THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL
CHAMPIONS TROPHY CASE COMPETITION 2008

Pictured: Sky Tower and SKYCITY Auckland
Source: Marcus Liwicki

SKYCITY ENTERTAINMENT GROUP

1st February 2008

Case prepared by Mr. Sunny Gu, under the supervision of Mr. Brendon Potter, Director of Student Development, The University of Auckland Business School. This case has been prepared solely for the Champions Trophy Case Competition, and references a fictional consulting situation with no direct input from the case company. All data in this case has been obtained from publicly available sources. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

SKYCITY ENTERTAINMENT GROUP

Peter Partner

From: Peter Partner
Sent: Friday, 1 February 2008 9:14
To: * SKYCITY Project Teams
CC: David Dollar; Benjamin Banker; John Jobs; Warren Wallstreet
Subject: SKYCITY Entertainment Group Strategy Presentation

Hi all,

Last year, the Sky Tower had its 10th birthday. The anniversary was not a celebration! NPAT had dropped by 22%, 230 staff were made redundant, and underperforming assets were to be sold. Then, on 25 June 2007, CEO Evan Davies resigned. SKYCITY is in distress.

In the 2007 Annual Report, Rod McGeoch, Chairman of SKYCITY Entertainment Group said:

> *"The board acknowledges 2006/07 has been a disappointing year for shareholders in terms of SKYCITY's financial performance. The company has faced a range of challenges and is currently engaged in a restructuring programme designed to better position the business for improved returns in 2007/08 and beyond."*

SKYCITY grew from a single-site joint venture with American based casino company Harrah's, to a multi-national, broad-based entertainment business. Its market is protected by a government moratorium on casinos and it is highly unlikely any more casinos will ever be built in New Zealand.

SKYCITY sought growth by building and acquiring casinos and other properties in New Zealand and Australia. However after 11 years, SKYCITY Auckland still generates 75% of total group EBIT and 50% of total group revenue.

The gaming industry is changing. The Las Vegas Strip traditionally dominated the industry, but in 2006, Macau's gambling revenue of US$7.0 billion exceeded Vegas' US$6.7 billion for the first time. The Asia-Pacific casino market now accounts for over 50% of this US$310 billion industry.

In December 2007, SKYCITY announced the appointment of a new CEO, Nigel Morrison. Nigel is an Australian who was previously the CFO of Galaxy Entertainment in Macau. He joins SKYCITY in time to see the fruits of Auckland's $40 million casino refurbishment project, due for completion this month.

Rod and Nigel have asked us to look into SKYCITY, and provide recommendations on how to best deliver value to its shareholders. Please prepare a presentation of no more than ten minutes with your analysis and recommendations, which will be followed by a ten-minute question and answer session. You will find research documents attached.

Regards,

Peter Partner,
Senior Vice President
SYG Consulting Group

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CHAMPIONS TROPHY CASE COMPETITION 2008

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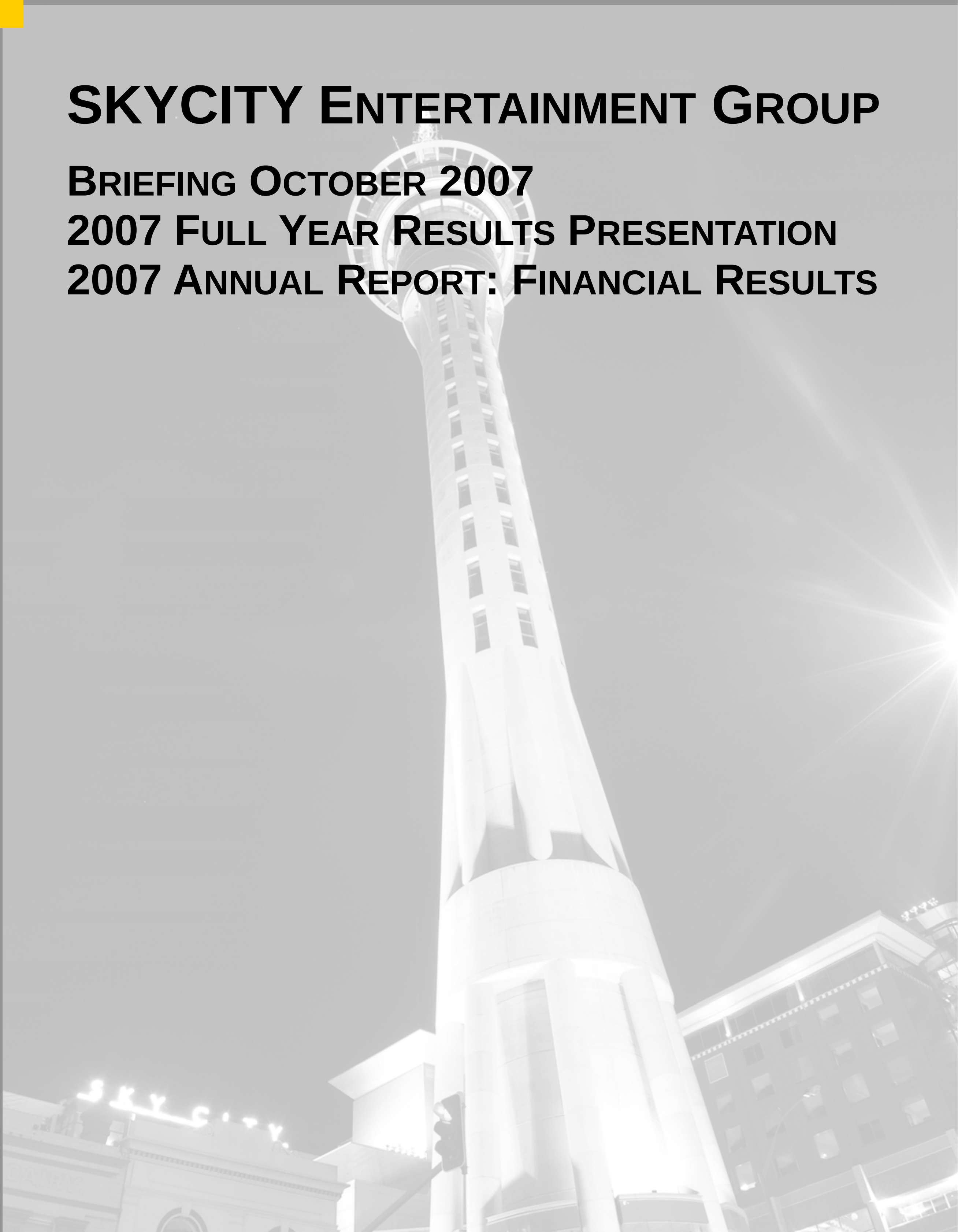
SKYCITY ENTERTAINMENT GROUP

BRIEFING OCTOBER 2007
2007 FULL YEAR RESULTS PRESENTATION
2007 ANNUAL REPORT: FINANCIAL RESULTS



Note: NZD$1 = USD$0.77 = AUD$0.88 as at December 2007

The following has been obtained from the SKYCITY website.

SKYCITY ENTERTAINMENT GROUP

SKYCITY Entertainment Group

Briefing: October 2007

Elmar Toime
Executive Director
SKYCITY Entertainment Group Limited

SKYCITY Entertainment Group Limited

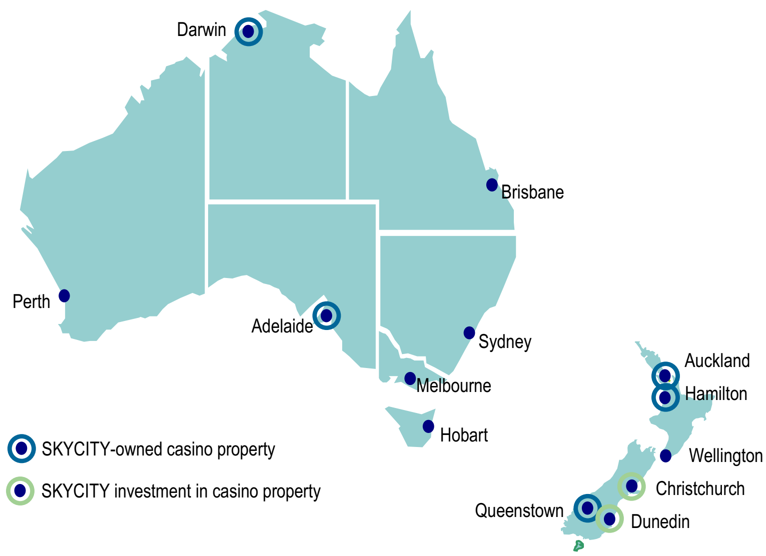
A diversified gaming and entertainment company with operations in New Zealand and Australia.

New Zealand

- Auckland
- Hamilton
- Christchurch (40.5%)
- Queenstown (60%)
- Dunedin (13% via Christchurch)
- Cinema exhibition

Australia

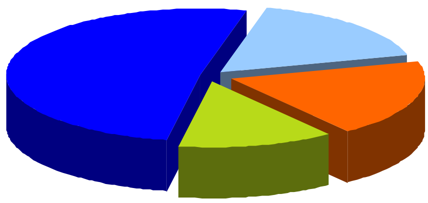
- Adelaide
- Darwin



SKYCITY Group as at September 2007

- A leading Australasian entertainment and gaming business
  - Strong profitability: after tax profit NZ$98.4 m, or 12% of revenues
  - 6 gaming/casino properties, 116 cinema screens in New Zealand and 10 in Fiji
  - 4,500 employees in Australia and New Zealand
  - Revenue split:
    - New Zealand 68%, Australia 32%
    - Gaming 71%, Non-gaming 29%
- Approximately 22,000 shareholders. International shareholding 30%, New Zealand 70%

Group Revenues $816m (FY06: $765m)



	$m	FY07	FY06
Auckland	NZ$418	51%	56%
Other NZ	NZ$137	17%	12%
Adelaide	A$133	19%	19%
Darwin	A$95	13%	13%
TOTAL	NZ$816		

Regulatory Environment - Casino Licence Terms

New Zealand[1]	
Auckland	2021
Hamilton	2027
Christchurch	2019
Queenstown	2025
Australia	
Adelaide	2085
Darwin[2]	2026

(1) New Zealand casino licences issued for initial terms of 25 years with 15 year renewals (not restricted).
(2) Renewable every 5 years on a 15/20 year cycle.

- Favourable external characteristics
  - Sole casino licence holder in each city we operate (except Queenstown)
  - Limited 'pubs & clubs' competition in New Zealand
  - Capital expenditure demands now peaking (Darwin expansion, Adelaide refurbishment and car park, cinemas)

FY07 Group Result

- Revenue up 6.7%, EBITDA down 1.3%
- Net profit after tax at expectation, but 18% down on FY06 on a reported basis. Underlying net profit up 7%.

Group Result	FY07 $m	FY06 $m	$m Movement	% Movement
Revenue	$816.1	$764.6	+$51.5	▲ 6.7%
EBITDA	$297.2	$301.2	-$4.0	▼ 1.3%
EBIT	$224.9	$236.2	-$11.3	▼ 4.8%
Reported Net Profit after tax	$98.4	$120.1	-$21.7	▼ 18.1%

Underlying Net Profit after tax (excluding Cinemas)	$89.3	$83.3	+$6.0	▲ 7.2%

EBITDA = Earnings before interest, tax, depreciation and amortisation. EBIT = Earnings before interest and tax.

SKYCITY Entertainment Group Gaming & Entertainment Operations

	Auckland	Hamilton	Queenstown	Christchurch	Adelaide	Darwin	Group Total
Number of							
- Gaming Machines	1,647	339	86	500	995	540	4,107
- Gaming Tables	110	23	12	35	90	27	297
- Gaming Positions	2,417	500	170	745	1,625	729	6,186
Hotel Rooms	660	Novotel adjacent	n/a	Crowne Plaza (298 rooms)	Hyatt adjacent (370 rooms)	120	780 (and Chch Crowne Plaza)
Conference/ Convention Capacity	Large	Small	Small	Adjacent (large)	Adjacent (large)	Large	
Full-time Employees	2,100	230	60	550	850	500	4,300
Restaurants	7	1	1	2	4	3	18
Bars and Cafes	10	3	1	3	5	5	27
Other Facilities	Sky Tower Carparking Theatre 3 VIP members' rooms	Carparking Ten Pin Bowling 'Megazone' Gaming	VIP members' rooms	Carparking	A$75m refurb. A$21m completed June '05	Pool	

Business priorities

1. Creating a foundation for the business ethos of SKYCITY
2. Setting goals and measures based on a three year business plan
3. Implementing an appropriate management structure
4. Re-sizing the cost structure of the business
5. Getting a new level of performance from Auckland gaming
6. Concluding the asset review process

Consolidation

"After a period of major growth it is now time to consolidate on core business."

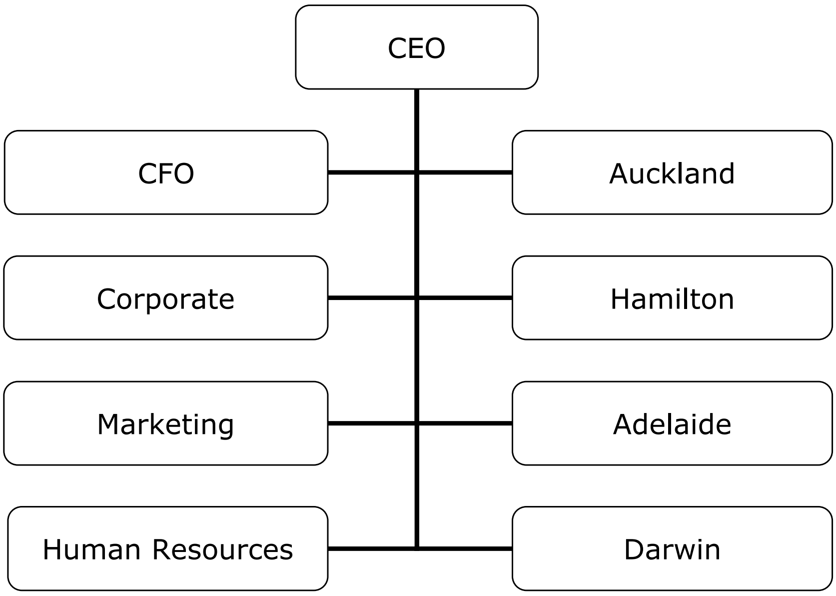
1. & 2. Our Business Principles and Measures

- **Purpose** (why we are here): **To do the best we can to give our customers a happy, safe and entertaining time**

Principle	Measures	Issues
Value to shareholders	• Share price • Return on Invested Capital • Cash (EBITDA)	• Auckland gaming performance • Asset reviews (Adelaide, Cinemas) • Cost reduction programme
Customer experience	• Customer experience index	• Improving customer service • Customer safety • Range of experiences
Employee engagement	• Employee survey index • Turnover and absenteeism	• Internal communications • Training & career • Management leadership skills
Community well-being	• Regulatory approval • Community trust performance	• Fairness and integrity • Harm minimisation • Safety from crime

3. Management Structure

- Management restructure:
  - Reducing layers of management; tighter top level group
  - Mix of new and longer-serving executive
  - Energetic and change-leaders



4. Cost reduction programme

- In May 2007 SKYCITY announced a programme to reduce the cost base of the business by $33 m in the period 2007, 2008, and 2009
- Cost control activities started in October 2006 when revenue performance was beginning to not show improvement
- Cost savings achieved in FY2007 were $12 m
- Programme restructured in July to:
  - Bring forward third year savings to FY2008
  - Remove 'hard to get' targets (mainly regulatory impact)
  - Cover for cost increases put back into the business (for customer service and employee welfare)
- The cost savings are real, and offset to some extent (but not all) underlying cost growth due to wage increases, input cost inflation, costs of growth.
- Major current initiative in back office support activities through a shared services model
- Further opportunities are longer term (process change, new IT systems)

5. Progress in Auckland

- Change of gaming product to better suit the specific needs of New Zealand customers
- New zones dedicated to high value players offering specific product and enhanced service levels
- Completion of the Main Gaming Floor refurbishment by March 2008
- Improve customer communications about games available
- Re-launch of the Action (loyalty) programme to increase visitation to all parts of the business and capture more data to better understand customer behaviours
- Non-gaming
  - Hotels & Conventions - achieving strong double digit growth and increasing market share
  - Sky Tower - growth driven by refreshed promotion; success of the 10th Birthday celebrations.
  - Food & Beverage – revenue growth of 4%

Board and Governance

- Board refresh: new director search very well-advanced
- CEO appointment: at shortlist stage
- Robust decision processes – diversity of view, decision review
- Succession planning
- Strong internal audit function
- Clean external audit
- Commitment to disclosure
  - International Rebate Business
  - Corporate
  - Detailed property performance
  - Underlying trends

Disclosure

"SKYCITY has committed to an unprecedented level of disclosure for the sector"

Takeover target?

- Approach did not warrant disclosure of its own
- Notice to shareholders re Profit Distribution Plan buyback option required letting shareholders know that an approach had been made
- Board of the view that approach was credible and shareholder interests best served if high level due diligence proceeded to allow a firm offer and if this did not preclude others from also making an approach
- Does not mean the company has "given up":
  - Strong three-year plan
  - Strong management and Board enthusiasm for future opportunities in our current core businesses
  - Promising customer response as we emerge from Auckland gaming floor refurbishment
  - Internal sense of value is strong

Conclusion

- SKYCITY has not been standing still
- Replacement of CEO has allowed for a fresh look at all aspects of the business, from the underlying management ethos and business principles to the details of Auckland gaming floor performance
- The strong senior management team, a flatter more stream-lined management hierarchy, and the service-oriented 4,500 people in SKYCITY are putting heroic efforts into getting our core businesses going again
- The prospects for all four major casinos – Auckland, Adelaide, Darwin, and Hamilton – are very good
- Shareholders should have confidence in their company

SKYCITY ENTERTAINMENT GROUP LIMITED

FY07 Result

Year Ended 30 June 2007

SKYCITY Auckland FY07 Result: Key Features

- The discretionary spending power of customers has been impacted by the economic environment, in particular by increased petrol prices and interest rates
- Gaming revenues down in each of the three main sectors: machines, tables (local) and tables (IRB). The main floor refurbishment programme (construction and layout noise and disruption) has had a significantly adverse impact on Auckland gaming revenues since the project commenced in September 2006
- Gaming machine revenues down 2.5% for the year with second half revenues down 7% on first half
- Local table games the most affected by construction noise and disruption with revenues down 11% for the year and second half revenues down 8% on first half
- IRB revenues recovered well in the second half after a strongly adverse first half but IRB EBITDA at $0.5m was still well down on FY06's exceptionally strong EBITDA result of $12.1m
- The main floor refurbishment/renovation project has been more disruptive than originally anticipated and this has clearly impacted on customer frequency and duration of visit, and hence overall spend
- There is clearly an element of customer fatigue with the construction disturbance and the inevitable disruption to floor layout as the works progress which will impact on revenues during the first half of FY08 and, to a lesser extent, into the first half of 2H08. As more elements of the refurbishment become available, the fatigue factor will be replaced by a renewed enthusiasm for the new gaming facilities, layout and product. Enthusiasm from customers for the new spaces already commissioned is highly encouraging

SKYCITY Auckland
FY07 Result: Key Features

- Being the main contributor to overall Group performance, management attention has been focused in recent months on Auckland gaming product and customer service. An intensive workshop, involving gaming personnel from around the Group, has reviewed the Auckland operation and a range of performance improvement initiatives, including machine mix and service improvement have been identified for implementation

- Attractions sector performed strongly
  - revenues up 11% with GOI up from 45.6% to 46.1%
  - restaurants and bars up 8% at GOI of 21%
  - SKYCITY Hotel at 85% occupancy at $146 ADR
  - SKYCITY Grand Hotel at 50% occupancy in only its second year of operation, up from 41% in year 1 (FY06), with ADR maintained above $200 at $220
  - convention revenues up a further 10% in FY07 at $17m
  - increased revenues in carparking and Sky Tower

- Despite general wage and cost inflation, indirect expenses were managed down by 12% ($5m), reducing from $39m in FY06 to $34m in FY07. The main expenditure within indirect costs is property services (utilities, cleaning, property maintenance) and rates at 45%, with the balance made up of finance/accounting, marketing and advertising, HR and IS.

SKYCITY Adelaide
FY07 Result: Key Features

- Local gaming revenues up marginally over FY06 with machines increase of A$1.9m offset by A$1.3m decrease in table revenues

- IRB revenues up A$2.2m with IRB EBITDA up A$0.3m over prior year

- Direct and indirect expenses increased by A$2.2m resulting in EBITDA (excluding IRB) dropping back by A$2.2m (-9.5%) compared to FY06

- The extremely extended approval process for the carpark project is not yet completely finalised. While the important step of State Government approval has been obtained there are a number of procedural matters to attend to. The company expects that these matters will be completed to enable construction to start in early calendar 2008

- The delays in the carpark approval process have seriously impeded the planned redevelopment project, to the detriment of the SKYCITY Adelaide facility, its customers and staff, and the financial returns being achieved from SKYCITY's significant investment in its Adelaide property

- As referred earlier in this presentation, SKYCITY will now test market interest in submitting formal bids for this asset.

SKYCITY Darwin
FY07 Result: Key Features

- Local gaming revenues up in each sector: machines (+6%), tables (+7%), Keno/other (+11%) offset by IRB. IRB EBITDA down A$0.5m
- Overall, gaming revenues continue to build, up 4% over prior year
- Strong hotel performance continued with occupancy up 3% points to 82% and average room rate up 10% at A$168
- Food and beverage and banquet/convention revenues up 15% at A$14.4m
- Casino licence extension agreed with the Northern Territory government. Effectively a 15/20 year renewable licence with continuing exclusivity
- A$30m expansion project (in response to growth and licence extension undertaking) will commence with preliminary work starting late August, building work commencing mid-November, with completion scheduled for December 2008
- Project works include 370m^2 gaming floor expansion (+12%), new 320m^2 bar, new 225m^2 restaurant (180 seats) and additional outdoor entertainment spaces to complement the upgraded pool facility completed in May 2006
- Little Mindil site (adjacent to existing site) secured to optimise future flexibility.

SKYCITY Hamilton
FY07 Result

- Strong performance (revenues and cost management) with EBITDA ratio maintained at 49.1% (FY06: 49.9%)
- Gaming growth of 12% contributed by machines up 12% and tables up 13%
- Food and beverage revenues up strongly (+21%) over FY06 with new 'Zone' bar a significant contributor
- New café/restaurant opened May 2007.

Christchurch and Queenstown

Christchurch Casino (41% shareholding)

- Earnings from Christchurch Casino (and Christchurch Crowne Plaza Hotel) at $5.6m, up $330k on prior year FY06
- New gaming floor bar opened November 2006 with further property enhancements and new facilities currently under consideration. Neighbouring site acquired to ensure future carparking capacity and flexibility
- Upside potential in this property through operational and property improvements
- New Chief Executive (Brett Anderson ex Macau) commenced 30 July 2007

SKYCITY Queenstown Casino (60% shareholding)

- Gaming revenues up 33% over FY06 due primarily to international rebate business but both machines and local table revenues also up by 6% and 27% respectively
- Food and beverage revenues up 10% over prior period
- Positive EBITDA and EBIT results, up significantly over prior year.

SKYCITY Cinemas

- SKYCITY Metro Centre sold for $55.1m. Sale proceeds cover the cost of acquisition of the Village 50% cinema joint venture interest (New Zealand and Fiji, July 2006, $52.0m). Settlement date 11 June 2007
- Comparison to prior period needs to allow for 100% ownership in FY07, 50% ownership in FY06. In the chart on the previous page FY06 is shown at 50% (actual ownership) and also converted to 100% to facilitate comparison to FY07
- Disappointing cinemas outcome for FY07 on the back of low performing film product. Stronger film product in late 2H07 and into the front end of FY08 is providing a positive impetus to revenue performance
- Cinema revenues (allowing for doubling of ownership interest) essentially flat (despite new cinema venues in Queensgate (Lower Hutt), New Plymouth and The Embassy Wellington) at $67.6m compared to $67.4m in FY06 (assuming 100% ownership)
- Cinema expenses increased more than proportionately (due mainly to an increase in number of sites/screens) from $26.9m in FY06 to $58.9m in FY07, resulting in an EBIT contraction from the cinema operations of $1.8m (from $4.7m in FY06 to $2.9m in FY07)
- SKYCITY Metro gain on sale of $1.0m offset by operating trust account final entries of $1.3m.

Auckland Review: 5 Key Focus Areas

- Capitalising on the Group's gaming expertise, a peer review of the Auckland gaming operations was undertaken in July
- Five key enhancements were identified to improve performance from the Auckland gaming business

1. **Greater influence on vendors to ensure that the design of machine game product better meets the needs of the New Zealand player**
   - Product development over the past three years has been led by the needs of the larger Australian gaming market and emergence of the Asian markets
   - The majority of products cater for the low denomination player (1c and 2c). The New Zealand market has a strong player base that prefers to play mid-denomination product (5c and 10c) and their needs are not being met
   - The SKYCITY Auckland site will bring back at least 10% of the gaming floor in the mid-denomination range through supplier influence
2. **Dedicated 'High Value Player' zones are underway to enhance the experience and retain and grow this segment of the market**
   - Dedicated northern zone of the casino floor with relevant product and enhanced service levels
   - New technology introduction to enhance on-site recognition

Auckland Review: 5 Key Focus Areas

3. **Re-prioritisation and further optimisation of the refurbishment project underway to minimise impact on revenues and optimise investment**
   - Loss of gaming product on the main gaming floor during refurbishment has decreased the performance of the Auckland gaming business
   - The key priority areas for the Auckland refurbishment have been fast-tracked to ensure a speedier completion by January 2008
   - Completed areas such as the Baccarat room provide a superior gaming experience which is being reflected in results
   - Analysis has shown that a two-level gaming experience does not optimise gaming returns. A single floor gaming experience is being evaluated
4. **Customer communications on new product to facilitate player preferences**
   - 25% of the gaming floor has new product with a different style of play
   - Better communications with customers on the new product features, to ensure a safe and rewarding level of play, is underway
   - Further opportunities exist to improve customer services

Auckland Review: 5 Key Focus Areas

5. Relaunch of the ACTION programme

- The SKYCITY ACTION loyalty programme is a key business driver to support visitation growth across all aspects of the business
- Enhancements to the ACTION programme have been evolving over the past six months with positive results in visitation evidenced from target customer segments
- The new programme design for the New Zealand sites is well underway with external market testing planned for September and a launch date of March 2008
- Enhanced application of ACTION data to support host responsibility within SKYCITY's Harm Minimisation Framework is also underway. International experts in the development of harm prediction models have been engaged by SKYCITY to advise the company on the potential for this data to support this key area of our business.

Profit Guidance FY08

- Profit guidance for FY08 is for growth in reported NPAT of 10%-12%, based on the current business model and current expectations as to earnings performance. The company's FY08 guidance incorporates the following assumptions:
  - gradual recovery of Auckland gaming revenues as main gaming floor renovation components are progressively completed
  - smoking ban impact in Adelaide (from 1/11/07) assumed will be similar to that experienced in New Zealand in calendar 2005 and into 2006
  - achievement of savings from the cost reduction programme
  - average cost of debt funding at 7.8%
  - tax rate of 25.5%
- Assuming no disposal of business assets (to be discussed later), major capex items in the FY08-FY10 period will include completion of the Auckland gaming floor refurbishment, the Darwin expansion project, continuation of the Adelaide refurbishment (and carpark) project, and cinema fit-outs.

SKYCITY Entertainment Group

Segment Information

For year ended 30 June 2007

NZ$m	Auckland	Hamilton	CH+QT[2]	Adelaide[3]	Darwin[3]	Corporate	Sub-Total	Cinemas	Total Group[4]
GAMING									
Revenue									
Gaming Machines	189.7			64.8	60.9				
Gaming Tables	106.4			58.7	12.8				
IRB[1]	19.1			11.1	12.8[5]				
Total	315.2	33.3	6.5	134.6	86.4		576.0		576.0
Direct Costs	119.2	12.4	4.2	91.2	38.8		265.8		265.8
Gross Margins	196.0	20.9	2.3	43.4	47.6		310.2		310.2
	62.2%	62.8%	35.4%	32.3%	55.1%		53.8%		53.8%
NON-GAMING									
Revenue									
Food and Beverage	40.4	6.4		18.6	16.5				
Hotels	32.1				5.7				
Conventions	16.9								
Sky Tower, Parking	24.8								
Complimentaries	-11.8								
Total	102.4	6.4	10.9	18.6	22.3	4.9	165.5	74.6	240.1
Direct Costs	55.2	3.9	1.3	14.6	15.5	0.0	90.5	51.5	142.0
Gross Margin	47.2	2.5	9.6	4.0	6.8	4.9	75.0	23.1	98.1
	46.1%	39.1%	88.1%	21.6%	30.4%	100.0%	45.3%	31.0%	40.9%
TOTAL									
Revenue	417.6	39.7	17.4	153.2	108.7	4.9	741.5	74.6	816.1
Direct Costs	174.4	16.3	5.5	105.8	54.3	0.0	356.3	51.5	407.8
Gross Margins	243.2	23.4	11.9	47.4	54.3	4.9	385.2	23.1	408.3
	58.2%	58.9%	68.4%	31.0%	50.0%	100.0%	51.9%	31.0%	50.0%
INDIRECT COSTS	34.1	3.9	1.4	18.3	13.8	29.6	101.0	10.1	111.1
EBITDA	**209.1**	**19.5**	**10.5**	**29.2**	**40.5**	**-24.7**	**284.1**	**13.0**	**297.1**
	50.1%	49.1%	60.3%	19.0%	37.3%	-504.1%	38.3%	17.4%	36.4%
D+A	41.3	4.8	0.9	11.4	7.7	0.3	66.4	5.9	72.3
EBIT	**167.8**	**14.7**	**9.6**	**17.8**	**32.9**	**-25.0**	**217.8**	**7.1**	**224.9**
	40.2%	37.0%	55.2%	11.6%	30.2%	-510.2%	29.4%	9.5%	27.6%
Funding									93.4
Net Profit before Tax									**131.5**
									16.1%
Tax									33.1
Minority Interests									-
Net Profit after Tax (and Minority Interets)									**98.4**

Note 1: International Rebate Business. Casino operation targetting players from overseas (particularly Asia) by paying cash rebates and commissions.

Note 2: Christchurch and Queenstown Operations

Note 3: Derived exchange rate of 1$NZ = 0.8706$AUS

Note 4: Figures may not add correctly and there may be slight deviations from official figures due to rounding and derived currency conversion.

Note 5: Figure includes $11.6m Keno/other revenue and $1.2m IRB revenue.

NZ$000	Auckland	Rest of NZ	Adelaide	Darwin	Gaming Machines	Table Games	Cinemas	Other	Total Group
Revenue from external customers	417,915	118,164	153,712	108,784	353,986	222,037	74,605	147,947	798,575
Total revenue/income	417,620	136,521	153,327	108,629					816,097
Segment assets[A]	900,515	237,433	166,053	338,968	27,972	10,529	106,430	1,498,038	1,642,969
Segment liabilities[A]	121,671	1,104,466	12,747	22,551					1,261,435
Investments in associates	-	80,831	-	-					80,831
Acquisitions of property, plant and equipment, intangiles and other non-current segment assets	48,582	65,933	7,051	9,485	8,608	919	58,731	62,793	131,051
Depreciation and amortisation expense	41,621	11,552	11,374	7,680					72,227

Note A: The difference between segment assets and segment liabilities does not reflect the Group's net investment in each segment

Source: SKYCITY Entertainment Group FY07 Result Presentation, 2007 Annual Report, and Case Writer

SKYCITY Entertainment Group
Segment Information
For year ended 30 June 2006

NZ$m	Auckland	Hamilton	CH+QT[2]	Adelaide[3]	Darwin[3]	Corporate	Sub-Total	Cinemas	Total Group[4]
GAMING									
Revenue									
Gaming Machines	194.5			61.0	56.0				
Gaming Tables	120.0			58.6	11.6				
IRB[1]	20.3			8.4	13.2[5]				
Total	334.8	29.7	4.9	128.0	80.8		578.2		578.2
Direct Costs	111.1	11.5	3.9	84.8	37.0	1.7	250.1		250.1
Gross Margins	223.7	18.2	1.0	43.2	43.8	-1.7	328.1		328.1
	66.8%	61.3%	20.4%	33.7%	54.2%		56.8%		56.8%
NON-GAMING									
Revenue									
Food and Beverage	37.4	5.2		18.8	14.0				
Hotels	28.0				4.8				
Conventions	15.4								
Sky Tower, Parking	23.4								
Complimentaries	-11.6								
Total	92.6	5.2	6.4	18.8	18.8	6.8	148.6	37.7	186.3
Direct Costs	50.4	2.7	1.2	15.0	12.8		82.1	22.8	104.9
Gross Margin	42.2	2.5	5.2	3.8	6.0	6.8	66.5	14.9	81.4
	45.6%	48.1%	81.3%	20.2%	32.1%	100.0%	44.8%	39.5%	43.7%
TOTAL									
Revenue	427.4	34.9	11.3	146.8	99.6	6.8	726.8	37.7	764.5
Direct Costs	161.5	14.2	5.1	99.8	49.8	1.7	332.1	22.8	354.9
Gross Margins	265.9	20.7	6.2	47.0	49.8	5.1	394.7	14.9	409.6
	62.2%	59.3%	54.9%	32.0%	50.0%	75.0%	54.3%	39.5%	53.6%
INDIRECT COSTS	38.9	3.3	1.7	16.4	12.2	31.1	103.6	5.0	108.6
EBITDA	**227.0**	**17.4**	**4.5**	**30.5**	**37.6**	**-26.0**	**291.0**	**9.9**	**300.9**
	53.1%	49.9%	39.8%	20.8%	37.8%	-382.4%	40.0%	26.3%	39.4%
D+A	39.4	4.3	1.1	11.4	6.3	0.3	62.8	2.3	65.1
EBIT	**187.6**	**13.1**	**3.4**	**19.1**	**31.3**	**-26.3**	**228.3**	**7.6**	**235.9**
	43.9%	37.5%	30.1%	13.0%	31.5%	-386.8%	31.4%	20.2%	30.9%
Funding									83.9
Net Profit before Tax									**152.3**
									19.9%
Tax									32.6
Minority Interests									0.4
Net Profit after Tax (and Minority Interets)									**119.7**

Note 1: International Rebate Business. Casino operation targetting players from overseas (particularly Asia) by paying cash rebates and commissions.
Note 2: Christchurch and Queenstown Operations
Note 3: Derived exchange rate of 1$NZ = 0.8936$AUS
Note 4: Figures may not add correctly and there may be slight deviations from official figures due to rounding and derived currency conversion.
Note 5: Figure includes $10.2m Keno/other revenue and $3.0m IRB revenue.

NZ$000	Auckland	Rest of NZ	Adelaide	Darwin	Gaming Machines	Table Games	Cinemas	Other	Total Group
Revenue from external customers	427,444	78,438	146,889	99,598	345,865	232,526	37,669	136,309	752,369
Total revenue/income	427,446	90,643	146,889	99,598					764,576
Segment assets[A]	809,129	333,186	272,195	311,322	36,225	3,999	90,357	1,595,251	1,725,832
Segment liabilities[A]	65,239	1,299,092	20,184	32,534					1,417,049
Investments in associates	-	78,304	-	-					78,304
Acquisitions of property, plant and equipment, intangiles and other non-current segment assets	100,010	20,372	41,154	11,676	26,446	1,972	9,583	135,211	173,212
Depreciation and amortisation expense	40,174	7,504	11,045	6,293					65,016

Note A: The difference between segment assets and segment liabilities does not reflect the Group's net investment in each segment

Source: SKYCITY Entertainment Group FY07 Result Presentation, 2007 Annual Report, and Case Writer

SKYCITY Entertainment Group

Capital Expenditure, Depreciation, Interest/Funding Cost Guidance
August 2007

SKYCITY Auckland (NZ$m)	FY08	FY09	FY10
Capital Expenditure			
Main gaming floor refurbishment	$22		
Maintenance capex	$20-25	$20-25	$20-25
Depreciation	$45	$47	$48

SKYCITY Hamilton (NZ$m)	FY08	FY09	FY10
Capital Expenditure			
New bar	$3		
Maintenance capex	$1-$2	$1-$2	$1-$2
Depreciation	$5m	$5m	$5m

SKYCITY Queenstown (NZ$m)	FY08	FY09	FY10
Capital Expenditure			
Maintenance capex	$0.5	$0.5	$0.5
Depreciation	$1	$1	$1

SKYCITY Adelaide (A$m)	FY08	FY09	FY10
Capital Expenditure			
Redevelopment project	A$15	A$33	
Maintenance capex	A$7-A$8	A$7-A$8	A$7-A$8
Depreciation and amortisation	A$10	A$11	A$12
Casino licence amortisation	A$2	A$2	A$2

SKYCITY Darwin (A$m)	FY08	FY09	FY10
Capital Expenditure			
Stage 1 expansion of existing facilities	A$17	A$13	
Little Mindil/associated development	A$10	TBC	TBC
Maintenance capex	A$5-A$6	A$5-A$6	A$5-A$6
Depreciation	A$7	A$9	A$10
Casino licence amortisation	nil	nil	nil

SKYCITY Cinemas (NZ$m)	FY08	FY09	FY10
Capital Expenditure			
New cinema projects*	$28	$6	
Maintenance capex	$0.5-$1	$0.5-$1	$0.5-$1
* Albany (March 2008), Manukau (June 2008), Hamilton, Centreplace and Broadway refurbishment			
Depreciation	$7	$9	$9

Group Total (NZ$m)	FY08	FY09	FY10
Capital Expenditure (excl. Cinemas)			
Identified projects	$73	$53	
Maintenance capex	$37-$45	$37-$45	$37-$45
Group Total (excl. Cinemas)	**$110-$118**	**$89-$97**	**$37-$45**
Cinemas Capex	$29	$7	$1
Group Total	**$139-$147**	**$97-$105**	**$38-$46**
Depreciation and amortisation (excl. Cinemas)	$72	$77	$80
Group Total	**$79**	**$86**	**$89**
Interest/Funding Cost	$94	$92	$91
Less Capitalised Interest	-$1	-$1	-$2
Net Interest/Funding Cost	$93	$91	$89

Note: "Maintenance capex" includes both new facilities and the renovation and renewal of existing facilities which are part of the normal cycle for entertainment complexes such as those operated by SKYCITY. For major project work, the associated capital expenditure is identified separately.

Source: SKYCITY Entertainment Group FY07 Result Presentation

ANNUAL REPORT 2007

SKYCITY
ENTERTAINMENT GROUP

FIVE YEAR SUMMARY

CONSOLIDATED INCOME STATEMENTS

YEARS ENDED 30 JUNE	2007 $000	2006 $000	2005 $000	2004 $000	2003 $000
Revenue	798,575	752,369	669,928	590,479	556,493
Other income/revenue	17,522	12,207	13,081	3,678	7,820
Total revenue	816,097	764,576	683,009	594,157	564,313
Operating expenses	(518,954)	(463,257)	(398,910)	(334,492)	(310,395)
Earnings before interest, tax, depreciation and amortisation	297,143	301,319	284,099	259,665	253,918
Depreciation and amortisation expenses	(72,227)	(65,016)	(58,783)	(47,677)	(46,032)
Earnings before interest and tax	224,916	236,303	225,316	211,988	207,886
Funding costs	(93,361)	(83,965)	(79,713)	(48,563)	(49,266)
Profit before income tax	131,555	152,338	145,603	163,425	158,620
Income tax expense	(33,125)	(32,590)	(38,078)	(40,400)	(51,117)
(Profit)/loss attributable to minority interests	(28)	381	(1,111)	(1,899)	(286)
Profit after tax & minority interest before non-recurring items	98,402	120,129	106,414	121,126	107,217
Non-recurring items [1]	-	-	-	(20,904)	-
Net profit after tax	98,402	120,129	106,414	100,222	107,217

The above income statements have been prepared to show the key features of the operating performance achieved. They are not the financial statements of SKYCITY Entertainment Group Limited and therefore do not contain all the details and disclosures which are included in the company's financial statements.

In the financial statements interest received and gains on some financial transactions are included as other revenue. In previous five year summaries these items have been netted off against funding costs to identify the net cost of the company's funding arrangement. To avoid the differential with the financial statements the above summaries now include these items in other revenue. The five year income statement is based on NZ IFRS (2005 to 2007) and on previous NZ GAAP (2003 to 2004).

[1] Non-recurring item relates to the write-off of investment in Canbet Limited.

FIVE YEAR SUMMARY

CONSOLIDATED BALANCE SHEETS

AS AT 30 JUNE	2007 $000	2006 $000	2005 $000	2004 $000	2003 $000
ASSETS					
Current assets					
Cash and bank balances	71,537	74,098	62,849	53,272	57,264
Inventories	5,523	5,241	5,382	3,017	2,898
Receivables and prepayments	30,996	30,803	37,158	53,106	6,780
Tax receivables	25,971	-	-	-	-
Derivative financial instruments	334	1,477	-	-	-
Assets classified as held-for-sale	-	52,400	-	-	-
Total current assets	134,361	164,019	105,389	109,395	66,942
Non-current assets					
Property, plant and equipment	940,106	935,123	917,967	750,267	636,990
Investment properties	8,845	8,593	52,500	-	-
Other investments (including associates)	80,831	78,304	79,820	78,280	21,586
Intangible assets	433,469	426,011	377,016	212,373	207,844
Available-for-sale financial assets	2,514	2,622	-	-	-
Tax receivables	-	47,438	12,905	9,999	315
Deferred tax assets	15,978	26,667	13,675	-	-
Derivative financial instruments	26,865	37,055	-	-	-
Other non-current assets	-	-	-	14,645	3,151
Total non-current assets	1,508,608	1,561,813	1,453,883	1,065,564	869,886
Total assets	1,642,969	1,725,832	1,559,272	1,174,959	936,828
LIABILITIES					
Current liabilities					
Payables	119,501	100,776	97,005	93,619	64,836
Interest-bearing liabilities	-	-	100,758	101,000	1,000
Derivative financial instruments	-	25	-	-	-
Total current liabilities	119,501	100,801	197,763	194,619	65,836
Non-current liabilities					
Interest-bearing liabilities	753,002	950,904	956,795	579,967	437,116
Subordinated debt - capital notes	123,756	123,720	121,510	149,644	149,266
Subordinated debt - SKYCITY ACES	161,410	177,956	-	-	-
Deferred tax liabilities	52,992	60,596	45,438	-	-
Derivative financial instruments	50,774	3,072	-	-	-
Convertible notes	-	-	-	8,910	13,365
Other term liabilities	-	-	-	27,216	24,680
Total non-current liabilities	1,141,934	1,316,248	1,123,743	765,737	624,427
Total liabilities	1,261,435	1,417,049	1,321,506	960,356	690,263
Net assets	381,534	308,783	237,766	214,603	246,565
EQUITY					
Share capital	364,068	281,735	226,726	225,871	246,518
Reserves	(16,069)	(8,171)	(5,159)	(7,510)	1,932
Retained profits	31,044	32,756	13,355	(7,274)	(7,492)
Shareholders' equity	379,043	306,320	234,922	211,087	240,958
Minority interests	2,491	2,463	2,844	3,516	5,607
Total equity	381,534	308,783	237,766	214,603	246,565

The balance sheet set out above is based on NZ IFRS (2005 to 2007) and on previous NZ GAAP (2003 to 2004).

INCOME STATEMENTS

		CONSOLIDATED		PARENT	
FOR THE YEAR ENDED 30 JUNE 2007	NOTES	2007 $000	2006 $000	2007 $000	2006 $000
Revenue	3	798,575	752,369	-	-
Other income	4	13,068	7,891	111,097	109,353
Share of net profits of associates	16	4,454	4,316	-	-
Employee benefits expense		(230,701)	(225,049)	(15,904)	(15,941)
Depreciation and amortisation expense	5	(72,227)	(65,016)	(254)	(157)
Other expenses	5	(121,219)	(105,512)	(12,255)	(6,388)
Marketing and communications		(55,959)	(44,509)	(3,878)	(4,427)
Direct consumables and film hire costs		(55,709)	(39,468)	-	-
Gaming taxes		(50,326)	(48,134)	-	-
Directors' fees		(718)	(585)	(718)	(585)
Restructuring costs	5	(4,322)	-	(4,322)	-
Finance costs	5	(93,361)	(83,965)	(10,127)	(9,983)
Profit before income tax		131,555	152,338	63,639	71,871
Income tax expense	7	(33,125)	(32,590)	-	-
Profit before minority interest		98,430	119,748	63,639	71,871
(Profit)/loss attributable to minority interest		(28)	381	-	-
Profit attributable to shareholders of the company		98,402	120,129	63,639	71,871
Earnings per share for profit attributable to the shareholders of the company					
Basic earnings per share (cents)	8	22.3	28.5	14.4	17.1
Diluted earnings per share (cents)	8	22.1	26.9	13.9	16.1

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

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

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CHAMPIONS TROPHY CASE COMPETITION 2008

SKYCITY ENTERTAINMENT GROUP

SELECTED PRESS ARTICLES

The following has been obtained from the press as indicated.

SKYCITY ENTERTAINMENT GROUP

Investors ask SkyCity chief to have a go
by John Drinnan
22 January 2008

Call for firm not to sell Adelaide casino and cinemas until Morrison has had a look

Investors are calling for SkyCity Entertainment to keep its Adelaide casino and its cinema business off the market until after they have been properly examined by new chief executive Nigel Morrison.

Both divisions are in hiatus, with no decision on whether Adelaide is on the market and the cinemas sale stalled through lack of a buyer for the price wanted by SkyCity.

Brook Asset Management executive director Paul Glass said that after three years of poor management by the SkyCity board of directors the company should wait a while longer before disposing of assets.

And Macquarie Equities New Zealand Investment director Arthur Lim said in the current environment there were few dangers in trading on.

``People still gamble and businesses go on. Its hard to see it could be stuffed up too badly by sticking to trading for a while.''

Morrison told Reuters last month that he wanted Adelaide, which is SkyCity's second biggest casino after Auckland and has been valued at A$340 million ($392 million) to A$380 million.

SkyCity had indicated in the past proceeds from any sale would go to shareholders.

``My personal view is that it should keep that casino,'' Morrison told Reuters. He takes up the reins as CEO in March.

Company insiders said the SkyCity board had decided it would not sell Adelaide, but yesterday SkyCity insisted Adelaide's status had not changed.

The sale of SkyCity Adelaide was suggested in July because it was underperforming.

But it was put on hold in October pending a takeover offer for the group from TPG.

The management team has been developing a recovery plan for the Adelaide business and has been active in putting that plan in place.

The TPG takeover has dissolved because the global credit crisis has made financing the deal harder and more expensive.

Consequently the company share price has slid. However it bucked the market trend yesterday and went up 6 cents to close at $4.15.

``We do not have a good environment to be selling any assets in at the moment,'' said Glass.

``SkyCity have some good businesses but they have just been badly run.

``It's hard to apportion blame but SkyCity has been mismanaged for the past three years at both a board and senior management level.

``For years they have been saying that they want to buy these businesses - now the strategy seems to be to sell them,'' Glass said

``We would rather they just halted the whole sale process for assets. Get the new CEO on board.''

Arthur Lim said with the credit crunch the terms for any sale were getting harder by the day.

``SkyCity has to move back into an operational entity. A new CEO has to have a proper appraisal. The company has been in disarray for two years.''

Lim said while there were problems at a corporate level, the casino businesses in Adelaide, Auckland, Hamilton and Darwin were almost monopolies.

MT COOK BECKONS, AFTER SKYCITY CLIMBS

Gareth VAUGHAN
19 December 2007
Dominion Post
English

SKYCITY Entertainment Group's new Australian chief executive hopes to climb Mt Cook, and although improving the casino operator's financial performance could also prove challenging, he does not seem fazed.

"In my opinion, running casinos isn't rocket science," Nigel Morrison, who takes the helm in March, said yesterday.

Mr Morrison is swapping the role of chief financial officer at Hong Kong and Macau casino group Galaxy Entertainment, which has a market capitalisation of about twice SkyCity's at $5 billion, for the SkyCity job in Auckland and New Zealand's "fresh, clean air".

A keen mountaineer, he has scaled Mt Kilimanjaro and made it to Everest base camp. "I'd like to climb Mt Cook at some point, but I need to get a lot fitter and learn to use ice picks again," he joked.

Foremost in his mind, however, is improving the performance of SkyCity's casinos in Auckland, Hamilton, Adelaide and Darwin.

It also owns 41 per cent of Christchurch Casino and 55 per cent of one of Queenstown's two casinos. In August, SkyCity posted an 18 per cent fall in annual net profit to $98 million.

Two months before, Evan Davies, SkyCity's founding chief executive, departed abruptly with a $2 million payout after 11 years at the helm. SkyCity director Elmar Toime has been executive director since, and will continue till March.

Mr Morrison said his focus was on running SkyCity's existing casinos as well as possible, but said this could take some time to achieve. With 18 years' experience in the gambling sector, including "turnaround' and "revitalising" roles at Melbourne's Crown Casino and Tasmania's Federal Group, he understood what was needed to boost revenue and manage costs.

Investors welcomed Mr Morrison's appointment. Mint Asset Management portfolio manager Shane Solly said he had a good pedigree. "He is obviously being paid to continue the turnaround that the board has put in place. Whether they get to implement that may be another thing."

In September, SkyCity received a takeover approach, which BusinessDay understands was from United States private equity funds TPG and Apollo Management. On December 5, SkyCity said it was struggling to raise funding for a takeover offer. SkyCity chairman Rod McGeoch said yesterday there had been no update since, nor would he update SkyCity's plans to sell its cinema chain.

If SkyCity is taken over and Mr Morrison's role diminishes, he can terminate his contract and receive a payout equivalent to his annual $1.3 million base salary. But he does not envisage leaving. "I think, hopefully, my credentials will be such that if a new player comes in, they'll want to talk to me."

He will potentially be able to earn $3.7 million a year through his salary and bonus incentives (though at least a third of the bonuses will be paid in shares).

Over time Mr Morrison hoped improving SkyCity's performance would mean there was no "low- hanging fruit" for predators to target. He hoped SkyCity would eventually look at expansion opportunities in Australia and Asia.

Des Hunt, Shareholders' Association corporate liaison, said Mr Morrison's background and credentials suggested he was a good choice.

However, he thought the short- term incentive payments were a little high, and that the long-term incentives should be based on an average return for a three-year period rather than 18 months.

Mr McGeoch said SkyCity's board was happy to have attracted a major figure in the gambling industry. "I'm perfectly happy to acknowledge that he has got to work hard to get it (the total remuneration package) but the rewards are there for him."

SkyCity shares slipped 9 cents to $4.52 yesterday.

Bid fails to come through for SkyCity

by Tamsyn Parker
530 words
6 December 2007
New Zealand Herald
English

Casino operator is still hoping its one the potential buyer will get financial backing

SkyCity's directors will go into the board's annual meeting today without a bid on the table after its one remaining interested party failed to meet the firm's deadline.

The casino and hotel operator had hoped to hear back from all interested parties before today to enable it to discuss the proposal and decide whether to take it to a shareholder vote.

But yesterday SkyCity informed the market it had received a letter advising it that the interested party had completed due diligence and was still ``highly interested in pursuing a transaction'' but was not yet in a position to make an offer.

The party, which is thought to be US private equity firm TPG, has said it remains ``highly optimistic of securing suitable financing in the very near term'' and remains hopeful of being able to provide a ``compelling offer'' as soon as possible.

The delay is understood to have been compounded by increasing difficulties for private equity firms to raise money following the credit crunch in the US and suggests that if the firm does manage to get finance its offer may be at the low end of the scale.

SkyCity acting CEO Elmar Toime said the interested party had not given any indication of how long it might take to get finance but SkyCity would continue to engage with the party.

Toime said the board had also made it clear that it was not waiting around for the bid to come in.

``We are pushing ahead on all fronts. We didn't solicit any offers. They can and will do what is appropriate - the timing is in their hands.

``If and when they come back the obligation is on the board to assess the offer and make the decision to take it to shareholders. It's not about waiting. We are going to go ahead and make the decisions we need to make. None of that is influencing our decisions.''

Toime said the board and management continued to work on the strategic and business plans for the company, including the appointment of a new CEO, which he said was progressing well.

The board is understood to have narrowed the selection down to one person and is currently in negotiations. Toime said it was still on track to make an announcement by December but it would depend on how long the negotiating process took.

But yesterday's announcement came under heavy criticism from Brook Asset Management director Paul Glass. ``They have handled it pretty poorly - it seems crazy to allow a company to do due diligence without checking to ensure they have the financial backing to go ahead with the deal.''

Glass said it was just the latest in a long history of disappointment from the board. He called for the board to be refreshed starting with the replacement of chairman Rod McGeoch. ``These are very good quality assets and a good business that has been poorly managed by the board.''

Shares in SkyCity closed down 10c at $4.85 yesterday.

SkyCity cinema suitors to make pitch this week

by John Drinnan
536 words
15 November 2007
New Zealand Herald
English

Movie chain could fetch $116m as casino firm makes step towards sale of whole group

Overseas bidders for SkyCity's cinema chain will pitch their offers to the board of directors this week as the troubled gaming company works towards a sale of the entire group.

Contenders for SkyCity Cinemas - which could be worth as much as $116 million - are understood to include Australian firm Greater Union, which is cashed up after recently selling its stake in its Australian rival Village Roadshow.

The other contenders are believed to be US-based Reading Cinemas and Hoyts, formerly a joint venture between James Packer's PBL and West Australian Newspapers, which has been acquired by Australia's Pacific Equity Partners.

Both Reading and Hoyts are active in the New Zealand cinema business - Hoyts' Sylvia Park multiplex has challenged SkyCity Cinema's dominance in Auckland - so could face issues over competition should they proceed to a formal bid. Interest from New Zealand buyers appears to have faded, largely, it is understood, because of sale price targets.

In the wider sale process of the entire SkyCity Group, indications are private equity firms TPG, Providence Equity Partners and CVC Asia Pacific are kicking tyres on the casino company.

Chairman Rod McGeoch has indicated there will be no developments before Christmas.

Investors have attacked SkyCity's handling of the sale process where it has opened the door to potential buyers of the wider company, advanced a sale process for its cinema division and sought a permanent leader to replace acting chief executive Elmar Toime.

And the cinema sale foreshadowed back in May has proceeded slowly.

SkyCity has consistently said the cinema chain has not delivered a sufficient return on capital, but chairman Rod McGeoch told angry shareholders at the October 26 annual meetings SkyCity was not selling assets at any price.

Cinema industry veteran Barrie Everard indicated in the past he was interested in buying SkyCity assets which include a 50 per cent stake in the arthouse Rialto Cinemas with Reading.

Everard insisted this week he did not know the state of deliberations or how SkyCity viewed his interest.

But other industry sources said interest from local individuals had cooled because SkyCity was seeking a premium price to cover the price it paid to pick up the 50 per cent of the company from its former joint venture partner Village Roadshow.

The cinema operation is expanding and is understood to have around $10 million in commitments as a result of a new multiplex at Albany, north of Auckland, and shifting its Manukau multiplex from a stand-alone building inside the Westfield shopping mall.

Like the casino, the cinema business offers owners a good cash flow.

But cinema revenue fluctuates based on the appeal of Hollywood movies and the local box office has slowed after a flurry of blockbusters mid-year.

A strike by Hollywood scriptwriters will have no immediate impact on cinema revenue. But if it is prolonged, and affects Hollywood production, it could cause falls in box office takings next year.

SkyCity said yesterday it did not expect to progress with the cinema sale before the end of November.

SkyCity figures `farcical'

by Owen Hembry
687 words
28 August 2007
New Zealand Herald
English

Doubts cast on $11.6m in savings in six weeks

SkyCity directors are coming under increasing pressure to provide answers after the casino company stunned the market by reporting substantial savings just six weeks after the company announced a cost-cutting programme.

Investors want to know how SkyCity could have made the $11.6 million in cost savings so quickly and why the were not told about scale and timing of the expected savings.

Some say they have yet to decide whether they will vote for the re- election of current directors at the company's annual meeting in October.

In May, managing director Evan Davies (who has since resigned) unveiled plans to cut costs by $33 million and to sell SkyCity's cinema business and underperforming casinos.

Some initiatives had been introduced during the financial year ending June 30 and the rest would follow during the next 12 to 18 months, the company said.

But last week acting chief executive Elmar Toime unveiled full-year net profit of $98.4 million, which was in line with guidance. But he said the figure included $11.6 million of savings from the programme announced six weeks earlier.

Paul Robertshawe, portfolio manager for equities at Tower Asset management, said no one in the market expected the level of saving during the first period.

``It is the top of the list of the questions I've written so far, to explain why better guidance wasn't given around the achievement of those cost savings,'' Robertshawe said.

SkyCity had had an opportunity to provide greater detail, he said.

``This is why I need to ask the question directly and get an understanding of what they thought they were saying versus what the market thought they'd been told. Can you put it down to a lost- in-translation [scenario] or can you put it down to something more sinister?''

Tower had not been agitating for boardroom changes but when other parties raised the subject it had not been against the suggestion, Robertshawe said.

Tower had not decided whether to vote in favour of the re-election of directors, he added.

Davies resigned just a week before the company's financial year ended in June after the company changed direction to a more conservative approach. Its acquisitive strategy, including buying cinemas, other casinos and internet gaming firm Canbet, had been criticised by commentators and investors during the past two years.

Simon Botherway, of Brook Asset Management, said the delivery of the cost saving last week was farcical.

``They simply can't claim by slightly under-achieving guidance that within that is a $12 million cost save of a programme that was announced six weeks before the end of the financial year,'' Botherway said. ``It's just shambolic.''

The delivery of the saving reflected very poorly on the board.

``This is very disappointing particularly when they've put their credibility on the line with a strategic review and a cost-cut programme, and then to claim that they've already achieved a significant portion of those [cost cuts] is farcical,'' he said.

Mark Brown, investment manager at ING, said there had been confusion as to whether the cost saving programme constituted a profit downgrade.

``Whilst they're saying that they performed in line with guidance, they just guided the market to a consensus number that didn't have those cost savings [built] in,'' Brown said. ``In that way it's disappointing.''

However, ING was not looking for boardroom changes.

``I'm not going to stand on a soap box and shout for heads,'' Brown said. ``We've got some very disruptive changes at the moment and I'm not sure that the business would be better for further disruptive changes.''

SkyCity's share price closed up 6c yesterday at $4.55, compared to a 12-month high of $5.52 a share and a twelve-month low of $4.16 after the results were announced.

SkyCity's board consists of chairman Rod McGeoch, and directors Patsy Reddy, Dryden Spring, Ron Trotter and acting chief executive Toime.

theIndependent
NEW ZEALAND'S BUSINESS WEEKLY

NEWS
Sky City's problem an obsolete model

1,017 words
4 July 2007
The Independent Financial Review
NATIONAL
10
English

WHEN Sky City Entertainment Group opened its casino complex on February 2, 1996, it was a small and glamorous business. The celebratory bash that followed was a lavish affair, as was the party a year later when the landmark Sky Tower was completed.

At that time Brierley Investments' 36-year-old Evan Davies had cut his teeth on the company's property development. Charged with leading the casino construction for BIL he slid seamlessly into managing the business.

That was until last week when he departed unceremoniously, only a month after announcing plans to sell a chunk of the company's war chest unless performance lifted, slash costs and go all out to lure more high rollers, particularly Asians, to improve the casino's sagging performance.

Word around the traps is the $33 million tagged for cost cutting in the back office and from overheads wasn't enough. The board wanted more but Davies wouldn't budge. In any event analysts doubt the company will even manage $33 million without risking the business.

Davies is believed to be holidaying overseas, leaving media and analysts to surmise what went on behind closed doors in those final days that led to his hasty departure. Should not the board have had some responsibility too?

Sky City chairman Rod McGeoch gave a blunt delivery of Davies' exit details, including a $1.7 million departure payment. Conversion of options could lift Davies' share cache to $7 million.

What a difference a decade makes. When Davies took the helm Sky City was the 13th largest listed company, with a market capitalisation of $625 million. Today it is the country's fifth largest, with market capitalisation of $2 billion and assets on both sides of the Tasman.

The share price, based on performance, tells a sadder story. In 1996 it was around $6.90. Today it's around $5.05. Earnings before interest and tax (Ebitda) over the past five years have been sluggish.

Reminiscent of Air New Zealand, when board member Ralph Norris stepped up to run the company after the chief executive departed, former New Zealand Post chief executive and Sky City board member Elmar Toime has been appointed interim chief executive.

In a spooky coincidence Australian gaming operator Tabcorp, often touted as a possible bidder for Sky City, sent its chief executive, New Zealander Matthew Slatter, packing in March in not dissimilar circumstances to Davies after reporting a 21.5% drop in first-half net profit. Tabcorp - as Sky City now must after the departure of Rob McLeod from its board last week - had to replace two board members, including its chairman. And in another spooky coincidence its acting chief executive is also an Elmer - as in Elmer Funke Kupper.

In fairness to Davies the company is no dog. But neither is it the cash cow expected of gaming operators. The Auckland Casino concentrated too much on the entertainment side at the expense of income earned from serious high rollers.

Interestingly, when Brierley Investments won the bid to build the Auckland casino it met Casino Control Authority criteria to team up with an experienced operator. Harrah's Entertainment Inc, the largest casino operator in the US, stepped in and the company reported in its first five months a $15.5 million profit, more than $1 million ahead of forecast. But a year after Auckland opened, Sky City thought the business could cut costs by going it alone so Harrah's left, with a $153 million profit on shares for its effort. In hindsight this may have been Davies' biggest mistake.

Now speculation has surfaced again that the company is a takeover target. A bidder will note the New Zealand government charges only 4% tax on gaming revenue. Even with GST added, taking it to 16.5%, it's still one of the lowest rates in the world, if not the lowest.

Star City's Sydney casino, for instance, pays 23.5% tax including GST and Macau's casinos pay 40% of total revenue, although they are exempt from corporate tax.

Why, therefore, would any company in its right mind that has done a modicum of due diligence buy Sky City when the tax rate could be changed at the whim of the government? It's no secret the gaming tax rate is fully factored into the share price.

There's also an impression abroad that the casino's watchdog, Internal Affairs, has taken a low- key approach to the tax because Sky City has sold it on being such an exemplary corporate citizen, showering benevolence on charitable causes and contributing to gambling-help organisations.

But now that noble image is in jeopardy as cutbacks threaten sponsorships - the Breast Cancer Foundation, Kidz First or Starlight Symphony.

Davies' last-ditch, cost-cutting announcements will change the company's dynamics rapidly. Apart from targeting the $33 million in overhead costs, staff are to be reduced by 230 and the Christchurch and Adelaide casino interests are to go on the block unless they lift performance. The company has already sold its Metro Building in Queen Street. And the cinema business is by no means a keeper.

Davies, in true Brierley management style, has been a diversifier. But as one wit observed he has been more a "diworsifier" with his spate of acquisitions in New Zealand and Australia. The Darwin casino proved a winner but the fickle Adelaide casino and the disastrous foray into Force Corporation (its Argentinian operations were a write-off) fell well short of the mark.

The business model that so suited BIL in the 1980s has proved inapplicable in the 21st century. The rationalisation has proved this so.

Davies has had his challenges. A failed marriage to the company's marketing manager that caused furrowed brows; a smoking ban on the gaming floor, a decline in high rollers, to name just a few. The excuses and challenges have rolled like the dice. This time, though, Davies' luck ran out.

Warning: our odds are not good

by Watson Lois
448 words
1 July 2007
Sunday Star Times
English

POSTERS TELLING gamblers how much money they could lose are being dislayed in the Dunedin Casino in a bold management initiative to address problem gambling.

The posters suggest that those betting with small amounts are odds on favourite to lose the most.

The house advantage at Dunedin Casino means that for every $100 you spend on the 1c gaming machines, you can expect to lose $9.50. Spend the same amount, though, in the $1 slot machines and your expected loss falls to $6. At the baccarat table you can expect to lose $1.50 per $100 spent, while poker players can expect to kiss goodbye to $7.50 per $100.

Dunedin Casino chief executive Nick Winder, general manager at the casino since March last year, said information on house advantage in the past had been quite complex and difficult for some to understand. The posters were a simple, effective way of explaining how house advantage worked and were modelled on material from the United States.

Winder said the casino took its host responsibilities seriously.

The casino was forced to close for two days late last year after its licence was suspended by the Gambling Commission as punishment for its failure to take adequate action over a woman said to have gambled $6.6 million in a three-year period. Of that, Christine Keenan lost $554,000 between 2001 and 2004. She was jailed for three years after stealing almost $500,000 from her employer.

Problem Gambling Foundation social marketing director Bill Bradford welcomed the posters as an effective way of demonstrating the financial losses associated with gambling.

But, he said, casinos still needed to do more to address problem gambling. "Ethically they should be making it very clear to people that they can't win."

An Internal Affairs investigation into activities at the Christchurch Casino has thrown the spotlight on New Zealand's casino industry. The department launched the investigation in response to allegations of loan sharking and financial irregularities at the casino.

Christchurch Casino's former chief executive Stephen Lyttelton and his deputy, Peter Arbuckle, then went public with their concerns of a "sick and sorry" industry.

"We're going to see many, many weeks, if not months, of these sort of revelations as their activities are gradually exposed to a bit of daylight," Bradford said. "They can't continue to use their monopoly position as a cash cow and avoid their responsibilities."

Latest national figures show 7.7% of those seeking help for problem gambling were playing on casino pokie machines, while 2.4% were playing the tables at casinos.

Internal Affairs communications adviser Trevor Henry said all casinos were legally obliged to provide information about house advantage but the Dunedin Casino was the first to put posters up.

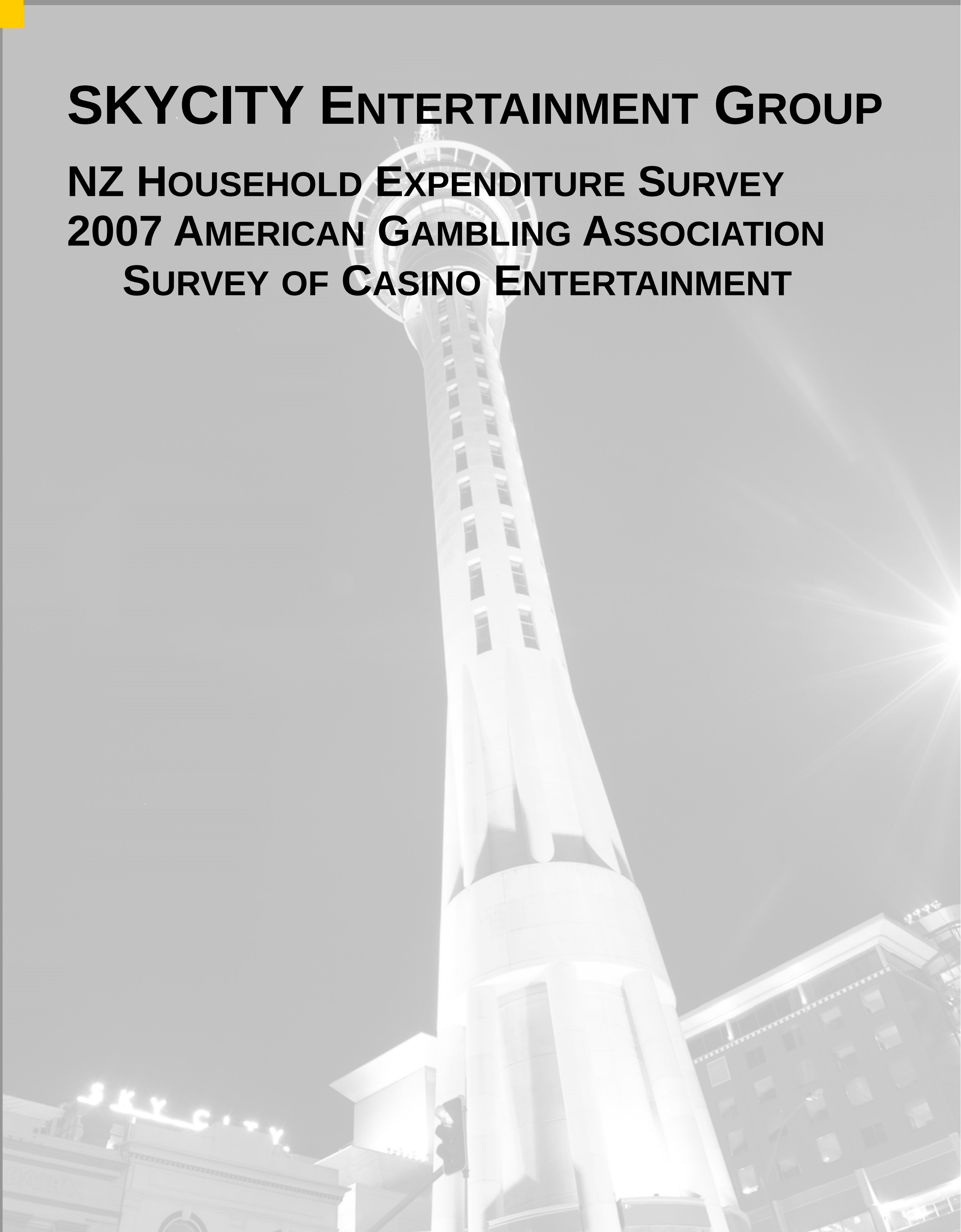
THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL
CHAMPIONS TROPHY CASE COMPETITION 2008

SKYCITY ENTERTAINMENT GROUP

NZ HOUSEHOLD EXPENDITURE SURVEY
2007 AMERICAN GAMBLING ASSOCIATION SURVEY OF CASINO ENTERTAINMENT



The following has been obtained from the Statistics New Zealand website, the Department of Internal Affairs website, and the American Gambling Association website.

SKYCITY ENTERTAINMENT GROUP

Average Weekly New Zealand Household Expenditure[1]
For year ended 30 June 2007

Expenditure Group	Average weekly household expenditure	Expenditure as a percentage of total gross expenditure
Food	$155.60	15.6%
Alcoholic beverages, tobacco and illicit drugs	$26.50	2.6%
Clothing and footwear	$32.80	3.3%
Housing and household utilities	$223.90	22.4%
Household contents and services	$50.60	5.1%
Health	$22.60	2.3%
Transport	$136.00	13.6%
Communication	$31.20	3.1%
Education	$12.70	1.3%
Miscellaneous goods and services	$94.20	9.4%
Other expenditure	$97.20	9.7%
Recreation	**$116.74**	**11.7%**
Recreation equipment / supplies	$38.50	3.8%
Newspapers, books, stationery	$10.10	1.0%
Holiday services and costs (does not include separate transport costs)	$15.70	1.6%
Recreational and cultural services	**$52.44**	**5.2%**
Recreational and sporting services	$8.60	0.9%
Tuition fees for recreational and sporting activities		
Subscriptions and donations to recreational and sporting clubs		
Admission charges to recreational and sporting events		
Charges to participants for recreational and sporting services		
Hire of recreational and sporting goods		
Cultural services	$16.90	1.7%
Admission charges to cinemas, theatres, concerts		
Museums, zoological gardens and the like		
Television and radio charges and hire of equipment		
Other cultural services		
Veterinary and other services for pets and domestic livestock	$2.20	0.2%
Veterinary and other services for pets and domestic livestock		
Games of chance / gambling (net losses)[2]	**$24.74**	**2.5%**
Racing (includes sports betting)	$3.30	0.3%
Lotteries (NZ Lotteries Commission)	$4.06	0.4%
Gaming Machines (outside Casinos)	$11.64	1.2%
Casinos	$5.75	0.6%
Total Gross Expenditure	**$1,000.04**	**100.0%**

Note 1: Modified from Statistics New Zealand Household Expenditure Survey with data from the Department of Internal Affairs. Portions of the data have been modified and/or edited to reduce confusion.

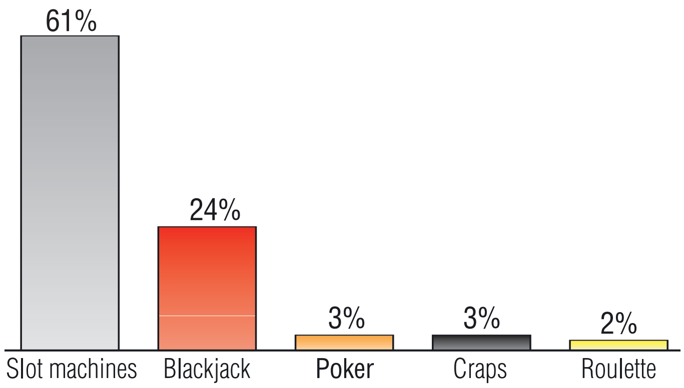
Note 2: Data from Statistics New Zealand showed unusually low figures for this category, and has been replaced with detailed data from the Department of Internal Affairs. Total gross expenditure has been adjusted accordingly. Weekly expenditure figures calculated using 1.57 million households and a population of 4.25 million people in New Zealand. Figures show the gross amount wagered minus the amount paid out or credited as prizes or dividends

Note: There are 8.07 million households and a population of 21.18 million people in Australia.

Source: Statistics New Zealand, NZ Department of Internal Affairs, Australian Bureau of Statistics

TOP FIVE FAVORITE CASINO GAMES

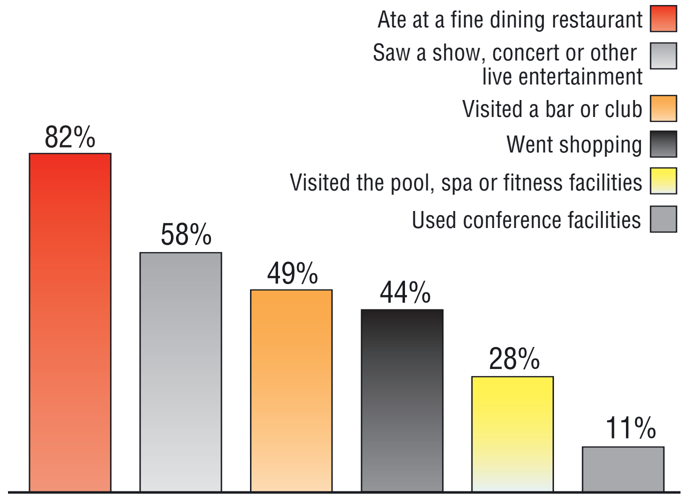
Slot machines are the overwhelming choice of survey respondents when asked to name their favorite casino game, with blackjack the only other game to garner double-digit support. Baccarat was the only other casino game outside of the top five to garner a selection, with 1 percent of the vote.



Source: Luntz, Maslansky Strategic Research and Peter D. Hart Research Associates

WHEN YOU VISITED A CASINO THIS PAST YEAR, IN WHAT OTHER ACTIVITIES DID YOU PARTICIPATE?

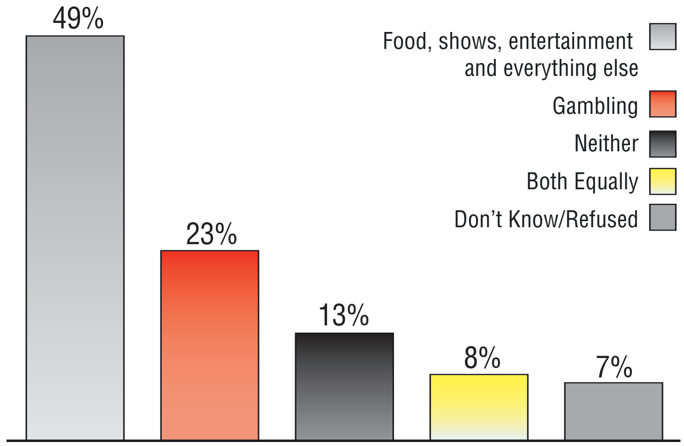
Commercial casino visitors are enjoying the increasingly diverse array of entertainment options available at casinos. During their casino visits during the past year, more than four out of five visitors (82 percent) ate a fine dining restaurant, more than half (58 percent) saw a show, concert or other live entertainment option, and almost half (49 percent) visited a bar or night club.



Source: Luntz, Maslansky Strategic Research and Peter D. Hart Research Associates

WHEN YOU THINK OF CASINOS, WHICH IS MORE FUN FOR YOU — THE FOOD, SHOWS, ENTERTAINMENT AND EVERYTHING ELSE A CASINO HAS TO OFFER — OR THE GAMBLING ITSELF?

With an increasingly diverse array of entertainment options, casinos are attracting visitors looking to do more than just gamble. Twice as many Americans said the overall casino experience — the food, shows, entertainment and everything else (49 percent) — is more fun for them than the actual gambling (23 percent).



Source: Luntz, Maslansky Strategic Research and Peter D. Hart Research Associates