	100%
SKYCITY International ApS	Danish holding company, incorporated in Denmark	100%	100%
SKYCITY Australia Pty Limited	Australian holding company, incorporated in Australia	100%	100%
SKYCITY Adelaide Pty Limited	Adelaide Casino licence holder and operator, incorporated in Australia	100%	100%
SKYCITY Investments Limited	Holding company	100%	100%
SKYCITY Action Management Limited	Loyalty programme	100%	100%
Queenstown (Hard Rock) Investments Limited	Joint venture partner	100%	100%
Queenstown Casinos Limited	Casino premises licence holder	60%	60%
Riverside Casino Limited	Casino premises licence holder	55%	55%
Riverside Casino Construction Limited	Property owner	55%	55%
SKYCITY Leisure Limited	Holding company	74%	74%
SKYCITY Leisure Holdings Limited	Property and administration	74%	74%
SKYCITY Cinemas Limited	Cinema exhibition	74%	74%
SKYCITY Metro Limited	Property	74%	74%
SKYCITY Cinemas (Fiji) Limited	Cinema exhibition, incorporated in Fiji	74%	74%
Planet Hollywood (Civic Centre) Limited	Restaurant	74%	74%

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

Riverside Casino Construction Limited is a wholly owned subsidiary of Riverside Casino Limited. SKYCITY Leisure Holdings Limited and SKYCITY Cinemas Limited are wholly owned subsidiaries of SKYCITY Leisure Limited. SKYCITY Metro Limited and Planet Hollywood (Civic Centre) Limited are wholly owned subsidiaries of SKYCITY Leisure Holdings Limited. SKYCITY Cinemas (Fiji) Limited is a wholly owned subsidiary of SKYCITY Cinemas Limited.

SKYCITY Entertainment Group Limited holds a 60% share in Queenstown Casinos Limited, which is the holder of a casino premises licence in Queenstown.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 17. INVESTMENTS IN ASSOCIATES

#### Details of associates

Significant associates comprise:

Name of entity	Principle activities	Interest held by the group	
		2003	2002
Canbet Limited	On-line wagering	33%	32%
Village Cinemas SA (Argentina)	Movie exhibitor	25%	25%
Vista Entertainment Solutions Limited	Ticket software systems	25%	25%

Canbet Limited is incorporated in Australia and Village Cinemas SA is incorporated in Argentina.

All entities have balance dates of 30 June with the exception of Vista Entertainment Solutions Limited, which 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.

On 11 August 2000, SKYCITY International ApS acquired 6.58% of the shares in Canbet Limited (a public company listed on the Australia Stock Exchange). This shareholding was increased to 21.58% on 7 February 2001, and further increased to 32.63% on 8 March 2002.

As a result of acquiring the shares in SKYCITY Leisure Limited on 20 March 2001, the SKYCITY Entertainment Group indirectly acquired holdings in associated companies being Village Cinemas SA and Vista Entertainment Solutions Limited.

	Consolidated	
	2003 \$'000	2002 \$'000
<b>Results of associates</b>		
Share of surplus (less deficits) before income tax	298	364
Income tax	(52)	(20)
<b>Total Recognised Revenues and Expenses</b>	<b>246</b>	<b>344</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 17. INVESTMENTS IN ASSOCIATES (continued)

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Interests in associates</b>				
<b>Shares at cost</b>	<b>8,854</b>	8,854	–	–
<b>Carrying value</b>				
At beginning of year	14,452	8,414	–	–
Associate disposed of during the year	–	(2,929)	–	–
Share of total recognised revenues and expenses	246	344	–	–
Goodwill on acquisition of associates	–	13,254	–	–
Amortisation of goodwill on acquisition of associates	(1,442)	(3,596)	–	–
Write-off of associate during the year	–	(736)	–	–
Foreign currency translation impact	(524)	(299)	–	–
Balance at end of year	<b>12,732</b>	14,452	–	–
<b>Total Investments in Associates</b>	<b>21,586</b>	23,306	–	–

As a result of adopting Financial Reporting Standard No. 38 Accounting for Investments in Associates goodwill on acquisition of associates is now included in the carrying value of the investment in associate, previously included in intangible assets (refer change in accounting policy note). The 2002 figures have been restated to comply with the new policy and show goodwill on acquisition of associates of \$13,254,000.

### 18. JOINT VENTURES

#### Hard Rock joint venture

In December 2000 the group entered into a joint venture to operate the Hard Rock Cafe in Queenstown, New Zealand. The group has a 50% interest. The financial statements of the joint venture are unaudited. The joint venture has a balance date of 30 June. The Hard Rock joint venture results are not significant to the group result.

#### SKYCITY Leisure joint ventures

As a result of acquiring shares in SKYCITY Leisure Limited on 20 March 2001, the SKYCITY group acquired the following indirect joint venture interests:

Name of entity	Principle activities	Interest held by the group	
		2003	2002
Village SKYCITY Cinemas JV	Cinema owner/operator	50%	50%
Village SKYCITY Hoyts Queen St Cinemas JV	Cinema owner/operator	33%	33%
Village SKYCITY Rialto Cinemas JV	Cinema owner/operator	25%	25%
Damodar Village SKYCITY Cinemas JV	Cinema owner/operator	33%	33%

All the above joint ventures have been audited.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 18. JOINT VENTURES (continued)

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Financial performance</b>				
The group's operating revenues and share of expenses, proportionately consolidated, was:				
Revenue	33,857	30,807	–	–
Expenses	(26,674)	(28,052)	–	–
<b>Net Contribution to Group Operating Surplus</b>	<b>7,183</b>	2,755	–	–
<b>Financial position</b>				
The group's share of assets and liabilities, proportionately consolidated, was:				
<b>Current assets</b>				
Cash on hand	2,282	1,948	–	–
Receivables	743	911	–	–
Other	239	135	–	–
	<b>3,264</b>	2,994	–	–
<b>Non-current assets</b>				
Property, plant and equipment	16,541	13,577	–	–
Other	296	782	–	–
	<b>16,837</b>	14,359	–	–
Share of total assets included in group	<b>20,101</b>	17,353	–	–
<b>Liabilities</b>				
Creditors	2,563	1,626	–	–
Other	415	892	–	–
Term loans	1,130	1,207	–	–
Share of total liabilities included in group	<b>4,108</b>	3,725	–	–
<b>Net Assets Employed in the Joint Venture</b>	<b>15,993</b>	13,628	–	–

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 19. INTANGIBLE ASSETS

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Separable intangible assets</b>				
<b>Casino licence</b>				
Casino licence at beginning of year	203,961	230,697	–	–
Accumulated amortisation at beginning of year	(4,806)	(2,669)	–	–
Unamortised balance at beginning of year	199,155	228,028	–	–
Foreign currency translation	(932)	(26,736)	–	–
Current year amortisation	(2,343)	(2,137)	–	–
Unamortised balance at end of year	195,880	199,155	–	–
<b>Rights and concessions</b>				
Rights and concessions at beginning of year	2,250	2,250	–	–
Current year amortisation	(337)	–	–	–
Unamortised balance at end of year	1,913	2,250	–	–
<b>Goodwill on consolidation</b>				
Goodwill on consolidation at beginning of year	14,071	24,635	–	–
Accumulated amortisation at beginning of year	(3,379)	(1,099)	–	–
Unamortised balance at beginning of year	10,692	23,536	–	–
Goodwill arising on the acquisition of subsidiary	–	8,394	–	–
Goodwill adjusted for fair value adjustments	–	(1,580)	–	–
Impairment	–	(16,730)	–	–
Foreign currency translation	–	(648)	–	–
Current year amortisation	(929)	(2,280)	–	–
Unamortised balance at end of year	9,763	10,692	–	–
<b>Other intangibles</b>				
Franchise fees at cost	288	287	–	–
<b>Total Intangible Assets</b>	<b>207,844</b>	<b>212,384</b>	<b>–</b>	<b>–</b>

#### Casino licence

SKYCITY Entertainment Group Limited acquired the Adelaide Casino licence on 30 June 2000 as a result of the acquisition of 100% of the shares in SKYCITY Adelaide Pty Limited, through its wholly-owned subsidiary SKYCITY Australia Pty Limited on that date. The cost of the casino licence and other assets and liabilities of SKYCITY Adelaide Pty Limited have been determined by the directors applying fair value assessments to all assets (including the casino licence) and liabilities acquired as part of the acquisition of SKYCITY Adelaide Pty Limited. The casino licence is being amortised over 85 years, being the length of the licence.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 20. ACCOUNTS RECEIVABLE

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
Trade receivables	1,727	2,606	–	459
Sundry receivables	2,459	1,227	144	–
Amounts due from subsidiaries	–	–	159,067	168,469
Other receivables	1,308	620	–	–
Advances to associates	–	314	–	–
Prepayments	1,601	1,053	104	270
Future income tax benefit	3,151	476	–	–
Income tax	–	13,291	–	2,674
Foreign currency hedge	–	383	–	–
<b>Total Accounts Receivable</b>	<b>10,246</b>	<b>19,970</b>	<b>159,315</b>	<b>171,872</b>

### 21. FINANCIAL INSTRUMENTS

#### Currency risk

Payments to overseas suppliers are made using the currency conversion rate as 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 foreign exchange forward contracts to manage the exposure to fluctuations in currency rates. Foreign exchange contracts as at 30 June 2003 were US\$121,610 and AU\$771,390 (2002: US\$nil, AU\$nil).

The currency risk and interest rate risk associated with net Australian dollar investments is partially hedged through utilisation of cross currency interest rate swaps and interest rate swap contracts within the parameters set out in the group treasury policy. At 30 June 2003 there was AU\$75,000,000 (2002: AU\$nil) of cross currency interest rate swaps and AU\$75,000,000 (2002: AU\$120,000,000) of interest rate swaps.

There were no foreign exchange contracts utilised to hedge the translation risk of funds advanced to overseas subsidiaries as at 30 June 2003 (2002: AU\$15,900,000).

#### Interest rate risk

Short-term deposits were at call as at 30 June 2003. Deposits are held with major banking institutions.

Interest rates on borrowings are a mix of fixed and floating. As at 30 June 2003 75% (2002: 81%) of total bank borrowings were hedged via long-term (exceeding 12 months) interest rate swap agreements with major banking institutions.

A number of short-term (less than 12 months) interest rate swap agreements of varying maturities, with major banks, were in place over 9% (2002: 10%) of the balance of the total borrowing.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 21. FINANCIAL INSTRUMENTS (continued)

#### Fixed versus floating interest rate – bank facility

At 30 June 2003, SKYCITY group had total bank borrowings of \$440,810,413 (2002: \$409,240,654), structured as below:

	2003			2002		
	\$'000	% of Total	% Rate	\$'000	% of Total	% Rate
<b>Term borrowings (exceeding 12 months)</b>						
Fixed by long-term (exceeding 12 months) interest rate swaps	331,700	75	7.02	331,709	81	7.37
Fixed by short-term (less than 12 months) interest rate swaps	40,000	9	6.24	42,455	10	7.25
Floating rate borrowings	69,110	16	6.14	35,077	9	6.11
	<b>109,110</b>	<b>25</b>	<b>6.17</b>	<b>77,532</b>	<b>19</b>	<b>6.73</b>
<b>Total Debt Facility</b>	<b>440,810</b>	<b>100</b>	<b>6.81</b>	<b>409,241</b>	<b>100</b>	<b>7.25</b>

Rates shown above are inclusive of bank margin and hedging costs.

#### Maturities

The interest swap maturities are at various dates through to June 2013.

The long term interest rate swap maturities occur between eighteen months and ten years from balance date.

#### Interest rate swap values – mark to market

The swaps and forward rate agreements in place as at 30 June 2003 have been valued by the group's bankers, and on a mark to market basis, is a loss of \$18,595,093 (2002: loss of \$5,389,101).

#### Credit risk

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 foreign currency contracts. The parent company's and group'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. Accordingly, the directors believe the group has no significant concentration of credit risk.

#### Fair values

##### Methods and assumptions

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

##### Cash at bank, bank overdraft, term deposits, loans issued, receivables and trade creditors

The carrying values of these items are equivalent to their fair value. As such, they have been excluded from the table below.

##### Borrowings

Borrowings are based on discounted cash flows using the borrowing rate the directors expect would be available to the group for debt of similar maturity at balance date.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

### 21. FINANCIAL INSTRUMENTS (continued)

	Consolidated		Parent Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Fair value summary</b>				
<b>Carrying Amounts</b>				
<b>Assets</b>				
Cash and bank	57,264	48,084	–	1
Receivable and prepayments	7,095	4,279	248	729
Receivables – related parties	–	1,541	–	–
Income tax	7,275	13,291	–	2,674
Advances to subsidiaries	–	–	159,067	168,469
	<b>71,634</b>	<b>67,195</b>	<b>159,315</b>	<b>171,873</b>
<b>Liabilities</b>				
Capital notes	149,266	148,888	149,266	148,888
Creditors and accruals	64,533	57,536	2,378	3,061
Borrowings – short-term	1,000	1,000	–	–
Borrowings – long-term	437,113	405,825	–	–
Advance from minority interests	–	3,604	–	–
Convertible notes	13,365	9,315	–	–
Income tax	4,427	–	–	–
	<b>669,704</b>	<b>626,168</b>	<b>151,644</b>	<b>151,949</b>

Within the above carrying amounts of financial assets and liabilities, to the extent they are not hedged, the following values are denominated in Australian dollars:

<b>Assets</b>		
Current assets	17,280	10,158
<b>Liabilities</b>		
Current liabilities	19,264	11,892

The directors believe the carrying values of the financial assets and liabilities reflect the fair values of those assets and liabilities.

The group was party to a financial instrument in respect of a guarantee not recognised above and this is disclosed in note 22.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2003

## STOCK EXCHANGE LISTINGS AND SUBSIDIARY COMPANIES

### 22. CONTINGENT GAINS AND LOSSES

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

SKYCITY Leisure Limited is one of the guarantors for a loan facility utilised by Village Cinemas SA Argentina (VCSA), an associate company. The maximum liability and exposure at 30 June 2003 under this guarantee is US\$4,000,000 (30 June 2002: US\$4,000,000).

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

### 23. RELATED PARTY INFORMATION

#### Subsidiaries, Associates and Joint Ventures

All members of the group as listed in notes 16, 17 and 18 are considered to be related parties of the parent company SKYCITY Entertainment Group Limited.

During the year the company advanced and repaid loans and provided accounting and administrative services to its subsidiaries, associates and joint ventures. In presenting the financial statements of the group, the effect of transactions and balances between fellow subsidiaries and those with the parent company have been eliminated. All transactions with related parties are in the normal course of business and provided on commercial terms.

SKYCITY Entertainment Group has entered into a Management Services Agreement with SKYCITY Leisure Limited to provide administration and management services. The agreement commenced on 1 July 2002 and the fees received by SKYCITY Entertainment Group for the year ended 30 June 2003 were \$514,000.

#### Interest of Directors in Certain Transactions

Each company within the group maintains an interests register in which members of its board record all parties and transactions in which they may have a potential or actual self-interest (refer Interests Register in the Additional Information section of this Report). Fees were paid to First NZ Capital Group Limited (previously Credit Suisse First Boston NZ Limited), of which W R Trotter is a director, for advisory work and were made on normal commercial terms.

### 24. EVENTS OCCURRING AFTER BALANCE DATE

#### Provision for dividend

As disclosed in note 7 on 22 August 2003 the directors resolved to provide for a final dividend to be paid in respect of the year ended 30 June 2003. The dividend will be paid at a value of 26 cents per share on issue as at 19 September 2003 with full imputation credits attached. The dividend will be paid on 3 October 2003.

### 25. EARNINGS PER SHARE

	Consolidated	
	2003	2002
Number of ordinary shares on issue — weighted average ('000)	210,147	204,689
Group surplus from operations per share (cents)	51.0	27.9

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

### STOCK EXCHANGE LISTINGS

SKYCITY Entertainment Group Limited is listed on both the New Zealand and Australian Stock Exchanges.

### SUBSIDIARY COMPANIES

The changes to subsidiary company directorships during the 12 month period ended 30 June 2003 were as follows.

On 24 July 2002, A.B. Ryan resigned as a director of Planet Hollywood (Civic Centre) Limited.

On 15 August 2002, D.R.K. Gascoigne was appointed a director of SKYCITY Leisure Limited.

On 8 November 2002, P.J. Holdaway resigned as a director of SKYCITY Leisure Limited.

On 6 June 2003, D.B. Henry was appointed a director of SKYCITY Leisure Limited.

The following people held office as directors of subsidiaries of SKYCITY Entertainment Group Limited as at the end of the 2003 financial year, being 30 June 2003.

#### SKYCITY Auckland Holdings Limited, SKYCITY Auckland Limited, SKYCITY Casino Management Limited

Directors: E.W. Davies, J.P. Hartley, A.B. Ryan

#### SKYCITY Management (Auckland) Limited, Abdiel Investments Limited, SKYCITY Construction Limited, Sky Tower Limited, SKYCITY Wellington Limited, SKYCITY International Holdings Limited, SKYCITY International ApS, SKYCITY Investments Limited, SKYCITY Action Management Limited, Riverside Fund Limited, Queenstown (Hard Rock) Investments Limited

Directors: E.W. Davies, A.B. Ryan

#### SKYCITY Australia Pty Limited, SKYCITY Adelaide Pty Limited

Directors: E.W. Davies, G.F. Hawkins, A.B. Ryan

#### Queenstown Casinos Limited

Directors: E.W. Davies, P.J. Hensman, A.B. Ryan, B.C. Thomas

#### Riverside Casino Limited

Directors: E.W. Davies, B.S. Nabbs, S. Perry, A.B. Ryan

#### Riverside Casino Construction Limited

Directors: E.W. Davies, B.S. Nabbs, S. Perry, A.B. Ryan

#### SKYCITY Leisure Limited

Directors: M.W. Daniel, E.W. Davies, D.R.K. Gascoigne, D.B. Henry, D.I. Kennedy, A.B. Ryan

#### SKYCITY Leisure Holdings Limited, SKYCITY Cinemas Limited, SKYCITY Metro Limited, Cine-Force Limited, Ab Initio Holdings No.13 Limited, Planet Hollywood (Civic Centre) Limited

Director: P.J. Holdaway

#### SKYCITY Cinemas (Fiji) Limited

Directors: D. Damodar, P.J. Holdaway

## DIRECTOR REMUNERATION

30 June 2003

### REMUNERATION OF DIRECTORS

Remuneration paid to directors of SKYCITY Entertainment Group Limited during the year ended 30 June 2003 was:

E.W. Davies	\$1,058,000
P.H. Elworthy	\$124,356
J.P. Hartley	\$100,000
R.H. McGeoch	\$40,000
P.L. Reddy	\$50,000
E. Toime	\$50,000
W.R. Trotter	\$50,000
B.M. Wickham	\$22,050

Evan Davies is not paid director's fees. The amount shown next to his name represents the salary and performance bonus paid to him as an employee of the company. The remuneration paid to Mr Davies comprised a base salary of \$700,000 plus a performance-related incentive payment of \$283,250 relating to the 2001/02 year. Mr Davies' remuneration also included a performance-related incentive payment of \$74,750 which was a 25% retention from his 2000/01 remuneration. In addition, Mr. Davies became entitled to exercise 375,000 options in the company which were issued to him in September 2001. These options, at the date of issue, had an assessed value of 82 cents per option.

In August 2003, the company resolved to pay additional remuneration of \$10,000 per annum to the chairpersons of the Audit and Risk Committee and the Governance and Remuneration Committee, effective from 1 July 2003 for the chair of the Governance and Remuneration Committee and from the date when the Audit and Risk Committee is reconvened as a committee of the board rather than as is currently the case (September 2003) where all directors comprise the committee.

Remuneration paid to directors, or former directors, of SKYCITY Leisure Limited during the year ended 30 June 2003 was:

M.W. Daniel	\$25,000
P.J. Holdaway	\$118,098
D.B. Henry	\$1,712
D.R.K. Gascoigne	\$39,545

Peter Holdaway resigned as a director of SKYCITY Leisure Limited on 8 November 2002. Mr Holdaway was not paid director's fees. The amount shown next to his name represents the total of the remuneration and the value of other benefits paid to him as an employee of SKYCITY Leisure Limited.

Remuneration paid to directors of Queenstown Casinos Limited during the year ended 30 June 2003 was:

E.W. Davies	\$7,500
P.J. Hensman	\$7,500
A.B. Ryan	\$7,500
B.C. Thomas	\$7,500

Director fees for E.W. Davies and A.B. Ryan were paid to SKYCITY Entertainment Group Limited and were not received personally by Messrs Davies or Ryan.

Apart from the amounts listed above, no remuneration is received by the directors of the SKYCITY subsidiary companies in their capacity as directors of those companies.

No director of the group or parent company has, since the end of the financial year, received or become entitled to receive a benefit other than director's fees and committee chairperson's fees for the 2003/04 financial year or for the reimbursement of expenses incurred in relation to company matters, or as disclosed elsewhere in this Annual Report.

## DIRECTORS: INTERESTS REGISTER

30 June 2003

### INTERESTS REGISTER

#### Disclosure of Directors' Interests

Section 140(1) of the Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. The following are particulars as entered in the SKYCITY Interests Register as at 30 June 2003 with the notices given by directors during the period ended 30 June 2003 marked with an asterisk.

Director	Other Company	Relationship
E.W. Davies	Melanesian Mission Trust	Trustee
J.P. Hartley	Bluestone Mortgages Limited*	Director
	Infinity Group Limited and certain subsidiaries	Director and Shareholder
	Pacific Road Corporate Finance*	Advisory Board Member
	RMB Ventures Limited and various investee companies*	Advisory Board Member
	TeleTech Holdings Limited*	Advisory Board Member
	The Great New Zealand Business Venture Limited	Director
	Trango Capital Limited	Director and Shareholder
	Vista Entertainment Limited*	Director
P.L. Reddy	Active Equities Limited	Director and Shareholder
	Infinity Group Limited	Director
	MobilefoneRepair.com Limited	Associated Person of Shareholder
	Securefresh Pacific Limited	Associated Person of Shareholder
	SKYCITY Auckland Community Trust	Trustee
	TeamTalk Limited	Associated Person of Shareholder
	Telecom Corporation of New Zealand Limited	Director
	The New Zealand International Festival of the Arts*	Trustee
	Vista Entertainment Solutions Limited	Associated Person of Shareholder
R.H. McGeoch	Aon Risk Services Limited*	Member NSW Board of Advice
	Australian Growth Properties Limited*	Chairman
	Australian Pacific Airports Corporation Limited*	Deputy Chairman
	Corrs Chambers Westgarth, Solicitors*	Consultant and Chairman
		Emeritus of the firm
	Pacific Healthcare Australia Limited*	Chairman
	Ramsay Health Care Limited*	Director
	Saatchi & Saatchi Trans Tasman Advisory Board*	Chairman
	Frontiers Group Australasia Limited*	Chairman
	Frontiers Group Limited*	Director
	Telecom Corporation of New Zealand Limited*	Director
	Telecom Corporation of New Zealand Australia Limited*	Chairman
E. Toime	Royal Mail Holdings PLC*	Executive Deputy Chairman
	Royal Mail Group PLC*	Director
	Post Office Limited*	Director
W.R. Trotter	First NZ Capital Group Limited and certain subsidiaries	Director
	New Zealand Exchange Limited	Director
	NZX Funds Management Limited*	Director

## DIRECTORS: INTERESTS REGISTER AND SHARE TRANSACTIONS

30 June 2003

### INTERESTS REGISTER (continued)

#### Disclosure of Directors' Interests (continued)

The following details included in the Interests Register as at 30 June 2002, or entered during the year ended 30 June 2003, have been removed during the year ended 30 June 2003.

E.W. Davies is no longer a director of the Tourism Industry Association of New Zealand.

J.P. Hartley is no longer a director of Vertex Group Holdings Limited and certain subsidiaries.

R.H. McGeoch is no longer an advisor to Collette Dinnigan Pty Limited.

E. Toime is no longer a director of Datacom Group Limited, Datacom Investments Pty Limited, New Zealand Post Limited and subsidiaries, NRMA Insurance Limited or the State Sector Standards Board.

#### Disclosure of Directors' Interests in Share Transactions

Directors disclosed, pursuant to section 148 of the Companies Act 1993 and Rule 10.5.3 of the Listing Rules of the NZX, the following acquisitions and disposals of relevant interests in SKYCITY shares during the period to 30 June 2003.

Director	Date of Acquisition/ Disposal during Period to 30/6/03	Consideration	Shares Acquired (Disposed of)
E W Davies	4 October 2002 <sup>(1)(2)</sup>	\$92,475.80	13,312
	30 April 2003 <sup>(1)</sup>	\$830,006.00	(100,000)
P H Elworthy	18 September 2002 <sup>(3)</sup>	\$149,266.80	24,390
	18 September 2002 <sup>(3)</sup>	\$153,168.00	(21,190)
	4 October 2002 <sup>(2)</sup>	\$5,668.59	816
J P Hartley	4 October 2002 <sup>(2)(4)</sup>	\$17,776.86	2,559
P L Reddy	6 September 2002 <sup>(3)</sup>	\$149,144.85	24,390
	4 October 2002 <sup>(2)(4)</sup>	\$15,282.96	2,200
E Toime	9 September 2002 <sup>(3)</sup>	\$149,266.80	24,390
	4 October 2002 <sup>(2)</sup>	\$11,455.27	1,649
W R Trotter	6 September 2002 <sup>(3)</sup>	\$149,144.85	24,390
	4 October 2002 <sup>(2)(4)</sup>	\$59,777.21	8,605
B M Wickham	4 October 2002 <sup>(2)</sup>	\$6,745.34	971

(1) The transactions shown relate to shares held by a trust of which Mr Davies is a discretionary beneficiary.

(2) The transactions shown relate to the issue of shares in lieu of dividends pursuant to the SKYCITY Entertainment Group Limited Dividend Reinvestment Plan.

(3) The transactions shown relate to the exercise of options granted to directors pursuant to the Non-Executive Director Share Option Plan approved by shareholder at the Annual Meeting of the company held on 26 October 2000.

(4) The transactions shown relate to shares held by separate trusts of which Mr Hartley, Ms Reddy or Mr Trotter are trustees and discretionary beneficiaries.

## DIRECTOR SHARES, OPTIONS AND CAPITAL NOTES, AND EMPLOYEE REMUNERATION

30 June 2003

### INTERESTS REGISTER (continued)

#### Disclosure of Directors' Interests in Shares, Options and Capital Notes

Directors disclosed, pursuant to Rule 10.5.3 of the Listing Rules of the NZX, the following relevant interests in SKYCITY shares, options and capital notes during the period to 30 June 2003.

Director	Shares			Options		
	Beneficially Held	Non- Beneficially Held	Held By Associated Person	Beneficially Held	Non- Beneficially Held	Held By Associated Person
E.W. Davies	324,346	-	9,827	3,177,640	-	193,000
J.P. Hartley	81,592	-	-	66,319	-	-
R.H. McGeoch	-	-	-	20,964	-	-
P.L. Reddy	70,132	2,665	-	20,964	-	-
E. Toime	52,553	-	4,240	20,964	-	-
W.R. Trotter	328,334	-	-	20,964	-	-

W.R. Trotter is a trustee of a trust holding 200,000 capital notes.

Options issued to Mr. Davies are issued pursuant to the Executive Share Option Plan (1999 Executive Plan) approved by shareholders at the Annual Meeting of the company held on 28 October 1999 and the Managing Director Share Option Plan (Managing Director Plan) approved by shareholders at the Annual Meeting of the company held on 30 October 2002.

Options issued to associated persons of Mr. Davies are issued pursuant to the 1999 Executive Plan and the Executive Share Option Plan approved by the board of the company in 2002 (2002 Executive Plan).

Options issued to the non-executive directors are issued pursuant to the Non-Executive Director Share Option Plan (Non-Executive Director Plan) approved by shareholders at the Annual Meeting of the company held on 26 October 2000.

Options issued under the 1999 Executive Plan and the Non-Executive Director Plan are exercisable one year after the date of issue, at the exercise price determined pursuant to the Plans, and lapse if they are not exercised within five years of the date of issue.

Options issued under the Managing Director Plan and the 2002 Executive Plan are exercisable three years after the date of issue, except that some options issued under the 2002 Executive Plan may be exercised after one year from date of issue under special circumstances as described in the Plan, at the exercise price determined pursuant to the Plans and lapse if not exercised within five years of the date of issue.

### EMPLOYEE REMUNERATION

The numbers of employees or former employees of the company and its subsidiaries, not being directors of the company who received remuneration and other benefits in their capacity as employees, the value of which was in excess of \$100,000 during the financial year ended 30 June 2003, are listed below.

Remuneration	Number of Employees		Remuneration	Number of Employees	
	Group	Parent Company		Group	Parent Company
\$100,000 - \$109,999	14	-	\$230,000 - \$239,999	1	-
\$110,000 - \$119,999	10	-	\$240,000 - \$249,999	3	-
\$120,000 - \$129,999	13	-	\$260,000 - \$269,999	1	-
\$130,000 - \$139,999	4	-	\$270,000 - \$279,999	1	-
\$140,000 - \$149,999	2	-	\$280,000 - \$289,999	1	-
\$150,000 - \$159,999	7	-	\$290,000 - \$299,999	1	-
\$160,000 - \$169,999	4	-	\$300,000 - \$309,999	1	-
\$170,000 - \$179,999	5	-	\$330,000 - \$339,999	1	-
\$190,000 - \$199,999	2	-	\$370,000 - \$379,999	1	-
\$200,000 - \$209,999	2	-	\$410,000 - \$419,999	1	-
\$210,000 - \$219,999	1	-	\$480,000 - \$489,999	1	-
\$220,000 - \$229,999	1	-			

## ADDITIONAL INFORMATION

### DONATIONS

Donations are referred to in Note 3 of the financial statements.

### WAIVERS FROM THE NEW ZEALAND EXCHANGE (NZX) LISTING RULES

The following waivers from the NZX Listing Rules were effective as at balance date.

As part of the Non-Executive Director Share Option Plan, approved by shareholders at the 2000 Annual Meeting, the NZX granted a waiver from compliance with Listing Rule 7.3.2 enabling the issue of options to be made to each non-executive director under the Plan in the financial year ending on 30 June 2003, being more than six months after the date on which the resolution approving the issue was passed.

On 29 August 2001, the NZX granted a waiver from compliance with Listing Rule 7.3.6 in respect of the participation by Ms. H.R. Shotter in the company's Performance Pay Incentive Plan (PPI) and the 1999 Executive Share Option Plan. Under the PPI, salaried employees of the company and its subsidiaries are entitled to bonuses, payable in cash and shares, if relevant financial and personal performance targets are met. Ms. Shotter is married to Mr. Davies, the Managing Director of the company. Accordingly, in the absence of the waiver, issues of shares under the PPI and options under the Executive Share Option Plan would have required shareholder approval. The NZX granted the waiver on the condition that Ms. Shotter's participation in the PPI and the Executive Share Option Plan is determined by an independent committee of the board of directors of the company, and that Mr. Davies does not participate in determining the benefits provided to Ms. Shotter.

In addition, on 5 September 2002, the NZX granted waivers from compliance with Listing Rule 7.3.6 in respect of the participation by Ms. Shotter in the company's renewed Performance Pay Incentive Plan (2002 PPI) and the renewed executive share option plan (2002 Option Plan). As the terms of the 2002 PPI and the 2002 Option Plan are substantially the same as the previous PPI and Executive Share Option Plan, in the absence of the waivers, issues of shares under the 2002 PPI and options under the 2002 Option Plan would require shareholder approval. The NZX granted the waivers on the condition that Ms. Shotter's participation in the 2002 PPI and the 2002 Option Plan is determined by an independent committee, and that Mr. Davies does not participate in determining the benefits provided to Ms. Shotter.

The effect of all other waivers granted had ceased as at balance date.

### EVENTS SUBSEQUENT TO BALANCE DATE

The directors are not aware of any matter or circumstance since the end of the financial year, not otherwise dealt with in this Report, that has significantly or may significantly affect the operations of SKYCITY Entertainment Group Limited or any of its subsidiary companies.

## SHARE REGISTER INFORMATION

Twenty Largest Shareholders as at 22 August 2003		Number of shares	% of issued shares
1	Colonial First State Investment Managers	32,362,674	15.40%
2	Maple Brown Abbott	9,883,904	4.70%
3	Capital Group	9,824,600	4.68%
4	AMP Henderson Global Investors	7,512,727	3.58%
5	Tower Asset Management	5,200,124	2.47%
6	Morgan Stanley Investment Management	4,186,222	1.99%
7	Accident Compensation Corporation	4,136,926	1.97%
8	Liberty Wagner Asset Management	3,680,000	1.75%
9	ING Investment Management	3,638,123	1.73%
10	Guardian Trust Funds Management	2,952,680	1.41%
11	Tower Trust	2,833,658	1.35%
12	State Street Global Advisors	2,806,596	1.34%
13	AXA Group	2,727,043	1.30%
14	BT Funds Management	2,598,966	1.24%
15	Bank of New Zealand Structured Finance	2,100,000	1.00%
16	Queensland Investment Corporation	2,000,000	0.95%
17	Barclays Global Investors	1,743,758	0.83%
18	Legal & General Investment Management	1,267,905	0.60%
19	Lloyd George Management	1,262,553	0.60%
20	Commerical General Norwich Union Group	1,165,923	0.55%
Total		103,884,382	49.44%

The analysis as set out above has been compiled based upon information provided by Computershare Analytics Pty Limited.

The total number of shares on issue as at 22 August 2003 was 210,135,588.

### Distribution of Ordinary Shares and Registered Shareholdings as at 22 August 2003

Size of holding	Number of shareholders	Number of shares
1 – 1,000	6,380	4,443,904
1,001 – 5,000	11,301	26,552,494
5,001 – 10,000	2,194	16,180,916
10,001 – 100,000	1,243	26,789,465
over 100,000	57	136,168,809
Total	21,175	210,135,588

As at 22 August 2003 there were 226 holdings of less than 64 shares, being the minimum marketable parcel of shares under ASX Listing Rules. The ASX Listing Rules define the minimum parcel as having a value of A\$500. The calculation of the minimum parcel of 64 shares is based on an exchange rate of A\$0.8961 and a SKYCITY share price of NZ\$8.78.

## CAPITAL NOTEHOLDER INFORMATION

Twenty Largest Capital Noteholders as at 22 August 2003		Number of capital notes	% of issued capital notes
1	New Zealand Central Securities Depository Limited	6,417,000	4.28%
2	Custodial Nominees Limited	1,686,000	1.12%
3	Investment Custodial Services Limited	1,590,000	1.06%
4	Custodial Services Limited Account No.3	952,000	0.63%
5	First NZ Capital Custodians Limited	634,000	0.42%
6	N Z Airline Pilots Mutual Benefit Fund – Air Traffic Controllers	600,000	0.40%
7	J.R. Avery, P.G. Inger and J.A. Inger	500,000	0.33%
8	Cogent Nominees Limited	500,000	0.33%
9	Adam Consultants and Administrators Wellington Limited	400,000	0.27%
10	Knox Home Trust Board Inc.	400,000	0.27%
11	Maori Education Trust	400,000	0.27%
12	ASB Nominees Limited	350,000	0.23%
13	Custodial Services Limited Account No.2	308,000	0.21%
14	S.M. Auton and R.J. Auton	300,000	0.20%
15	C.A. Carran and P.A. Carran	300,000	0.20%
16	J.A. Hood and E.A. Hood and C.R. Darlow	300,000	0.20%
17	J.R. Matthews, R.J. Matthews and B.R. Perkins	300,000	0.20%
18	Sargood Bequest Nominee Limited	300,000	0.20%
19	A.G. Smart	300,000	0.20%
20	G.A. Walker and E.K. Walker	300,000	0.20%
Total		16,837,000	11.22%

As at 22 August 2003, 150 million SKYCITY Capital Notes (each Capital Note having an issue value of \$1.00) were on issue. The Capital Notes have a maturity date of 15 May 2005.

### Distribution of Capital Note holdings as at 22 August 2003

Size of holding	Number of noteholders	Number of capital notes
1 – 1,000	-	-
1,001 – 5,000	676	3,377,000
5,001 – 10,000	1,310	12,247,250
10,001 – 100,000	3,286	103,338,750
over 100,000	107	31,037,000
Total	5,379	150,000,000

## SHAREHOLDER AND OPTION HOLDER INFORMATION

### Substantial Security Holders

As at 27 November 2002, Commonwealth Bank Group (Colonial First State Investment Managers) gave notice in accordance with the New Zealand Securities Amendment Act 1988, that it was a substantial security holder in the company and had a relevant interest in 32,620,863 ordinary shares in the company.

### Option Holders

As at 22 August 2003 there were:

- 1,282,110 Options, issued under the Executive Share Option Plan which was approved by shareholders at the Annual Meeting of the company held on 28 October 1999, held by 18 holders. These options have no voting rights but entitle the holder to two shares on the exercise of each option
- 150,175 Options, issued under the Non-Executive Director Share Option Plan approved by shareholders at the Annual Meeting of the company held on 26 October 2000, held by 5 holders. These options have no voting rights but 24,900 of the options entitle the holder to two shares on exercise of the option and the balance entitle the holder to one share on exercise of the option
- 2,338,530 Options, issued under the Managing Director Share Option Plan approved by shareholders at the Annual Meeting of the company held on 30 October 2002, held by one holder. These options have no voting rights but entitle the holder to one share on the exercise of the option
- 1,777,500 Options, issued under the Executive Share Option Plan approved by directors of the company in August 2002, held by 31 holders. The options have no voting rights but entitle the holder to one share on the exercise of the option.

## LIMITATIONS ON SHARES

### Limitations on Acquisition of Ordinary Shares

The company's constitution contains various provisions which were included in it to take into account the application of:

- the Casino Control Act 1990 of New Zealand
- the Casino Act 1997 of South Australia, and
- the legislation providing for the establishment, operation and regulation of casinos in any other jurisdiction in which SKYCITY or any of its subsidiaries may hold a casino licence

to SKYCITY Entertainment Group Limited and any of its subsidiaries

SKYCITY needs to ensure, when it participates in gaming activities:

- that it has the power under its constitution to take such action as may be necessary to ensure that its suitability to do so in a particular jurisdiction is not affected by the identity or actions (including share dealings) of a shareholder; and
- that there are appropriate protections to ensure that persons do not gain positions of significant influence or control over SKYCITY or its business activities without obtaining any necessary statutory or regulatory approvals in those jurisdictions.

Accordingly, the constitution contains the following provisions restricting the acquisition of shares in the company to achieve this.

### Transfer of shares to an Associated Casino Person

Clause 12.11 of the company's constitution provides that a transfer of shares to an Associated Casino Person (as defined in the constitution) of a casino licence holder can not take place until the transfer has been approved by the relevant regulatory authority. However, the clause will not apply if, as a result of the transfer, the number of shares held by the transferee or any person associated with it, remains below the level of shareholding (if any) which each regulatory authority has approved for that transferee and any person associated with it.

If a transfer takes place in breach of clause 12.11, then the transferee, and the persons associated with it, are prevented from exercising votes in respect of the Affected Shares (as defined in the constitution) and their entitlement to a share in the profits of SKYCITY in respect of their respective Affected Shares (whether by way of dividend or other distribution) is suspended until such time as all approvals which needed to be obtained from the regulatory authorities to the increase in the total number of shares held by the transferee, and the persons associated with it, as a result of the transfer have been obtained.

If a regulatory authority does not approve an increase in the number of shares held by the transferee, and the persons associated with it, SKYCITY may sell the shares which were acquired by the transferee under the relevant transfer or such other number of shares as may be required.

The power of sale can only be exercised if SKYCITY has given one month's notice to the transferee of its intention to exercise that power and the transferee has not, in that one month period, transferred the requisite number of shares in SKYCITY to a person who is not associated with the transferee.

### Transfer of shares (other than to an Associated Casino Person)

Clause 12.12 of the constitution provides that if a transfer of shares results in the transferee, and the persons associated with that transferee,

- Holding more than 5% of the shares in SKYCITY; or
- Increasing their combined holding further beyond 5% if:
  - they already hold more than 5% of the shares in SKYCITY; and
  - the transferee has not been approved by the relevant regulatory authority as an Associated Casino Person of any casino licence holder;

## LIMITATIONS ON SHARES AND OTHER DISCLOSURES

### Transfer of shares (other than to an Associated Casino Person) (continued)

then the votes attaching to all shares held by the transferee, and the persons associated with it, are suspended unless and until either:

- each regulatory authority advises that approval is not needed;
- any regulatory authority which determines that its approval is required approves the transferee, together with the persons associated with it, as an Associated Casino Person of any applicable casino licence holder;
- the board of the company is satisfied that registration of the proposed transfer will not prejudice any casino licence; or
- the transferee, and the persons associated with it, disposes of such number of SKYCITY's shares as will result in their combined holding falling below 5% or, if the regulatory authorities approve in respect of the transferee, and the persons associated with it, a higher percentage, the lowest such percentage approved by the regulatory authorities.

If a regulatory authority does not grant its approval to the proposed transfer, SKYCITY may sell such number of the shares held by the transferee, and by any persons associated with it, as may be necessary to reduce their combined shareholding to a level that will not result in the transferee, and the persons associated with it, being an Associated Casino Person of that casino licence holder.

The power of sale can only be exercised if SKYCITY has given one month's notice to the transferee of its intention to exercise that power and the transferee has not, in that one-month period, transferred the requisite number of shares in SKYCITY to a person who is not associated with the transferee.

### Other Legislation/Requirements

General limitations on the acquisition of the securities imposed by the jurisdiction in which SKYCITY is incorporated (i.e. New Zealand law) are as below.

Other than the provisions noted above the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in SKYCITY, or the increase of an existing holding of 20% or more of the voting rights in SKYCITY, can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the shares in the company.

The New Zealand Overseas Investment Act 1973 and the Overseas Investment Regulations 1995 regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Commission is likely to be required when an "overseas person" acquires shares or an interest in shares in SKYCITY Entertainment Group Limited that amount to more than 25% of the shares issued by the company, or if the overseas person already holds 25% or more, the acquisition increases that holding.

The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in SKYCITY if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

## OTHER REQUIRED DISCLOSURES

SKYCITY Entertainment Group Limited has no securities subject to an escrow arrangement.

SKYCITY Entertainment Group Limited is incorporated in New Zealand and is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act (Australia).

SKYCITY Entertainment Group Limited currently has in place an on market buy-back arrangement.

There are no material differences between the ASX Appendix 4E issued by SKYCITY Entertainment Group Limited for 30 June 2003 and this Annual Report.

## DIRECTORY

### REGISTERED OFFICE

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### AUDITOR

#### PricewaterhouseCoopers

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### BANKERS

#### ANZ Banking Group (New Zealand) Limited

#### ASB Bank Limited

#### Bank of New Zealand Limited

#### The Hongkong and Shanghai Banking Corporation Limited

### CAPITAL NOTES TRUSTEE

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