



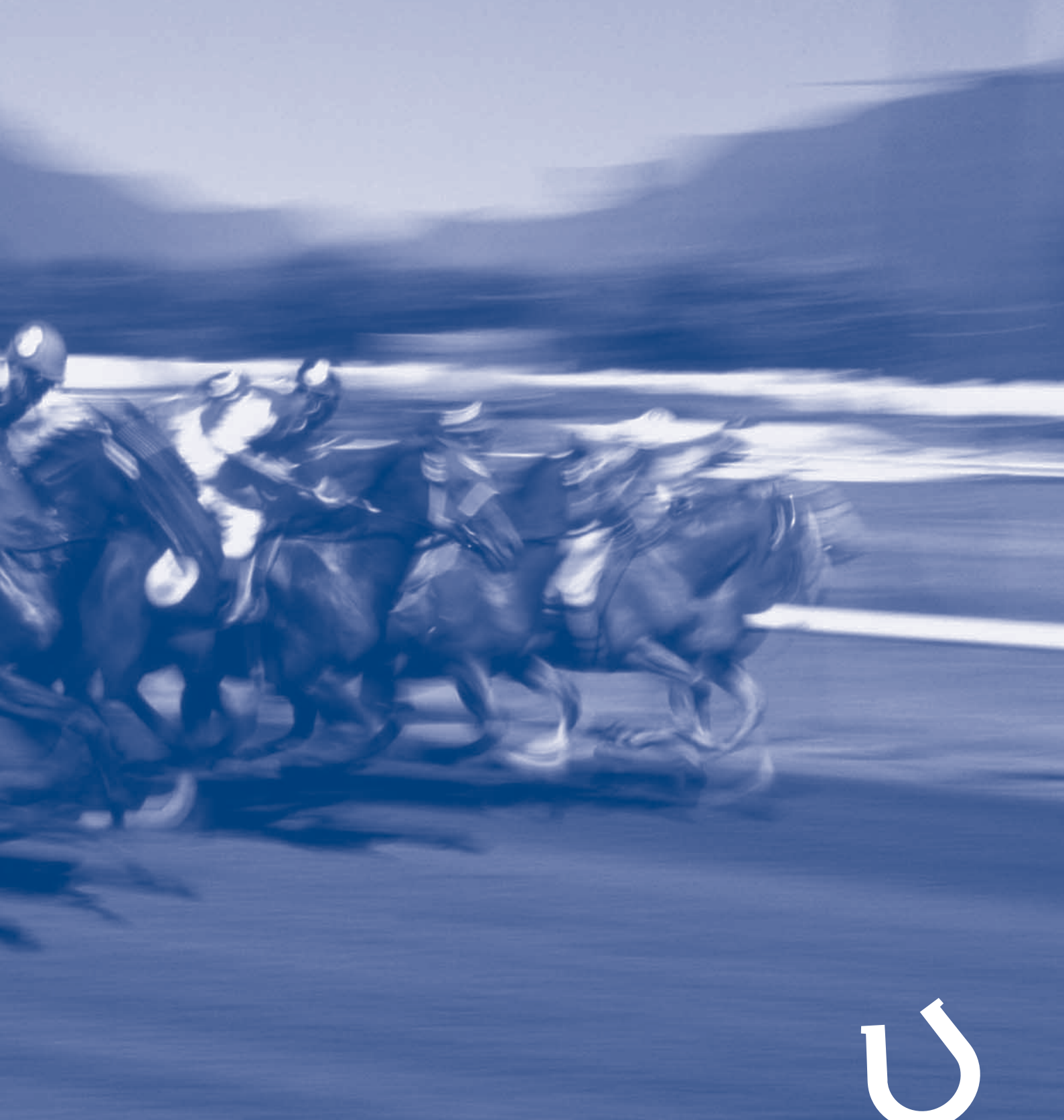
NEW ZEALAND
RACING BOARD





YEAR ONE - AND THEY'RE OFF...

"THE CONTRIBUTION OF RACING TO THE NEW ZEALAND ECONOMY IS SUBSTANTIAL, AND IT IS ESSENTIAL, NOT ONLY FOR RACING INDUSTRY PARTICIPANTS, BUT FOR EVERY NEW ZEALANDER, THAT THIS ECONOMIC CONTRIBUTION IS ENHANCED WHEREVER POSSIBLE." - WARREN LARSEN, CHAIRMAN.



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EVERY JOURNEY BEGINS BEFORE THE FIRST STEP IS TAKEN...

BOARD MEMBERS



JIM WAKEFIELD
Harness Racing Member

THAYNE GREEN
Greyhound Racing Member

MURRAY ACKLIN
Thoroughbred Racing Member

ALAN JACKSON
Independent Member

ANNE URLWIN
Independent Member

WARREN LARSEN
Independent Chairman

JULIE CRENGLE
Independent Member

SENIOR MANAGEMENT TEAM AUGUST 2004

GRAEME HANSEN
Chief Executive

RICHARD ELLERINGTON
Acting General Manager, Operations

LYNLEY SINCLAIR
Manager, Human Resources

PAUL ALPE
Manager, Audit

TIM GREEN
Programme Leader

DAVID WALSH
Chief Financial Officer

PAUL CROSS
General Manager, Wagering

TONY SEVERINSEN
Manager, Industry Liaison

WARWICK WRIGHT
General Manager, Technical Services



WHEN YOU'RE READY, IT SHOWS.
LOOK AHEAD, BE WILLING, BE PREPARED.

CHAIRMAN'S REPORT



The New Zealand Racing Board has completed its first year in office following the passing of the Racing Act 2003. This new legislation has provided a simplified and more efficient framework for New Zealand racing. The establishment of the NZ Racing Board, to replace the former NZ Racing Industry Board and TAB as the body responsible for driving industry policy and for conducting race and sports betting, has been a major step forward.

The objectives of the NZ Racing Board, as stated in the Racing Act 2003, are:

- To promote the racing industry;
- To facilitate and promote race betting and sports betting;
- To maximise its profits for the long-term benefit of New Zealand racing.

The new Board has had a very busy year. The TAB had been in transition for over two years pending the passage of the new legislation. It is difficult for any organisation to operate to its full potential in such an uncertain environment, but Jim Leach and his team did a very good job in maintaining the business while the process of change continued. I personally want to acknowledge Jim's outstanding service to the TAB, and the racing industry in general, and wish him well in his retirement.

The Board moved quickly to undertake a major economic study on the New Zealand racing industry. To develop a future plan for the industry, the Board needed hard economic data. Much of the available racing industry information was either anecdotal, or in an unusable form. The study showed that the New Zealand racing industry generates more than \$1,483m annually in value added contribution to the country's gross domestic product. Put another way, this represents approximately 1.3% of New Zealand's total gross domestic product. By any assessment the contribution of racing to the New Zealand economy is substantial, and it is essential, not only for racing industry participants, but for every New Zealander, that this economic contribution is enhanced wherever possible.

The Board appointed a new Chief Executive and during the year we welcomed Graeme Hansen to this challenging role. We were delighted to attract Graeme back from overseas to this position, and we are very confident that along with his team he will be able to meet the significant challenges the industry faces.

Payments to the total industry from the NZ Racing Board's operating activities increased from \$75.0m in 2002/03 to \$77.6m for the 2003/04 year. While this increase was positive, it is significantly below the required amount to meet even reasonable growth targets for the industry. The Board has set a target of \$100m over the next three years and we are confident that we will achieve that target.

In addition to the fact-based economic research, the Board also commissioned a performance and efficiency review of the NZ Racing Board. This produced some very interesting results. It showed there is a real opportunity for performance improvement, particularly in the distribution system of the NZ Racing Board, focussing on changes to the betting channels and outlets. The Board will be aggressively pursuing opportunities to improve performance, identified at \$10-15m by the review.

Contribution from overseas racing was also carefully assessed and the study demonstrated that given the finite limit to the betting dollar, increased participation in domestic New Zealand racing is the key to improving returns.

The TAB is a valuable brand and has been hugely successful historically but improved performance, while important, will not be enough by itself.

It is critical for the industry that all involved in racing, including those who derive their livelihoods from it and those who participate for other reasons, understand that racing is entertainment and what this means in a marketing sense. The industry cannot prosper simply by doing more of the same. The industry desperately needs more participants, new customers, better economic outcomes for owners and more people attracted to racing simply to have fun.

To effect the necessary changes will require firstly an acceptance of the need for change. The NZ Racing Board is encouraged by the reaction of industry leaders to date on this point.

In that regard, the Board will be focussing very clearly on what racing calendar and funding arrangements are required to deliver the best possible improvement platform. This is work that will involve all three racing Codes, working together with a common set of objectives, and needs to be addressed with urgency. The NZ Racing Board is absolutely determined to meet this challenge.

To facilitate the required changes, the NZ Racing Board has committed to underwrite funding of all three Codes for the 2004/05 year on the same basis as 2003/04. In addition, a further \$10m has been specifically committed from reserves to initiatives aimed at increasing participation in racing.

The Board looks forward to meeting the exciting challenges ahead.

Warren Larsen
Chairman





TO SUCCEED WE MUST BUILD STRONG FOUNDATIONS...

CHIEF EXECUTIVE'S REPORT



We are delighted to be able to celebrate many significant achievements in our first year as the New Zealand Racing Board. This is due in no small part to the efforts and accomplishments of all those in our team who worked so hard in challenging circumstances. The business has gone

through an unexpectedly long period of uncertainty but, through the determination of our key people, we have held a steady course in meeting our responsibilities to customers and other stakeholders.

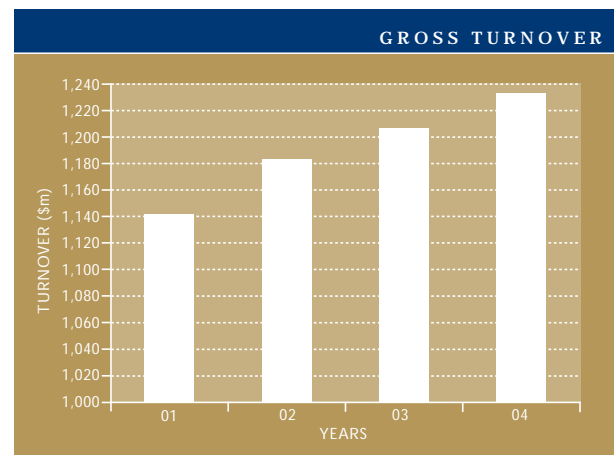
Financial and operational milestones from the past year are discussed below, showing the strength and substance of our business. Elsewhere in this report, a number of other significant achievements are noted. Also, the highlights of the year from each of the three Codes provide a clear reminder of the excitement of racing in New Zealand.

The NZ Racing Board's business combines the activities of the TAB and the former NZ Racing Industry Board. Because this is the first year for the new Board, there are no previous performance figures to compare with this year's results. Therefore, the data for earlier years in the accompanying charts and graphs refers to the combined figures of the TAB and Racing Industry Board.

Gross turnover in 2003/04 from all sources – off-course, on-course and sports betting – was \$1,232m, up \$25m from the previous season. The greatest contributor to this figure was off-course betting at \$1,046m – up \$34m. Momentum over the second half of the year was strong, with increased turnover for all three New Zealand racing Codes.

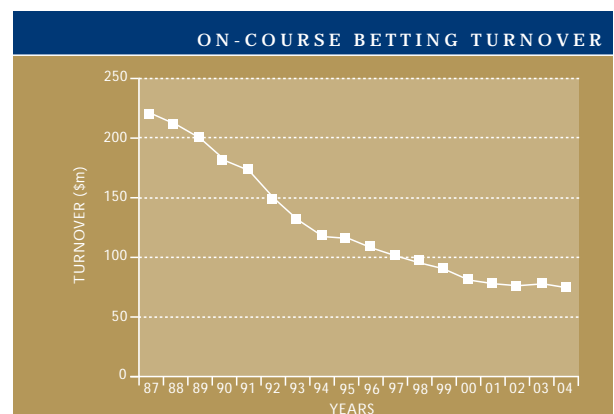
Extended hours on Trackside, together with Percentage Betting, Final Field Fixed Odds racing and Multi sports products, contributed to the record result.

Sports betting turnover reached \$105m, the second highest figure recorded, exceeded only by the previous year when the follow-on effect of the Soccer World Cup contributed so significantly to the overall result.



Whilst the modest growth in gross turnover is encouraging, real concern exists around the underlying nature of that growth. Two aspects of greatest concern are the continued decline in domestic turnover and the even steeper decline in on-course participation. A number of external forces have contributed to this situation including, for example, the introduction of Saturday shopping in 1986 that gave the race-going public alternative leisure-time options.

We are sure that if we can increase participation in the domestic industry – that is, more animal ownership, larger starting fields for horse races, a more entertainment focussed offering on-course – then performance will improve.





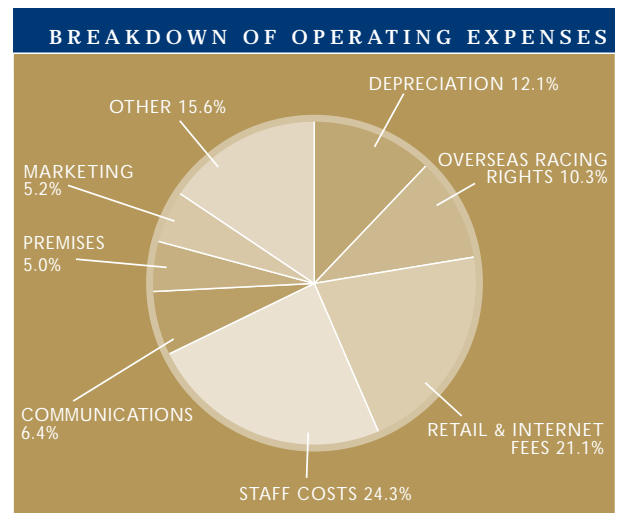
Turnover drives a number of key returns to stakeholders in the industry. Our customers received \$993m or 80.6% of the gross revenue through dividend payments (\$20m more than the previous year). The Government collected \$59m through GST and Totalisator Duty or 4.8% of gross turnover. Sporting bodies received levies of \$1.8m.

In total, the Board derived gross revenue of \$178m (14.4%), including a one-off duty benefit of \$6.7m. The duty benefit arose due to an exceptional non-recurring GST adjustment. Additionally, a non-recurring \$1.9m gain was made on the sale of properties.

Surpluses from betting revenues, after costs and payments, dividends and taxes, may be distributed to the racing Codes. The contribution from wagering is, therefore, important to the industry as a whole. The 2003/04 result is particularly satisfying, then, in terms of industry reinvestment.

Contribution to the industry by way of distributions and expense payments from the 2003/04 operating performance was \$77.6m. In addition, a further exceptional \$3.9m was paid from the Board's general reserves, making \$81.5m in total (up \$6.5m on the previous year). The \$77.6m payments included turnover related Code funding, specific premier stakes payments and turnover guarantees, as well as other industry payments for equine and greyhound research, ownership development grants and owner and breeder incentives schemes.

New Zealand sporting bodies benefited through the payment of levies determined by the wagering turnover and the gross profit from betting on events in their sports. Levy payments totalled \$1.8m, with rugby, rugby league, soccer and basketball receiving 83.1% of the total distribution. More details about these levies and their impact appear elsewhere in this report.

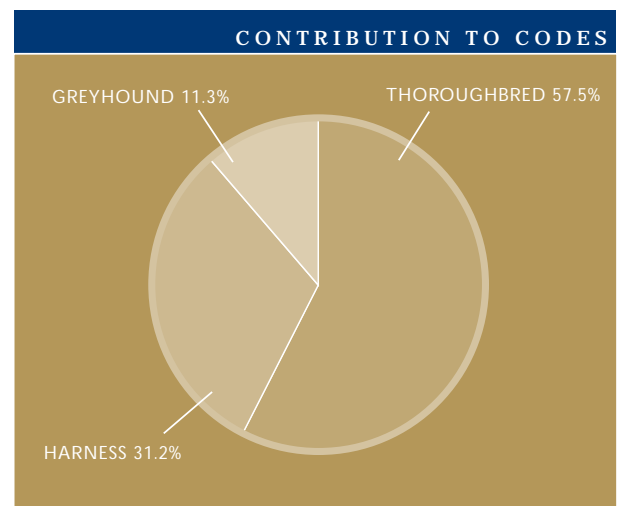


On the expenditure side of the Board's activities, a number of the costs are directly impacted by the level of wagering. Beyond that, tight controls are being applied in cost management, and we recognise the need to constantly review the way the business is managed to maximise efficiency and effectiveness.

Staff costs, which make up nearly a quarter of the total operating expenses, are incurred by the NZ Racing Board through its operational and corporate management structures. The operational teams drive wagering, broadcasting, sales channels, technology and marketing while the corporate functions include human resources, finance and information services.

The NZ Racing Board's reserves were strengthened this year by a net \$3.7m. Retentions of \$7.6m were offset by \$3.9m of reserve payments to the three racing Codes. The retentions included the \$6.7m duty benefit, \$0.3m "amenities" levy (similar in nature to the historical amenities levy previously deducted under the former Racing Act) and a retention of \$0.6m from the 2003/04 operating surplus.

The final 2003/04 operating result allowed the Board to distribute a further \$2.5m to the racing Codes.





Looking forward, we are determined to chart a path for the racing industry in pursuit of our statutory objectives, particularly as we are at a critical point in the history of the industry. Considerable effort has been applied in order to better understand the industry and our place in the economy. As a result, we have determined three major performance improvement themes:

- To improve the NZ Racing Board's performance on behalf of the industry;
- To revitalise the racing industry;
- To establish the right platform for the racing calendar and funding in order to get the full benefits of the other improvements.

Consideration of the scope of these three major performance improvement themes shows just how much work there is to be done, how interdependent so many of those actions are and how critical it will be to prioritise workloads.

We have organised our business management around a group of key industry initiatives within these three themes. These will be run in parallel, but prioritised by importance, to ensure an orderly approach in the pursuit of our goals.

We will be working on a number of fronts to clearly position racing as entertainment. So we will be looking to increase attendance on-course on race days as well as to increase ownership and participation across the industry. This co-ordinated approach to the many, interdependent challenges facing the industry is a key differentiator from the past and is an important component of our work programme for the year ahead. It is vital that we are able to address a number of issues at the same time if we are to have any expectations of leading the industry forward.

A national radio racing network is a specific example of the work in progress. Since Radio Pacific began broadcasting live racing on behalf of the industry in 1991, the volume of racing has increased markedly, outgrowing the station's original agreement. As a result, a dedicated industry racing and sports radio network is under development. It will provide an improved service to customers and widen the means of promoting racing and sports entertainment.



We will be engaging the industry in the work associated with the performance improvement themes. This is a critical factor in our planning, as success will come only if all sectors buy into, and participate in, the process.

There is much to be done in many of our daily routines – through our products, channels and in our customer service – to meet these challenges. We recognise this and know that our improvement programmes must be driven by professionalism and integrity if they are to endure. This theme is central to the very core of our existence.

Likewise, customer service has to be a key driver in everything we do.

This applies across all our points of contact with customers – on-course, through the Retail and Social outlets, Phonebet activities, Touchtone services, the Internet and SKYbet, as well as our television broadcasts on Trackside.

At the same time, there are many external forces impacting our business. The growth of betting exchanges is one. We have been monitoring the activities of betting exchanges in the United Kingdom and Australian markets. These offer markets on most Australian and some New Zealand races, but do not provide any return back to the New Zealand racing industry.

We are concerned about the integrity of exchange betting, particularly as punters are able to “lay a runner” (bet on a runner to lose) in a race. Such integrity issues have been highlighted by a number of high profile judicial

investigations that are underway in the United Kingdom as a result of suspicious betting activity and racing incidents.

We know the challenges ahead are significant. We know they will test the resourcefulness of the industry. But we also know that greater opportunities and successes await those who are willing and prepared to step up to the challenges.

As noted elsewhere in this report, there were many, many moments of excitement over the course of the last year. Excitement, entertainment, fun and adrenalin are all essential ingredients of the racing industry. We will be striving to have more of all of these in the year ahead.

Graeme Hansen
Chief Executive



SIGNIFICANT ACHIEVEMENTS

WAGERING

- Record wagering turnover of \$1,232m (up \$25m or 2%)
- Rugby World Cup 2003 generated \$11m turnover
- Soccer Euro 2004 delivered \$4m turnover
- \$1.8m paid to sporting bodies (\$11.1m since sports betting commenced)
- Since 1994, the average amount wagered each week has increased by \$6m (34%)

PRODUCT HIGHLIGHTS

- New product launches
 - Multi betting
 - Final Field Fixed Odds race betting
 - Percentage Betting for Pick6 and Six Pack
- Percentage Betting
 - Percentage Betting delivered \$19m (55%) of off-course turnover growth
 - First full year of Percentage Betting on Trifectas and Trebles
 - Over 20% of Trifecta tickets now Percentage Bets
 - Pick6 had record turnover (up 34%) mainly attributable to Percentage Betting
- First \$2 million Pick6 guaranteed

CHANNEL PERFORMANCE

- Account betting increased \$20m (5% to \$443m)
- Touchtone betting turnover increased by \$19m (31% to \$80m)
- SKYbet interactive TV in its first full year achieved \$6m revenue
- Internet betting rose by \$10m (11% to \$95m)
- Social outlet betting increased by \$26m (7% to \$385m)
- TAB Retail network betting increased \$9m (1% to \$715m)
- Extended betting hours offered on Soccer Euro 2004

BROADCASTING

- The Ford Report recorded its 800th programme, in its 11th year on Trackside
- Wednesday night was added to the race betting schedule
- New Zealand races broadcast in Australia produced over \$2m in commission payments to Racing Clubs
- Over 94% of all New Zealand races taken for betting in Australia started on time (up from 84% on 2002/03)

RACING CODE CHAMPIONS

ELSU



CATCH ME SOON



KING'S CHAPEL



HARNESS RACING NEW ZEALAND

Horse Of The Year

Elsu

NEW ZEALAND GREYHOUND RACING

New Zealand Greyhound Of The Year

Catch Me Soon

NEW ZEALAND THOROUGHBRED RACING

Horse Of The Year

King's Chapel



WE'RE POISED FOR ACTION, WE'RE PRIMED FOR SUCCESS

SPORTS BODIES' LEVIES

EVERY SPORTS BET HELPS FUND NEW ZEALAND SPORT

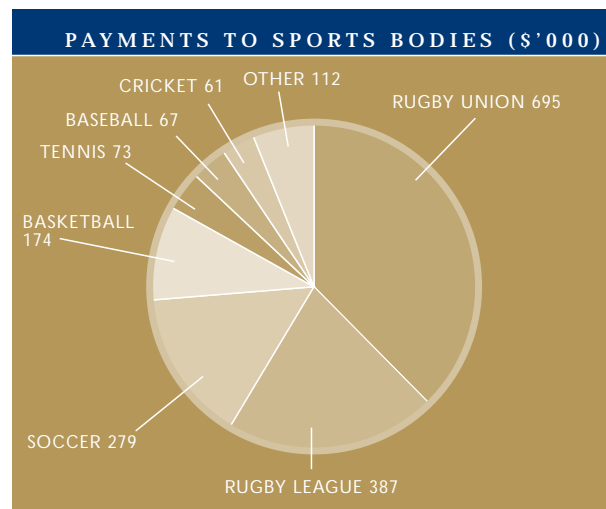
A minimum of one percent of turnover and five percent of gross profit from sports betting goes straight back to the New Zealand sport's administration. In the 2003/04 year alone, the return to sports totalled \$1.8m. Since sports betting was first introduced in New Zealand the benefit to our sports has amounted to \$11.1m.

It does not matter if the bet with the New Zealand TAB is placed on a local or international event, the relevant New Zealand governing body receives the benefit. And the levy cheques do not need to be large to add real value. For example, the body responsible for Australian Rules Football in New Zealand received \$8,500 from betting turnover this year. This funding is used in their national grass-roots development programme, reaching 20,000 primary and secondary school students.

Soccer betting's sharp increase with the 2002 World Cup and this year's European Championship has built Soccer New Zealand's betting levy into an important part of their budget. The sport received \$279,000 during 2003/04. This was of assistance in planning more overseas development, including sending teams to international competitions. Five teams got valuable off-shore experience, including an under-15 boys' team that played in Italy, and the National Women's team.

The sporting bodies have the full say in how they spend their sports betting levies. For example, some may elect to allocate funds to specific projects, while others put the proceeds into their consolidated account. In the case of Rugby League, for example, the benefit may flow to textbooks and interactive CD's at their Academy of Excellence camps, or to support the Junior Kiwi team.

Rugby is the preferred sport of our betting customers. As a result, the New Zealand Rugby Union received \$695,000 through the 2003/2004 sports betting levies. This is a powerful example of how our sports marketing and wagering teams can work in partnership with New Zealand sporting bodies for the good of sports participants, enthusiasts, audiences and organisers.





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WE'RE STRONG, WE'RE FOCUSED AND WE'RE DETERMINED.

PROBLEM GAMBLING INITIATIVES

The New Zealand Racing Board is committed to providing wagering services to its customers in a way that minimises harm as a consequence of gambling.

We recognise our statutory requirement, and also our need as a member of the community, to make responsible provision of gambling a cornerstone of our business. We cannot ethically promote the excitement of racing and betting, without offering assistance to the minority of people for whom it becomes a problem. We recognise the consequences of problem gambling can be serious and reach far beyond the individual immediately concerned.

The NZ Racing Board spent \$1.1m on responsible gambling measures last year. Of this, \$1m was paid to the Problem Gambling Foundation, to support its work providing nation wide counselling services. The rest funded our internal work on training programmes, updating bilingual signage and brochures and auditing and monitoring standards throughout the Retail network.

The NZ Racing Board requires all supervisors of wagering products to undergo problem gambling awareness training. Supervisors are trained in how to recognise signs of problem gambling and to offer assistance to customers.

In the past year, we conducted 15 national Problem Gambling Workshops. The workshops aimed to enable staff to:

- Recognise characteristics and signs indicative of problem gambling;
- Offer assistance to customers who may exhibit these signs;
- Provide support, guidance and assistance to those who pro-actively seek help with problem gambling.

We are committed to communicating responsible gambling messages. All Retail outlets display signage advising how to seek help for problem gambling and encouraging customers to keep their gambling to levels they can afford. Our Internet site provides a link to the national free phone Problem Gambling Helpline, 0800 654 655. All advertising and promotions comply with legislative and regulatory requirements, the Gambling Act 2003 and the Racing Act 2003.

Regular retail audits and “mystery shoppers” monitor adherence to legislative and regulatory requirements.

While there is no means of ensuring that a person does not bet, nor any infallible means of identifying problem gamblers, we aim to lead the gambling industry in doing all we reasonably can to minimise the harm of problem gambling. The NZ Racing Board has been proactive in ensuring we meet our obligations under the Gambling Act.



GOVERNANCE



This Governance Statement sets out the authority, responsibilities, membership and operation of the New Zealand Racing Board.

BOARD AND MANAGEMENT

The management of the business and affairs of the NZ Racing Board takes place under the direction of its governing body, the Board, comprising seven members.

The Board is responsible for the overall direction and control of the NZ Racing Board's activities, and its key responsibilities cover the following aspects:

- Establishment of goals and strategies with associated business plans;
- Monitoring NZ Racing Board performance against budget and other performance indicators;
- Ensuring integrity and transparency in reporting;
- Communicating with the racing Codes on a regular basis through annual Statements of Intent, Annual Reports and other relevant reporting;
- Implementing policies to enhance NZ Racing Board performance;
- Identifying and managing business risks, including statutory compliance;
- Ensuring appropriate internal controls and the quality and independence of the external audit function;
- Monitoring management and its performance, including Chief Executive appointment, review, development, succession planning and delegations;
- Fostering an organisational culture which requires Board Members, management and every staff member to adhere to high standards of ethics and corporate behaviour.

The Board delegates specific authorities to the Chief Executive and to committees of the Board.

In accordance with Section 19 of the Racing Act 2003, the Board submits a Statement of Intent for the coming financial year, setting out the NZ Racing Board's overall objectives, intentions and financial and performance targets. After due consultation with the three racing Codes, the finalised Statement of Intent is presented to the House of Representatives.

BOARD STRUCTURE AND COMPOSITION

Under Section 11 of the Racing Act 2003, the Minister for Racing appoints a governing body (the Board) of seven, consisting of:

- An independent Chairperson;
- Three members appointed on the nomination of each racing Code – one by each of the New Zealand Thoroughbred Racing Inc, Harness Racing New Zealand Inc and the New Zealand Greyhound Racing Association (Inc);
- Three persons referred by a nomination advisory panel consisting of the Minister, the Board Chairperson and the three Chairpersons of the racing Codes.

Board Members are appointed for terms not exceeding three years.

BOARD PROCESSES

The Board met 12 times during the year to 31 July 2004, including one strategy meeting. Policies are in place to ensure meetings are subject to formal agendas and reporting procedures. Meeting agendas are prepared by the Chief Executive and Board Secretary in conjunction with the Chairperson, with papers circulated in advance of the meetings.



The NZ Racing Board maintains an Interests Register in which the interests of its Members are recorded. Members are expected to manage any conflicts of interest responsibly and to act ethically and in a manner consistent with the values of the NZ Racing Board and its objectives. These objectives, as set out in Section 8 of the Racing Act 2003, are:

- To promote the racing industry;
- To facilitate and promote race betting and sports betting;
- To maximise its profits for the long-term benefit of New Zealand racing.

BOARD COMMITTEES

The Board has formally constituted four Board committees – the Dates Committee, the Audit and Finance Committee, the Remuneration Committee and the Taxation Committee. These committees support the Board by considering relevant issues at a suitably detailed level and reporting back to the Board.

All Committees have a written Charter setting out their role and responsibilities, membership, functions, reporting procedures and the manner in which they are to operate. Matters considered by the Committees are reported back to the Board as recommendations, except where specific decision-making authority has been delegated by the Board. The structure and membership of each Committee is reviewed annually.

1. DATES COMMITTEE

The Dates Committee is established in accordance with Section 42 of the Racing Act 2003, which requires the Committee to determine, following consultation with each of the recognised industry organisations:

- All of the dates in the subsequent racing year on which betting will occur;
- The allocation of those dates among racing clubs;
- Any conditions of allocation.

The Committee consists of Julie Crengle (Chairperson), Murray Acklin, Thayne Green, Jim Wakefield and Warren Larsen (ex-officio). The Committee met a total of 15 times in the year to 31 July 2004 – four of these were regional roadshow meetings.

2. AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee assists the Board in discharging its responsibilities with respect to financial reporting and the financial risk management practices of the NZ Racing Board, the work and performance of the internal audit function and the NZ Racing Board's external auditors, Deloitte.

The Committee consists of Anne Urlwin (Chairperson), Murray Acklin and Julie Crengle. The Committee met five times during the year.

3. REMUNERATION COMMITTEE

The Remuneration Committee's purpose is to monitor issues and determine policies and practices related to the remuneration and review of the Chief Executive and the senior executive team.

The Committee (now re-named the Compensation and Development Committee) is chaired by Alan Jackson, with Thayne Green and Warren Larsen as members. The Committee met four times during the year.

4. TAXATION COMMITTEE

The Taxation Committee has recently been formed to review industry taxation issues. Its membership is Alan Jackson (Chairperson), Anne Urlwin and Jim Wakefield.

NEW ZEALAND RACING BOARD FINANCIAL STATEMENTS

(Note there are no previous year comparisons as these are the inaugural Financial Statements for the New Zealand Racing Board)

STATEMENT OF FINANCIAL PERFORMANCE

For year ended 31 July 2004	NOTES	Actual \$'000	Budget \$'000
REVENUE			
Betting Turnover (including GST)	1	1,232,171	1,238,540
Dividends Paid to Customers (including GST)		(993,500)	(1,003,204)
Betting Deductions (including GST)	2	(60,959)	(67,313)
Net Betting Revenue (excluding GST)		177,712	168,023
Other Income	3	9,438	8,403
Total Operating Income		187,150	176,426
EXPENDITURE			
Operating Expenses	4	124,648	119,064
OPERATING RETURN		62,502	57,362
Interest Income		4,079	2,349
Gain on Sale of Properties		1,905	256
NET SURPLUS		68,486	59,967

STATEMENT OF MOVEMENTS IN EQUITY

For year ended 31 July 2004		Actual \$'000	Budget \$'000
Reserves Transferred from Totalisator Agency Board and NZ Racing Industry Board		98,315	98,315
Net Surplus For the Year		68,486	59,967
Interim Surplus Distributions to Codes		(58,311)	(59,038)
Available for Distribution		10,175	929
Final Distribution to Codes		(2,542)	(929)
Transfer to Reserves		7,633	0
Distribution from Reserves to Codes		(3,968)	0
NET INCREASE IN RESERVES		3,665	0
Reserves at End of Year		101,980	98,315

STATEMENT OF FINANCIAL POSITION

As at 31 July 2004	NOTES	Actual \$'000	Budget \$'000
EQUITY			
Reserves		101,980	98,315
TOTAL EQUITY		101,980	98,315
Represented By:			
CURRENT ASSETS			
Cash and Bank	5	2,393	9,659
Short Term Investments	6	50,641	52,697
Receivables and Prepayments	7	4,502	3,664
Inventories		229	339
		57,765	66,359
CURRENT LIABILITIES			
Payables	8	21,103	17,886
Account Betting Deposits and Vouchers	6	10,911	9,849
Unpaid Dividends and Jackpot Retentions	9	5,095	5,251
		37,109	32,986
WORKING CAPITAL		20,656	33,373
NON CURRENT ASSETS			
Loans and Advances to Clubs	10	2,525	3,017
Long Term Investments	6	22,940	5,639
Fixed Assets	11	55,859	56,286
		81,324	64,942
NET ASSETS		101,980	98,315

The Members of the New Zealand Racing Board authorised these Financial Statements for issue on 14 September 2004.



Warren Larsen
Chairman of New Zealand Racing Board



Anne Urlwin
Chairman of Audit and Finance Committee
New Zealand Racing Board

STATEMENT OF CASH FLOWS

For year ended 31 July 2004	NOTE	Actual \$'000	Budget \$'000
OPERATING ACTIVITIES			
<i>INFLOWS</i>			
Betting Turnover		1,232,268	1,162,365
Racing Services Income		4,440	4,487
Current Dividends and Deposits		1,683	0
Interest Received		3,815	2,101
Other Income		5,547	4,155
		1,247,753	1,173,108
<i>OUTFLOWS</i>			
Dividends Paid		994,107	939,817
Payments to Suppliers		70,002	73,527
Industry Distributions		62,038	50,294
Industry Expenses		16,698	13,430
Sporting Bodies' Levies		1,848	2,181
Payment to Employees		21,691	22,145
Net Goods and Services Tax		23,315	18,149
Totalisator Duty Paid		33,635	35,065
		1,223,334	1,154,608
Net Cash from Operating Activities	14	24,419	18,500
INVESTING ACTIVITIES			
<i>INFLOWS</i>			
Disposal of Fixed Assets		62	0
Disposal of Properties Held for Sale		6,743	4,837
Repayments of Club Loans		492	0
		7,297	4,837
<i>OUTFLOWS</i>			
Purchase of Fixed Assets		14,417	14,083
Purchase of Long Term Investments		17,367	0
		31,784	14,083
Net Cash from Investing Activities		(24,487)	(9,246)
Net (Decrease)/Increase in Cash Held		(68)	9,254
Cash Brought Forward on Amalgamation		53,102	53,102
		53,034	62,356
Represented by:			
Cash and Bank		2,393	9,659
Short Term Investments		50,641	52,697
		53,034	62,356

The accompanying Accounting Policies and Notes form part of these Financial Statements.

STATEMENT OF ACCOUNTING POLICIES

For year ended 31 July 2004

ENTITY REPORTING

The financial statements report on the operations of the New Zealand Racing Board. The Racing Act 2003 requires disclosure of budgeted amounts as approved by the Board. Under the Racing Act 2003 the TAB and the NZ Racing Industry Board ceased to exist as at 1 August 2003 and all assets and liabilities of the two entities were transferred to the New Zealand Racing Board as at that date.

STATUTORY BASE

The New Zealand Racing Board is a statutory body established pursuant to the Racing Act 2003. Financial statements are prepared in accordance with the Racing Act 2003.

GOING CONCERN

The Members of the Board have adopted the going concern basis for the preparation of financial statements.

ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand Generally Accepted Accounting Principles. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out as below.

REVENUE

Descriptions of specific terms stated in the Statement of Financial Performance are as follows:

Betting turnover – refers to all turnover generated from betting.

Racing services income – refers to income the New Zealand Racing Board derives from providing on-course raceday services to racing clubs.

Revenue is recognised at the time the betting event takes place.

GOODS AND SERVICES TAX (GST)

The Statement of Financial Performance and Statement of Cash Flows are prepared on a GST exclusive basis except for Betting Turnover and Dividends Paid to Customers. The GST component in betting turnover represents the GST payable on betting deductions and net betting revenue. All items in the Statement of Movements in Equity and Statement of Financial Position are stated net of GST, with the exception of Trade Debtors and Creditors, which include GST as invoiced.

FIXED ASSETS AND DEPRECIATION

Pursuant to section 5.3(a) of FRS 36, Accounting for Acquisitions Resulting in Combinations of Entities or Operations, the assets of the New Zealand Racing Board were acquired at their fair values.

Except for land and buildings, fixed assets are stated at cost less accumulated depreciation, unless a permanent diminution in value below cost occurs, in which case fixed assets are valued at the lower value. Land and Buildings have been revalued in accordance with FRS 3, Accounting for Property, Plant and Equipment, by registered valuers to their fair value.

Depreciation is calculated on a straight line basis to allocate the cost of the assets over their estimated useful lives. These rates are reviewed annually by the New Zealand Racing Board. The current depreciation rates are as follows:

Buildings and Improvements	1 – 2.5%
Leasehold and Freehold Fitouts	4 – 15%
Plant	4 – 20%
Motor Vehicles	20 – 33%
Broadcasting Equipment	10 – 15%
Broadcasting Licences	10%
Computer Installation	15%
Other Computer Equipment and Applications	25 – 33%

FINANCIAL INSTRUMENTS

Financial instruments carried on the Statement of Financial Position include cash and bank balances and investments. These instruments, with the exception of investments, are stated at their estimated fair value.

INVESTMENTS

Investments are carried at cost. Premiums and discounts on debt securities are amortised from purchase to maturity on a yield to maturity basis. Within the Statement of Financial Performance interest income is recognised on an accrual basis, while dividend income is recognised when declared.

INVENTORIES

Inventories are stated at the lower of net realisable value and cost, as determined on a weighted average basis.



JACKPOT RETENTIONS

These accounts are established in accordance with the Racing Rules pursuant to section 52 of the Racing Act 2003. Transfers to these accounts comprise amounts set aside from the dividend pools of Pick 6, Six Pack and Pools betting. Funds accumulated in these accounts are used exclusively for the purpose of supplementing the dividend pool on some occasions when the same form of betting is offered subsequently.

RESERVES

In terms of the Racing Act 2003 reserves comprise the amalgamation of the reserves of the previous Totalisator Agency Board and the NZ Racing Industry Board as at 1 August 2003, plus transfers to or from reserves by the New Zealand Racing Board.

The New Zealand Racing Board is empowered to create reserves and distribute funds in accordance with the Racing Act 2003.

INCOME TAX

The New Zealand Racing Board is exempt from income tax pursuant to section CB4(1)(i)(i) of the Income Tax Act 1994.

FOREIGN EXCHANGE

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency bank balances held at year end are translated at exchange rates current at year end.

Exchange differences and hedging costs arising on contracts entered into as hedges for specific expenditure are deferred until the date of settlement at which time they are included in the measurement of the purchase.

In some cases the New Zealand Racing Board may enter into foreign currency forward contracts. The purpose of these instruments is to reduce exposure to fluctuations in foreign currency by establishing the rate at which the assets or liabilities will be settled. Because these hedging contracts have the effect of offsetting gains or losses on the underlying transactions in the physical market, there is no recognition in the financial statements until maturity of the contracts.

CASH

Cash is considered to be Cash On Hand, Current Accounts in banks net of bank overdrafts and corporate notes. In accordance with FRS 10, Statement of Cash Flows, Government Stock and Corporate Bonds are excluded.

NETTING

Current dividends and betting deposits have been presented net as transactions are settled over a short period of time.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in Accounting Policies during the year.



NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 July 2004

NOTE 1 ANALYSIS OF BETTING TURNOVER (INCLUDING GST)

	Actual \$'000	Budget \$'000
Off-course Racing – Totalisator (Tote)	1,045,792	1,023,425
Off-course Racing – Fixed Odds Betting (FOB)	7,129	8,625
On-course Racing	74,319	76,175
Total Racing Turnover	1,127,240	1,108,225
Sports – Totalisator (Tote)	2,543	3,325
Sports – Fixed Odds Betting (FOB)	102,388	126,990
Total Sports Betting	104,931	130,315
Total Analysis of Betting Turnover	1,232,171	1,238,540

NOTE 2 BETTING DEDUCTIONS (INCLUDING GST)

	Actual \$'000	Budget \$'000
Sporting Bodies' Levies	1,848	2,348
Goods and Services Tax	24,867	24,588
Totalisator Duty	34,244	40,377
Total Betting Deductions	60,959	67,313

NOTE 3 OTHER INCOME

	Actual \$'000	Budget \$'000
Racing Services Income	4,440	4,487
International Racing	2,424	1,876
Other Income	2,574	2,040
Total Other Income	9,438	8,403

NOTES TO THE FINANCIAL STATEMENTS

	NOTES	Actual \$'000	Budget \$'000
NOTE 4 OPERATING EXPENSES			
Auditor's Remuneration:			
Auditing Services - 2003		26	0
Other Services - 2004		23	0
Auditing Services - 2004		74	79
Bad and Doubtful Debts		13	0
Board Members' Remuneration and Expenses		221	297
Depreciation	11	13,060	13,237
*Industry Expenses	18	16,698	13,430
Insurance		877	720
Overseas Racing Rights		11,132	10,182
Problem Gambling Levy and Expenses		1,097	1,142
Property and Equipment Leases		3,072	3,152
Retail and Internet Fees		22,808	23,272
Staff Costs		26,210	25,219
Other Operating Expenses		29,337	28,334
Total Operating Expenses		124,648	119,064
*Note that some items in this category were previously paid out of Reserves of the NZ Racing Industry Board.			
NOTE 5 CASH AND BANK			
Foreign Currency Bank Accounts		202	119
Foreign Currency Betting Accounts		223	292
NZ Dollar Bank Accounts		1,900	9,177
NZ Dollar Cash Floats		68	71
Total Cash and Bank		2,393	9,659
NOTE 6 INVESTMENTS			
Call Deposits		7,910	7,910
Corporate Notes		42,731	42,994
Short Term Investments		50,641	50,904
Corporate Bonds		22,940	23,011
Long Term Investments		22,940	23,011
Total Investments		73,581	73,915

Effective interest rates at 31 July 2004 range between 6.00% pa and 7.50% pa.

Note that \$13,000,000 is held in Trust to cover the amounts owing to customers for Account Deposits and Unpresented Betting Vouchers.

The balance of these items as at 31 July 2004 was \$10,911,316.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 RECEIVABLES AND PREPAYMENTS

	Actual \$'000	Budget \$'000
Trade Debtors	2,866	1,218
Sundry Debtors and Receivables	1,636	2,446
Total Receivables and Prepayments	4,502	3,664

NOTES 8 PAYABLES

	Actual \$'000	Budget \$'000
Trade Creditors	5,532	1,265
Sundry Creditor Accruals	6,105	9,726
GST and NRWT	1,640	670
Code Liability	6,037	3,755
Annual and Long Service Leave		
Balance at Beginning of Year	1,950	1,950
Leave Earned by Employees	1,253	2,221
Leave Paid Out to Employees	(1,414)	(1,701)
Balance at End of Year	1,789	2,470
Total Payables	21,103	17,886

NOTE 9 UNPAID DIVIDENDS AND JACKPOT RETENTIONS

	Actual \$'000	Budget \$'000
Current Unpaid Dividends	3,326	3,522
Jackpot Retentions		
Balance at Beginning of Year	1,729	1,729
Amounts Retained from Dividend Pool	1,773	1,031
Amounts Released to Dividends	(1,733)	(1,031)
Balance at End of Year	1,769	1,729
Total Unpaid Dividends and Jackpot Retentions	5,095	5,251

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 LOANS AND ADVANCES TO CLUBS

(Note these Loans were taken over from the previous NZ Racing Industry Board)

	Actual \$'000
Avondale JC	2,022
Awapuni Partnership	60
Canterbury JC	105
Christchurch GRC	24
Racing Southland	4
Waikato GRC	22
Wanganui GRC	288

Total Loans and Advances to Clubs	2,525
--	--------------

Interest rates on these loans range from 0.0% pa to 8.0% pa. The NZ Racing Board is satisfied as to the ultimate collectability of these loans.

These Loans and Advances are repayable as follows:

	Actual \$'000
Current	292
One to Two Years	484
Two to Five Years	1,646
Over Five Years	103
	2,525

NOTE 11 FIXED ASSETS

	Actual			
	Cost/ Revaluations \$'000	Accumulated Depreciation \$'000	Book Value \$'000	Current Year Depreciation \$'000
Land	2,593	0	2,593	0
Buildings	21,835	9,819	12,016	1,514
	24,428	9,819	14,609	1,514
Furniture, Office Equipment and Plant	7,124	4,828	2,296	836
Leasehold and Track Improvements	1,018	505	513	46
Motor Vehicles	3,851	2,750	1,101	466
Operations and Trackside Equipment	14,767	12,486	2,281	663
Computer Equipment and Software	72,504	47,118	25,386	9,432
Broadcasting Licences	3,687	2,976	711	103
Work In Progress	8,962	0	8,962	0
Total Fixed Assets	136,341	80,482	55,859	13,060

NOTES TO THE FINANCIAL STATEMENTS

NOTES 12 COMMITMENTS

Capital Commitments

Capital expenditure contractually obligated as at 31 July 2004 and not provided for in these Financial Statements is \$435,100.

Leases

The New Zealand Racing Board has the following commitments under all leases as at 31 July 2004:

	Actual \$'000
Current	2,789
One to Two Years	1,967
Two to Five Years	2,379
Over Five Years	272

NOTE 13 FINANCIAL INSTRUMENTS

The New Zealand Racing Board is subject to a number of financial risks which arise as a result of its investment activities.

To manage and limit the effects of those financial risks, the Members of the Board have approved policy guidelines and authorised the use of various financial instruments. The policies approved and being utilised at balance date are outlined below.

Credit Risk

The NZ Racing Board incurs credit risk from transactions with trade receivables and financial institutions in the ordinary course of business. There is no significant concentration of credit risk. The NZ Racing Board's policy is to hold investments with institutions that have a New Zealand Standard & Poor's rating of not less than A2. Receivables do not have a concentration of credit risk due to the number and spread of customers in relationship to the size of the balance.

Liquidity Risk

The NZ Racing Board holds betting deposits and has exposure to issued betting vouchers. This factor, along with the proposed timing of capital expenditure in the new financial year, requires the Board to hold a significant amount of its investment portfolio on a short term basis.

Currency Risk

The NZ Racing Board enters into foreign currency forward exchange contracts to manage exposure to fluctuations in foreign currency exchange rates on major items of expenditure. Total forward cover under forward exchange contracts at balance date was \$nil.

The NZ Racing Board also holds foreign currency bank accounts and foreign currency denominated accounts with overseas betting agencies. Total foreign currency exposure at balance date was \$425,349.

Fair Values

For Cash and Bank balances, Receivables and Prepayments the carrying value is equivalent to their fair value.

Details of the fair value and carrying value of Investments are reflected in Note 6.

NOTES TO THE FINANCIAL STATEMENTS

NOTES 14 STATEMENT OF CASH FLOWS

Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

NET SURPLUS

Impact of Non Cash Items:

Depreciation

Investment Premiums

Impact of Movements in Reserves

Impact of Movements in Working Capital:

Receivables and Prepayments

Inventories

Payables

Account Betting Deposits and Vouchers

Unpaid Dividends and Jackpot Retentions

Code Liabilities

Club Distributions Paid

Interim Distributions to Codes

Impact of Items Classified as Investing Activities:

(Gain)/Loss on Sale of Properties Held for Resale

Loss/(Gain) on Disposal of Assets

Net Cash from Operating Activities

Actual
\$'000Budget
\$'000

68,486

59,967

13,060

13,237

(264)

0

(3,968)

0

(928)

(100)

110

0

6,016

4,098

1,062

0

621

777

673

0

(431)

(431)

(58,311)

(59,038)

(1,905)

256

198

(266)

24,419

18,500

NOTE 15 RELATED PARTY TRANSACTIONS

A number of Members of the New Zealand Racing Board have interests in organisations which have commercial transactions with the New Zealand Racing Board. These are recorded in an Interests Register maintained by the Board.

Alan Jackson is a Director of Boston Consulting Group.

Warren Larsen is a Director of Air New Zealand and a Trustee of Massey University Foundation.

Anne Urlwin is a Director of New Zealand Cricket.

Jim Wakefield has interests in Harness Racing New Zealand, NZ Trotting Owners Association and NZ Standardbred Breeders Association. He is also a shareholder in Sky City Ltd, Telecom Ltd and Telstra Ltd.

Murray Acklin is a life member of the Otago Racing Club and a member of Otago Hunt Club, Gore Racing Club, Oamaru Jockey Club, Tapanui Racing Club, NZ Thoroughbred Breeders Association and the NZ Owners Federation. He is also a trustee of The Trusts Charitable Foundation.

The New Zealand Racing Board in the normal course of business has transactions with all these organisations, which are made on a normal commercial basis.

NOTE 16 CONTINGENT LIABILITIES

The Members of the New Zealand Racing Board are not aware of any condition or situation as at balance date that would require the disclosure of a material contingent liability.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 SEGMENTAL REPORTING

The New Zealand Racing Board's objectives are to promote the racing industry in New Zealand, to facilitate and promote racing betting and sports betting and to maximise its profits for the long-term benefit of New Zealand racing. Domestic racing and racing industry development programmes are co-ordinated through the three racing Code bodies (New Zealand Thoroughbred Racing, Harness Racing New Zealand and New Zealand Greyhound Racing Association) and other recognised industry organisations.

NOTE 18 CONTRIBUTION TO THE INDUSTRY FROM OPERATING ACTIVITIES**Industry Expenses**

	Actual \$'000	Budget \$'000
*Canine Research, Training and Education	22	0
*Equine Research, Training and Education	286	0
*Final Field FOB Racing Levies	128	0
Local Club Payments - International Racing	2,075	1,240
On-course Commission Payments to Clubs	9,661	9,903
*Other Industry Expenses	488	0
*Owners/Breeders Incentives	865	0
*Ownership Development Support	425	0
Premier Marketing Subsidies	2,047	2,141
Racing Services Rebates	143	146
*Stakes Support to Codes	558	0
Total Industry Expenses	16,698	13,430
Interim Surplus Distribution to Codes	58,311	59,038
Final Distribution to Codes	2,542	929
**Total Contribution to the Racing Industry from Operating Activities	77,551	73,397

*Note that these items were previously paid out of Reserves of the NZ Racing Industry Board.

**Note that in addition to the above \$3.968m was paid to the Codes as special payments from Reserves.

AUDIT REPORT

Deloitte.

TO THE MEMBERS OF THE NEW ZEALAND RACING BOARD

We have audited the financial report on pages 20 to 32. The financial report provides information about the past financial performance of the New Zealand Racing Board and its financial position as at 31 July 2004. This information is stated in accordance with the accounting policies set out on pages 24 to 25.

BOARD MEMBERS' RESPONSIBILITIES

The Board Members are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of a financial report which gives a true and fair view of the financial position of the New Zealand Racing Board as at 31 July 2004 and of the results of its operations and cash flows for the year ended 31 July 2004.

AUDITOR'S RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial report presented by the Board Members and report our opinion to you.

BASIS OF OPINION

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

- the significant estimates and judgements made by the Board Members in the preparation of the financial report, and
- whether the accounting policies are appropriate to the New Zealand Racing Board's circumstances, consistently applied and adequately disclosed.

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

Other than in our capacity as auditor and the provision of accounting advice, we have no relationship with or interests in the New Zealand Racing Board.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required. In our opinion:

- proper accounting records have been kept by the New Zealand Racing Board as far as appears from our examination of those records, and
- the financial report on pages 20 to 32:
 - complies with generally accepted accounting practice in New Zealand, and
 - gives a true and fair view of the financial position of the New Zealand Racing Board as at 31 July 2004 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 14 September 2004 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Wellington, New Zealand

This audit report relates to the financial statements of the New Zealand Racing Board for the year ended 31 July 2004 included on the web site of the New Zealand Racing Board, who is responsible for the maintenance and integrity of the website. We have not been engaged to report on the integrity of the New Zealand Racing Board's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 14 September 2004 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.




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