SKYCITY ENTERTAINMENT GROUP LIMITED INTERIM REPORT 2006

HIGH
LIGHTS

SKYCITY Entertainment Group Limited Interim Report 2006


Michelle Gifford, 10-year employee

WE'RE 10 THIS YEAR!

A SKYCITY DECADE. A decade of single-minded focus on our vision of creating fun and entertainment… of making sure our customers have the best time, every time.

A decade of success in business… creating value for SKYCITY shareholders, employment opportunities for our people and award-winning tourism and leisure attractions for our regions.

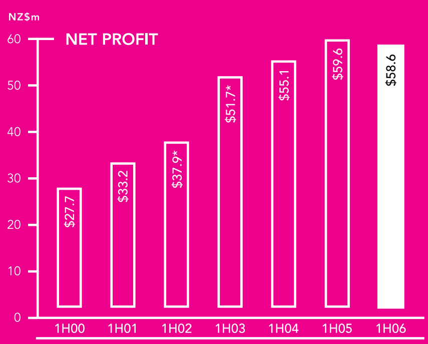
A decade of achievement in the community… supporting community groups and causes, contributing to local and national economies, and running a progressive, industry-leading host responsibility programme.

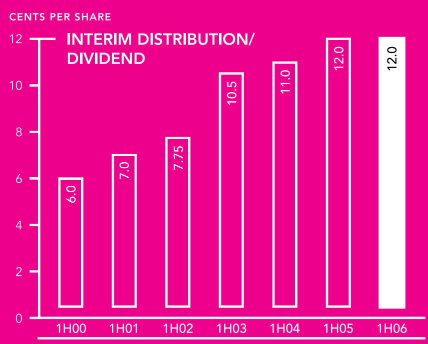
Ten years on, SKYCITY – now a mature, diverse and genuinely trans-Tasman operation – is a very different business to the one we opened 10 years ago in Auckland.

However, our operating philosophy has remained constant. The customer experience is our focus: our strategy continues to be to provide broad-based, locally-tailored entertainment; to offer an integrated, diverse range of attractions and facilities at SKYCITY properties; and to constantly refresh the products and services we offer.

$58.6 million
net profit

12 cents per share
distribution





* Before non-recurring items

Key Features

Group net profit has shown strength in the post smoking ban implementation period with the half year ended 31 December 2005 (1H06) net profit result only marginally below the half year ended 31 December 2004 (1H05) period. The majority of the 1H05 comparative period was prior to the introduction of smoking bans in New Zealand and smoking restrictions in South Australia in December 2004.

Net profit at $58.6 million is 25% ahead of the half year ended 30 June 2005 (2H05) result of $46.8 million. 2H05 was the first six-month reporting period post smoking ban introduction in New Zealand and smoking restrictions in South Australia.

Earnings performance (EBITDA[1] and EBIT[2]) shows strength across the Group, as summarised below:

+ SKYCITY Auckland in line with 1H05 (despite smoking bans) due to strong performances from gaming, convention and restaurant operations and the new revenue stream from the SKYCITY Grand Hotel
+ SKYCITY Adelaide result for 1H06 turns around the result reported for 2H05 with the expanded gaming area, North Restaurant and Loco Bar facilities attracting new patronage and a favourable response from existing customers
+ SKYCITY Darwin continues to perform strongly and its 1H06 growth has largely covered removal of the community slots rebate from 1 July 2005
+ SKYCITY Hamilton's revenues and earnings were supported by the new entertainment facilities acquired as part of the acquisition of the Riverside Entertainment Centre
+ Christchurch Casino is performing in line with 1H05, despite the smoking ban implications
+ SKYCITY Queenstown is down on 1H05 due to a combination of factors including limited international VIP/commission play and lower tourism visitation numbers to the Queenstown/Southern Lakes region
+ SKYCITY Leisure held revenues and earnings despite increased competition in the Auckland cinema market and a lack of strength in film product during 1H06
+ Profit distribution is maintained at 12 cents per share, to be paid on 7 April 2006 (entitlement date 10 March 2006)

[1] EBITDA = Earnings before interest, tax, depreciation and amortisation
[2] EBIT = Earnings before interest and tax

ACHIEVEMENTS

1996	+ SKYCITY Auckland opens + SKYCITY lists on the New Zealand stock exchange
1997	+ Sky Tower opens after two years, nine months and 15,000 cubic metres of concrete
1998	+ SKYCITY becomes a New Zealand-managed operation
1999	+ SKYCITY lists on the Australian stock exchange
2000	+ SKYCITY Adelaide acquired + SKYCITY Queenstown Casino opens + Managing Director Evan Davies named ‘New Zealand Executive of the Year’ + SKYCITY Auckland named ‘Supreme Award Winner’ at the New Zealand Tourism Awards
2001	+ Acquisition of majority shareholding in Force Corporation (subsequently renamed SKYCITY Leisure) + SKYCITY Entertainment Group named ‘New Zealand Company of the Year’
2002	+ SKYCITY Hamilton opens + SKYCITY’s ‘Action’ loyalty programme wins international excellence award at the 2002 US National Centre for Database Marketing Awards
2003	+ First joint-branded Village SKYCITY Cinema opens in Auckland + Sky Tower named ‘New Zealand’s Leading Visitor Attraction’ at the New Zealand Tourism Awards
2004	+ Full acquisition of SKYCITY Leisure Limited + SKYCITY Darwin acquired + 40.5% shareholding in Christchurch Casino acquired + SKYCITY Auckland Convention Centre opens + SKYCITY Entertainment Group wins PricewaterhouseCoopers’ Corporate Value Award
2005	+ SKYCITY’s five-star Grand Hotel opens in Auckland + Full acquisition of SKYCITY Hamilton + First stage of SKYCITY Adelaide redevelopment opens and wins Award of Distinction at the 2005 South Australian Tourism Awards + SKYCITY ACES debt issue wins FinanceAsia’s Best Equity-Linked Deal Award + SKYCITY named ‘Trans-Tasman Business of the Year’ + SKYCITY named by Forbes Magazine as one of the top companies in Asia under US$1 billion
2006	+ SKYCITY celebrates a decade of performance

Impact in New Zealand

SKYCITY's beneficial impacts are broader than creating wealth for its shareholders. SKYCITY creates jobs, pays tax and contributes to the general economic wellbeing of Australia and New Zealand. In Australia, SKYCITY owns two of the country's 13 casinos, which were collectively assessed as annually providing A$40.3† million in community support, A$775† million in local, state and federal government taxes, and contributing A$6.5† billion annually to Australian GDP – the equivalent of nearly 50 Melbourne F1 Grands Prix every year. In New Zealand, SKYCITY's contribution is just as significant…

+ NZ$14.4 million in community grants plus NZ$8.4 million to fund problem gambling research and treatment through the Problem Gambling Committee and the Ministry of Health since 1996
+ New Zealand GDP contribution of NZ$1 billion annually – the equivalent of holding two America's Cups each year, every year*
+ Provides NZ$0.5 billion in wages and salaries to New Zealand households annually*
+ Attracts more than eight million visitors per year, 15% of them international tourists*
+ Directly employs four thousand people with flow-on creation of an additional 1,600 jobs for suppliers and other sectors with relationships within the industry*
+ Provides NZ$95 million in tax revenue to local, regional and national governments*
+ Supports New Zealand-made goods and services with over 80% of all expenditure purchased from national sources*

† Source: URS Report on Economic Impacts of Casinos in Australia. Data is for 2003/04 year and covers all 13 casinos in Australia, including SKYCITY Adelaide and SKYCITY Darwin.

* Source: URS Report on Economic Impacts of Casinos in New Zealand. Data is for 2003/04 year and covers SKYCITY Auckland, SKYCITY Hamilton, SKYCITY Queenstown, Christchurch Casino and Dunedin Casino.

MANAGING DIRECTOR'S REVIEW

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

EVAN DAVIES

A Strong First Half Result

SKYCITY Entertainment Group has produced a strong earnings performance for the first half of the 2006 financial year, with all business units reporting good results for the six-month period.

Whilst net tax-paid profit at $58.6 million is marginally below the $59.6 million of the prior corresponding period, it is important to recognise that the 1H06 earnings result has been achieved during the smoking ban era in New Zealand and after smoking restrictions were imposed in South Australia. The New Zealand ban on smoking in an inside area and the South Australian restriction on smoking within one metre of a serviced workstation were both imposed in December 2004.

SKYCITY's first reporting period subsequent to smoking bans in New Zealand and smoking restrictions in South Australia was the second half of the 2005 financial year. The first half 2006 net profit of $58.6 million shows a 25% earnings improvement over the

$46.8 million recorded for the second half of the 2005 financial year, as the Auckland business recovered momentum and SKYCITY Adelaide demonstrated earnings growth from its new gaming and food and beverage facilities which opened in June 2005.

Group Expansion and Shareholder Value Enhancement

SKYCITY's first half 2006 result shows that the company's asset acquisition, development and enhancement programmes are proving successful, with increased value being achieved for shareholders from new and additional earnings streams. The not insignificant commitment of capital over the past two-year period to establish new assets in Auckland (SKYCITY Grand Hotel, Convention Centre, new members' facilities, enhanced restaurant offerings), the new facilities at SKYCITY Adelaide (gaming, restaurant, bar), acquisition of SKYCITY Darwin, acquisition of a significant shareholding in Christchurch Casino, full ownership of SKYCITY Hamilton, the Riverside Entertainment Centre and associated entertainment operations, and full ownership of a 50% share in the Village SKYCITY Cinemas operations in New Zealand have added significant value for SKYCITY's shareholders and there is clearly scope for that value to be enhanced further.

Impact of Smoking Bans in New Zealand

SKYCITY's New Zealand results for the first half of 2006 show alignment with the expected abatement pattern from the impacts of the smoking bans, as projected by the company in May 2005. Based on performance to date, we expect the abatement to continue in line with the May 2005 projection, representing an 18 to 21-month recovery period following the imposition of the smoking bans.

Interim Profit Distribution Maintained at 12 cents per share

SKYCITY's interim profit distribution to shareholders is maintained at the same level as last year's interim dividend, at 12 cents per share.

As previously advised, this year's profit distribution will be effected via a different structure. Shareholders will be issued bonus shares (non-taxable in New Zealand) equivalent to 12 cents per share but will have the option to have those shares bought back by the company on the issue date. The proceeds from the shares elected to be bought back will be treated as a cash dividend and full imputation credits will be attached to those dividends. Shareholders who elect the cash buyback will be in the same position under the new distribution structure as they would have been under the previous dividend structure.

The first half result confirms a significant abatement of the impact of smoking bans on the New Zealand businesses, the revenue-generating potential of the capital redevelopment programme at SKYCITY Adelaide, and the favourable impact of the Northern Territory economy on our Darwin business.

Full details of the bonus share profit distribution mechanism have been circulated to shareholders with this interim report on 22 March 2006. The entitlement date for the 2006 interim distribution will be 10 March 2006 and the payment date will be 7 April 2006.

The existing dividend reinvestment plan has been discontinued, having been replaced by the bonus share structure.

Key Elements of the 1H06 Result

The key features of the half year result are summarised on page 3 of this interim report. The first half result confirms a significant abatement of the impact of smoking bans on the New Zealand businesses, the revenue-generating potential of the capital redevelopment programme at SKYCITY Adelaide, and the favourable impact of the Northern Territory economy on our Darwin business. The result also confirms the inherent strength of the gaming and the non-gaming operations at all SKYCITY properties.

Balance Sheet and Funding

The company's balance sheet is in good shape, with current gearing levels assessed as being both prudent and efficient. Current and expected financial performance shows the company comfortably inside its debt facility covenants.

SKYCITY's debt facilities are well structured and well aligned to the company's requirements with respect to terms and conditions and pricing/ interest cost.

The company's debt structures are well hedged against foreign currency and interest rate movement exposures.

A Diversified Trans-Tasman Business

SKYCITY is well established as a diversified gaming and entertainment business on both sides of the Tasman. New Zealand operations represented 69% of Group revenues during the half, with Australian operations contributing 31%. Gaming operations represented 76% of overall Group revenues with non-gaming operations (food and beverage, cinema exhibition, hotel and convention, Sky Tower and carparking) contributing 24%.

SKYCITY Auckland

Despite the smoking ban implementation affecting 1H06, but only to a very limited extent the comparative prior period, SKYCITY Auckland grew its revenues by 8.6%, with gaming revenues up 4.5% and non-gaming revenues up strongly by 28%. The main contributors to the non-gaming revenue growth were restaurants and bars, conventions and hotel operations. The SKYCITY Grand Hotel provided a new revenue stream of $5 million in the first half of 2006.

The change in revenue mix (with non-gaming operations producing 21% of revenues, up from 18% in 1H05) and increases in some expense categories associated with the larger scale and complexity of the Group's operations restricted growth in operating earnings (as measured by EBITDA) to +1.4%. However, the revenue momentum and the opportunity to manage costs at or below revenue growth bode well for ongoing improvement in the earnings performance of the SKYCITY Auckland business.

The comparison with the immediately preceding period, being the second half of the 2005 financial year and the first reported half year after smoking ban implementation, demonstrates the strength of the recovery achieved at SKYCITY Auckland in the first half of 2006, with revenues up 16%, operating earnings (EBITDA) up 12%, and EBIT up 10%.

The main impact of the smoking bans has been on gaming machine revenues which were down 4.3% on the corresponding prior period (first half of 2005), but a comparison against the second half of 2005 (the immediately preceding period and the first under smoking bans) shows machine revenues are recovering momentum, at +8%.

Table games revenues were strong during the period, with an excellent response from both local and international players to the new members' facilities. VIP machine players have also responded well to the new purpose-built Platinum Room facilities which opened in July 2005.

The SKYCITY Auckland Convention Centre is clearly the preferred conference and convention destination in Auckland, with convention revenues recording an impressive 40% increase over the first half of 2005 which was the first period of operation of the new facility.

The SKYCITY Grand Hotel is performing in line with pre-opening expectations as we look to build occupancy levels whilst maintaining average room rate at the five-star level.

SKYCITY Adelaide

The Adelaide 1H06 result has demonstrated the revenue growth that can be achieved from a significant repositioning and upgrading of an entertainment complex. The new gaming area, North Restaurant and LOCO Bar have generated an enthusiastic response from existing customers and attracted new customers to the property. This

The Adelaide 1H06 result has demonstrated the revenue growth that can be achieved from a significant repositioning and upgrading of an entertainment complex.

customer response is demonstrated in an 18% revenue growth for the first half of 2006 compared to the corresponding prior period, and a 26% increase over the second half of 2005.

The new facilities, which opened in June 2005 at a capital cost of A$21 million, represent the first stage of a proposed A$75 million upgrade and redevelopment of the Adelaide complex. The results of the first stage of the redevelopment programme provide encouragement for the potential success of the subsequent stages of the overall project.

The 18% growth in revenues (over the first half of 2005) was contributed to by all sectors, with machine games at +20%, table games at +8%, and food and beverage operations at +48%. The table games revenue increase was particularly pleasing given the one-metre no-smoking restriction imposed in December 2004.

SKYCITY Adelaide also opened a Platinum Room for VIP players during the half. As for the Auckland Platinum Room, customer response to this new facility has been very encouraging.

We were delighted that SKYCITY Adelaide was recognised for its new facilities with an Award of Distinction at the 2005 South Australian Tourism Awards.

SKYCITY Darwin

The momentum generated by the Northern Territory economy and its flow-on effect for SKYCITY Darwin earnings was evident during the 2005 financial year and during the first half of 2006. This economic momentum is expected to continue to drive SKYCITY Darwin earnings in the second half of 2006 and beyond.

The acquisition of SKYCITY Darwin (in July 2004) has added significant value to the Group's asset base. The acquisition price paid, coupled with the earnings growth that has been achieved since acquisition, has produced an excellent rate of return on the capital committed.

The comparison of the first half of 2006 against the corresponding prior period shows revenues up 6% despite removal of the community slots rebate from 1 July 2005 – the slots rebate provided a net revenue contribution of A$2.4 million to the 1H05 result. Despite removal of the rebate, gaming revenues were up 5% and other revenues (mainly hotel, restaurants and bar) were up 12% over the corresponding prior period.

The Darwin Platinum Room, which opened in November 2005, has been very well received by customers.

Access has been an issue for tourism visitation to Darwin for some time, but these difficulties were eased partially with the commencement of four flights per week into Darwin, from Singapore by Tiger Air (Singapore Airlines' budget carrier), and an additional Ghan train service into Darwin from Adelaide each week during the dry season.

Whilst there is a significant dry/wet seasonality factor which favours first half results over second half for Darwin, we expect that the revenue and earnings momentum will continue into future reporting periods.

Other New Zealand Operations

SKYCITY Hamilton maintained revenues at just over $16 million for the half, but effective cost management resulted in an uplift in earnings performance by 7% at the EBITDA line and by almost 10% at the earnings line after interest. Revenues from the additional entertainment operations associated with the Riverside Centre, together with an enhancement of the Victoria Street entrance, will assist earnings prospects going forward.

Christchurch Casino has sustained earnings at levels comparable with the prior period, despite the smoking ban impacts. SKYCITY is actively working with Christchurch Casino management to assess refurbishment and redevelopment concepts for this property.

SKYCITY Queenstown Casino's first half result was down on the corresponding prior period, due largely to a number of external factors, including lower tourism numbers to the region and reduced visitation by international commission player groups.

SKYCITY Leisure's New Zealand cinema exhibition operations (50% joint venture with Village Roadshow) maintained revenues and earnings despite increased competition in the Auckland market and limited strength in cinema product during the period.

SKYCITY Leisure's investment in Village Cinemas SA (Argentina), inherited as part of the acquisition package for the New Zealand cinema operations in 2001, was divested during the period and the contingent liability of US$4 million extinguished. This divestment of the Argentina shareholding was achieved at no cost to SKYCITY Leisure and with no adverse impact on SKYCITY's financial statements.

SKYCITY's shareholders have continued to share in the company's success through maintenance of the high level of profit distribution and significant growth in value over time.

International Financial Reporting Standards (NZ IFRS)

The SKYCITY financial statements for the six-month period ended 31 December 2005, as set out in this interim report, are the company's first under NZ IFRS. Adoption of NZ IFRS, effective from 1 July 2004 for comparative period purposes, has had a relatively insignificant effect on the company's previously reported results. The main impact of the new reporting standards is in accounting for goodwill, and some minor changes to asset valuations which have had some consequent impact on depreciation expense.

Position as at March 2006

It is my pleasure to report on a company that has achieved a strong first half result and we are looking forward to the rest of the year with cautious optimism. The company is demonstrating good returns on its asset investment programme and is showing that growth momentum is emerging again in the New Zealand operations after a challenging period over the last 24 months.

The first half result demonstrates that the various challenges are gradually being overcome in New Zealand, that the growth potential inherent within the new Adelaide facilities is being realised, and that the strong Darwin economy should continue to provide a positive momentum to the earnings of SKYCITY's northernmost property.

And, importantly, SKYCITY's shareholders have continued to share in this success through maintenance of the high level of profit distribution and significant growth in value over time.

E W Davies
MANAGING DIRECTOR

March 2006

PLAYING OUR PART

IN THE COMMUNITY AND AS A HOST

Flinders Medical Centre in Adelaide is establishing a Children's Healthy Weight Management Clinic, thanks to support from SKYCITY

At SKYCITY, we have always understood that operating a gaming business is a privilege – not a right – and with that privilege comes important responsibilities. Over the last 10 years, SKYCITY has established a track record of contribution to the community and a proactive approach to host responsibility.

Community Support

SKYCITY's sponsorship portfolio and charitable trusts focus on a number of key areas: child health, arts and culture, tourism, sport, and community care and support. Some recent initiatives include:

Caring for Kids, South Australia

Childhood obesity is on the rise in both New Zealand and Australia. In a drive to reverse the trend, last year SKYCITY Adelaide announced its sponsorship of the Flinders Medical Centre in South Australia, providing $100,000 to establish a Children's Healthy Weight Management Clinic.

The clinic draws on the specialist skills of a number of dedicated professionals and fights the increasing rates of obesity through education, wellness clinics, diet and nutrition awareness, and ongoing research into intervention, causes and therapies.

Over the last 10 years, SKYCITY has established a track record of contribution to the community and a proactive approach to host responsibility.

Supporting Local Rugby

Hamilton residents are passionate about rugby, and SKYCITY is no exception.

SKYCITY Hamilton recently announced its continued sponsorship of the Chiefs, the region's Rebel Sport Super 14 rugby team, for the 2006 to 2008 seasons. This announcement complements SKYCITY's existing sponsorship of the Waikato Air New Zealand Cup team (formerly the Waikato NPC team).

Rugby is an integral part of the local community and these sponsorships allow the alignment of three great entertainment brands, while providing an entertainment home for players and supporters.

New Zealand International Arts Festival

SKYCITY was proud to be a Gold sponsor of this year's New Zealand International Arts Festival, based in Wellington. Providing an excellent fit with SKYCITY's focus on delivering fun and entertainment, the festival forms a critical part of the national arts calendar.

As principal sponsor of the showpiece photographic exhibition 'Earth from Above' by Arthus Bertrand, SKYCITY launched the exhibition at the Embassy Theatre on 23 February. The exhibition displayed beautiful and thought-provoking imagery in Waitangi Park, free for members of the public to view throughout the festival.

SKYCITY Hamilton is proud to continue its support of local rugby
(Photo courtesy of Waikato Times)

Evan Davies and Carla van Zon, artistic director of the New Zealand International Arts Festival, at the launch of 'Earth from Above'
(Photo © Robert Catto / www.catto.co.nz)

Host Responsibility

A progressive, comprehensive approach to host responsibility supports SKYCITY's vision of creating fun and entertainment for customers – safe, positive experiences will ensure customers return and recommend SKYCITY to others.

Since the introduction of host responsibility initiatives at our first property in 1996, SKYCITY has been at the forefront of industry moves to manage problem gambling and drinking.

Our Group-wide Host Responsibility Policy is supported by a comprehensive programme. Highlights over the last decade include the introduction of a dedicated host responsibility team, host responsibility training for all staff, and the development of an innovative four-step model for the responsible service of alcohol.

The creation of two new Auckland-based roles reflects SKYCITY's continuing focus on host responsibility.

Introducing Caleb Taiala – Host Responsibility Advocate

Caleb Taiala's role is to ensure that all SKYCITY Auckland staff are trained to recognise the signs of problem gambling and alcohol intoxication, and to empower them to take appropriate action.

Caleb Taiala and Debbie Edwards

Host responsibility training is an essential part of the induction process for new staff. But it doesn't end there – Caleb spends a great deal of time in the business, talking to staff about what it means to them to be a responsible host, and ensuring that this vital component of operations is kept at the forefront of everyone's minds.

Introducing Debbie Edwards – Harm Minimisation Manager

Debbie Edwards works with government agencies and researchers, complementing the SKYCITY host responsibility team's ongoing liaison with communities, public health and treatment sectors.

Debbie joins us from the Ministry of Health where she was Project Leader for Problem Gambling. Her appointment will ensure SKYCITY benefits from an understanding of the latest international research and best practice on harm minimisation.

Financial Statements

Accountant's Report

PRICEWATERHOUSECOOPERS

To the shareholders of SKYCITY Entertainment Group Limited

We have reviewed the interim financial statements ("financial statements") on pages 19 to 56. The financial statements provide information about the past financial performance and cash flows of the Group, comprising SKYCITY Entertainment Group Limited and its subsidiaries for the half year ended 31 December 2005 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 24 to 34.

Directors' responsibilities

The company's directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 31 December 2005 and its financial performance and cash flows for the half year ended on that date.

Accountant's responsibilities

We are responsible for reviewing the financial statements presented by the directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the half year ended 31 December 2005 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

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

Review opinion

We have reviewed the financial performance and cash flows of the Group for the half year ended 31 December 2005 and its financial position as at that date.

Based on our review nothing has come to our attention that causes us to believe that the financial statements do not present fairly the financial position of the Group as at 31 December 2005 and its financial performance and cash flows for the half year ended on that date in accordance with both International Accounting Standard 34 and New Zealand International Accounting Standard 34, Interim Financial Reporting.

Our review was completed on 21 February 2006 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Auckland

Consolidated Income Statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	NOTES	6 MONTHS ENDED 31 DECEMBER 2005 $000	6 MONTHS ENDED 31 DECEMBER 2004 $000	12 MONTHS ENDED 30 JUNE 2005 $000
Revenue		**383,356**	345,304	671,941
Other income	5	**5,406**	5,808	11,042
Share of net profits of associates		**2,417**	23	26
Employee benefits expense		**(111,084)**	(93,067)	(186,753)
Depreciation and amortisation expense	6	**(34,928)**	(29,158)	(58,783)
Other expenses		**(120,200)**	(105,538)	(211,179)
Directors' fees		**(293)**	(488)	(978)
Finance costs	6	**(45,645)**	(38,915)	(79,713)
Profit before income tax		**79,029**	83,969	145,603
Income tax expense		**(20,642)**	(23,809)	(38,078)
Profit before minority interest		**58,387**	60,160	107,525
Profit attributable to minority interest		**228**	(607)	(1,111)
Profit attributable to shareholders of the company		**58,615**	59,553	106,414
Earnings per share for profit attributable to the shareholders of the company				
Basic earnings per share (cents)	2(v)	**14.0**	14.3	25.5
Diluted earnings per share (cents)	2(v)	**12.8**	14.0	25.2

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

AS AT 31 DECEMBER 2005

	NOTES	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
ASSETS				
Current assets				
Inventories		**5,842**	4,998	5,382
Current tax receivables		**–**	1,098	12,905
Receivables and prepayments		**35,512**	37,525	37,158
Cash and bank balances		**77,800**	73,686	62,849
Total current assets		**119,154**	117,307	118,294
Non-current assets				
Property, plant and equipment		**924,727**	884,938	917,967
Investment properties	8	**52,500**	51,900	52,500
Intangible assets		**385,445**	328,831	377,016
Derivative financial instruments		**8,469**	–	–
Other investments		**2,571**	78,275	79,539
Future income tax benefit		**17,405**	19,211	16,384
Investments in associates	13	**77,377**	251	281
Total non-current assets		**1,468,494**	1,363,406	1,443,687
Total assets		**1,587,648**	1,480,713	1,561,981

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet (continued)

AS AT 31 DECEMBER 2005

	NOTES	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
LIABILITIES				
Current liabilities				
Interest-bearing liabilities		**–**	387,009	758
Current tax payables		**3,080**	–	–
Payables		**93,359**	85,548	97,005
Subordinated debt – capital notes		**–**	149,833	–
Subordinated debt – other		**–**	–	100,000
Total current liabilities		**96,439**	622,390	197,763
Non-current liabilities				
Interest-bearing liabilities		**923,969**	572,856	956,795
Derivative financial instruments		**9,798**	–	–
Deferred tax liabilities		**47,185**	44,189	48,147
Convertible notes		**–**	8,910	–
Subordinated debt – capital notes		**123,702**	–	121,510
Subordinated debt – ACES		**163,221**	–	–
Total non-current liabilities		**1,267,875**	625,955	1,126,452
Total liabilities		**1,364,314**	1,248,345	1,324,215
Net assets		**223,334**	232,368	237,766
EQUITY				
Share capital		**233,134**	227,488	226,726
Reserves	9(a)	**(34,122)**	(15,867)	(5,159)
Retained profits	9(b)	**21,706**	16,624	13,355
Shareholders' equity		**220,718**	228,245	234,922
Minority interest		**2,616**	4,123	2,844
Total equity		**223,334**	232,368	237,766

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	NOTES	6 MONTHS ENDED 31 DECEMBER 2005 $000	6 MONTHS ENDED 31 DECEMBER 2004 $000	12 MONTHS ENDED 30 JUNE 2005 $000
Total equity at the beginning of the period		**237,766**	256,726	256,726
Restatement on adoption of NZ IAS 39	9	**(4,073)**	–	–
Restated total equity at the beginning of the period		**233,693**	256,726	256,726
Movement in cash flow hedge reserve	9	**(18,146)**	–	–
Exchange differences on translation of foreign operations	9	**(6,442)**	(20,193)	(8,429)
Net income recognised directly in equity		**(24,588)**	(20,193)	(8,429)
Profit for the period		**58,615**	59,553	106,414
Total recognised income and expense for the period		**34,027**	39,360	97,985
Share options/rights issued for employee services		**437**	273	569
Buy back of shares		**(5,152)**	(6,452)	(13,754)
Employee share entitlements issued	7	**2,140**	2,869	2,869
Movement in employee share entitlement reserve	9	**(363)**	(1,034)	(2,090)
Exercise of share options		**2,556**	4,547	4,685
Distributions to owners	10	**(50,203)**	(64,528)	(114,658)
Shares issued under dividend reinvestment plan		**6,427**	–	6,106
Total changes in minority interest		**(228)**	607	1,111
Acquisition of minority interest		**–**	–	(1,783)
		(44,386)	(63,718)	(116,945)
Total equity at the end of the period		**223,334**	232,368	237,766

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	NOTES	6 MONTHS ENDED 31 DECEMBER 2005 $000	6 MONTHS ENDED 31 DECEMBER 2004 $000	12 MONTHS ENDED 30 JUNE 2005 $000
Cash flows from operating activities				
Receipts from customers		**385,186**	336,515	667,845
Payments to suppliers and employees		**(209,771)**	(193,464)	(347,654)
		175,415	143,051	320,191
Dividends received		**2,105**	3,518	5,624
Interest received		**5,407**	2,290	3,571
Other taxes paid		**(21,778)**	(19,696)	(35,898)
Income taxes paid		**(6,639)**	(10,752)	(33,799)
Net cash flows from operating activities	15	**154,510**	118,411	259,689
Cash flows from investing activities				
Purchase of business, net of cash acquired		**–**	(202,733)	(247,910)
Purchase of property, plant and equipment		**(56,585)**	(67,285)	(146,159)
Payments for intangible assets		**(3,144)**	–	–
Net cash flows from investing activities		**(59,729)**	(270,018)	(394,069)
Cash flows from financing activities				
Exercise of share options		**2,556**	4,547	4,685
Proceeds from borrowings		**163,462**	279,886	665,850
Buy back of shares		**(5,152)**	(6,453)	(13,754)
Repayment of borrowings		**(152,514)**	(800)	(317,398)
Dividends paid to company's shareholders		**(43,776)**	(64,528)	(108,552)
Interest paid		**(44,316)**	(36,238)	(86,815)
Net cash flows from financing activities		**(79,740)**	176,414	144,016
Net increase in cash and cash equivalents		**15,041**	24,807	9,636
Cash and cash equivalents at the beginning of the period		**62,849**	53,272	53,272
Effects of exchange rate changes on cash and cash equivalents		**(90)**	(4,393)	(59)
Cash and cash equivalents at the end of the period		**77,800**	73,686	62,849

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

1. GENERAL INFORMATION

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

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

These consolidated financial statements were approved for issue by the board of directors on 21 February 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These general-purpose financial statements for the interim half year reporting period ended 31 December 2005 have been prepared in accordance with generally accepted accounting practice in New Zealand, International Accounting Standard 34 and NZ IAS 34 Interim Financial Reporting.

(a) Basis of preparation

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

Entities reporting

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SKYCITY as at 31 December 2005 and the results of all subsidiaries, joint ventures and associates for the half year then ended. SKYCITY Entertainment Group Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

The consolidated entity is designated as profit-orientated entities for financial reporting purposes.

Statutory base

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

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

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

The interim consolidated financial statements have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) NZ IAS 34 Interim Financial Statements. These are the Group's first interim financial statements prepared in accordance with NZ IAS 34 Interim Financial Statements. NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied. The consolidated interim financial statements do not include all of the information required for full annual financial statements.

Financial statements of SKYCITY until 30 June 2005 had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing the SKYCITY interim financial report for the half year ended 31 December 2005, certain accounting and valuation methods applied in the previous NZ FRS financial statements have been amended to comply with NZ IFRS.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Group's equity and its net income are given in note 16.

Historical cost convention

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

Critical accounting estimates

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

(b) Principles of consolidation

(i) Subsidiaries

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

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

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

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

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

(ii) Associates

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

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

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

(iii) Joint ventures

Jointly controlled operations

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Foreign operations

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

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

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

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

(e) Revenue recognition

Revenue is recognised as follows:

(i) Operating revenue

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

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

(ii) Interest income

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

(iii) Dividend income

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

Notes to the Financial Statements (continued)

(f) Income tax

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

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

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

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

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

(g) Leases

(i) The Group is the lessee

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

(ii) The Group is the lessor

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

(h) Impairment of assets

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

(i) Cash and cash equivalents

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

(j) Trade receivables

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

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

(k) Inventories

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

(l) Investments and other financial assets

From 1 July 2005

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

(i) Financial assets at fair value through profit or loss

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

Notes to the Financial Statements (continued)

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

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

(m) Derivatives

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

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

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

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

The fair values of various derivative financial instruments used for cash flow hedging purposes are disclosed in movements in the hedging reserve in shareholders' equity shown in note 9.

(iii) Derivatives that do not qualify for hedge accounting

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

(n) Property, plant and equipment

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

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

Notes to the Financial Statements (continued)

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(h)).

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

(o) Investment property

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

(p) Intangible assets

(i) Goodwill

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

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

(ii) Casino licences

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

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

(iii) Acquired software

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

(q) Borrowings

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

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

(r) Borrowing costs

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

(s) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Share-based payments

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

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

(t) Share capital

Ordinary shares are classified as equity.

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

Where any Group company purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

(u) Dividends/Distributions

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

(v) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

3. TRANSITION TO IFRS

Application of NZ IFRS 1

SKYCITY Entertainment Group Limited's (SKYCITY or the company) financial statements for the six months ended 31 December 2005 are the first interim financial statements that comply with NZ IAS 34 Interim Financial Statements. These financial statements have been prepared as described in note 2(a). The Group has applied NZ IFRS 1 in preparing these consolidated financial statements.

The company's transition date is 1 July 2004 and the opening NZ IFRS balance sheet is prepared as at that date. The reporting date of these financial statements is 31 December 2005. SKYCITY's NZ IFRS adoption date is 1 July 2005.

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

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

(a) Business combinations exemption

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

(b) Fair value as deemed cost exemption

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

(c) Cumulative translation differences exemption

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

(d) Exemption from restatement of comparatives for NZ IAS 32 and NZ IAS 39

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

(e) Share-based payment transaction exemption

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

The reconciliations in note 16 provide a quantification of the effect of the transition to NZ IFRS.

Status of NZ IFRS

These interim financial statements have been prepared on the basis of NZ IFRS and New Zealand equivalents to International Reporting Interpretations Council (NZ IFRIC) interpretations that are current as at the date of these financial statements (21 February 2006). Based on these NZ IFRS and NZ IFRICs, the company has made assumptions about the accounting policies expected to be adopted when the first NZ IFRS annual financial statements are prepared for the year ended 30 June 2006.

The NZ IFRS that will be effective or available for voluntary early adoption in the annual financial statements for the year ended 30 June 2006 are still subject to change and to the issue of additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for the annual period that are relevant to this interim financial information will be finalised only when the first NZ IFRS financial statements are prepared for the full year ending 30 June 2006.

4. SEGMENT INFORMATION

Geographical segments

The Group is organised on a global basis in the following main geographical areas:

- SKYCITY Auckland complex
- Rest of New Zealand
- SKYCITY Adelaide, Australia
- SKYCITY Darwin, Australia

Notes to the Financial Statements (continued)

Primary reporting – geographic segments

6 MONTHS ENDED 31 DECEMBER 2005	SKYCITY AUCKLAND COMPLEX $000	REST OF NEW ZEALAND $000	SKYCITY ADELAIDE $000	SKYCITY DARWIN $000	TOTAL $000
Total revenue and other income	228,022	38,798	71,372	50,570	388,762
Segment result	88,659	9,471	9,276	14,851	122,257

6 MONTHS ENDED 31 DECEMBER 2004	SKYCITY AUCKLAND COMPLEX $000	REST OF NEW ZEALAND $000	SKYCITY ADELAIDE $000	SKYCITY DARWIN $000	TOTAL $000
Total revenue and other income	206,122	42,682	60,341	41,967	351,112
Segment result	86,848	14,035	8,201	13,777	122,861

12 MONTHS ENDED 30 JUNE 2005	SKYCITY AUCKLAND COMPLEX $000	REST OF NEW ZEALAND $000	SKYCITY ADELAIDE $000	SKYCITY DARWIN $000	TOTAL $000
Total revenue and other income	400,329	83,443	116,686	82,525	682,983
Segment result	164,998	25,995	9,525	24,772	225,290

Total revenue and other income includes operating revenue and income from treasury transactions as detailed in note 5.

Secondary reporting – business segments

Although the company's divisions are managed on a geographical basis, they operate in the following main businesses:

- Table games
- Gaming machines
- Other (includes hotels, cinemas, food and beverages, convention centre and Sky Tower)

Additional information will be provided on both geographic and business segments in the 30 June 2006 annual report.

5. OTHER INCOME

	6 MONTHS ENDED 31 DECEMBER		12 MONTHS ENDED 30 JUNE
	2005 $000	2004 $000	2005 $000
Fair value gains on financial assets at fair value through profit or loss	**4,107**	–	2,013
Fair value adjustment to investment property	**–**	–	572
Interest income	**1,293**	2,290	2,833
Dividend income	**6**	3,518	5,624
	5,406	5,808	11,042

6. PROFIT BEFORE INCOME TAX

	6 MONTHS ENDED 31 DECEMBER		12 MONTHS ENDED 30 JUNE
	2005 $000	2004 $000	2005 $000
Profit before income tax includes the following specific expenses:			
Depreciation	**30,529**	25,043	50,179
Amortisation			
Amortisation of casino licences	**2,893**	2,549	5,567
Amortisation of software	**1,506**	1,566	3,037
Total amortisation	**4,399**	4,115	8,604
Finance costs			
Interest and finance charges paid/payable	**46,802**	38,915	81,536
Exchange gains on foreign currency borrowings	**(1,157)**	–	(1,823)
Net finance costs	**45,645**	38,915	79,713

Notes to the Financial Statements (continued)

7. EQUITY SECURITIES ISSUED

	31 DECEMBER 2005 SHARES	31 DECEMBER 2004 SHARES	30 JUNE 2005 SHARES	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
Issues of ordinary shares during the period						
Shares issued under dividend reinvestment plan	**1,353,016**	–	1,212,484	**6,427**	–	6,106
Exercise of share options	**631,999**	2,057,800	2,092,466	**2,556**	4,547	4,685
Issue of share options	**–**	–	–	**437**	273	569
Shares issued under employee bonus scheme	**479,704**	695,483	695,483	**2,140**	2,869	2,869
Shares repurchased and cancelled	**(1,111,703)**	(1,420,945)	(2,422,615)	**(5,152)**	(6,452)	(13,754)
	1,353,016	1,332,338	1,577,818	**6,408**	1,237	475

8. INVESTMENT PROPERTIES

	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
At fair value			
Opening balance	**52,500**	51,900	51,900
Additions	**–**	–	28
Net gain from fair value adjustment	**–**	–	572
Closing balance	**52,500**	51,900	52,500

Valuation basis

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

9. RESERVES AND RETAINED PROFITS

	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
(a) Reserves			
Cash flow hedge reserve	**(22,158)**	–	–
Foreign currency translation reserve	**(14,871)**	(20,193)	(8,429)
Employee share entitlement reserve	**2,907**	4,326	3,270
	(34,122)	(15,867)	(5,159)
Cash flow hedge reserve			
Opening balance	**–**	–	–
Adjustment on adoption of NZ IAS 39	**(4,012)**	–	–
Revaluation	**(6,928)**	–	–
Transfer to net profit	**(11,218)**	–	–
Closing balance	**(22,158)**	–	–
Foreign currency translation reserve			
Opening balance	**(8,429)**	–	–
Exchange difference on translation of overseas subsidiaries	**(8,152)**	(20,193)	(8,429)
Effect of hedging the net investment of overseas subsidiaries	**1,710**	–	–
Closing balance	**(14,871)**	(20,193)	(8,429)
Employee share entitlement reserve			
Opening balance	**3,270**	5,360	5,360
Less value of shares issued during the period	**(2,140)**	(2,869)	(2,869)
Less cash issued in lieu of shares	**–**	(9)	(9)
Plus value of share entitlements for the year	**1,777**	1,844	788
Closing balance	**2,907**	4,326	3,270

Notes to the Financial Statements (continued)

(i) Cash flow hedge reserve

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

(ii) Foreign currency translation reserve

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

(iii) Employee share entitlement reserve

The share-based payments reserve is used to recognise the fair value of options granted but not exercised.

(b) Retained profits

Movements in retained profits were as follows:

	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
Opening balance	**13,355**	21,599	21,599
Net profit for the year	**58,615**	59,553	106,414
Dividends	**(50,203)**	(64,528)	(114,658)
Adjustment on adoption of NZ IAS 39	**(61)**	–	–
Closing balance	**21,706**	16,624	13,355

10. DIVIDENDS

	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
Ordinary shares			
Prior year final dividend paid in cash or reinvested	**50,203**	64,528	64,528
Interim dividend paid in cash or reinvested	**–**	–	50,130
Total dividends paid or reinvested	**50,203**	64,528	114,658

11. CONTINGENCIES

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

12. COMMITMENTS

(a) Capital commitments

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

	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
Property, plant and equipment	**10,434**	53,586	23,563

(b) Lease commitments: Group as lessee

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:			
Within one year	**7,339**	7,117	7,040
Later than one year but not later than five years	**24,088**	20,647	23,394
Later than five years	**242,858**	239,429	245,877
	274,285	267,193	276,311

13. INVESTMENTS IN ASSOCIATES

Opening balance	**281**	255	255
Share of profits after income tax	**2,417**	23	26
Christchurch Casinos Limited*	**76,784**	–	–
Other movements	**–**	(27)	–
Dividends received	**(2,105)**	–	–
Closing balance	**77,377**	251	281

** With effect from 1 July 2005, SKYCITY has accounted for its investment in Christchurch Casinos Limited as an associate.*

Notes to the Financial Statements (continued)

14. EVENTS OCCURRING AFTER BALANCE DATE

Bonus issue/profit distribution

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

The bonus shares will be issued and buyback proceeds paid to shareholders on Friday 7 April 2006.

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

	31 DECEMBER 2005 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
Profit for the period	**58,615**	59,553	106,414
Minority interest	**(228)**	607	1,111
Depreciation and amortisation	**34,928**	29,158	58,783
Movement in associates	**(312)**	–	–
Current period employee share entitlement	**1,777**	1,843	788
Revaluation of investment properties	**–**	–	(572)
Increase in deferred taxation	**(962)**	5,386	9,344
Current period share options expense	**434**	273	569
Increase in future income tax benefit	**(1,021)**	(4,566)	(1,739)
Unrealised gain on investments	**184**	–	(1,488)
Interest expense	**43,333**	33,389	81,035
Associate entity (surpluses)/deficit	**–**	(23)	(26)
Decrease in receivables and prepayments	**1,646**	15,581	15,986
Increase in inventories	**(460)**	(1,981)	(2,391)
(Decrease)/Increase in payables and accruals	**(3,646)**	(7,304)	4,153
Decrease/(increase) in provision for income taxes receivable	**15,985**	8,901	(2,906)
Capital items included in working capital movements	**4,237**	(22,406)	(9,372)
Net cash inflow from operating activities	**154,510**	118,411	259,689

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS

(1) Reconciliation of previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to New Zealand equivalents to IFRS (NZ IFRS)

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

	NOTES	PREVIOUS NZ GAAP $000	EFFECT OF TRANSITION TO NZ IFRS $000	NZ IFRS $000
ASSETS				
Current assets				
Inventories		3,017	–	3,017
Current tax receivables		9,999	–	9,999
Receivables and prepayments		53,106	–	53,106
Cash and bank balances		53,272	–	53,272
Total current assets		119,394	–	119,394
Non-current assets				
Property, plant and equipment	(4)(b)(d)(g)	750,267	(16,137)	734,130
Investment properties	(4)(d)	–	51,900	51,900
Intangible assets	(4)(g)	212,373	4,428	216,801
Other investments		78,025	–	78,025
Future income tax benefit		14,645	–	14,645
Investments in associates		255	–	255
Total non-current assets		1,055,565	40,191	1,095,756
Total assets		1,174,959	40,191	1,215,150

Notes to the Financial Statements (continued)

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

	NOTES	PREVIOUS NZ GAAP $000	EFFECT OF TRANSITION TO NZ IFRS $000	NZ IFRS $000
LIABILITIES				
Current liabilities				
Interest-bearing liabilities		101,000	–	101,000
Payables	(4)(e)	93,619	(767)	92,852
Subordinated debt – capital notes		149,644	–	149,644
Total current liabilities		344,263	(767)	343,496
Non-current liabilities				
Interest-bearing liabilities		579,967	–	579,967
Deferred tax liabilities	(4)(i)	27,216	(1,165)	26,051
Convertible notes		8,910	–	8,910
Total non-current liabilities		616,093	(1,165)	614,928
Total liabilities		960,356	(1,932)	958,424
Net assets		214,603	42,123	256,726
EQUITY				
Share capital	(4)(e)	225,871	380	226,251
Reserves	(4)(a)(e)	(7,510)	12,870	5,360
Retained profits	(4)(j)	(7,274)	28,873	21,599
Shareholders' equity		211,087	42,123	253,210
Minority interest		3,516	–	3,516
Total equity		214,603	42,123	256,726

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

(b) At the end of the last half year reporting period under previous NZ GAAP: 31 December 2004

	NOTES	PREVIOUS NZ GAAP $000	EFFECT OF TRANSITION TO NZ IFRS $000	NZ IFRS $000
ASSETS				
Current assets				
Inventories		4,998	–	4,998
Current tax receivables		1,098	–	1,098
Receivables and prepayments		37,525	–	37,525
Cash and bank balances		73,686	–	73,686
Total current assets		117,307	–	117,307
Non-current assets				
Property, plant and equipment	(4)(b)(d)(g)	902,621	(17,683)	884,938
Investment properties	(4)(d)	–	51,900	51,900
Intangible assets	(4)(c)(g)(h)	306,701	22,130	328,831
Other investments		78,275	–	78,275
Future income tax benefit		19,211	–	19,211
Investments in associates		251	–	251
Total non-current assets		1,307,059	56,347	1,363,406
Total assets		1,424,366	56,347	1,480,713

Notes to the Financial Statements (continued)

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

	NOTES	PREVIOUS NZ GAAP $000	EFFECT OF TRANSITION TO NZ IFRS $000	NZ IFRS $000
LIABILITIES				
Current liabilities				
Interest-bearing liabilities		387,009	–	387,009
Payables	(4)(e)	85,894	(346)	85,548
Subordinated debt – capital notes		149,833	–	149,833
Total current liabilities		622,736	(346)	622,390
Non-current liabilities				
Interest-bearing liabilities		572,856	–	572,856
Deferred tax liabilities	(4)(i)	32,150	12,039	44,189
Convertible notes		8,910	–	8,910
Total non-current liabilities		613,916	12,039	625,955
Total liabilities		1,236,652	11,693	1,248,345
Net assets		187,714	44,654	232,368
EQUITY				
Share capital	(4)(e)	226,835	653	227,488
Reserves	(4)(a)(e)	(28,495)	12,628	(15,867)
Retained profits	(4)(j)	(14,749)	31,373	16,624
Shareholders' equity		183,591	44,654	228,245
Minority interest		4,123	–	4,123
Total equity		187,714	44,654	232,368

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

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

	NOTES	PREVIOUS NZ GAAP $000	EFFECT OF TRANSITION TO NZ IFRS $000	NZ IFRS $000
ASSETS				
Current assets				
Inventories		5,382	–	5,382
Current tax receivables		12,905	–	12,905
Receivables and prepayments		37,158	–	37,158
Cash and bank balances		62,849	–	62,849
Total current assets		118,294	–	118,294
Non-current assets				
Property, plant and equipment	(4)(b)(d)(g)	932,658	(14,691)	917,967
Investment properties	(4)(d)	–	52,500	52,500
Intangible assets	(4)(c)(g)(h)	357,402	19,614	377,016
Other investments		79,539	–	79,539
Future income tax benefit		16,384	–	16,384
Investments in associates		281	–	281
Total non-current assets		1,386,264	57,423	1,443,687
Total assets		1,504,558	57,423	1,561,981

Notes to the Financial Statements (continued)

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

	NOTES	PREVIOUS NZ GAAP $000	EFFECT OF TRANSITION TO NZ IFRS $000	NZ IFRS $000
LIABILITIES				
Current liabilities				
Interest-bearing liabilities		758	–	758
Payables	(4)(e)	97,297	(292)	97,005
Subordinated debt – other		100,000	–	100,000
Total current liabilities		198,055	(292)	197,763
Non-current liabilities				
Interest-bearing liabilities		956,795	–	956,795
Deferred tax liabilities	(4)(i)	35,450	12,697	48,147
Subordinated debt – capital notes		121,510	–	121,510
Total non-current liabilities		1,113,755	12,697	1,126,452
Total liabilities		1,311,810	12,405	1,324,215
Net assets		192,748	45,018	237,766
EQUITY				
Share capital	(4)(e)	225,777	949	226,726
Reserves	(4)(a)(e)	(17,948)	12,789	(5,159)
Retained profits	(4)(j)	(17,925)	31,280	13,355
Shareholders' equity		189,904	45,018	234,922
Minority interest		2,844	–	2,844
Total equity		192,748	45,018	237,766

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

(2) Reconciliation of profit under previous NZ GAAP to profit under New Zealand equivalents to IFRS (NZ IFRS)

(a) Reconciliation of profit for the half year ended 31 December 2004

	NOTES	PREVIOUS NZ GAAP $000*	EFFECT OF TRANSITION TO NZ IFRS $000	NZ IFRS $000
Revenue		345,304	–	345,304
Other income		5,808	–	5,808
Share of net profits of associates		23	–	23
Employee benefits expense	(4)(e)	(92,616)	(451)	(93,067)
Depreciation and amortisation expense	(4)(b)(d)(h)	(32,562)	3,404	(29,158)
Other expenses		(105,538)	–	(105,538)
Directors' fees		(488)	–	(488)
Finance costs		(38,915)	–	(38,915)
Profit before income tax		81,016	2,953	83,969
Income tax expense		(23,356)	(453)	(23,809)
Profit before minority interest		57,660	2,500	60,160
Profit attributable to minority interest		(607)	–	(607)
Profit attributable to shareholders of the company		57,053	2,500	59,553

** Where an NZ IFRS adjustment results in a reclassification only, this reclassification has been reflected in the previous NZ GAAP column.*

Notes to the Financial Statements (continued)

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

(b) Reconciliation of profit for the year ended 30 June 2005

	NOTES	PREVIOUS NZ GAAP $000*	EFFECT OF TRANSITION TO NZ IFRS $000	NZ IFRS $000
Revenue		671,941	–	671,941
Other income	(4)(d)	10,470	572	11,042
Share of net profits of associates		26	–	26
Employee benefits expense	(4)(e)	(185,790)	(963)	(186,753)
Depreciation and amortisation expense	(4)(b)(d)(h)	(62,691)	3,908	(58,783)
Other expenses		(211,179)	–	(211,179)
Directors' fees		(978)	–	(978)
Finance costs		(79,713)	–	(79,713)
Profit before income tax		142,086	3,517	145,603
Income tax expense		(36,968)	(1,110)	(38,078)
Profit before minority interest		105,118	2,407	107,525
Profit attributable to minority interest		(1,111)	–	(1,111)
Profit attributable to shareholders of the company		104,007	2,407	106,414

** Where an NZ IFRS adjustment results in a reclassification only, this reclassification has been reflected in the previous NZ GAAP column.*

16. EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

(3) Reconciliation of Cash Flow Statement for the year ended 30 June 2005

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

(4) Notes to the reconciliations

(a) Foreign currency translation reserve: cumulative translation differences

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

(i) At 1 July 2004, 31 December 2004 and 30 June 2005

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

(b) Carrying value of land and other fixed assets

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

(i) At 1 July 2004
An increase in both retained earnings and property, plant and equipment of $40,191,000.

(ii) At 31 December 2004
An increase in both retained earnings and property, plant and equipment of $41,382,000.

(iii) At 30 June 2005
An increase in both retained earnings and property, plant and equipment of $42,697,000.

(iv) For the half year ended 31 December 2004
A decrease in depreciation expense of $372,000.

(v) For the year ended 30 June 2005
A decrease in depreciation expense of $808,000.

Notes to the Financial Statements (continued)

(c) Business combinations – SKYCITY Darwin

The Group acquired a 100% interest in SKYCITY Darwin with effect from 22 July 2004. NZ IFRS 3 Business Combinations requires all assets and liabilities to be recognised at fair value and deferred tax calculated. The fair values previously reported have not changed under NZ IFRS with the exception of a deferred tax liability recognised with a resulting increase in goodwill of $12,752,000. The quantification of this adjustment to deferred tax is detailed in 16(4)(i).

(d) Investment properties

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

(i) At 1 July 2004
Increase in investment property and reduction in property, plant and equipment by $51,900,000.

(ii) At 31 December 2004
Increase in investment property and reduction in property, plant and equipment by $51,900,000.

(iii) At 30 June 2005
Increase (following revaluation as at 30 June 2005) in investment property by $52,500,000 and reduction in property, plant and equipment by $51,900,000.

(iv) For the half year ended 31 December 2004
Reduction in depreciation expense by $819,000.

(v) For the year ended 30 June 2005
Reduction in depreciation expense by $1,726,000 and recognition of a gain on revaluation in the Income Statement of $572,000.

(e) Share-based payments

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

(i) At 1 July 2004
Increase in share capital of $380,000, reduction in the employee share entitlement reserve of $1,302,000, reduction in payables of $767,000 and an increase in retained profits of $1,689,000.

(ii) At 31 December 2004
Increase in share capital of $653,000, reduction in the employee share entitlement reserve of $1,544,000, reduction in payables of $346,000 and an increase in retained profits of $1,238,000.

(iii) At 30 June 2005
Increase in share capital of $949,000, reduction in the employee share entitlement reserve of $1,383,000, reduction in payables of $292,000 and an increase in retained profits of $726,000.

(iv) For the half year ended 31 December 2004
An increase in employee benefits expense of $451,000.

(v) For the year ended 30 June 2005
An increase in employee benefits expense of $963,000.

(f) Financial instruments

The Group has elected to apply the exemption from restatement of comparatives for NZ IAS 32 Financial Instruments: Disclosure and Presentation and NZ IAS 39 Financial Instruments: Recognition and Measurement. It has therefore continued to apply the previous NZ GAAP rules to derivatives, financial assets and financial liabilities and also to hedging contracts for the year ended 30 June 2005. The adjustments required for differences between previous NZ GAAP and NZ IAS 32 and NZ IAS 39 have been determined and recognised at 1 July 2005 (refer to note 16(5) and note 2 for further details).

(g) Reclassification of software

Under NZ IFRS, software is classified as part of intangible assets rather than property, plant and equipment. This has resulted in intangible assets increasing and property, plant and equipment decreasing as at 1 July 2004, 31 December 2004 and 30 June 2005 by $4,428,000, $7,165,000 and $5,488,000 respectively. While the amount previously depreciated on software is unchanged, it is now classified as amortisation.

(h) Amortisation of goodwill

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

Notes to the Financial Statements (continued)

(i) At 1 July 2004
No effect.

(ii) At 31 December 2004
Increase in goodwill and retained profits by $2,213,000.

(iii) At 30 June 2005
Increase in goodwill and retained profits by $1,374,000.

(iv) For the half year ended 31 December 2004
Reduction in amortisation expense by $2,213,000.

(v) For the year ended 30 June 2005
Reduction in amortisation expense by $1,374,000.

(i) Deferred tax liability

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

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

	NOTES	1 JULY 2004 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
Adjustments arising from adoption of NZ IAS 12		7,318	7,916	8,513
Application of NZ IAS 12 to adjustments arising from adoption of other NZ IAS:				
Revaluation of certain assets	(4)(b)(d)	(9,166)	(8,773)	(8,141)
Share-based payments	(4)(e)	683	624	553
Acquisition of SKYCITY Darwin	(4)(c)	–	12,272	11,772
(Decrease)/increase in deferred tax liability		(1,165)	12,039	12,697

(j) Retained profits

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

	NOTES	1 JULY 2004 $000	31 DECEMBER 2004 $000	30 JUNE 2005 $000
Foreign currency translation reserve	(4)(a)	(14,172)	(14,172)	(14,172)
Property, plant and equipment	(4)(b)	40,191	40,563	40,997
Share-based payments	(4)(e)	1,689	1,238	726
Deferred tax	(4)(i)	1,165	712	57
Investment properties	(4)(d)	–	819	2,298
Amortisation of goodwill	(4)(h)	–	2,213	1,374
Total adjustment		28,873	31,373	31,280

(5) Other effects of the transition to NZ IFRS

Derivatives

Until 30 June 2005

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

Interest rate swaps

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

Adjustments on transition to NZ IAS 39: 1 July 2005

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

From 1 July 2005

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

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

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

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