SKYCITY
ENTERTAINMENT
GROUP

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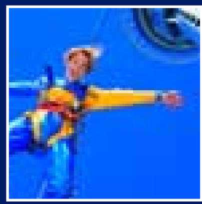
ENTERTAINMENT. TOMORROW

SKY CITY ENTERTAINMENT GROUP LIMITED ANNUAL REPORT 2002



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ENTERTAINMENT. TOMORROW

The Board of Directors is pleased to present the Annual Report of Sky City Entertainment Group Limited for the year ended 30 June 2002.
For, and on behalf of, the Board.

Jon Hartley
Chairman

Evan Davies
Managing Director

27 September 2002

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Cover: Sky Tower, five years

We have created a platform through which Sky City is an increasingly important contributor to the New Zealand economy and also to each of the communities within which we operate. We are committed to ensuring that Sky City remains a company of which all stakeholders are justifiably and understandably proud.

$85.1 million

before non-recurring items

net surplus after tax up 21%

	2002	2001	Change (%)
Sales Revenues	$510m	$435m	+21%
EBITDA⁺	$221m	$192m	+15%
Net Surplus After Tax*	$85.1m	$70.1m	+21%
Earnings Per Share*	41.5cps	35.7cps	+16%
Dividend Per Share	38.0cps	31.5cps	+21%

* Before non-recurring item (Force write-off) of $27.9 million
⁺ Earnings before interest, taxation, depreciation and amortisation

HIGHLIGHTS

- Superior pretax return to Sky City shareholders of 24.4% for the 2001/02 financial year compared with the NZSE average of 5.6% for the corresponding period. Sky City Entertainment Group Limited becomes a top ten NZSE listed company. The Sky City share price responds strongly to the continuing profit performance of the Group.
- Record dividend of 38 cents per share paid for the financial year (22.5cps final dividend paid on 4 October 2002) to more than 20,000 Sky City shareholders. Total dividends paid by Sky City since listing in February 1996 are $315 million.
- Record revenues and earnings for Sky City Auckland. Revenues up 9% to $347 million and EBITDA up 6% to $183 million.
- Strong second half performances across the Group operations, with Sky City Auckland and Sky City Adelaide strong in both revenues and earnings. Sky City Leisure Limited (formerly Force Corporation Limited) clear of capital restructuring in the second half of the year and strong cinema revenues and earnings clearly demonstrated.
- Sky City Hotel (Auckland) the best performing Auckland hotel property for the third year in succession at 88% occupancy for the year.
- Sky Riverside Hamilton complex opens on 19 September 2002.
- New attractions at Sky Tower included Sky Jump, the Vertigo mast climb and the new 120-seat Observatory restaurant.
- New product introductions at all operating locations – Auckland, Adelaide and Queenstown.
- Force Corporation changes its corporate name to Sky City Leisure Limited. Sky City well-positioned as a diverse gaming and entertainment company. Synergies between Sky City Auckland and Sky City Leisure's cinema operations commenced.
- Canbet's turnover increases 44% and, as a consequence, Canbet achieves a significant profit turnaround result for the 2001/02 year.
- Sky City Auckland Convention Centre construction commenced. New convention centre will provide over 5,000 sq.m of exhibition, banquet and conference space when it opens in December 2003.

The 2001/02 year has seen significant progress in achieving our goals and objectives. We are pleased with the success of this focus and with our commitment to consolidating the business following a period of rapid growth and acquisition.

Our result is particularly notable in that each sector of our operations recorded improved performance in what has become a generally more difficult business environment. The record surplus of $85.1 million, before the non-recurring item comprising the Force write-down of $27.9 million, represents our fifth consecutive year of profit growth.

In line with our dividend payout policy, the final FY02 dividend is 22.5 cents per share, resulting in a full year dividend of 38 cents per share, fully imputed. This represents growth of 21% over 2001.

As part of an ongoing focus on capital management, the board has decided to suspend the dividend reinvestment plan (DRP) after the October dividend.

In a market context, Sky City's financial performance during the 12 month period to 30 June 2002 represents a pretax annual return to shareholders of 24.4%, which compares very favourably with the NZSE40 Gross Index average of 5.6%. As a result the company's market capitalisation, at the time of writing, has risen to $1.5 billion.

Although Sky City Entertainment Group Limited has been listed on the Australian Stock Exchange since April 1999, this has been as a foreign exempt company listing. We are pleased to have full compliance-listings on both the Australian and New Zealand Stock Exchanges from 1 July 2002.

Governance

In general, this year has been difficult for business, whether one is operating globally or within Australasia.

While the tragedy and impact of September 11 has been a catalyst for far-reaching personal and economic issues, significant financial uncertainty has been created following the emergence of a number of high-profile corporate failures. This has affected investor and business confidence locally and globally. The intense scrutiny on governance should be considered not solely in the context of the general business world, but more specifically for individual regions, countries and businesses.

In light of these factors and related challenges, our ability to achieve such a strong result is, I believe, a credit to the hard work that has been undertaken on behalf of shareholders by the board, management and staff of Sky City.

This performance is in part related to the governance structures that we have in place. In broad terms, our approach to governance can be characterised by an expectation of excellence and a determined focus on continued scrutiny, relentless questioning, honesty and improvement.

From a more specific perspective, there are a number of factors that we view as important in ensuring we have in place the appropriate framework to be able to withstand the types of challenges that have confronted the corporate world over the past year and to continue to excel in how we operate.

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Jon Hartley

These factors include:

- A determined focus on the creation and protection of value;
- An orthodoxy from a financial disclosure perspective, with the added advantage that the cash-based nature of the business further enhances the clarity of reporting;
- Open and frank communication with both external and internal stakeholders;
- Experienced independent non-executive directors and well-established committees of non-executive directors on Audit and Risk, and Governance and Remuneration; and
- A strong strategic focus by the board to identifying and understanding the drivers of business success.

The success of this approach is well illustrated by the value that it has delivered to shareholders:

- Five consecutive years of growth in profit and dividends;
- An average return to shareholders of 20% per annum since listing;
- A share price that has appreciated by more than 100% over six years; and
- Earnings per share that have doubled over six years.

The board and management are proud of this excellent and, in many ways, market-leading level of performance. That said, we will continue to challenge ourselves to do things better.

An important component of this commitment is that, as a board, we set our expectations of management and measure their performance and results based, not just on conventional concepts of business success, but also on performance in relation to the key strategic drivers of that success, specifically our:

- Customers;
- Products; and
- People.

Each of these areas is vital to achieving and, more importantly, maintaining success. The board sets clear and ambitious goals in each area and expects management to deliver to the highest of standards. Our monitoring of this extends well beyond the financial. The overall performance achieved in 2001/02 demonstrates that the business is meeting, and in fact exceeding, its goals. Rather than viewing success as an end in itself, however, we continue to see it as merely a stepping-stone to reaching higher levels.

In line with our challenge of continued improvement, the board has considered the issue of auditor independence. We have introduced policies to ensure that where services outside the assurance framework are sought, then they will be fully contestable. In addition, we have taken in-house some services which were previously provided by our auditors; for example, routine taxation work. We will continue to use PricewaterhouseCoopers for our internal assurance programme which has reporting responsibilities to the company, the board and external regulators, because the level of expertise provided by PricewaterhouseCoopers in this important area is not easily replicated in-house.

Directors

The 2001/02 year was also notable for the retirement from the board of Waari Ward-Holmes and, as a result of his retirement at this year's Annual Meeting, will be Sir Peter Elworthy's last full year of service as a director. Waari and Sir Peter were our longest-serving directors, having served on the board of Sky City in its various forms since 1991. During this time Waari's and Sir Peter's contributions to the business have been significant and their institutional knowledge invaluable. On behalf of all shareholders, I would like to thank them both for their efforts and wish them well for the future.

We are very pleased that Rod McGeoch has joined the board of the company. Rod is an Australian, based in Sydney, and is an experienced non-executive director. He has a particular interest and expertise in the sports and entertainment sectors within Australia and internationally. Rod, having been appointed as a director by the board, will be standing for election at the Annual Meeting on 30 October.

Bridget Wickham will also be standing for re-election at the Annual Meeting. On behalf of the board, I have no hesitation in recommending both Bridget and Rod for re-election by shareholders.

As a new initiative this year, shareholders are invited to send questions they would like to see addressed at this year's Annual Meeting to Sky City in advance of the meeting. This may be done by visiting the Sky City corporate web site (www.skycitygroup.co.nz) and following the directions on the home page. Please post your questions to the web site before 5.00pm on the day prior to the meeting. Our objective is to facilitate communication with shareholders and enhance accountability by enabling directors to focus on the issues of particular importance to shareholders.

Strategic Development

The growth and success that Sky City has experienced to date has been driven by, and within, a clearly defined strategic framework and focus. At the heart of this focus is the creation and growth of shareholder wealth by achieving our vision of fun and entertainment through the provision of diverse experiences in a responsible manner.

Over the last few years this strategic approach has delivered substantial operational and earnings growth.

From 1999 to 2001 the board's strategic focus was very much on operational expansion to extend, broaden and diversify the company's entertainment profile.

As a result of this phase, Sky City has been transformed from a single property undertaking to a more diverse entertainment and gaming business.

A significant level of external attention and market commentary during the year focused on Force Corporation Limited. Without doubt the recapitalisation issues arising out of the Argentinian exposure provided Sky City with some of the most complex commercial challenges we have yet faced. We are extremely pleased with the quality of the outcomes that have been achieved. A difficult capital restructuring was secured and we are now focused on developing the profitable components of its operations and maximising the strategic entertainment synergies that this investment has the potential to deliver to the Sky City Entertainment Group.

The change of name of Force Corporation Limited to Sky City Leisure Limited in September of this year will reinforce the important strategic relationship between the two companies.

Going forward, our strategic framework retains its relevance. The focus for 2002/03 will be very much about realisation of value. The success that we have achieved during our growth and consolidation phases has created significant value and the focus for the current financial year is to build on this platform.

From the perspective of further operational expansion and acquisitions beyond those already announced, our approach will remain consistent with that set out previously. We will continue to assess opportunities which fit with our strategic criteria while ensuring our focus on optimising the returns from our existing operations remains our priority. Sky City has delivered a combination of both yield and growth to its shareholders and it remains our intention to continue with this dual focus into the future.

Sustainability and Responsibility

By their very nature, businesses are focused on delivering returns to their shareholders, but to be truly successful, businesses must deliver returns on a sustainable basis. Sustainability is often misinterpreted as being a purely environmental concept, as opposed to the multifaceted concept that it actually is.

For a company such as Sky City, an important component of sustainability is to understand the demand for our core products and their potential to have a negative impact on a small proportion of our customers. To operate our business in a way that ignores this risk would be an unsustainable and irresponsible approach that would not be in the best interests of our customers, our people, our shareholders or our stakeholders in general. Sky City has never taken such an approach and will continue to invest significant time and resource in ensuring that any potential for harm is minimised.

As our business has expanded, the need to coordinate and centralise our host responsibility efforts and initiatives has also increased. For this reason, a Host Responsibility department has been established. This department is charged with ensuring that our expectations in the area of host responsibility are delivered group-wide and that the initiatives that Sky City has in place remain leading edge and continue to provide a benchmark for the wider gaming industry throughout Australasia.

Related to this, a copy of the Sky City Community Report has been included with this Annual Report (see back of Report) for the information of shareholders. The Community Report profiles Sky City Entertainment Group, our economic and community contributions and the host responsibility initiatives that have been implemented. The Community Report provides a sense of our involvement in the communities in which we operate and the scope of some of the positive impacts that Sky City seeks to have on those communities.

Conclusion

The 2001/02 year has been an important one for the Sky City Entertainment Group. It has been a year in which we set out to demonstrate the substance of the initiatives and investments we had made in previous years. The results that are presented in this Annual Report provide a clear indication of our success in achieving our objectives. It was a year in which we set out to rise to the business challenges created by a company that has experienced rapid expansion – again, we believe we have. And it was a year in which we set out to continue the business's success in achieving strong financial performance and growth - and clearly we did.

We have created a platform through which Sky City is an increasingly important contributor to the New Zealand economy and to each of the communities in which we operate. Perhaps more importantly though, we are committed to continuing to ensure that Sky City remains a company of which all its stakeholders are justifiably and understandably proud.

Jon Hartley
Chairman

The commercial challenges resulting from the rapid expansion that Sky City achieved over a relatively short period of time meant that 2001/02 was a year in which the business faced a number of important challenges, from both a strategic and financial perspective.

I am proud to report that we not only met but also, in many ways, exceeded those challenges. We have again delivered an exceptionally strong result to our shareholders and grown the significance of the Sky City business to the economies in which it operates. Just as importantly though, while 2001/02 was a good year for Sky City, our performance has laid the foundation for a strong 12 months for the 2002/03 financial year.

A detailed analysis of the Group's operations and financial results can be found on pages 21-28. However, it is appropriate here to focus on the objectives (both strategic and financial) that were set for the Group, and each of its components, and our results in achieving those targets.

Sky City Entertainment Group

In 2001/02 the focus for the Group had two main components. The first related to consolidating the investments made during the previous financial years. In effect, we set ourselves objectives to create a platform within each sector of the business to ensure each is positioned to deliver the medium and long-term strategic and financial targets set by the Group.

The other, equally important, component of our focus was to ensure that we achieved strong and sustainable earnings growth from our core business.

It is our view that the performance and results set out in this report demonstrate that we have been successful in delivering on the many challenges that the objectives we set for 2001/02 had created.

The Group's net surplus after tax of $85.1 million, before non-recurring items, represented growth in underlying earnings of 21%. In a year during which many corporates have struggled, and entities operating in the tourism and entertainment sectors faced difficult market conditions, this was an excellent result.

This financial performance was achieved as a result of strong revenue growth – with Group operating revenues increasing to $510 million, up 21% – and margins being maintained or increased across the Group. Perhaps the most pleasing aspect of the 2001/02 performance was that we managed to achieve solid revenue growth in every business unit at every location that makes up the Sky City Entertainment Group.

Going forward, the strategic focus for the Sky City Entertainment Group is best characterised by:

- Using the platform we have created over the last few years to continue to grow wealth;
- Continuing and increasing the organisational momentum we have achieved; and
- Growing the importance, positive impact and relevance of our business in, and to, each of the communities and economies within which it operates.

Sky City Auckland

Despite the expanded operational focus of the Group, management has not lost sight of the fact that what happens at Sky City Auckland is central to our brand and financial performance. The Group's flagship property remains its key driver.

In 2001/02 the focus was to continue to apply the innovative approach that we have traditionally and successfully taken to operating New Zealand's largest and most visited tourism and entertainment destination, in order to achieve the revenue growth that remains the centrepiece of the Group's results.

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Evan Davies in the new 120-seat Observatory restaurant, Sky Tower

As our Auckland product and markets increasingly mature, an important focus is to continually refresh and renew our offerings and to maintain our ability to achieve our fun and entertainment vision. Product innovation at Sky City Auckland included:

- The Observatory restaurant – we believe, one of the world's most scenic buffet restaurants;
- Sky Jump and Vertigo – bringing an adventure tourism edge to Auckland's most visual icon;
- New gaming products and promotions;
- The Noodle Bar on the main gaming floor;
- Refurbishment of Fortuna Buffet Restaurant;
- Completion of stage one of the Sky City Hotel refurbishment; and
- The introduction of film premieres at Sky City Theatre.

Our success in maintaining a fresh and appealing product is well illustrated by the achievement of increased revenue in every component of Sky City Auckland, and overall revenue growth of 9%. Alongside that performance, a continuation of disciplined cost management saw the business hold its gross margin at 64% and maintain our market-leading EBITDA (earnings before interest, taxation, depreciation and amortisation) ratio at 53%.

In the current year we expect that Sky City Auckland will again deliver across the board revenue growth, with attention being paid to achieving effective margin management. We are also confident that our plans for maximising the opportunities created by the Louis Vuitton series and America's Cup will be successful.

The major component of the next step in Sky City Auckland's growth plan is the construction of the Sky City Auckland Convention Centre and the associated expansion of gaming to alleviate the capacity constraints that our success in growing the business has created.

Last year's Annual Report foreshadowed the construction of a conference facility. During the 2001/02 year we were invited by Auckland City Council to explore the prospects of partnering with them in order to construct an expanded facility to compete in the convention market. While Council eventually decided to decline our proposal, we reached the view that the larger facility has as much potential to enhance value for our business as it does to fill a major and long-existing gap in Auckland's tourism infrastructure. As a result, we have commenced construction of a complex that will provide 5,400 sq.m of exhibition, banquet and conference space adjacent to Sky City Auckland.

Upon completion in December 2003, Auckland's first dedicated convention centre will provide banquet capacity for 2,000 and plenary space for 1,500. Auckland will at last be able to provide world-class options to this market and, with the associated gaming expansion, Sky City Auckland will have again renewed itself and enhanced the platform for continuing growth.

Sky City Adelaide

2001/02 was an important year for the Group in relation to its Adelaide property. We had made a considerable investment in the purchase of the Adelaide business and its rebranding and much needed reinvigoration. The challenge for the 2001/02 financial year was to deliver results that substantiated this investment, from both a brand and financial perspective.

The business we now operate in South Australia is vastly different from that which we purchased just over two years ago. In the last year developments included:

- A significant upgrading of the gaming machine product;
- The opening of the West End Grandstand sports bar; and

- Utilising the Marble Hall to provide concert, cabaret and nightclub facilities that attract on average 1,000 people every week.

These initiatives, along with previous rebranding and refurbishment efforts, have turned Sky City Adelaide into South Australia's most visited and high-profile entertainment destination. This is a significant achievement, particularly when compared to the run-down state of the business which we acquired in June 2000.

In the Sky City 2002 Interim Report we recorded a healthy increase in revenue and identified bringing cost structures into line with revenues as the key priority for the second half of the year. The full year results illustrate that we have been successful in maintaining and growing visitation and revenue, and have achieved our cost objectives. For the full year we have achieved revenue growth of 15% and have increased EBITDA by 26%.

While much has been achieved at Sky City Adelaide, it is very much a beginning, not an end. The advances that have been made will enable us to realise and grow the value-enhancing qualities of our Adelaide business and reinforce the Australasian nature of our brand. In the 2002/03 financial year our expectations are that Sky City Adelaide's significance as an entertainment destination will be further increased, visitation and spend will again be grown, and the efficiency with which revenue is turned into profit will be improved.

Sky City Leisure Limited (formerly Force Corporation Limited)

As a result of successfully meeting the challenges that have been confronted during the year, Sky City Leisure Limited has now been positioned to deliver on the long-term strategic benefits to the Group that are behind this investment.

During the year we worked to create a sustainable basis for the business as a result of the business's exposure to the extraordinary and largely unpredicted economic collapse in Argentina. This involved negotiating a difficult but ultimately favourable capital restructuring. In addition, a number of long-standing commercial disputes were resolved.

Sky City now holds 74.4% of Sky City Leisure Limited, on a fully diluted basis following the mandatory convertible note issue underwritten by Sky City in March 2002.

Our focus has now turned to Sky City Leisure's profitable businesses and their strategic importance to the Group. It is pleasing that, despite the structural issues, the business strengthened its performance. In New Zealand, cinema admissions increased by 18% and cinema revenues were up by 27%.

The focus for the current financial year will be on realising the strategic and operational synergies on which the investment rationale was based and maximising the opportunities created by the extension of the Sky City brand. The rebranding of Force Corporation to Sky City Leisure Limited, the Force Entertainment Centre to Sky City Metro, and subsidiary company Force Cinemas Limited to Sky City Cinemas Limited is aimed at driving increased value for the Group.

It is our intention to make the most of the strong upcoming movie product, increase the quality and quantity of marketing and promotional activity, and enhance the integration of these activities with those occurring at Sky City Auckland. Alongside efficient cost management we will explore and realise scale benefits that can be achieved through linkages with Sky City.

Canbet Limited

The past year saw Canbet Limited deliver improvements on all key performance indicators. Turnover was increased by 44% to A$410 million (in part driven by a 70% increase in bets placed) and an improvement in hold saw a profit of A$0.3 million recorded. While this level of profitability remains well below our long-term expectations, it represents a significant turnaround from the A$4 million loss recorded in the previous year.

In March 2002, Sky City increased its shareholding in Canbet Limited from 21.6% to 32.4%.

Our expectation for the 2002/03 year is that Canbet will deliver further increases in revenue, improved performance in relation to hold and, as a result, profitability growth. An important focus for the business during the current year will be the implementation of its United Kingdom strategy that will see operations commence in that country in the second half of the financial year.

While a good deal more progress needs to be made at Canbet, we are confident that a base has been established from which strong and sustainable performance and growth can be achieved.

Sky Alpine Queenstown

During 2001/02 we have worked to improve the financial performance of our Queenstown business. While we have seen a growth in revenue, at $5.2 million it remains below our pre-licence expectations. The key objective identified for the year was a reduction in the cost base of the business to more appropriately reflect its revenue-generating performance and potential. To achieve this objective the business was restructured and table game operating hours were reduced.

The objective for the 2002/03 financial year is to achieve breakeven at an EBIT level, and our long-term objective remains to achieve a net surplus after tax. Again it is our view that the progress made during

2001/02 provides a sound base from which this objective can eventually be achieved.

In considering the performance of Sky Alpine it is important that this is kept in context. The property is, and will remain, an important component of the Sky City Entertainment Group brand and overall product mix. As a result of its size, however, the financial performance of this business is not directly material to the financial performance of the Group.

Sky Riverside Hamilton

Sky Riverside Hamilton was officially opened on 19 September this year and began trading the following day. This is a significant milestone for the Sky City Group as it represents the culmination of more than four years of work (since the original licence application).

The focus for the remainder of the financial year at Sky Riverside will be to ensure that the initial phase of operations is successful and that the structures we have in place are both appropriate and optimal. As is the case with all Sky City properties, we will also focus on ensuring that Sky Riverside's positive involvement in the community grows both quickly and in a meaningful way.

Regulatory Developments

Given the nature of our business, regulatory developments continue to be an area of significance, and one that involves potential risks.

Our approach to managing these risks remains to ensure that we have quality relationships at all levels of government. Over the past year, we have continued to work hard to develop and maintain these relationships, which assist us to understand the objectives behind government policy proposals and processes. This, in turn, enables us to involve ourselves in those processes, and contribute to outcomes being achieved that meet government objectives without having a negative impact on the business environment in which we operate.

Customers, Products, People

The Chairman's Report identified the three key strategic drivers of Sky City as customers, products, and people. This strategic framework provides an indication of how we think about our business and the basic philosophy that we apply to developing and implementing business plans and strategies.

To understand our business and how it is managed, it is necessary to understand our thinking in each of these areas. Each and every day customers and potential customers demonstrate their preferences through the behaviours they exhibit. We apply a great deal of time and resource to ensuring that we are accurately tuned in to our customers in order to make certain we provide experiences they want. This has been an important component of our success.

Exceeding customers' expectations requires innovation and quality in product development. Our focus will continue to be the generation of revenue growth by providing new experiences that are aimed at driving customer visitation.

And finally, our people. Sky City's people are the group who, through the outcome of their collective endeavours, deliver the experiences to our customers. Our challenge as a business is to ensure we have staff who are best placed to deliver what our customers want. This requires excellence across a wide range of disciplines including recruitment, training and development, communication, and remuneration. In our view, success can be judged by our ability to deliver compelling experiences to customers in a way that they find fun and entertaining, ensuring that they come more often and stay longer.

A Bright Future

The work we have undertaken during the year to consolidate Sky City's operational expansion, continuing our record of strong financial growth, and establishing the framework for even stronger years to come is a credit to all those involved. My board colleagues and I are well aware of the contribution of all Sky City employees in achieving our objectives and this result. I would like to thank all of Sky City's people on behalf of the board and shareholders.

As a result of our efforts over the past six years, we have become a materially significant component of the New Zealand business and economic environment. We are now an NZSE top ten company and one of the largest remaining New Zealand-owned and operated listed companies. With the business strategies that we have in place the extent of this importance will only increase. This is an achievement of which we and all of our stakeholders can be proud.

Evan Davies
Managing Director


OUR CUSTOMER

'02 '03 '04

We're planning and creating tomorrow's entertainment today.

tomorrow

The 2002/03 gaming year will be highlighted by two exciting events – the commencement of Sky City Auckland's main gaming floor expansion project and the opening of Sky Riverside Hamilton.

Sky City Auckland's expansion project will see the conference centre on Level 3 transformed into an upper floor of Sky City Casino. Linked by internal escalators from within the existing main gaming floor area, the new location will add a further 12 gaming tables and 230 gaming machines, together with bar and entertainment facilities.

Driven by customer demand and our commitment to continually enhance the customer experience, the new facility will offer a broad range of entertainment options in gaming and live performance. The new facility is scheduled for completion in December 2003.

Sky Riverside Hamilton became a reality when it opened in September 2002, bringing to a close a four-year process to establish the facility. The launch of Sky Riverside heralds the beginning of a new entertainment era for Hamilton, which is now home to a stunning gaming and entertainment complex.

Sky City Auckland: FY02 Gaming +10%

Revenue Growth

Tables	▲ 13%
Gaming Machines	▲ 8%

Sky City Adelaide: FY02 Gaming +14%

Revenue Growth

Tables	▲ 14%
Gaming Machines	▲ 16%

today

Creating tomorrow's gaming entertainment product requires a thorough knowledge of our gaming customers and their changing needs, expectations and preferences.

Sky City regularly conducts research of customers and the general public. This research provides valuable market analysis and by utilising a range of research tools, including population studies, market monitors and customer segmentation, we can provide the gaming experiences our customers want, tailor promotions and the Action loyalty programme to encourage visitation, and develop marketing strategies to attract new customers.

Sky City Auckland's main gaming floor expansion project is a direct result of customer demand. The new gaming area, which will be designed to meet the needs and expectations of customers and potential customers, will help to ensure continuing access to favourite gaming products.

Across the Sky City Group, gaming machines have been updated and new games installed based on the preferences of customers, and table game layouts and the games offered have been refreshed during the year to meet customer demand.

The Action programme's policy to tailor its promotions and rewards based on market feedback has resulted in increased Action membership and visitation at Sky City properties, led by a 44% increase at Sky City Adelaide. Action has now been introduced to Sky City Metro.

OUR CUSTOMER

'02 '03 '04

tomorrow

Sky City's vision to provide fun and entertainment has been a key element of our success.

Catering to a broad spectrum of the population has enabled us to provide new revenue streams, attract a customer mix that is representative of the communities within which we operate, and provide an entertainment destination the majority of the community can enjoy.

Through targeted and regular research programmes we will continue to develop detailed profiles of our customers. This research enables us to identify target markets and implement strategies to retain entertainment seekers and attract new customers. Research also assists us to continue developing the products and experiences these customers are looking for.

We know that variety is a motivating factor for this entertainment-seeking customer base and our aim is to address that motivation and encourage repeat visits by providing a range of live entertainment and stage performance, continually refreshed and stimulating surroundings, and constantly varying cuisine and beverage options.

Going forward, Sky City will continue to meet the demands of this customer group by targeting outstanding entertainers and stage productions, and by refurbishing Sky Tower's Orbit restaurant and Sky Lounge, and The Grill restaurant at Sky City Adelaide. We will also review and update restaurant menus and beverage offerings, and integrate Sky City Leisure and Sky City Metro promotions with Sky City Auckland and Sky Tower activities.

The opening of Sky Riverside's The Post restaurant and Number Eight bar in September this year is the first of the 2002/03 year's new product offerings for this customer base.

today

Entertainment seekers at all Sky City properties have enjoyed a range of live performance, dining, bar and theatre options during the 2001/02 year.

Ever-changing choices of musicians and entertainers, exciting entertainment venues, new restaurant and bar options, and quality theatre performances have attracted thousands of customers to Sky City properties.

Entertainment highlights of the year include:

- Sky City Theatre is now a key film premiere venue, staging the premieres of Spiderman, Men In Black II, and Austin Powers In Goldmember. These premieres have resulted from joint promotional opportunities with Sky City Leisure.
- Sky City Adelaide launched a new concept in live entertainment when it transformed its Marble Hall entry area into Under The Dome, Adelaide's newest live performance venue attracting on average an additional 1,000 people each weekend. Australian performing icons James Reyne, Daryl Braithwaite and Jimmy Barnes are among Under The Dome's list of entertainers.
- Sky Alpine introduced popular comedy nights to complement its active live entertainment programme.

Highlights of Sky City's food and beverage year were:

- The opening of The Observatory premier buffet restaurant in Sky Tower in April 2002 has attracted a new dining market to Sky City.
- Sky City Auckland's Fortuna Buffet Restaurant has undergone a complete refurbishment, increasing capacity to 420 seats.
- Sky City Adelaide opened The West End Grandstand, a themed sports bar on level one of the complex that has this year been home to Channel Ten's 'Simply Footy' AFL football show.
- Sky Alpine Queenstown's Wild Thyme restaurant continues to enhance its growing reputation for stylish local cuisine.

OUR CUSTOMER

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Vertigo mast climber, Sky Tower

tomorrow

The tourist market represents a significant customer base for Sky City in New Zealand and South Australia.

Tourism is one of New Zealand's largest earners of foreign exchange, accounting for 9% of GDP and contributing 16% of New Zealand's export earnings. In the year ended April 2002, international visitors to New Zealand numbered 1.946 million, an increase of 5% over the previous year. Spending has increased to $5.7 billion annually and is expected to reach almost $10 billion by 2008.

In South Australia, more than A$3 billion of expenditure is generated by domestic and international tourism. For the year ended June 2002, 8% of Australia's international tourist arrivals visited South Australia, with interstate visitors numbering more than 1.8 million.

Our record as a successful tourism operation is strong. Sky City Auckland was the 2001 Tourism New Zealand Supreme Award winner; Sky Tower attracts 53% of all international visitors to New Zealand to be the most visited paid attraction in New Zealand; Sky City Adelaide is a previous winner of three consecutive South Australian Tourism Awards for premier tourist attraction; and Sky Alpine Queenstown is a key night-time entertainment venue in New Zealand's premier tourist destination.

today

Sky Jump and Vertigo are Sky Tower's new adventure tourism offerings and are attracting a new market to Sky City Auckland. Adventure seekers from Auckland and throughout New Zealand and the world have visited Sky Tower since its latest attractions were launched in early 2002.

Aimed at enticing more visitors to Auckland and Sky City, Sky Jump and Vertigo are proving to be among the city's most popular adventure activities and are enhancing New Zealand's reputation as the adventure capital of the world.

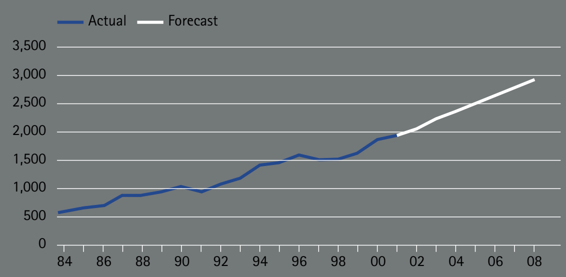
Sky Jump and Vertigo have provided significant international media profiles for Sky City, Auckland and New Zealand, and will attract further exposure during the forthcoming Louis Vuitton and America's Cup events.

Raising the profiles of New Zealand and South Australia is a priority for Sky City's sales department. Sky City has marketed Auckland and New Zealand internationally since 1996 and now has one of the country's largest sales teams. With a programme that has expanded to include Queenstown, Hamilton and Adelaide, the Sky City sales team is directly promoting each destination to key international markets including the United States, Europe, Asia and Australia, and to emerging markets throughout the world.

Latest figures show increased visitor arrivals for both New Zealand and South Australia and forecasts indicate that tourism will continue its strong growth.

Forecast of Total Visitor Days – New Zealand

Number of Total Arrivals ('000)

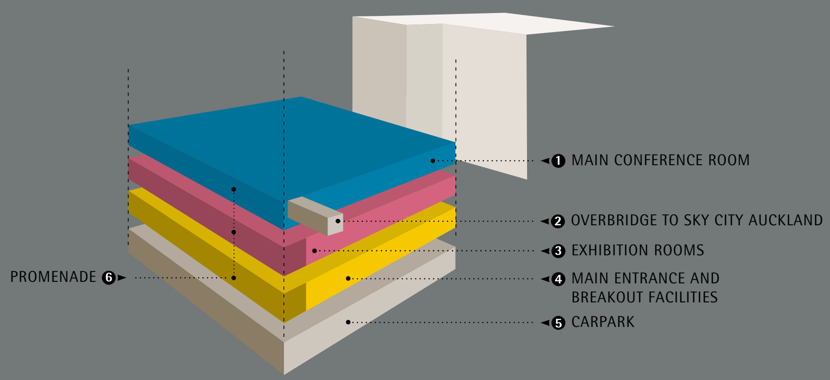


Source: Tourism Research Council

South Australia Tourism Trends:

- South Australia receives approximately 6 million visitors per year.
- International visitors for the year to June 2000 grew by 12%.
- Visitor nights for South Australia totalled 24 million.
- Interstate visitors contributed 8.3 million visitor nights.

OUR CUSTOMER



'02

'03

tomorrow

The opening of the Sky City Auckland Convention Centre in December 2003 will initiate the arrival of significant numbers of new customers to Sky City Auckland.

The convention centre, which is currently under construction at a site immediately opposite Sky City Auckland, will host conventions of up to 1,500 from throughout New Zealand and Australia. It will be Auckland city's largest convention facility and provide the impetus for Auckland's tourism industry to target the 500-1,500 capacity convention market.

Comprising nine levels with two massive banquet and exhibition spaces, the Convention Centre will be linked by an overbridge to Sky City Auckland, allowing convention delegates immediate access to gaming, restaurants and bars, Sky City Hotel, Sky City Theatre, and Sky Tower products.

Economic benefits created by the Convention Centre are expected to be significant with research indicating that Auckland city will host an additional 141,000 convention delegate days within the first five years, generating an associated increase in international and domestic expenditure of $53.2 million.

today

Sky City Hotel is acknowledged as Auckland's best performing hotel, having achieved the city's highest occupancy rate during 2001/02 for the third consecutive year.

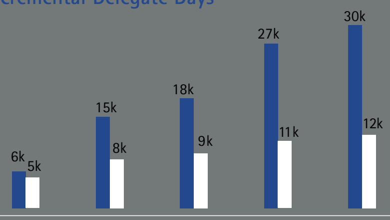
The hotel is a priority product for Sky City's sales team, which largely focuses on promoting the hotel and its conference centre nationwide and internationally. The hotel's clientele comprises both domestic and international tourists and corporate clients attracted to Sky City Auckland's extensive range of entertainment options.

Acknowledgement of the hotel's popularity, and consistent with Sky City's policy to continually refresh its products, a staged refurbishment programme was commenced during the year. Stage one of the refurbishment has been completed with 102 of the hotel's 344 rooms receiving a complete soft refurbishment. Stage two will be completed during the current financial year, with the third and final stage scheduled for the 2003/04 year.

Sky City Hotel and its conference centre are an important component of the Sky City Auckland product mix. As one of the country's largest hotels, Sky City Hotel has enabled the business to target a broad range of customer markets from family holidaymakers to international tourists to corporate clients. Each of these markets remains loyal to Sky City Hotel, which will continue to make an important contribution to company revenues.

Sky City Convention Centre Forecasts

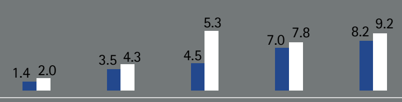
Incremental Delegate Days



11,000 Year 1	23,000 Year 2	27,000 Year 3	38,000 Year 4	42,000 Year 5	141,000 Total
Incremental Growth in Delegate/Guest days				Conference/Convention	96,000
				Banquet	45,000

Source: Sky City Forecasts

Incremental Expenditure – Auckland City



3.4 Year 1	7.8 Year 2	9.8 Year 3	14.8 Year 4	17.4 Year 5	53.2 Total
Additional Expenditure – Auckland City ($ million)				International	24.5
				Non-Auckland Domestic	28.6

Source: Sky City Expenditure Analysis

OUR PEOPLE

tomorrow

Our vision is achieved through motivating and valuing our people.

Creating fun, memorable customer experiences is the responsibility of all Sky City staff, whether they are carpark attendants, cleaners, marketing executives, waiters, dealers, or accountants. As a company, it is our responsibility to create the kind of workplace and culture that fosters enthusiasm, personal achievement, accountability, leadership and exceptional performance.

Being in the business of providing entertainment experiences means that a healthy internal culture has a direct correlation with the company's bottom line performance. We are constantly reviewing staff programmes and have commenced a series of employee surveys aimed at redefining our internal brand to reflect our evolution from a single site operation to a multi-site, multi-jurisdiction business.

Results of the surveys will be utilised to support the development of a brand that builds on our aims to increase staff satisfaction levels, attract and retain high-quality staff, reinforce our team orientation and people focus, and maintain our position as a best practice employer and a great place to work.

today

Incentive reward programmes introduced to Sky City have created a culture of shared team and individual performance.

The Performance Pay Incentive (PPI) bonus scheme rewards salaried staff with company shares and cash based on individual performance and achievement of company targets. Initially a three-year programme introduced in 1999, PPI has been extended in 2002 for a second term.

The Customer Experience Incentive (CEI) scheme for waged staff, which is a unique reward programme for the hospitality industry, provides cash bonuses to staff when customer service targets are met.

By offering incentive programmes, we are able to encourage exceptional performance, team culture, and leadership. Retaining staff is a key priority for the company, and PPI and CEI, together with an extensive range of employee benefits, fair employment conditions, and opportunities for professional development, ensure exceptional people are working at Sky City.

The Sky City 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.

'02

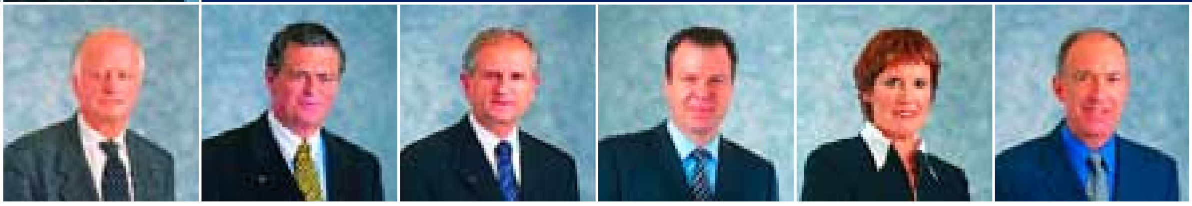
Waari Ward-Holmes, a founder director of the company, retired at the 2001 Annual Meeting. Waari's fellow founder director, Sir Peter Elworthy, will retire at the 2002 Annual Meeting and is not seeking re-election.

Matters entered in the company's Interests Register are set out at pages 67-69 of this Annual Report.

During the 2001/02 year, the board formally met on 11 occasions, the board's Audit and Risk Committee met on four occasions, and the Governance and Risk Committee also met on four occasions. In addition, directors met informally on a number of occasions to consider specific issues.

The number of board meetings attended by the directors during the year (including strategic planning meetings), with the number of meetings held while each director was in office shown in brackets, were: J.P. Hartley 11 (11), E.W. Davies 11 (11), P.H. Elworthy 9 (11), P.L. Reddy 11 (11). E. Toime 10 (11), W.R. Trotter 11 (11), W.G. Ward-Holmes 5 (5), B.M. Wickham 11 (11).

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



Jon Hartley, ***Chairman***

Jon Hartley was appointed a director and chairman of Sky City Entertainment Group Limited in February 1996 and is a member of the Sky City Audit and Risk, and the Governance and Remuneration Committees. Mr Hartley is deputy chairperson of Infinity Group Limited, chairman of Vertex Group Holdings Limited, and a director of The Great New Zealand Business Venture Limited.

Evan Davies, ***Managing Director***

Evan Davies has been managing director of Sky City Entertainment Group Limited since February 1996. Mr Davies is an executive director of the board and is also a director of Sky City 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 has been a Sky City director since 1994. She is deputy chairperson of Sky City Entertainment Group Limited 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 and of Infinity Group Limited. She is a trustee of the Sky City Community Trust and of the New Zealand International Festival of the Arts Trust.

Sir Peter Elworthy

Sir Peter Elworthy has served as a Sky City director since 1992 and is a member of Sky City's Governance and Remuneration Committee. Sir Peter is also a director of a number of private companies and chairman of the Biological Organic Trust of Lincoln University. Sir Peter is a trustee of the New Zealand Institute of Economic Research, the Lincoln University Foundation and the Enterprise New Zealand Trust. Sir Peter will retire from the Sky City board at the 2002 Annual Meeting.

Rod McGeoch

Rod McGeoch was appointed a director in September 2002. Mr McGeoch is the national chairman and a partner of Corrs Chambers Westgarth, solicitors, of Sydney. Mr McGeoch is a director of Telecom Corporation of New Zealand, deputy chairman of Australian Pacific Airports Corporation Limited, chairman of Australian Growth Properties Limited, a director of Ramsey Health Care Limited and Sporting Frontiers Limited and a trustee of the Sydney Cricket and Sports Ground Trust. Mr McGeoch was chief executive officer of Sydney Olympics 2000 Bid Limited (until July 1995) and a director of the Sydney Organising Committee for the Olympic Games until November 1998.

Elmar Toime

Elmar Toime was appointed to the Sky City board in February 1996 and was appointed chairman of the Audit and Risk Committee following the retirement of Waari Ward-Holmes in October 2001. Mr Toime is chief executive officer of New Zealand Post Limited, a director of NRMA Insurance NZ Limited and Datacom Group Limited, and is a member of the State Sector Standards Board.

Bill Trotter

Bill Trotter was appointed to the Sky City board in March 2000 and is a member of Sky City's Governance and Remuneration Committee. Mr Trotter is a director of First NZ Capital Group Limited and is a director of the New Zealand Stock Exchange.

Bridget Wickham

Bridget Wickham has been a Sky City director since March 2000 and is a member of the Sky City Audit and Risk Committee. Ms Wickham is chief executive of University of Auckland Development, and is a director of Fisher and Paykel Appliances Holding Limited, Industry New Zealand, Uniservices Limited and Competitive Auckland Limited.

Alistair Ryan, ***Company Secretary***

Alistair Ryan has been Sky City Entertainment Group Limited's company secretary since 1995 and is General Manager Corporate for the Sky City Group.

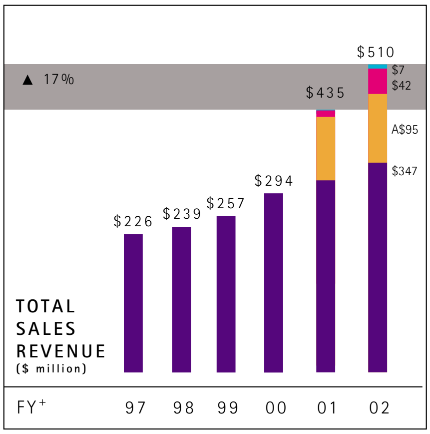
FINANCIAL AND OPERATING REPORT

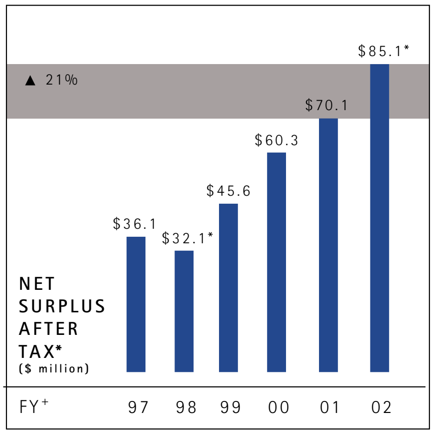
'02

ENTERTAINMENT. TOMORROW

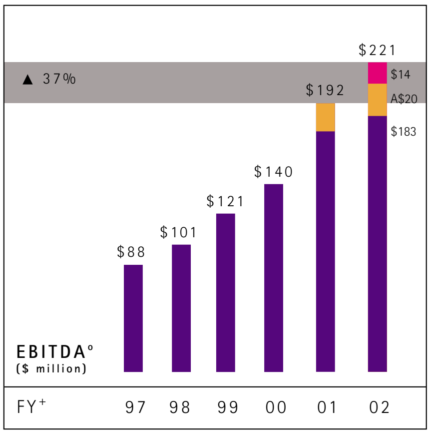
'02

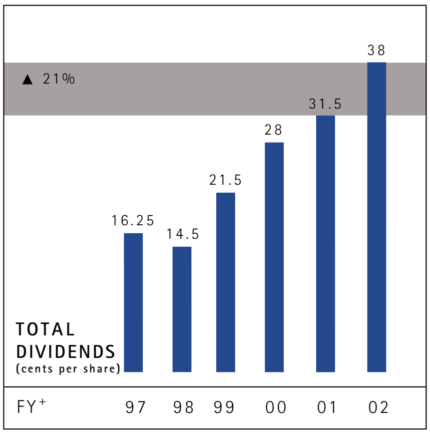
CONSOLIDATED FINANCIAL RESULT





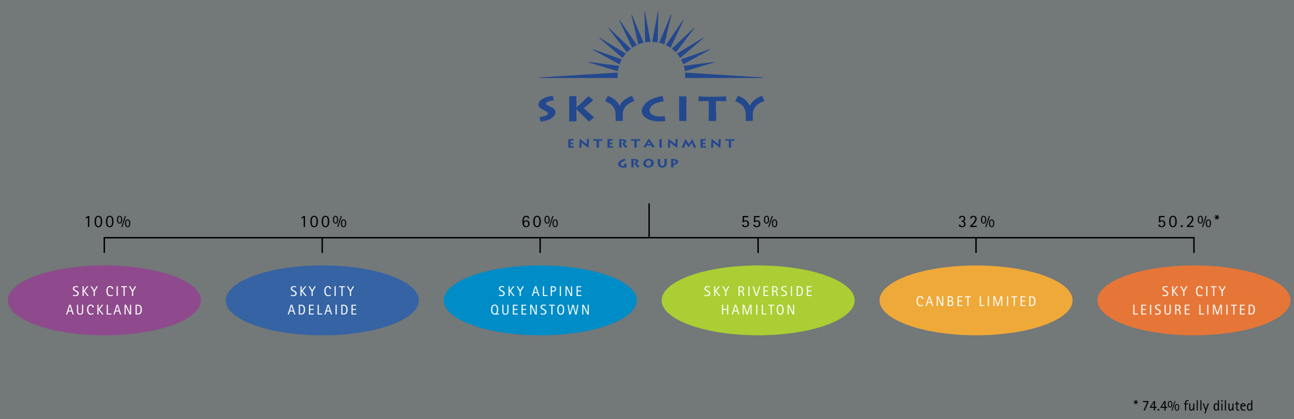
* before non-recurring items





° *earnings before interest, tax, depreciation and amortisation*
+ *FY – denotes financial year*

Sky City Entertainment Group · Sky City Auckland · Sky City Adelaide · Sky City Leisure · Sky Alpine Queenstown



The $85.1 million net surplus (before non-recurring item, being the Force write-off of $27.9 million) represents a 21% increase over the previous financial year and the fifth successive year of increased earnings for the company. Earnings per share (before non-recurring item) were 41.5 cents per share, a 16% increase over the 35.7 cents achieved in the prior year.

The non-recurring item of $27.9 million represents the full write-off of Force Corporation's investment in Village Cinemas SA (Argentina). The Force/Argentina write-off in the Sky City consolidated financial statements is shown as $39.2 million. This is made up of Force's write-off of its investment in Village Cinemas SA ($12.2 million), Force's write-off of its cash advance to Village Cinemas SA used to repay debt in March 2002 ($10.3 million) and Sky City's write-off of its goodwill on acquisition of Force ($16.7 million). At 50.2% ownership, Sky City's write-off, after excluding minority interests, was $27.9 million, being 50.2% of $12.2 million plus $10.3 million, and the goodwill write-off of $16.7 million.

Whilst the full write-off to comply with the requirements of GAAP accounting has been taken to the financial statements for the FY02 year, and, as a consequence, the equity value of the Force investment in Sky City's financial statements has been written down to zero, there has since been significant value recovery, on a mark to market basis, with respect to both the shares and the mandatory convertible notes. This value recovery has not been included in the financial statements of either Force Corporation or Sky City Entertainment Group Limited.

After the non-recurring item, being the Force write-off, the net surplus of the Group reduced to $57.2 million.

A final dividend for the 2001/02 financial year of 22.5 cents per share will be paid on 4 October 2002 to those shareholders on the Sky City register as at 5:00pm on 20 September 2002.

The total dividend for the 2001/02 year of 38 cents per share represents a 21% increase over last year's dividend of 31.5 cents per share (expressed on a post November 16 share split basis). The dividend for 2002 has been calculated at 90% of tax-paid earnings before non-recurring items, as has been the case in previous years. As for previous dividends, the FY02 final dividend is fully imputed.

Total 2001/02 sales revenues increased by 17% to $510 million, reflecting the inclusion of Sky City Leisure Limited (formerly Force Corporation Limited) revenues for a full year and increased sales revenues at all properties – Auckland, Adelaide, and Queenstown. Sky City Leisure's sales revenues were also well ahead of the previous year, with cinema revenues up by 27%.

Sky City Auckland increased revenues by 9% to $347 million, accounting for just under 70% of total group revenues. Sky City Adelaide contributed A$95 million ($114 million), a 15% increase over its prior year. Sky City Leisure's revenues were $42 million and Sky Alpine Queenstown and the Queenstown Hard Rock Café reported revenues of $7 million.

Group earnings before rent, interest, tax, depreciation, and amortisation (and before non-recurring items) increased by 15% from $192 million to $221 million.

Sky City Auckland's EBITDA increased by 6% from $172 million to $183 million with the EBITDA ratio to revenues being maintained at well above 50%, maintaining the company's leading EBITDA performance among gaming and entertainment operators in Australasia.

Sky City Adelaide lifted its EBITDA ratio from 19% to 21% and this ratio is expected to increase progressively over future trading periods. Sky City Adelaide reported a significantly improved second half performance with its EBITDA ratio in the second six months of the financial year at 24%.

Sky Alpine Queenstown reported a breakeven EBITDA result for the year and the objective is to bring the breakeven result through to the EBIT line for the FY03 financial year.

Sky City Leisure reported an EBITDA result of $10 million, well ahead of its breakeven EBITDA in FY02.

SKY CITY AUCKLAND

Strong revenue growth across all sectors of the Auckland operation – gaming, food and beverage, hotel, Sky Tower and carparking – combined with cost containment, led to increased gross income performance, up by more than 10% on the previous financial year.

Gaming

As was the case last year, the Auckland gaming result reflects significant growth in both table games and gaming machine revenues of 13% and 6% respectively.

During the 2001/02 year, 56 new gaming machines were introduced, 260 existing machines were replaced by new machines, and 190 machines were modified to incorporate new games and new features.

More than 1,300 jackpots of more than $10,000, and more than 150 cars were won by customers during 2001/02 on the Sky City gaming floors. Productivity measures introduced included continuous shuffling machines and a redesign of table game layouts to improve labour cost performance.

The gaming floor expansion, which will introduce 230 new gaming machines, 12 new gaming tables and bar and entertainment facilities, is currently scheduled to open in December next year. The new facility will add significantly to the Sky City Auckland gaming experience for our customers and will provide an increase in gaming capacity of 15%.

Food and Beverage

Food and beverage revenues increased by 9% to just under $28 million, with gross margin at just under 20%. The very successful Sky City Auckland food and beverage operations served over one million restaurant meals during the 2001/02 year and two new outlets were added. The very popular Noodle Bar was introduced for main gaming floor customers and a new restaurant, the 120-seat Observatory on Sky Tower, was opened during the year. Sky City Catering is anticipating a strong year in 2002/03 with many hospitality functions scheduled in conjunction with the Louis Vuitton and America's Cup yachting regattas.

Sky City Hotel and Conference

Sky City Hotel was the best performing hotel in Auckland for the third year in succession, achieving very strong support from domestic and international, and traveller and business sectors, which resulted in an 88% occupancy (up from 83% in 2001/02) being achieved for the year. As a consequence of this excellent occupancy level, hotel and conference revenues were up significantly by 9% to just under $19 million.

Sky City Hotel is part-way through a three-phase refurbishment programme at a total cost of $3.5 million. Stage one has been completed and stage two will commence shortly, with the third and final stage scheduled for the 2003/04 year. The high occupancy rates being achieved by Sky City Hotel are not expected to be impacted because the refurbishment programme has been carefully planned to undertake the work on a continuous basis in six-room instalments.

The new Sky City Auckland Convention Centre project has commenced, with construction scheduled for completion in December 2003. Once completed, Auckland and Sky City Auckland will have the ability to attract the larger conferences, exhibitions and banquets which the city has not been able to accommodate in the past. The total capital cost of the project will be $60 million, spread over the next two financial years. Sky City's existing funding facilities are well able to meet the capital expenditure requirements of this project.

Sky Tower

Sky Tower celebrated its fifth birthday in August this year and, despite being five years old, is still attracting more visitors each year. Sky Tower visitation in 2001/02 was up 7% on the prior year with over half a million tower visitors and almost a quarter of a million tower restaurant diners to Orbit and The Observatory during the 12 months ended 30 June. As a consequence of increased visitor numbers, Sky Tower revenues were up 6% to just over $7 million.

The new attractions of Sky Jump and Vertigo (the mast climb) have added to the level of local and visitor interest which Sky Tower inevitably generates within Auckland.

Other Revenues

Carparking revenues increased by 3% to more than $9 million, despite the number of available carparks being temporarily reduced by the demolition of the Federal Street carpark to make way for the Convention Centre development on that site.

More than 120,000 patrons enjoyed another year of musicals, comedies, drama and other theatre events during the 2001/02 year. The Auckland International Film Festival was held at Sky City Theatre for the third successful year and Sky City Leisure hosted a number of film premieres at Sky City Theatre including Spiderman, Men in Black II and Austin Powers In Goldmember.

Despite the significant success of the Action loyalty programme driving visitation at all properties, Group complimentaries were held at 2.3% of total revenues, up only marginally on last year's 2.2%.

SKY CITY ADELAIDE

The Sky City Adelaide property was extensively refurbished during the period from acquistion in late June 2000 to the relaunch of the property as Sky City Adelaide in April 2001. The year ended 30 June 2002 is therefore the first full year of trading as the renewed Adelaide facility. The initial refurbishment capital expenditure during the 2000/01 year of A$12 million was the first stage of redevelopment and renewal of the Adelaide facility, with A$8 million for further refurbishment work and new equipment committed during the 2001/02 year.

During 2001/02, 170 new gaming machines were introduced and 140 existing gaming machines were converted to new formats. The new gaming machine product, introduced since acquisition in June 2000, means that Sky City Adelaide's gaming machines are the market-leading offering in South Australia and are fully competitive with the machine offerings elsewhere in Australia.

The introduction of new products, new facilities, a range of entertainment offerings and the Sky City Action loyalty card at Sky City Adelaide has led to increased visitation and spend per customer with overall revenues up by 15% over the previous 12 month period.

Sky City Adelaide's revenues have grown significantly since Sky City acquired the business from the State Government of South Australia just over two years ago, and the growth achieved to date is expected to be continued into the future.

Sky City Adelaide's 2001/02 revenues of A$95 million represent 22% of the Sky City Group total. The Adelaide operation has gone through a period of consolidation and renewal during the last two years and now, going forward, can be expected to be an increasingly important contributor to overall Sky City group performance.

Financial performance was significantly stronger in the second half of the 2001/02 financial year than for the first half. This was a consequence of a range of cost reduction initiatives starting to show through to the bottom line and of effective cost management and containment as revenues continued to increase. Also, the necessary restructuring and repositioning expenditures that inevitably follow an acquisition of a business operation such as the Adelaide Casino were largely completed by the half year point.

In this context, it is useful to note that second half EBITDA was A$11.4 million compared to A$8.3 million in the first half, and this flowed through to the EBIT line at A$6.5 million for the second half compared to A$3.8m million in the first six months of the year. This period on period financial improvement is expected to continue into the 2002/03 financial year and beyond.

Gaming

Gaming revenues, which represent 88% of the Sky City Adelaide total, were up 14% in 2001/02 over the previous year, at A$84 million.

This growth in gaming revenues was consistent, with table games revenues up 14% and gaming machine revenues up 16%. The split between visitation and spend per customer was also consistent, with visitation up 8% and spend up by 6%.

Introduction of the Action loyalty programme to Sky City Adelaide has been a significant contributor to the increase in revenues, with more than 50,000 Action loyalty members in Adelaide.

The Grange Room premium table play facility has been an important contributor to overall table games performance in Adelaide, with local and interstate membership of this prestigious and sophisticated facility at more than 600.

Food and Beverage

Sky City Adelaide's bars and restaurants contributed revenues of A$12.5 million during 2001/02, up 13% on the prior year. Gross margin performance to date reflects the scale of the food and beverage operations in Adelaide and focus will continue on opportunities for lifting the gross margin ratio above the current 15% level.

It is clear that the large number of entertainment seekers who have been drawn to the property as a result of the facilities and performances now on offer have had a significant impact on the overall revenue performance of both the gaming and food and beverage business units at Sky City Adelaide.

SKY ALPINE QUEENSTOWN

(60% owned, Sky City as operator)

In its first full year of operations (Sky Alpine Queenstown opened in December 2000), the management team at Sky Alpine have worked hard to align costs with lower than expected revenues. The boutique size of Sky City's Queenstown operation and the existence of a direct casino competitor in this tourist town makes the management of costs in line with revenues a difficult challenge. Sky Alpine achieved a breakeven at the EBITDA line and is targeted to achieve breakeven at the EBIT line in the 2002/03 year, with the objective being to achieve a net surplus in FY04.

As in Adelaide, Sky Alpine achieved a significantly improved financial performance in the second half of the 2001/02 year and, if the business can sustain this trend into the 2002/03 year, then the financial breakeven target as referred to above will be a realistic and achievable objective.

SKY RIVERSIDE HAMILTON

(55% owned, Sky City as operator)

The new 20 tables and 300 gaming machines Sky Riverside facility in Hamilton opened on 19 September this year and commenced trading operations the following day.

Construction and fitout was completed on time and to budget and the initial reaction to the facility has been very favourable.

The experience of Sky City, as an operator of gaming and entertainment facilities in New Zealand and Australia, has meant that the Sky Riverside establishment phase and the initial phase of operations have both gone according to plan.

The Sky Riverside team is an excellent blend of experienced Sky City personnel brought in from Auckland and Queenstown, and local Hamilton and Waikato people who have been trained to provide the high standard of customer service that Sky City customers have become accustomed to at the company's other properties.

SKY CITY LEISURE LIMITED

(formerly Force Corporation Limited)

Until early this calendar year, Force Corporation had a high level of financial risk exposure, by way of a bank guarantee of US$15 million, through its 25% shareholding in cinema and property owner Village Cinemas SA in Argentina. As the economic situation in Argentina worsened during the later months of calendar year 2001 and then collapsed completely in December/January, Sky City was faced with a difficult reinvestment question with respect to its shareholding in Force and its participation (or otherwise) in a necessary recapitalisation of the company. The future of Force Corporation was entirely dependent on the company being able to negotiate significantly improved terms with respect to the debt funding of Village Cinemas SA, and then on being able to raise additional capital from its shareholders. The renegotiation of the bank guarantee was achieved in early February, reducing the maximum contingent liability exposure for Force with respect to Argentina to US$4 million. Subsequent to the bank liability agreement, Force was then able to proceed with its mandatory convertible notes issue to raise $31 million of new capital. This issue, underwritten by Sky City, was completed on 1 March 2002.

Also achieved during the 2001/02 year, following acquisition of a majority shareholding by Sky City, was resolution of the long-standing ownership dispute over the Force Entertainment Centre in downtown Auckland, the successful sale of surplus property assets, closure of the loss-making IMAX cinema operation, and negotiation of leasing arrangements for new cinema facilities in Westfield shopping centres throughout the Auckland region.

The results reported for the 2001/02 financial year show the cinema exhibition business in New Zealand to be on a strong footing, and with good product scheduled, the outlook for the 2002/03 year looks promising. The cross-property synergies between Sky City Auckland and the Force Entertainment Centre (renamed Sky City Metro in September) have been initiated and are expected to bring forward significant benefits to both operations in the future.

Excluding IMAX, cinema revenues increased 27% on the prior year, at $30 million. EBITDA for the business, excluding non-recurring items relating to resolution of the Force Entertainment Centre dispute, write-offs relating to Argentina, and capital restructuring costs relating to the mandatory capital notes issue, was

$10.1 million, an improvement of $9.8 million on the prior year. EBIT of $6.3 million compared favourably to a loss of $2.6 million for the 2000/01 year.

Sky City Leisure Limited (formerly Force Corporation Limited) is carrying the Argentina investment in Village Cinemas SA at zero value on its statement of financial position at 30 June 2002.

CANBET LIMITED

Sky City increased its shareholding in ASX-listed company Canbet Limited, from 21.6% to 32.4%, in March 2002.

Canbet achieved a significant turnaround during its 2001/02 year, achieving a net surplus of A$304k for the 12 months to 30 June. This profit compares favourably to the past performance of Canbet, turning around last year's net loss of A$4 million.

This profit result was achieved through the application of strong corporate governance and risk management practices and procedures, from a 44% increase in turnover at a hold of better than 2%, and as a result of close attention to costs within the business. Prospects for further growth in 2002/03 look promising although Canbet directors are mindful that internet bookmaking is an inherently volatile business in which the earnings in a financial period are not able to be predicted with any certainty.

Canbet is looking at establishing operations in the United Kingdom during the second half of this financial year as a means of continuing its growth path.

The Canbet business model must return appropriate profits, or will need to be reviewed. Whilst the Canbet directors are pleased to report a profit for 2001/02, the profit achieved needs to be increased before Sky City will be in a position to confirm its longer-term intentions with respect to Canbet.

'02

LOOKING AHEAD

Sky City's priorities for the current financial year were advised to the market at the time of the 2001/02 result release in August. These priorities can be summarised as follows:

Sky City Auckland

- Continue revenue growth initiatives across all business units.
- Achieve cross-property customer synergies with Sky City Leisure and, in particular, with the Sky City Metro centre in downtown Auckland.
- Undertake the Convention Centre development so that the new facility is available for operation by December 2003 and the expanded gaming facilities are available as soon as possible thereafter.

Sky City Adelaide

- Grow visitation and spend per customer through effective marketing and promotions, introduction of new product offerings, and an enhanced entertainment experience for customers.
- Improve EBITDA and EBIT results through effective cost management.

Sky Alpine Queenstown

- Grow revenues through enhanced product offerings and effective marketing, and manage costs, whilst maintaining the quality of the Sky Alpine experience for local customers and visitors to Queenstown alike. Achieve a breakeven EBIT result.

Sky Riverside Hamilton

- Achieve a successful initial operating phase, then push forward to achieve profit targets for the first financial year.

Sky City Leisure Limited

- Consolidate cinema earnings and drive revenues from the strong range of film product scheduled to be available during the 2002/03 year.
- Achieve cross-property customer synergies with Sky City Auckland.

Canbet Limited

- Increase turnover and profitability.

Sky City Communities

- Increase participation in all communities in which Sky City operates its gaming and entertainment businesses.

CONTENTS

The board of directors of Sky City Entertainment Group Limited authorised these financial statements for issue on 23 August 2002.

J P Hartley, Chairman
23 August 2002

E W Davies, Managing Director
23 August 2002

PricewaterhouseCoopers
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AUDITORS' REPORT

to the shareholders of Sky City Entertainment Group Limited

We have audited the financial statements on pages 32 to 64. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2002 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 37 to 41.

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 2002 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 advisers and consultants.

PRICEWATERHOUSECOOPERS

AUDITORS' REPORT

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 32 to 64:

  (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 2002 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 August 2002 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Auckland

STATEMENTS OF FINANCIAL PERFORMANCE

for the year ended 30 June 2002

'02

		Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Revenue	2	512,956	442,414	99,106	43,265
Expenses	3	383,227	335,212	31,755	28,903
Operating Surplus Before Income Tax and Non-Recurring Expenses		129,729	107,202	67,351	14,362
Non-recurring expenses	3	39,152	–	–	–
Operating Surplus Before Income Tax		90,577	107,202	67,351	14,362
Income tax	4	(44,286)	(39,829)	–	–
Surplus After Income Tax		46,291	67,373	67,351	14,362
Minority interest in deficits of subsidiaries	8	10,518	1,832	–	–
Share of surpluses/(deficits) of associates	19	344	(897)	–	–
Net Surplus		57,153	68,308	67,351	14,362

The accompanying notes on pages 37 to 64 form part of and are to be read in conjunction with these financial statements.

STATEMENTS OF MOVEMENTS IN EQUITY

for the year ended 30 June 2002

'02

	Note	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Equity at the Beginning of the Year		232,075	157,394	191,367	172,847
Surplus and Revaluations					
Net surplus for the year, comprising:					
Parent shareholders' interest		57,153	68,308	67,351	14,362
Minority interest	8	(10,518)	(1,832)	–	–
		46,635	66,476	67,351	14,362
Foreign currency translation reserve movement	7	(5,107)	(223)	–	–
Minority interest in change in foreign currency translation reserve	8	(45)	(192)	–	–
Total Recognised Revenues and Expenses		41,483	66,061	67,351	14,362
Other Movements					
Distributions to owners	6	(67,150)	(27,715)	(67,150)	(27,715)
Exercise of share options	5	9,463	6,402	9,463	6,402
Movement in share option reserve	7	–	(399)	–	(399)
Movement in employee share entitlement reserve	7	949	1,539	949	1,539
Shares issued under dividend reinvestment plan	5	23,227	23,601	23,227	23,601
Employee share entitlements issued	5	1,579	730	1,579	730
Minority interest in contributions from owners	8	14,242	4,462	–	–
EQUITY AT THE END OF THE YEAR		255,868	232,075	226,786	191,367
Equity at Beginning of Year, comprising					
Parent shareholders' interest		230,433	158,190	191,367	172,847
Minority interest		1,642	(796)	–	–
		232,075	157,394	191,367	172,847
Equity at End of Year, comprising					
Parent shareholders' interest		250,547	230,433	226,786	191,367
Minority interest		5,321	1,642	–	–
		255,868	232,075	226,786	191,367

The accompanying notes on pages 37 to 64 form part of and are to be read in conjunction with these financial statements.

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2002

'02

	Note	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Equity					
Issued and paid-up capital	5	232,180	197,911	232,180	197,911
Reserves	7	(286)	3,872	5,044	4,095
Retained earnings	6	18,653	28,650	(10,438)	(10,639)
Parent Shareholders' Equity		250,547	230,433	226,786	191,367
Minority interests	8	5,321	1,642	–	–
TOTAL EQUITY		255,868	232,075	226,786	191,367
Current Assets					
Cash and bank		48,456	42,684	1	1
Receivables and prepayments	10	19,970	46,149	171,872	140,100
Inventories – finished goods		3,066	3,296	–	–
Properties intended for sale	11	–	66,550	–	–
Total Current Assets		71,492	158,679	171,873	140,101
Non-Current Assets					
Property, plant and equipment	12	596,037	524,022	152	181
Investments in subsidiaries	18	–	–	206,710	208,961
Investments in associates	19	10,051	8,414	–	–
Deferred expenditure – operator rights		2,250	2,250	–	–
Intangible assets	13	223,389	257,795	–	–
Total Non-Current Assets		831,727	792,481	206,862	209,142
TOTAL ASSETS		903,219	951,160	378,735	349,243
Current Liabilities					
Bank overdraft		372	1,081	–	–
Creditors and accruals	14	61,140	70,137	3,061	9,366
Short-term borrowings	15	1,000	88,572	–	–
Total Current Liabilities		62,512	159,790	3,061	9,366
Non-Current Liabilities					
Deferred tax	4	20,811	19,316	–	–
Capital notes	9	148,888	148,510	148,888	148,510
Convertible notes	9	9,315	9,315	–	–
Borrowings	15	405,825	382,154	–	–
Total Non-Current Liabilities		584,839	559,295	148,888	148,510
TOTAL LIABILITIES		647,351	719,085	151,949	157,876
TOTAL NET ASSETS		255,868	232,075	226,786	191,367

The accompanying notes on pages 37 to 64 form part of and are to be read in conjunction with these financial statements.

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2002

'02

	Note	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Cash Flows Related To Operating Activities					
Cash was provided from:					
Receipts from customers		514,913	443,026	76	27
Interest received		2,169	3,285	36	2,080
Dividends received		–	1	–	–
		517,082	446,312	112	2,107
Cash was applied to:					
Payments to suppliers and employees		267,702	217,986	15,708	12,951
Interest paid		45,575	40,793	14,140	12,049
Gaming taxes paid		32,202	30,244	–	–
Income taxes paid		48,124	33,006	44,639	34,530
Net GST paid/(received)		747	(1,964)	(40)	(70)
		394,350	320,065	74,447	59,460
Net Cash Flows from Operating Activities	21	122,732	126,247	(74,335)	(57,353)
Cash Flows Related To Investing Activities					
Cash was provided from:					
Sale of fixed assets		3,384	554	–	–
Sale of investments		21,878	–	–	–
		25,262	554	–	–
Cash was applied to:					
Funding facility and capital notes costs deferred		–	2,166	–	1,245
Purchase and construction of fixed assets		51,199	52,172	–	27
Purchase of subsidiaries		563	19,667	4,202	–
Purchase of investments		8,853	17,099	–	–
Payment for other intangibles		–	287	–	–
		60,615	91,391	4,202	1,272
Net Cash Flows from Investing Activities		(35,353)	(90,837)	(4,202)	(1,272)

The accompanying notes on pages 37 to 64 form part of and are to be read in conjunction with these financial statements.

'02

	Consolidated		Parent Company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Cash Flows Related To Financing Activities				
Cash was provided from:				
Proceeds of long-term debt	61,200	860	–	–
Exercise of share options	9,463	6,402	9,463	6,402
Advances from subsidiaries	–	–	155,979	93,890
Proceeds of capital notes	–	90,858	–	90,858
Advances from minority interests	7,203	3,338	–	–
Issue of shares in Queenstown Casinos Limited	880	–	–	–
Issue of mandatory convertible notes by Force Corporation Limited	7,196	–	–	–
Gains on foreign currency swaps hedging foreign operations	2,251	2,726	–	2,726
	88,193	104,184	165,442	193,876
Cash was applied to:				
Repayment of short-term debt	88,969	–	–	–
Repayment of long-term debt	21,095	94,990	–	–
Distributions to shareholders	43,923	34,894	43,923	34,894
Advances to subsidiaries and associates	14,103	6,276	42,982	109,723
	168,090	136,160	86,905	144,617
Net Cash Flows from Financing Activities	(79,897)	(31,976)	78,537	49,259
NET INCREASE/(DECREASE) IN CASH HELD	7,482	3,434	–	(9,366)
RECONCILIATION OF CASH				
Opening cash and bank	41,603	37,794	1	9,367
Net increase/(decrease) in cash held	7,482	3,434	–	(9,366)
Foreign currency translation adjustment	(1,001)	375	–	–
CLOSING CASH	48,084	41,603	1	1
COMPOSITION OF CASH				
Cash and bank	48,456	42,684	1	1
Bank overdraft	(372)	(1,081)	–	–
	48,084	41,603	1	1

The accompanying notes on pages 37 to 64 form part of and are to be read in conjunction with these financial statements.

'02

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements presented are for the reporting entity Sky City Entertainment Group Limited (the parent company) and the consolidated financial statements of the group comprising Sky City Entertainment Group Limited, its subsidiaries, associates and joint ventures. Sky City 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 Companies Act 1993 and the Financial Reporting Act 1993.

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.

(i) 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.

(ii) 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.

(iii) 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 casino patrons.

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

(iv) Income Tax

The company follows the liability method of accounting for deferred taxation. The taxation charge against the 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 taxation. 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.

'02

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(v) Property, Plant and Equipment

The cost of assets is the value of the consideration paid 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.

(vi) Depreciation

As construction is completed and property, plant and equipment is used in operations, depreciation is charged on a straight line basis so as to write off the cost of the assets to their estimated residual value over their expected useful lives. The estimated economic lives are as follows:

Buildings	5–75 years
Building fitout	10 years
Plant and equipment	2–75 years
Fixtures and fittings	3–20 years
Software	3–5 years
Vehicles	3 years

Gains and losses on disposals of property, plant and equipment are taken into account in determining the operating result for the year.

(vii) Properties Intended for Sale

Properties intended for sale are recognised at the lower of their net realisable value and cost.

(viii) 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.

(ix) Pre-Licence Expenditure

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

(x) Leased Assets

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

(xi) Investments

The parent company's investment in the shares of its subsidiaries are stated at cost.

(xii) 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 indicate its share of those for which it is jointly liable.

(xiii) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of net identifiable assets held by a subsidiary or associate at the time of acquisition of shares in that subsidiary or associate. 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 an impairment in value above normal amortisation has occurred.

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1. STATEMENT OF ACCOUNTING POLICIES (continued)

(xiv) 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 an impairment in value above normal amortisation has occurred.

(xv) Receivables

Receivables are stated 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.

(xvi) Inventories

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

(xvii) Foreign Currencies

Transactions

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rate at the date of the transactions, 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.

Translations

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 treated 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 transactions, 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.

(xviii) 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.

(xix) 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.

'02

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(xix) Financial Instruments (continued)

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, 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 25.

(xx) Statements of Cash Flows

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

- Operating Activities are those activities relating to the trading and management of the business and include all transactions and other events that are not Investing or Financing Activities. Cash receipts from customers are net of complimentaries.
- 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 which result in changes in the size and composition of the capital structure of the company. 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.

(xxi) 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.

(xxii) 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.

(xxiii) 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.

(xxiv) Comparatives

Subsequent to the share split all share values and share numbers for the previous financial year have been restated to be on an equivalent basis with the current year.

'02

(xxv) **Changes in Accounting Policies**

Early Adoption of Financial Reporting Standards

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

The Board of Directors has elected the requirements of FRS37 in the preparation of these financial statements. Consequently, the policy for accounting for minority interests has been changed so that negative amounts of minority interest are recognised separately as a negative component of equity in the Statements of Financial Position. The effect of this change is to recognise a further $292,874 as a negative amount of minority interest.

Capital Notes

Sky City Entertainment Group Limited issued long-term fixed interest unsecured subordinated capital notes during the period between May 2000 and July 2000. Historically these have been classified in the Statements of Financial Position as a component of equity and capital funds. Subsequent to the issue of the capital notes, the International Accounting Standard IAS39 "Financial Instruments: Recognition and Measurement" has come into effect. This pronouncement, which is an applicable source of New Zealand generally accepted accounting practice, requires instruments such as capital notes to be classified as debt.

Accordingly, the company has reclassified its capital notes and associated costs from equity to debt in the financial statements for the year ended 30 June 2002. Comparative figures have been adjusted to comply with the new policy to assist readers of the financial statements.

There have been no other significant changes in accounting policies during the year.

2. OPERATING REVENUE

	Consolidated		Parent Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Sales Revenue	510,243	437,406	–	–
Other Revenue				
Interest received	2,150	3,331	367	2,047
Dividends received	2	1	–	–
Foreign exchange gains	149	744	–	265
Gains on disposal of property, plant and equipment	52	377	–	–
Dividends received – group companies	–	–	92,000	28,000
Administration fees – group companies	–	–	5,719	5,878
Interest received – group companies	–	–	944	6,714
Other sundry income – group companies	–	–	73	–
Bad debts recovered	–	333	–	–
Other sundry income	360	222	3	361
Total Revenue	512,956	442,414	99,106	43,265

'02

3. OPERATING EXPENSES

	Consolidated		Parent Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Included within Total Expenses are the following expense items				
Employee remuneration	131,751	118,983	2,941	6,226
Depreciation:				
Buildings	7,989	5,751	–	–
Plant and equipment	23,390	21,402	12	25
Motor vehicles	38	12	–	–
Fixtures and fittings	5,819	5,337	16	17
	37,236	32,502	28	42
Losses on disposal of property, plant and equipment	83	628	–	–
Bad debts written-off	4	28	–	–
Increase/(Decrease) in estimated doubtful debts	344	(3)	–	–
Foreign exchange losses	495	250	1,230	236
Amortisation – goodwill	2,254	1,099	–	–
Amortisation – other intangibles	2,549	2,669	–	–
Funding Expenses				
Interest paid	44,030	45,859	13,675	13,705
Other funding expenses	1,678	1,857	378	726
Leasing Costs				
Rental expense on operating leases	7,668	5,637	17	48
Amounts Paid to Principal Auditor				
Assurance services:				
Statutory audit fees	228	245	80	22
Compliance audit fees	367	182	–	–
Accounting advice and assistance	108	209	87	158
Taxation compliance services	339	330	266	250
	1,042	966	433	430
Other services:				
Taxation consulting services	512	573	246	273
Due diligence assistance	–	385	–	385
Consulting services	83	222	62	201
Accounting assistance to group companies	331	27	94	27
	926	1,207	402	886
Audit fees paid to other auditors	88	75	–	–
Total amounts paid to auditors	2,056	2,248	835	1,316
Other				
Directors' fees	321	350	337	320
Community Trust and donations	2,620	2,084	111	–
Non-recurring Costs				
Write-off of Argentinian investment by Force	22,422	–	–	–
Write-off of goodwill on consolidation of Force Corporation	16,730	–	–	–
	39,152	–	–	–

'02

4. INCOME TAX

The parent company, together with its New Zealand based wholly-owned subsidiary companies, excluding Sky City Management (Auckland) Limited, and Sky City 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.

(i) Income Tax Expense

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Operating surplus before tax	90,577	107,202	67,351	14,362
Tax at 33%	29,890	35,377	22,226	4,739
Adjustments to tax for permanent differences:				
Dividends received	–	–	(30,360)	(9,240)
Non-deductible expenditure	12,015	1,337	–	(10)
Future income tax benefits not recognised	2,881	1,545	–	–
Adjustment for other tax rates (Australia)	(85)	133	–	–
Over-provision in prior years	(415)	(193)	(156)	–
Capitalisation of prior year expenses	–	1,630	–	1,630
Transfer of group losses	–	–	8,290	2,881
Income Tax Attributable to Net Operating Surplus	44,286	39,829	–	–
Comprising				
Current tax liability	43,267	36,796		
Future income tax benefit	(476)	–		
Deferred tax liability	1,495	3,033		
	44,286	39,829		

(ii) Current Tax Liability

Tax on income has been derived by using tax rates applicable in the country of source.

During the year ended 30 June 2001, discussions with the New Zealand Inland Revenue Department resulted in final settlement of outstanding issues on the deductibility of pre-opening costs in relation to the Auckland casino, covering the years 1994 to 1996. The net tax effect of this settlement after allowable loss offsets in those years culminated in a final tax payment of $1,629,831 (also see note 22) plus use of money interest of $152,169 being made during the year ended 30 June 2001.

At 30 June 2002 the group has pre-paid income tax of $13,290,711 (2001: $9,628,000).

(iii) Future income tax benefit

	Consolidated 2002 $'000	Consolidated 2001 $'000
Balance at 30 June 2001	–	–
Current year movement	476	–
Balance at 30 June 2002	476	–

'02

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000

4. INCOME TAX (continued)

(iv) Deferred Tax Liability

	2002	2001
Balance at 30 June 2001	19,316	16,283
Prior year timing differences	335	(305)
Current year movement	1,160	3,338
Balance at 30 June 2002	20,811	19,316

(v) Imputation Credit Memorandum Account

	2002	2001
Balance at 30 June 2001	23,817	18,017
Taxation payments made	44,294	30,700
Credits attached to dividends	(32,930)	(28,683)
Supplementary tax credits	3,687	3,783
Balance at 30 June 2002	38,868	23,817

5. SHARE CAPITAL

(i) Issued and Paid-up Capital

On 16 November 2001 the company had a 1 for 1 share split. Comparatives have been restated where appropriate to reflect the increase in shares on issue.

207,593,422 ordinary shares issued and fully paid
(2001: 200,533,262 (restated))

	Consolidated 2002	Consolidated 2001	Parent 2002	Parent 2001
Balance at 30 June 2001	197,911	167,178	197,911	167,178
Shares issued under employee bonus scheme	1,579	730	1,579	730
Shares issued under dividend reinvestment scheme	23,227	23,601	23,227	23,601
Exercise of share options	9,463	6,402	9,463	6,402
Balance at 30 June 2002	232,180	197,911	232,180	197,911

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

(ii) Dividend Reinvestment Scheme

Pursuant to the Dividend Reinvestment Plan approved by the board of directors on 15 August 2000, 4,323,582 shares were issued in lieu of cash dividend (2001: 6,093,298). The strike price was $5.167 (2001: $3.393) for 2,364,674 shares issued on 5 October 2001 (2001: 3,534,328), and $5.620 (2001: $4.537) for 1,958,908 shares issued on 5 April 2002 (2001: 2,558,970).

(iii) Executive Share Option Plan

1996 Plan

All options issued pursuant to the Executive Share Option Plan approved by shareholders at the Annual Meeting of the company held on 5 December 1996 had been exercised by 30 June 2001. All options were exercised under the terms and conditions of the Plan, being exercisable two years after the date of issue.

The last 155,000 options were exercised in the year ending 30 June 2001 at an average price of $3.01.

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5. SHARE CAPITAL (continued)

(iii) Executive Share Option Plan (continued)

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 all options exercised will receive 2 shares.

Issue/Exercise Date	Option Value	Exercise Price	Number Issued	Number Exercised	Lapsed
August 1999	$0.45		986,000		
August 2000	$0.37		1,362,000		
September 2000	$0.45				99,000
January 2001	$0.45	$7.89		19,000	
February 2001	$0.37 / $0.45	$7.98		335,000	9,000
March 2001	$0.45	$8.02 to $8.04		47,000	
April 2001	$0.45	$7.81 to $7.85		289,890	
August 2001	$0.37	$8.00		244,000	
September 2001	$0.82		886,000		
September 2001	$0.37	$7.71 to $8.05		147,000	
October 2001	$0.37 / $0.45	$7.73 to $7.96		214,000	
November 2001	$0.37 / $0.45	$7.79 to $8.04		380,000	
			3,234,000	**1,675,890**	**108,000**

(iv) 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, 85,365 options are on issue to non-executive directors as at 30 June 2002 (2001: 216,216).

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 all options exercised will receive 2 shares.

Issue/Exercise Date	Option Value	Exercise Price	Number Issued	Number Exercised	Lapsed
August 2000	$0.37		216,216		
September 2001	$0.82		85,365		
September 2001	$0.37	$8.01		27,027	
November 2001	$0.37	$7.81 to $7.84		189,189	
			301,581	**216,216**	**–**

(v) Option Valuation

The options are valued using the Black-Scholes model. This calculation is prepared by First NZ Capital Group Limited, and reviewed by PricewaterhouseCoopers as auditors. Under this calculation the value of all options issued during the year was $796,519 (2001: $584,000).

'02

6. RETAINED EARNINGS AND DIVIDENDS

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
(i) Retained Earnings				
Balance at 30 June 2001	28,650	(11,943)	(10,639)	2,714
Net surplus for the year	57,153	68,308	67,351	14,362
Dividends paid/provided	(67,150)	(27,715)	(67,150)	(27,715)
Balance at 30 June 2002	18,653	28,650	(10,438)	(10,639)
Comprising:				
Parent company and subsidiaries	18,309	29,547	(10,438)	(10,639)
Associates	344	(897)	–	–
	18,653	28,650	(10,438)	(10,639)
(ii) Dividends				
Prior year final dividend paid	35,277	–	35,277	–
Interim dividend paid	31,873	27,635	31,873	27,635
Under provision of prior period dividend	–	80	–	80
	67,150	27,715	67,150	27,715
Dividend paid in cash	43,923	16,105	43,923	16,105
Dividend reinvestment in shares	23,227	11,610	23,227	11,610
	67,150	27,715	67,150	27,715

7. RESERVES

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Balances				
Employee share entitlement reserve	5,044	4,095	5,044	4,095
Foreign currency translation reserve	(5,330)	(223)	–	–
	(286)	3,872	5,044	4,095
Employee Share Entitlement Reserve				
Balance at 30 June 2001	4,095	2,556	4,095	2,556
Less value of shares issued in year	(1,579)	(730)	(1,579)	(730)
Less forfeiture of entitlements for prior years	(80)	(129)	–	(129)
Plus value of share entitlements for current year	2,608	2,398	2,528	2,398
Balance at 30 June 2002	5,044	4,095	5,044	4,095

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

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, 30 June 2001, and 30 June 2002.

'02

7. RESERVES (continued)

Employee Share Entitlement Reserve (continued)

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

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

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Share Option Reserve				
Balance at 30 June 2001	–	399	–	399
Options issued	–	584	–	584
Release of share options reserve	–	(983)	–	(983)
Balance at 30 June 2002	–	–	–	–
Foreign Currency Translation Reserve				
Balance at 30 June 2001	(223)	–	–	–
Effect of hedging the net investment of overseas subsidiaries	(5,344)	(49)	–	–
Net exchange difference on translation of overseas subsidiary	237	(174)	–	–
Balance at 30 June 2002	(5,330)	(223)	–	–

8. MINORITY INTERESTS

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Balance at 30 June 2001	1,642	(796)	–	–
Increase in shareholding of subsidiaries	8,076	2,801	–	–
Acquisition of Force Corporation Limited	3,563	1,661	–	–
Adjustment to fair value of assets acquired in Force Corporation Limited	1,485	–	–	–
Acquisition of Planet Hollywood	1,118	–	–	–
Share of losses in subsidiaries	(10,518)	(1,832)	–	–
Share of movements in reserves	(45)	(192)	–	–
Balance at 30 June 2002	5,321	1,642	–	–

Subsequent to 30 June 2001 the fair values of Force Corporation Limited's receivables was reduced by $1,575,000 and creditors and accruals were reduced by $4,556,000 as a result of the settlement with MTM Entertainment Trust of Australia in respect of the Force Entertainment Centre.

'02

9. CAPITAL NOTES AND CONVERTIBLE NOTES

(i) Capital Notes

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Balance at 30 June 2001	**150,000**	60,072	**150,000**	60,072
Issued during the year	**–**	89,928	**–**	89,928
Balance at 30 June 2002	**150,000**	150,000	**150,000**	150,000
Deferred expenses at cost	**1,875**	1,875	**1,875**	1,875
Accumulated amortisation	**(763)**	(385)	**(763)**	(385)
Balance at 30 June 2002	**1,112**	1,490	**1,112**	1,490
Net Capital Notes at 30 June 2002	**148,888**	148,510	**148,888**	148,510

On 5 May 2000 Sky City 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 Sky City Entertainment Group Limited ordinary shares. Sky City 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 Stock Exchange during the 15 days prior to the election date.

The capital notes do not carry voting rights. Capital notes are not entitled to any distributions made by Sky City 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 Sky City Entertainment Group Limited.

(ii) Convertible Notes

Convertible notes were issued by the subsidiary company Riverside Casino Limited on 21 March 2000 as follows:

Class	Price/Principal Amount	Number of Notes	Rate of Interest
A	$1.00	5,619,888	15%
B	$1.00	4,683,240	15%
C	$1.10	4,683,240	13.64%
D	$1.40	3,746,592	10.71%
		18,732,960	

'02

9. CAPITAL NOTES AND CONVERTIBLE NOTES (continued)

(ii) Convertible Notes (continued)

The amount appearing in the consolidated Statements of Financial Position ($9,315,000; 2001: $9,315,000) represents the minority shareholders' portion of the notes issued by Riverside Casino Limited.

Interest payable on the convertible notes will accrue after the casino opens to the public.

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 instalments 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 (5 December 2007). 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) Mandatory Convertible Notes

On 1 March 2002 the subsidiary company Force Corporation Limited issued 30,980,023 Mandatory Convertible Notes (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 Force Corporation 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 50 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 Stock 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 may have been entitled to. This interest is payable at the option of Force Corporation Limited.

Upon consolidation, the MCNs are eliminated and represented by the assets and liabilities of Force Corporation group as included in the consolidated Statement of Financial Position.

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	Consolidated		Parent Company	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000

10. RECEIVABLES AND PREPAYMENTS

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Current				
Trade receivables	2,606	2,849	459	–
Property receivables	–	18,798	–	–
	2,606	21,647	459	–
Sundry receivables	1,227	–	–	256
Advances to associates	314	7,570	–	–
Other receivables	620	6,675	–	–
Prepayments	1,053	629	270	36
Income tax	13,291	9,628	2,674	4,556
Future income tax benefit	476	–	–	–
Foreign currency hedge	383	–	–	–
Advances to subsidiaries	–	–	168,469	135,252
Total Receivables and Prepayments	19,970	46,149	171,872	140,100

Subsequent to the acquisition of Force Corporation Limited and during the year ending 30 June 2002, the fair value of Force Corporation Limited's receivables was reduced by $1,575,000 as a result of the settlement with MTM Entertainment Trust of Australia in respect of the Force Entertainment Centre.

11. PROPERTIES INTENDED FOR SALE

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Current				
Properties intended for sale	–	66,550	–	–

Properties intended for sale as at 30 June 2001 included the Force Entertainment Centre (over which there was a first ranking registered mortgage (refer note 15)), Domain Terraces and the St James building.

As a result of the settlement reached with MTM Entertainment Trust of Australia during the year the Force Entertainment Centre has been classified as property, plant and equipment.

'02

12. PROPERTY, PLANT AND EQUIPMENT

No interest has been capitalised to land and buildings under construction during the current financial year (2001: $nil). Total capitalised interest and facility fees included in the cost of land and buildings at 30 June 2002 is $32,975,000 (2001: $32,975,000).

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Freehold Land				
At cost	79,481	71,466	–	–
Buildings (including fitout)				
At cost	419,360	362,506	–	–
Accumulated depreciation	(33,330)	(25,421)	–	–
Total carrying amount of buildings	386,030	337,085	–	–
Plant and Equipment				
At cost	189,521	172,994	111	111
Accumulated depreciation	(103,052)	(81,173)	(98)	(87)
Total carrying amount of plant and equipment	86,469	91,821	13	24
Motor Vehicles				
At cost	356	315	–	–
Accumulated depreciation	(265)	(228)	–	–
Total carrying amount of motor vehicles	91	87	–	–
Fixtures and Fittings				
At cost	43,942	40,162	238	238
Accumulated depreciation	(28,682)	(24,101)	(99)	(81)
Total carrying amount of fixtures and fittings	15,260	16,061	139	157
Capital Works in Progress				
At cost	28,706	7,502	–	–
Total Carrying Amount of Property, Plant and Equipment	596,037	524,022	152	181
Total Property, Plant and Equipment				
At cost	732,660	647,443	349	349
Capital works in progress	28,706	7,502	–	–
Accumulated depreciation	(165,329)	(130,923)	(197)	(168)
Total Carrying Amount of Property, Plant and Equipment	596,037	524,022	152	181

As a result of the settlement with MTM Entertainment Trust of Australia, the Force Entertainment Centre is now classified as property, plant and equipment.

Subsequent to the acquisition of Sky City Adelaide Pty Limited on 30 June 2000 and during the year ending 30 June 2001, the fair values of Sky City Adelaide Pty Limited's property, plant and equipment were reduced by A$3,822,600 and the casino licence increased by A$3,822,600 as a result of the independent valuation being completed.

'02

12. 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. Prior written consent is required by Auckland City Council 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 carpark 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 Sky City 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 will 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.

A first mortgage is registered against the Fijian cinema complex owned by Force Cinemas (Fiji) Limited and a registered mortgage debenture over Village Rialto Cinemas Limited (refer note 15).

13. INTANGIBLE ASSETS

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Goodwill on Consolidation				
Goodwill at cost	37,889	6,110		
Goodwill arising on acquisition of subsidiaries and associates (note 18, 19)	8,394	31,779		
Goodwill adjusted for fair value adjustments	(1,580)	–		
Impairment	(16,730)	–		
Foreign currency translation	(647)	(43)		
Accumulated amortisation	(3,379)	(1,099)		
Total Goodwill	23,947	36,747		
Casino Licence				
At cost	230,697	225,881	–	–
Fair value adjustment on acquisition	–	4,816	–	–
Foreign currency translation	(26,736)	(7,267)	–	–
Accumulated amortisation	(4,806)	(2,669)	–	–
Total Casino Licences	199,155	220,761	–	–
Other Intangibles				
Franchise fees at cost	287	287	–	–
Total Other Intangibles	287	287	–	–
TOTAL INTANGIBLE ASSETS	223,389	257,795	–	–

'02

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000

13. INTANGIBLE ASSETS (continued)

Casino Licence

Sky City Entertainment Group Limited acquired the Adelaide Casino licence on 30 June 2000 as a result of the acquisition of 100% of the shares in Sky City Adelaide Pty Limited through its wholly-owned subsidiary Sky City Australia Pty Limited on that date. The cost of the casino licence and other assets and liabilities of Sky City 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 Sky City Adelaide Pty Limited. The casino licence is being amortised over 85 years, being the length of the licence.

14. CREDITORS AND ACCRUALS

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Current				
Trade creditors	19,940	19,621	561	615
Accrued expenses	21,157	33,687	2,500	2,738
Employee entitlements	16,439	16,126	–	400
Foreign currency hedge	–	574	–	574
Advance from minority interests	3,604	129	–	–
Riverside Casino Limited – uncalled capital	–	–	–	5,123
Riverside Casino Limited – shareholder advance	–	–	–	(84)
Total Creditors and Accruals	61,140	70,137	3,061	9,366

Subsequent to the acquisition of Force Corporation Limited and during the year ended 30 June 2002, the fair value of Force Corporation Limited's creditors and accruals was reduced by $4,556,000 as a result of the settlement with MTM Entertainment Trust of Australia in respect of the Force Entertainment Centre.

15. BORROWINGS

Borrowings are recognised as follows:

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Current Liabilities				
Secured bank loans	1,000	30,872	–	–
Other secured loans	–	53,050	–	–
Unsecured loans	–	4,650	–	–
Total Loans	1,000	88,572	–	–
Non-Current Liabilities				
Secured bank loans	408,241	384,259	–	–
Less deferred funding expenses	(2,416)	(2,105)	–	–
Balance as 30 June 2002	405,825	382,154	–	–

'02

15. BORROWINGS (continued)

Sky City Funding Group
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 $344,533,654 (2001: $379,154,859). This bank loan comprises NZ$193,560,000 (2001: $206,780,000) borrowed in New Zealand and A$131,800,000 (2001: A$137,400,000) borrowed in Australia (converted at balance date using an exchange rate of NZ$1 = A$0.8730) (2001: NZ$1 = A$0.7971). The interest rates, inclusive of bank margin, at 30 June 2002 were 7.26% on the New Zealand borrowings and 7.31% on the Australian borrowings.

A total facility of $513,262,176, secured by way of composite debenture, was available to the guaranteeing group as at 30 June 2002 (2001: $549,427,723). The facility comprises:

- A facility of NZ$293,560,000 (2001: NZ$301,780,000) comprising a fixed term facility of NZ$193,560,000 and a revolving credit facility of NZ$100,000,000 (2001: NZ$201,780,000 and NZ$100,000,000).
- A facility of A$191,800,000 (converted at 0.8730 to NZ$219,702,176; 2001: A$197,400,000 converted at 0.7971 to NZ$247,647,723), comprising a A$131,800,000 (NZ$150,973,654) (2001: A$137,400,000; NZ$172,374,859) fixed term facility and a revolving credit facility of A$60,000,000 (NZ$68,728,522) (2001: A$60,000,000; NZ$75,272,864).

The fixed term facilities reduced pro-rata by an aggregate amount of NZ$15,000,000 on 31 March 2001 and NZ$15,000,000 on 31 March 2002. The fixed term facilities will also be reduced pro-rata by an aggregate amount of NZ$15,000,000 on 31 March 2003, 31 March 2004, and 31 March 2005. Both facilities mature on 30 November 2005.

Queenstown Casinos Limited
At balance date, Queenstown Casinos Limited had a bank facility of $6,000,000 (2001: $6,000,000), of which $3,000,000 was drawn down (2001: $3,500,000). The loan is secured by a debenture (floating charge) over the assets of the company. This facility expires on 31 December 2003.

Force Corporation Group
At balance date, Force Corporation Limited had four secured loans totalling $61,706,850 (2001: seven secured loans totalling $90,176,446).

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

- A new bank loan facility of $40,000,000 secured by an assignment by way of security of Force's interest in the New Zealand and Fiji cinema joint ventures, assignment by way of security of Force's interest in Planet Hollywood (Civic Centre) Limited, a first registered mortgage over and assignment by way of security of all lease agreements of the Force Entertainment Centre, and a first registered mortgage over 82 Symonds Street, Auckland. The interest rate at 30 June 2002 was 7.14%. Reductions to the facility are to be made half yearly based on the net rental of the Force Entertainment Centre.
- A new bank cash advance facility with a limit of $22,000,000, drawn to $20,500,000 as at 30 June 2002. This facility has the same security as the new bank term loan facility above. There are no scheduled amortisations and the interest rate at 30 June 2002 was 6.32%.
- A bank term loan facility of $1,127,000 (2001: $1,253,000) secured by first mortgage over the Fiji multiplex. The interest rate at 30 June 2002 was 7.75%. The final repayment is to be made on 30 September 2003.
- Term loan facility from ANZ to Village Rialto Cinemas Limited of $80,000 (2001: $351,000) secured by registered mortgage debenture over Village Rialto Cinemas Limited. Village Force Cinemas Limited provides a guarantee for 50% of the outstanding facility. The final payment is to be made on 30 September 2004.

During the period the Force group of companies repaid the following loans:

- Force Entertainment Centre Limited repaid MTM Entertainment Trust of Australia as part of the settlement of matters relating to the Force Entertainment Centre (2001: $50,000,000).

'02	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000

15. BORROWINGS (continued)

Force Corporation Group (continued)

- Ab Initio Holdings No. 13 Limited repaid Harvey Norman Holdings Limited and the ANZ from the final proceeds of the Mt. Wellington development (2001: $9,125,000).
- Force's share of a loan to Domain Terraces joint venture was transferred to the purchaser of Force's 25% in the joint venture (2001: $300,000).
- As part of the restructure of Force Corporation Limited's debt facilities a bank loan was repaid and was replaced by the new bank loans above (2001: $29,147,000).

The Sky City group has not provided any guarantees in relation to any of the Force 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 2002, was 7.20% (2001: 7.58%). The weighted average interest rate (inclusive of margin) on the Australian debt incurred during the year ended 30 June 2002, was 7.13% (2001: 7.29%).

16. COMMITMENTS

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

(i) **Capital Expenditure**

Contractual commitments of up to $16,512,315 are outstanding as at 30 June 2002 (2001: $39,009,106). These relate to purchases of plant and equipment for the Auckland, Adelaide and Queenstown complexes and construction and fitout costs associated with the Sky Riverside (Hamilton) complex.

(ii) **Non-Cancellable Operating Lease Commitments**

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Company 2002 $'000	Parent Company 2001 $'000
Payable not later than one year	6,921	6,928	42	50
Payable later than one, not later than two years	7,201	7,054	7	37
Payable later than two, not later than five years	14,324	19,618	7	–
Payable later than five years	168,031	176,904	–	–
	196,477	210,504	56	87

Operating lease commitments include a sub-soil lease on the Auckland Casino site (18 years and 6 months remaining), a premises lease for the Adelaide Casino site (83 years remaining) and a premises lease for the Queenstown Casino site (5 years remaining).

17. EARNINGS PER SHARE

	Consolidated 2002	Consolidated 2001 (restated)
Number of ordinary shares on issue (weighted average)	204,688,892	196,556,214
Group surplus from operations per share	27.9 cents	34.8 cents

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.

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18. INVESTMENTS IN SUBSIDIARIES

The following companies were wholly-owned subsidiaries of Sky City Entertainment Group Limited as at 30 June 2002:

Sky City Auckland Holdings Limited	Group funding
Sky City Auckland Limited	Casino premises licence holder
Sky City Casino Management Limited	Casino operator's licence holder
Sky City Management (Auckland) Limited	Employment of staff
Abdiel Investments Limited	Property owner
Sky City Construction Limited	Non-trading
Sky Tower Limited	Non-trading
Sky City Wellington Limited	Promotion company
Riverside Fund Limited	Holding company
Sky City International Holdings Limited	Holding company
Sky City International ApS	Danish holding company, incorporated in Denmark
Sky City Australia Pty Limited	Australian holding company, incorporated in Australia
Sky City Adelaide Pty Limited	Adelaide Casino licence holder and operator, incorporated in Australia
Sky City Investments Limited	Holding company
Sky City Action Management Limited	Loyalty programme company
Queenstown (Hard Rock) Investments Limited	Joint venture partner

All wholly-owned subsidiary companies have balance dates of 30 June.

The following companies were the significant partly or indirectly owned subsidiaries of Sky City Entertainment Group Limited as at 30 June 2002:

Queenstown Casinos Limited	Casino premises licence holder (60%)
Riverside Casino Limited	Casino premises licence holder (55%) held 35% directly and 20% by Riverside Fund Limited
Riverside Casino Construction Limited	Property owner (100% owned by Riverside Casino Limited)
Force Corporation Limited	Holding company (74.36% ; 2001: 50.19%)
Force Holdings Limited	Property/administration company (100% owned by Force Corporation Limited)
Force Cinemas Limited	Cinema company (100% owned by Force Corporation Limited)
Force Entertainment Centre Limited	Property company (100% owned by Force Holdings Limited)
Force Cinemas (Fiji) Limited	Cinema company (100% owned by Force Cinemas Limited), incorporated in Fiji
Ab Initio Holdings No. 13 Limited	Property company (100% owned by Force Holdings Limited)

All significant partly-owned subsidiaries of Sky City Entertainment Group Limited have balance dates of 30 June.

On 26 November 2001, Force Cinema Investments Limited (100% owned by Force Cinemas Limited) and Force Investments Limited (100% owned by Force Corporation Limited) were wound up.

On 18 September 2002 Force Corporation Limited changed its registered company name to Sky City Leisure Limited.

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18. INVESTMENTS IN SUBSIDIARIES (continued)

SHAREHOLDING OF SUBSIDIARY COMPANIES

Force Corporation Limited

On 20 March 2001 Sky City Entertainment Group Limited acquired 50.19% of the shares in Force Corporation Limited (a public company listed with the New Zealand Stock Exchange). The shares were transferred to Sky City Investments Limited on 23 May 2001 following its incorporation on 11 May 2001. Sky City Investments Limited purchased 23,784,375 Mandatory Convertible Notes issued by Force Corporation Limited on 1 March 2002 for the consideration of $23,784,375. This takes the effective equity investment in Force Corporation Limited to 74.36%. The voting rights held in Force Corporation Limited remain at 50.19%. The net cash impact of acquisition was $23,784,375 with goodwill of $4,711,755.

The operating result of Force Corporation Limited has been included in the Statements of Financial Performance from 20 March 2001.

Summary of the effect of acquisition of initial 50.19% Force Corporation Limited on 20 March 2001

	2001 $'000
Net Assets acquired:	
Bank balances	859
Other current assets	8,829
Property for resale	81,883
Property, plant and equipment	17,015
Investments in associates	5,059
Total liabilities	(109,583)
Minority interest within Force	(362)
	3,700
Minority interest	(1,661)
	2,039
Goodwill on acquisition	18,694
Consideration paid	20,733
Capitalised costs accrued	(550)
Funds acquired with subsidiary	(859)
Net cash impact of acquisition	19,324

Subsequent to 30 June 2001 the fair value of receivables was reduced by $1,575,000 and the fair value of creditors and accruals was reduced by $4,556,000 as a result of the settlement with MTM Entertainment Trust of Australia in respect of the Force Entertainment Centre.

Other Subsidiaries

Sky City Action Management Limited was incorporated on 22 March 2001. Queenstown (Hard Rock) Investments Limited was incorporated on 21 March 2001. Sky City Investments Limited was incorporated on 11 May 2001. The operating results of these companies have been included in the Statements of Financial Performance from these dates.

On 20 March 2001 Adelaide Casino Pty Limited changed its name to Sky City Adelaide Pty Limited.

Sky City Entertainment Group Limited holds a 60% share in Queenstown Casinos Limited, which is the holder of a casino premises licence in Queenstown. The casino opened to the public on 9 December 2000.

The carrying value of the investment in Riverside Casino Limited of $18,760,369; (2001: $18,760,369), includes the deferred expenditure relating to operator rights of $2,250,000 (2001: $2,250,000). The shares and convertible notes issued but uncalled of $5,123,027 as at 30 June 2001 were called and paid during the 2002 year.

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18. INVESTMENTS IN SUBSIDIARIES (continued)

SHAREHOLDING OF SUBSIDIARY COMPANIES (continued)

Cost of investment in Riverside Casino Limited comprised:

	Consolidated 2002 $'000	Consolidated 2001 $'000
Shares and convertible notes issued and paid up	12,649	7,526
Shares and convertible notes issued but uncalled	–	5,123
Goodwill	6,110	6,110
	18,759	18,759

19. INVESTMENTS IN ASSOCIATES

As a result of acquiring shares in Force Corporation Limited on 20 March 2001, the Sky City group indirectly acquired holdings in the associate companies being Village Cinemas (SA) Argentina, Vista Entertainment Solutions Limited and South Pacific Pictures Limited.

Significant Associates		Percentage held by Group
Canbet Limited	On-line wagering	32.41%
Village Cinemas (S.A.) Argentina	Movie exhibitor	25.00%
Vista Entertainment Solutions Limited	Ticket software systems	25.00%

All associates have balance dates of 30 June.

On 11 August 2000, Sky City International ApS acquired 6.58% of the shares in Canbet Limited (a public company listed on the Australian Stock Exchange). This shareholding was increased to 21.58% on 7 February 2001, and further increased to 32.41% on 8 March 2002.

South Pacific Pictures Limited was disposed of during the year.

	Consolidated 2002 $'000	Consolidated 2001 $'000
Results of Associate Companies		
Share of surplus/(deficit)	364	(896)
Tax	(20)	(1)
Share of surplus/(deficit)	344	(897)
Interests in Associate Companies		
Balance at beginning of the year	8,414	–
Shares at cost	8,854	22,160
Goodwill (note 13)	(3,597)	(13,085)
Associate disposed of during the year	(2,929)	–
Write-off of Associate during the year	(736)	–
Foreign currency translation impact	(299)	236
Share of undistributed post-acquisition (deficit)	344	(897)
Carrying amount	10,051	8,414
Summary of net cash paid by the group relating to the investment in Canbet Limited		
Payments for shares	24,262	15,408
Capitalised costs relating to share purchases	1,691	1,691
	25,953	17,099

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20. JOINT VENTURES

In December 2000 the group entered into a joint venture to operate the Hard Rock Café 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.

As a result of acquiring shares in Force Corporation Limited on 20 March 2001, the Sky City group acquired the following indirect joint venture interests:

		Percentage held by Group
Village Force JV	Cinema owner/operator	50.0%
Village Force Hoyts Queen St JV	Operator of Imax Cinemas	33.3%
Village Rialto Cinemas Ltd JV	Arthouse Cinema exhibitor	25.0%
Damodar Village Force JV (Fiji)	Owner/operator of Cinemas in Fiji	33.3%

All of the above joint ventures have been audited.

Financial Performance

The Sky City group's share of operating revenues and expenses, proportionately consolidated for the Hard Rock joint venture and for the indirect joint venture interests was:

	Consolidated	
	2002	2001
	$'000	$'000
Revenue	**30,807**	6,091
Expenses	**(28,052)**	(5,607)
Net contribution to group operating surplus	**2,755**	484

For the year ended 30 June 2001, the group's share of operating revenues and expenses proportionately consolidated were for the period from 25 May 2001 for the Hard Rock venture and from 20 March 2001 for the indirect joint venture interests.

Financial Position

The group's share of assets and liabilities, proportionately consolidated, is:

Current assets		
Cash on hand and at bank	**1,948**	1,489
Receivables	**911**	1,062
Properties for sale	**–**	4,510
Other current assets	**135**	256
	2,994	7,317
Non-current assets		
Property, plant and equipment	**13,577**	14,989
Other	**782**	288
	14,359	15,277
Share of total assets included in group	**17,353**	22,594
Liabilities		
Creditors	**1,626**	2,215
Other	**892**	1,001
Term loans	**1,207**	1,905
Share of total liabilities included in group	**3,725**	5,121
Net assets employed in the joint ventures	**13,628**	17,473

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21. RECONCILIATION OF NET SURPLUS WITH CASH FLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Reported surplus after taxation	57,153	68,308	67,351	14,362
Less minority interests	10,518	1,832	–	–
Less associated entity surpluses/(deficits)	344	(897)	–	–
	46,291	67,373	67,351	14,362
Items not involving cash flows				
Depreciation expense	37,236	32,502	28	42
Amortisation expense	4,803	3,768	–	–
(Decrease)/Increase in provisions	239	(109)	–	–
Increase in deferred taxation	1,495	3,033	–	–
Subsidiary transactions	–	–	(146,640)	(81,689)
Increase in employee reserves	2,528	1,869	2,528	3,974
Amortisation of deferred expenditure	1,430	1,390	378	495
Movement in foreign exchange	(133)	(881)	1,230	(29)
Write-off of investments	22,422	–	–	–
Goodwill impairment	16,730	–	–	–
Impact of changes in working capital items				
Decrease/(Increase) in accounts receivable and prepayments	2,175	(15,192)	(437)	(54)
Decrease in properties intended for resale	–	15,395	–	–
Decrease in inventory	230	477	–	–
(Increase)/Decrease in pre-paid income tax	(5,253)	1,542	1,882	6,614
(Decrease)/Increase in creditors and accruals	(6,358)	13,126	(695)	(1,138)
Movement in GST payable	(1,394)	1,703	40	70
Items classified as investing activities				
Net loss on disposal of property, plant and equipment	31	251	–	–
Capitalised costs	550	–	–	–
Surplus on sale of investments	(290)	–	–	–
NET CASH FLOW FROM OPERATING ACTIVITIES	122,732	126,247	(74,335)	(57,353)

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22. CONTINGENT LIABILITIES

Taxation

For the year ended 30 June 1998 income tax was recognised in the Statements of Financial Performance on the basis that various non-recurring expenditure items were deductible for tax purposes.

The Inland Revenue Department has indicated that some or all of the approximately $6,700,000 (2001: $7,500,000) of income tax credit claimed in relation to the Harrah's contract termination fee may be reassessed. The directors have received professional advice that it is not appropriate to recognise a liability and the company intends to contest any reassessment received.

On 21 May 2001 agreement was reached with the Inland Revenue Department in relation to some of the prior years' non-recurring costs (re pre-opening expenses). This resulted in a reduction in contingent liabilities recognised in earlier years by $7,500,000.

Argentina Debt

Force Corporation Limited is one of the guarantors for a loan facility being utilised by Village Cinemas (S.A.) Argentina, an associate company. The maximum liability and exposure at balance date under this guarantee is US$4 million (2001: US$15 million).

23. RELATED PARTY INFORMATION

Sky City Entertainment Group Limited is a publicly-listed company on the New Zealand and Australian Stock Exchanges.

Subsidiaries, Associates and Joint Ventures

All members of the group as listed in notes 18, 19 and 20 are considered to be related parties of the parent company Sky City 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.

As a result of the restructure of Planet Hollywood (Civic Centre) Limited during the year, the debt of $835,000 owed by Planet Hollywood Asia was forgiven (2001: $835,000). In return, Force Holdings Limited acquired the remaining shareholding in Planet Hollywood (Civic Centre) Limited of 20% on 28 June 2002.

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.

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24. SEGMENT INFORMATION

Geographic Segments

	New Zealand		Australia		Total	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Assets	643,714	681,055	259,505	270,105	903,219	951,160
Revenue	398,354	336,624	114,602	105,790	512,956	442,414
Segment Result	162,871	143,283	12,566	11,635	175,437	154,918
Interest expense	(31,847)	(28,172)	(13,861)	(19,544)	(45,708)	(47,716)
Unusual items	(39,152)	–	–	–	(39,152)	–
Net segment result	91,872	115,111	(1,295)	(7,909)	90,577	107,202
Consolidated surplus before tax, minority interests & associates	91,872	115,111	(1,295)	(7,909)	90,577	107,202

The surplus is that of the group before income tax and before equity accounted results of associated entities, minority interest and extraordinary items.

Industry Segments

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

25. FINANCIAL INSTRUMENTS

(i) 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 and tax receivable. 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. The tax receivable is expected to be refunded by the Inland Revenue Department. Accordingly, the directors believe the group has no significant concentration of credit risk.

(ii) Fair Values

The carrying amount of cash and bank balances reflect their fair values. Information on the fair values of all other financial instruments recognised in the financial statements is included in the relevant notes to the financial statements.

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25. FINANCIAL INSTRUMENTS (continued)

(ii) Fair Values (continued)

Financial Assets and Liabilities

	Consolidated		Parent Company	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Carrying Amounts				
Cash and bank	48,084	41,603	1	1
Receivables and prepayments	4,279	28,951	729	36
Receivables – related parties	1,541	7,570	–	256
Income tax	13,291	9,628	2,674	4,556
Foreign currency hedge	383	(574)	–	(574)
Advances to subsidiaries	–	–	168,469	135,252
Capital notes	(148,888)	(148,510)	(148,888)	(148,510)
Creditors and accruals	(57,536)	(69,434)	(3,061)	(3,753)
Borrowings – short-term	(1,000)	(88,572)	–	–
Borrowings – long-term	(405,825)	(382,154)	–	–
Advance from minority interests	(3,604)	(129)	–	–
Riverside uncalled capital	–	–	–	(5,123)
Riverside shareholder advance	–	–	–	84
Convertible notes	(9,315)	(9,315)	–	–
Net Carrying Amount of Recognised Financial Instruments	(558,590)	(610,936)	19,924	(17,775)

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:

	Consolidated 2002	Consolidated 2001	Parent 2002	Parent 2001
Carrying Amounts				
Assets				
Current assets	10,158	4,173	–	–
Liabilities				
Current liabilities	(11,892)	(13,583)	–	–

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 at its fair value.

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25. FINANCIAL INSTRUMENTS (continued)

(iii) Currency Risk and Interest Rate Risk

Interest Rate Risk

Short-term deposits were at call as at 30 June 2002. Deposits are held with major banking institutions.

Interest rates on borrowings are a mix of fixed and floating. As at 30 June 2002 81% (2001: 80%) of total 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 10% (2001: 19%) of the balance of the total borrowing.

Fixed versus Floating Interest Rate – Bank Facility

At 30 June 2002, Sky City group had total borrowings of $409,240,654 (2001: $415,130,859), structured as below:

	2002			2001		
	$'000	% of Total	% Rate	$'000	% of Total	% Rate
Term Borrowings (exceeding 12 months)						
– fixed by long-term (exceeding 12 months) interest rate swaps	331,709	81	7.37	330,968	80	7.63
– fixed by short-term (less than 12 months) interest rate swaps	42,455	10	7.25	79,163	19	6.74
– floating rate borrowings	35,077	9	6.11	5,000	1	7.35
	77,532	19	6.73	84,163	20	6.78
Total Debt Facility	409,241	100	7.25	415,131	100	7.45

Rates shown above are inclusive of bank margin.

Maturities

The interest swap maturities are at various dates through to July 2007.

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

Interest Rate Swap Values: Mark to Market

The swaps and forward rate agreements in place as at 30 June 2002 have been valued by the respective banks, on a mark to market basis, at a loss of $5,389,101 (2001: loss $6,389,973).

Forward Exchange Cover

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.

Funds advanced to overseas subsidiaries are hedged against translation risk. Foreign exchange contracts as at 30 June 2002: AU$15,900,000 (2001: $75,400,000).

26. EVENTS OCCURRING AFTER BALANCE DATE

Provision for Dividend

On 23 August 2002 the directors resolved to provide for a final dividend to be paid in respect of the year ended 30 June 2002. The dividend will be paid at a value of 22.5 cents per share on issue as at 20 September 2002 with full imputation credits attached.

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SUBSIDIARY COMPANIES

The changes to subsidiary company directorships during the 12 month period ended 30 June 2002 were as follows.

On 13 March 2002, P.J. Mason ceased to be a director of Sky City Adelaide Pty Limited.

On 15 March 2002, M.J. McConnell ceased to be a director of Sky City Leisure Limited[1].

A.B. Ryan was a director of Sky City Leisure Holdings Limited,[2] Sky City Cinemas Limited,[3] Sky City Metro Limited,[4] Cine-Force Limited, Ab Initio Holdings No.13 Limited and Planet Hollywood (Civic Centre) Limited for the period from 15 February 2002 to 10 March 2002.

On 27 June 2002, A.B. Ryan was appointed a director and M. Brunner resigned as a director of Planet Hollywood (Civic Centre) Limited. A.B. Ryan resigned as a director of Planet Hollywood (Civic Centre) Limited on 24 July 2002.

The following people held office as directors of subsidiaries of Sky City Entertainment Group Limited as at the end of the 2002 financial year, being 30 June 2002.

Sky City Auckland Holdings Limited, Sky City Auckland Limited, Sky City Casino Management Limited
Directors: E.W. Davies, J.P. Hartley, A.B. Ryan

Sky City Management (Auckland) Limited, Abdiel Investments Limited, Sky City Construction Limited, Sky Tower Limited, Sky City Wellington Limited, Sky City International Holdings Limited, Sky City International ApS, Sky City Investments Limited, Sky City Action Management Limited, Riverside Fund Limited, Queenstown (Hard Rock) Investments Limited
Directors: E.W. Davies, A.B. Ryan

Sky City Australia Pty Limited, Sky City 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 and Riverside Casino Construction Limited
Directors: E.W. Davies, B.S. Nabbs, S. Perry, A.B. Ryan

Sky City Leisure Limited[1]
Directors: M.W. Daniel, E.W. Davies, P.J. Holdaway, D.I. Kennedy, A.B. Ryan

Sky City Leisure Holdings Limited,[2] Sky City Cinemas Limited,[3] Sky City Metro Limited,[4] Cine-Force Limited, Ab Initio Holdings No.13 Limited
Director: P.J. Holdaway

Planet Hollywood (Civic Centre) Limited
Directors: P.J. Holdaway, A.B. Ryan

Sky City Cinemas (Fiji) Limited[5]
Directors: D. Damodar, P.J. Holdaway

(1) *Formerly Force Corporation Limited*
(2) *Formerly Force Holdings Limited*
(3) *Formerly Force Cinemas Limited*
(4) *Formerly Force Entertainment Centre Limited*
(5) *Formerly Force Cinemas (Fiji) Limited*

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REMUNERATION OF DIRECTORS

Remuneration paid to directors of Sky City Entertainment Group Limited during the year ended 30 June 2002 was:

E.W. Davies	$1,138,050
P.H. Elworthy	$50,000
J.P. Hartley	$100,000
P.L. Reddy	$50,000
E. Toime	$50,000
W.R. Trotter	$50,000
W.G. Ward-Holmes	$66,667
B.M. Wickham	$50,000

The Managing Director, E.W. Davies, is not paid director's fees. The amount shown next to his name represents the total of the remuneration and the value of other benefits received by him as an employee of the company.

Directors' fees, as above, were paid as to $10,000 for non-executive directors and $20,000 for the chairperson by way of options in the company issued in accordance with the Non-Executive Director Share Option Plan as approved at the company's Annual Meeting on 26 October 2000.

Remuneration paid to directors, or former directors, of Sky City Leisure Limited(1) during the year ended 30 June 2002 was:

M.W. Daniel	$13,125
P.J. Holdaway	$164,000
M.J. McConnell	$13,125

Peter Holdaway is not paid director's fees. The amount shown next to his name represents the total of the remuneration and the value of other benefits received by him as an employee of Sky City Leisure Limited(1).

Remuneration paid to directors of Queenstown Casinos Limited during the year ended 30 June 2002 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 Sky City 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 Sky City 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 the reimbursement of expenses incurred in relation to company matters, or as disclosed elsewhere in this Annual Report.

(1) *Formerly Force Corporation Limited*

DIRECTORS' AND OFFICERS' INDEMNITY AND INSURANCE

On 30 September 2001 the company effected directors' and officers' liability insurance coverage through Royal and SunAlliance and American Home Assurance Company (AIG), for the period 30 September 2001 to 30 September 2002, with an aggregate limit of liability of $50 million.

On 30 September 2001 the company effected statutory liability insurance through Royal and SunAlliance, for the period 30 September 2001 to 30 September 2002 with an aggregate limit of liability of $5 million.

Indemnities have been given to directors and senior managers of the Sky City group to cover acts or omissions of directors or senior managers in their capacity as such.

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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 company's Interests Register as at 30 June 2002 with the notices given by directors during the period ended 30 June 2002 marked with an asterisk.

Director	Other Company	Relationship
E.W. Davies	Melanesian Mission Trust	Trustee
	Tourism Industry Association of New Zealand	Director
P.H. Elworthy	Enterprise New Zealand Trust	Trustee
	Lincoln University Foundation	Trustee
	Lincoln University Biological Organic Trust	Chairman
	New Zealand Institute of Economic Research (Inc)	Trustee
	Opuha Dam Company Limited	Chairman
	Stanfield Oaks Limited	Director
	Wild Peter Products Limited	Chairman
	Willows Group Limited	Chairman
J.P. Hartley	Infinity Group Limited and certain subsidiaries	Director and Shareholder
	The Great New Zealand Business Venture Limited	Director
	Trango Capital Limited	Director and Shareholder
	Vertex Group Holdings Limited and certain subsidiaries*	Director
P.L. Reddy	Active Equities Limited	Director and Shareholder
	Infinity Group Limited	Chairperson
	MobilefoneRepair.com Limited	Associated Person of Shareholder
	Securefresh Pacific Limited	Associated Person of Shareholder
	Sky City Community Trust	Trustee
	TeamTalk Limited	Associated Person of Shareholder
	Telecom Corporation of New Zealand Limited	Director
	Vista Entertainment Solutions Limited	Associated Person of Shareholder
E. Toime	Datacom Group Limited	Director
	Datacom Investments Pty Limited	Director
	New Zealand Post Limited and subsidiaries	Chief Executive Officer
	NRMA Insurance NZ Limited	Director
	State Sector Standards Board	Member
W.R. Trotter	First NZ Capital Group Limited and certain subsidiaries	Director
	The New Zealand Stock Exchange	Director
B.M. Wickham	Competitive Auckland Limited	Director
	Fisher and Paykel Appliances Holdings Limited*	Director
	Industry New Zealand	Director
	International Centre for Entrepreneurship Limited	Chairperson
	Kings School	Governor
	The Great New Zealand Business Venture Limited	Director
	Uniservices Limited	Director

The following details included in the Interests Register as at 30 June 2001, or entered during the year ended 30 June 2002, have been removed during the year ended 30 June 2002.

P.H. Elworthy is no longer chairman of the Alan Duff Charitable Foundation or a trustee of the Link Foundation.

P.L. Reddy is no longer a director of New Zealand Opera Limited or an alternate director of Richmond Limited.

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INTERESTS REGISTER (continued)

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 NZSE, the following acquisitions and disposals of relevant interests in Sky City shares during the period to 30 June 2002.

Share transactions for the period 1 July 2001 to 16 November 2001 (prior to the share split on 16 November 2001)

Director	Date of Acquisition or Disposal 1/7/01 to 16/11/01	Consideration	Shares Acquired (Disposed of)
E.W. Davies	5 October 2001[1]	$78,147	7,562
P.H. Elworthy	12 November 2001[2]	$211,351	27,027
	12 November 2001	$213,975	(17,227)
J.P. Hartley	5 October 2001[1]	$6,046	585
	16 November 2001[2]	$423,243	54,054
	16 November 2001	$423,825	(33,454)
P.L. Reddy	28 September 2001	$11,150	(1000)
	5 October 2001[1]	$3,782	366
	8 November 2001[2]	$211,081	27,027
	8 November 2001	$211,741	(17,000)
E. Toime	5 October 2001[1]	$1,436	139
	8 November 2001[2]	$211,081	27,027
	8 November 2001	$211,741	(17,027)
W.R. Trotter	5 October 2000[1]	$56,673	5,484
	8 November 2001[2]	$211,081	27,027
	8-13 November 2001	$619,134	(50,000)

Share transactions for the period 19 November 2001 to 30 June 2002 (after the share split on 16 November 2001)

Director	Date of Acquisition or Disposal 19/11/01 to 30/6/02	Consideration	Shares Acquired (Disposed of)
E.W. Davies	19 November 2001[2]	$201,000	50,000
	19 November 2001	$325,000	(50,000)
	30 November 2001	$379,652	(61,116)
	5 April 2002[1]	$62,006	11,034
J.P. Hartley	5 April 2002[1]	$11,919	2,121
	10 June 2002[3]	$513,715	(79,033)
P.L. Reddy	27 February 2002	$9,990	1,665
	5 April 2002[1]	$6,564	1,168
E. Toime	5 April 2002[1]	$4,001	712
W.R. Trotter	5 April 2002[1]	$36,398	6,477
B.M. Wickham	20 November 2001[2]	$211,892	54,054
	20 November 2001	$211,305	(34,054)

(1) *The transactions of Messrs Davies, Hartley, Toime and Trotter and Ms Reddy of 5 October 2001 and 5 April 2002 relate to the issue of shares to them in lieu of dividends pursuant to the Sky City Entertainment Group Limited Dividend Reinvestment Plan.*

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

(3) *The transaction shown relates to the transfer of shares to the trustees of the Hartley Family Trust in which Mr. Hartley retains a beneficial interest.*

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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 NZSE, the following relevant interests in Sky City shares, options and capital notes as at 30 June 2002.

	Shares			Options		
Director	Beneficially Held	Non-Beneficially Held	Held By Associated Person	Beneficially Held	Non-Beneficially Held	Held by Associated Person
E.W. Davies	411,034	–	–	839,110	–	104,000
P.H. Elworthy	22,000	–	–	12,195	–	–
J.P. Hartley	79,033	–	–	24,390	–	–
P.L. Reddy	43,542	2,665	–	12,195	–	–
E. Toime	26,514	–	6,151	12,195	–	–
W.R. Trotter	295,339	–	–	12,195	–	–
B.M. Wickham	30,000	–	–	12,195	–	–

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

Options issued to Mr. Davies and associated persons of Mr. Davies are issued pursuant to the Executive Share Option Plan approved by shareholders at the Annual Meeting of the company held on 28 October 1999. Options issued to the non-executive directors are issued pursuant to the Non-Executive Director Share Option Plan approved by shareholders at the Annual Meeting of the company held on 26 October 2000. Options are exercisable one year after the date of issue, at the exercise price determined pursuant to the Plan, and lapse if they are not exercised within five years of the date of issue.

EMPLOYEE REMUNERATION

The number 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 2002, is listed below:

	Number of Employees			Number of Employees	
Remuneration	Group	Parent Company	Remuneration	Group	Parent Company
$100,000 – $109,999	11	–	$220,000 – $229,999	1	–
$110,000 – $119,999	15	–	$230,000 – $239,999	1	–
$120,000 – $129,999	12	–	$250,000 – $259,999	1	–
$130,000 – $139,999	8	–	$280,000 – $289,999	1	–
$140,000 – $149,999	5	–	$300,000 – $309,999	1	–
$150,000 – $159,999	1	–	$310,000 – $319,999	1	–
$160,000 – $169,999	4	–	$360,000 – $369,999	1	–
$170,000 – $179,999	3	–	$370,000 – $379,999	1	–
$180,000 – $189,999	4	–	$390,000 – $399,999	1	–
$190,000 – $199,999	2	–	$480,000 – $489,999	1	–
$200,000 – $209,999	4	–			

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DONATIONS

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

WAIVERS FROM THE NEW ZEALAND STOCK EXCHANGE (NZSE) LISTING RULES

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

As part of the company's Executive Share Option Plan, approved by shareholders at the 1999 Annual Meeting, the NZSE granted a waiver from compliance with Listing Rule 7.3.2 in respect of the issue of options to E.W. Davies the Managing Director of the company pursuant to the Plan. Listing Rule 7.3.2 would have required that all issues of options to Mr Davies under the Plan be made within 12 months of the shareholders' resolution approving the issue. The waiver enabled the third issue of options specified in the shareholders' resolution to be made more than 12 months after the date on which the resolution approving the issue was passed.

As part of the Non-Executive Director Share Option Plan, approved by shareholders at the 2000 Annual Meeting, the NZSE 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 years ending on 30 June 2002 and 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 NZSE 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 Executive Share Option Plan referred to above. 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 NZSE 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 NZSE granted waivers from compliance with Listing Rule 7.3.6 in respect of the participation by Ms. Shotter in the company's proposed new performance pay incentive plan (New PPI) and the proposed new executive share option plan (New Option Plan). As the terms of the New PPI and the New Option Plan are substantially the same as the existing PPI and Executive share Option Plan, in the absence of the waivers, issues of shares under the New PPI and options under the New Option Plan would require shareholder approval. The NZSE granted the waivers on the condition that Ms Shotter's participation in the New PPI and the New 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 Sky City Entertainment Group Limited or any of its subsidiary companies.

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CORPORATE GOVERNANCE

Corporate governance at Sky City encompasses the company's decision-making structures and the mechanisms used to manage the organisation.

The board of Sky City has a comprehensive set of corporate governance practices and procedures in place to ensure that these responsibilities are met.

Role of the Board

Sky City's board of directors is responsible for supervising the management of the company. The board establishes the company's objectives, the major strategies for achieving these 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 must also ensure that the company's assets and resources are maintained under effective stewardship, that decision-making authorities within the organisation are clearly defined, that the social and business obligations of the company are met, 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.

The board currently comprises eight directors, including a non-executive chairman, an executive director and six non-executive directors. Director details are set out on page 20 of this Annual Report. Procedures for the operation of the board, including the appointment and removal of directors, are governed by the company's constitution.

The board met 11 times during the year to review company performance and consider strategic issues.

Code of Business Practice

The board and management of Sky City have developed a code of business practice, which sets out the standards of behaviour expected of Sky City people when carrying out their job responsibilities. The Code refers to behavioural requirements under the following headings: compliance with laws and regulations; honesty and fairness; human rights; health and safety; privacy and confidentiality; insider trading; conflicts of interest; bribes and favours; competition; promotion and advertising; community contributions; problem gambling; and the service of alcohol.

Audit and Risk Committee

The board's Audit and Risk Committee, which met four times during the year, sets and monitors the company's accounting and reporting practices and its internal control and risk management environments. During the year Elmar Toime assumed chairmanship of the Audit and Risk Committee following the retirement of Waari Ward-Holmes.

Governance and Remuneration Committee

The board's Governance and Remuneration Committee, which met four times during the year, monitors board membership and effectiveness, senior executive performance and remuneration, the ethics of the organisation, protection of the company's casino licences, statutory and regulatory compliance, and the identification of and planning for emerging issues. The company has a formal code of conduct governing the purchase of Sky City securities by directors and executive personnel and a prohibition on gaming by Sky City staff and directors on the company's premises. Compliance with the Codes for Securities Transactions and Business Practice is overseen by the Governance and Remuneration Committee. The Committee is chaired by Patsy Reddy.

Governance Charters and Policies

Each of the Audit and Governance committees operates under a charter, which is reviewed and updated each year.

The board itself operates under detailed terms of reference which set out the duties and responsibilities of directors.

The board delegates authority to management for decision-making under a comprehensive delegated authorities policy, which is formally reviewed on a regular basis. A separate treasury policy covers treasury dealings, most of which relate to interest rate and foreign exchange management, treasury transaction authorities and procedures, and board reporting.

Independent Professional Advice

Directors are entitled to seek independent professional advice at any time on any aspect of their duties and responsibilities, at the company's expense.

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	Twenty Largest Shareholders as at 23 August 2002	Number of shares	% of issued shares
1	Colonial First State Investment Managers	34,363,340	16.55%
2	Maple Brown Abbott	9,573,818	4.61%
3	AMP Henderson Global Investors	8,407,142	4.05%
4	Tower Asset Management	8,185,528	3.94%
5	ING New Zealand	5,535,140	2.67%
6	Tower Trust	4,731,284	2.28%
7	BT NZ Funds Management	4,027,409	1.94%
8	Accident Compensation Corporation	3,980,000	1.92%
9	Barclays Global Investors	3,908,305	1.88%
10	Guardian Trust Funds Management	3,600,359	1.73%
11	Morgan Stanley Investment Management	3,440,292	1.66%
12	Alliance Capital Management	3,110,731	1.50%
13	Sagitta Wealth Management	2,987,782	1.44%
14	State Street Global Advisors	2,512,635	1.21%
15	Brook Asset Management	2,085,512	1.00%
16	NZ Funds Management	1,836,306	0.88%
17	British Airways Pension Funds Investment Management	1,724,541	0.83%
18	Henderson Global Investors	1,319,441	0.64%
19	Legal & General Investment Management	1,243,112	0.60%
20	ING Investment Management	1,181,000	0.57%
	Total	107,257,880	51.67%

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

Substantial Security Holders

On 21 June 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 35,104,507 ordinary shares in the company.

Options on Issue

As at 23 August 2002 there was a total of 1,535,475 options on issue, being 924,475 options issued to directors and 611,000 options issued to executives. These options have no voting rights but entitle the holder to two ordinary shares on the exercise of each option.

Distribution of Ordinary Shares and Registered Shareholdings as at 23 August 2002

Size of holding	Number of shareholders	Number of shares
1 – 499	1,393	346,313
500 – 999	1,405	961,304
1,000 – 4,999	13,636	27,378,990
5,000 – 9,999	2,341	15,451,761
10,000 – 49,999	1,612	27,189,248
Over 50,000	179	136,265,806
Total	20,566	207,593,422

As at 16 September 2002, there were 253 holdings of less than 83 shares, being the minimum marketable parcel of shares under ASX listing rules. ASX Listing Rules define the minimum parcel as having a value of A$500. The calculation of the minimum parcel of 83 shares is based on an exchange rate of A$0.8754 and a Sky City share price of NZ$7.05.

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Twenty Largest Capital Noteholders as at 23 August 2002		Number of capital notes	% of issued capital notes
1	New Zealand Central Securities Depository Limited	5,456,000	3.64%
2	Custodial Nominees Limited	1,953,000	1.30%
3	Investment Custodial Services Limited	1,320,000	0.88%
4	Cogent Nominees Limited	1,000,000	0.67%
5	Custodial Services Limited Account No.3	836,000	0.56%
6	First NZ Securities Nominees Limited	630,000	0.42%
7	NZ Airline Pilots Mutual Benefit Fund	600,000	0.40%
8	J.R. Avery, P.G. Inger and J.A. Inger	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	333,000	0.22%
14	D.A. Smith, K.M. Smith and G.A. Smaill	325,000	0.22%
15	S.M. Auton and R.J. Auton	300,000	0.20%
16	C.A. Carran and P.A. Carran	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	16,303,000	10.87%

Distribution of Capital Notes holdings as at 23 August 2002

Size of holding	Number of noteholders	Number of capital notes
2,000 – 4,999	2	6,000
5,000 – 9,999	980	5,551,000
10,000 – 49,999	3,665	71,630,000
over 50,000	759	72,813,000
Total	5,406	150,000,000

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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 Sky City or any of its subsidiaries may hold a casino licence

to Sky City Entertainment Group Limited and any of its subsidiaries

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

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

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LIMITATIONS ON ACQUISITION OF ORDINARY SHARES (continued)

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

- 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 Sky City'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, Sky City 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 Sky City 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 Sky City 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 Sky City 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 then 20% of the voting rights in Sky City, or the increase of an existing holding of 20% or more of the voting rights in Sky City, 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 where an "overseas person" acquires shares or an interest in shares in Sky City 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 Sky City if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

OTHER REQUIRED DISCLOSURES

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

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

Sky City Entertainment Group Limited does not have an on market buy-back arrangement in place.

There are no material differences between the ASX Appendix 4B issued by Sky City Entertainment Group Limited for 30 June 2002 and this Annual Report.

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AUDITOR

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BANKERS

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ASB Finance Limited

Australia and New Zealand Banking Group Limited

Bank of New Zealand Limited

Commonwealth Bank of Australia

National Australia Bank Limited

The Hongkong and Shanghai Banking Corporation Limited

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