

NEW ZEALAND
RACING BOARD



ANNUAL REPORT

2005

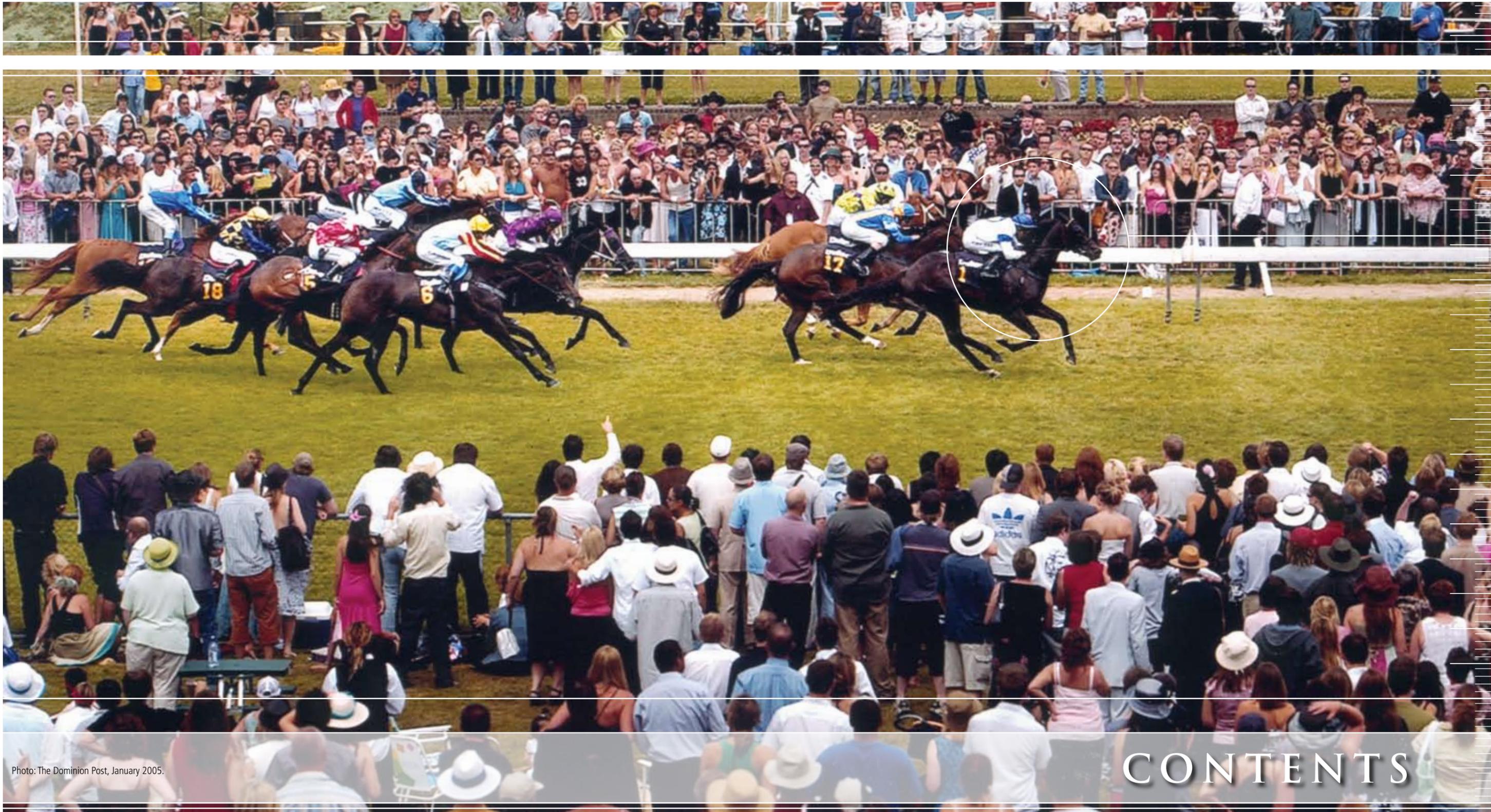


Photo: The Dominion Post, January 2005.

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BOARD MEMBERS



MURRAY ACKLIN
Thoroughbred Nominated Member

THAYNE GREEN
Greyhound Nominated Member

JIM WAKEFIELD
Harness Nominated Member

ALAN JACKSON
Independent Member

ANNE URLWIN
Independent Member

WARREN LARSEN
Independent Chairman

JULIE CREngle
Independent Member

SENIOR MANAGEMENT TEAM

GRAEME HANSEN
Chief Executive

DAVE TRUEMAN
General Manager
Legal & Risk

GARY HOOPER
General Manager Channels

LYNLEY SINCLAIR
Human Resources Manager

SIMON BAILEY
General Manager Marketing

DAVID WALSH
Chief Financial Officer

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CHAIRMAN'S REPORT



On behalf of the Board, I am pleased to report a very satisfactory outcome for the 2004/05 year.

The year on year operating performance was \$82.1 million, up approximately \$3.5 million or 4.6% on the previous year.

What is more important than the absolute figure is the sustainable earnings position of the entity. The 2004 result contained a non-repeatable favourable duty component of \$6.7 million and the table below shows the sustainable earnings position after adjustment for this one-off item.

Sustainable Earnings	2005 \$'000	2004 \$'000
Net Return before Industry Expenditure, Distributions & Retentions	82,056	85,184
Less 2004 Exceptional Duty Benefit	-	6,719
Year on Year Operating Performance	82,056	78,465

The operating performance delivered a surplus of \$606,000 (after interim distributions, industry expenses and retentions). The Board declared a full distribution of this surplus to the three Codes on their proportional share basis.

The Board, during the year, conducted a detailed review of all major capital projects in progress. One disappointing outcome of this review, was the need to write off \$1.6 million as an expense related to a retail text service project, started some years ago. This was a difficult decision for the Board but there was clearly insufficient evidence of future benefits to the organisation to justify this investment as a continuing capital project.

The Board also made a \$360,000 payment during the year to the New Zealand Greyhound Racing Association. This decision, again difficult, was necessary to settle an historical funding dispute not of the Board's making. I wish to record the Board's appreciation of the support provided by New Zealand Thoroughbred Racing and Harness Racing New Zealand, in dealing with this matter which facilitated the opportunity for the industry to move forward.

The Board, consistent with last year, transferred to reserves the racing amenity levy of \$314,000. While at first glance at the balance sheet the reserve position of the Board appears very healthy, it must be understood that to meet the technology investment demands of a modern wagering business alone, balance sheet strength must be preserved. We estimate that given current capital commitments unencumbered

cash reserves of approximately \$65.0 - 70.0 million need to be maintained.

As made clear by the Board during the year, there is no unencumbered cash reserve "bucket" to distribute, without placing the future of the business at significant risk. In subsequent years, further retentions will very likely be necessary, given forecasted capital requirements.

While the final result is pleasing, and a welcome further step along the path to the New Zealand Racing Board's targeted \$91.0 million of the combined industry earnings position of \$100 million, this incremental improvement is not enough by itself to meet the continuing challenges facing the industry. Continued co-ordinated effort from the Board and all three Codes is vital to achieve the combined target.

The Board, very aware of this position, established a task group during the year to address the issue of taxation. This group, led by Dr Alan Jackson, completed and submitted to the government a well researched and comprehensive report on the taxation of race wagering in New Zealand. The aim was to secure sufficient funding to meet the Board's obligations under the Racing Act, which includes promoting the economic development of the racing industry. This report signalled the requirement not only for the industry to implement improvement programmes, but also the need to address the high level of taxation per dollar wagered versus local and international competition for the gaming dollar. The Board believes that rectifying this anomaly is a fundamental element of any major industry plan to improve the international competitiveness and performance of the New Zealand Racing Industry.

The Board had hoped that at least a staged change to rectifying the identified taxation inequity would begin with the inclusion of taxation adjustments to racing in the 2005/06 government budget. Regrettably, this did not occur. The officials have requested additional information from the Board in developing its response to the case submitted. The Board expects formal feedback in the near future.

Perhaps understandably, and born of frustration, the Board has been criticised by some in the industry for "not doing enough" to force a favourable outcome on the taxation issue. We remain very strongly of the view that success in such an endeavour is dependent in the final instance on convincing officials of the quality and logic of the argument. Responsible Ministers expect that position to be achieved ahead of any political consideration, and that is how it should be.

We remain hopeful of resolving the outstanding taxation issues by discussion, and we are confident of ultimate success.

The Board's commitment to the revitalisation of the racing industry remains paramount. To improve sustainable earnings growth we must continue to drive operational effectiveness. Early analysis of the business highlighted the need to improve wagering performance. Concentration on this area is reflected in the improved results.

A continued objective during the year was further recruitment and development of the Board's senior management team. Very good progress has been made and the Board is delighted with the calibre of people we have been able to attract to this challenging business. Further recruitment effort for the remaining positions will continue in the new financial year.

Significant advances have been made in addressing key financial and marketing objectives. Trackside television coverage and the radio racing network enhancement have also been key areas of progress, while review of the distribution channel framework continues as a priority. Further investment was also made in brand value improvement.

Revitalisation of the industry is an area where the role of the Board is to support the Codes, racing clubs and other major interest groups. The focus has been on positioning on course racing as entertainment and to encourage increased participation in the industry. To this end, funds and staff effort have been committed to trialling big screens, Bet Squads, Betmobiles, promoting ownership and supporting feature carnivals. Enhanced on course participation remains a major challenge.

What this work has shown, is there remains a need to clarify who is responsible for what in the industry. In reality, the NZ Racing Board must work with the three Codes and racing clubs to effect change, hopefully with an agreed set of common objectives. The industry is not optimally aligned yet, although there are numerous very significant islands of success, and a common desire to improve the position.

The Board committed capital during the year to the upgrading of laboratory equipment, all part of a much-needed re-investment in integrity enhancement. In any business, customer confidence is imperative. Everyone knows that. In racing, with livelihoods linked to wagering profits, integrity has to be paramount. The racing industry in the Board's view does not yet accord integrity a consistently high enough priority, and there is a need to address this issue further. Increased participation, whether by ownership or wagering, is inextricably linked to customer confidence, and in racing that means an image of robust integrity. This is an even more critical issue today given the emergence of alternative wagering options such as betting exchanges.

Over the year the Board made very significant progress in further

improving the information available to the industry. We now know, with reasonable accuracy, what it costs to stage individual racing events and are developing further the relationships between cost, wagering and profit. This information will be helpful in further improving the difficult dates-setting process, providing earlier funding advice to the Codes, and at the same time achieving optimum wagering outcomes.

What remains very clear, irrespective of the outcome of the taxation initiative, is the need to improve asset utilisation in the racing industry urgently. All three Codes accept this position and various initiatives are already underway. The inescapable economic reality is that the industry has very significant assets that are used in some cases only three or four times per year. This is an area fraught with politics and understandable passion and without an easy solution. Even with the high level of valued voluntary effort within the industry, increased non-racing related income generation is now a very high priority and the lead shown by some racing clubs in this area needs to be strongly followed.

Technology is capital intensive but we simply must always be embracing change in this area to improve products and most importantly customer service. Significant investment was applied to this area of the business in the past year and this will continue.

The contribution margin from sports betting was enhanced and we are confident of further improvement.

As made very clear in the Board's taxation submission to the government, the contribution of the racing industry to the New Zealand economy can be significantly increased. The industry itself is also capable of exhibiting substantial growth.

2004/05 has been successful for the NZ Racing Board. The management and staff of the Board have achieved very real progress against the objectives set, and the Board appreciates the dedication, intensive effort and commitment of Graeme Hansen and his total team.

I also want to express my thanks for the contribution of our sponsors, individual groups, Code management and staff, and my fellow Board members over the past year.

We still have many challenges ahead, but 2004/05 represents a very real step forward towards our targets.

Warren Larsen

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CHIEF EXECUTIVE'S REPORT



This year has seen the relentless pursuit of our ambitions to improve the New Zealand Racing Board's performance and to revitalise the racing industry. The challenges have been – and continue to be – significant, but we must drive sustainable earnings growth and increase participation across the industry. These are prerequisites to rejuvenating a sector that is already a major contributor to New Zealand's economy.

The progress made to date is encouraging and has established a platform for continued success. This reflects the hard work, dedication and determination of many people both within and beyond the NZ Racing Board. Their efforts, commitment and resolve are having an impact, as evidenced by the financial and operational achievements detailed in this 2004/05 Annual Report. We appreciate and applaud all those contributions.

The objectives of the NZ Racing Board are stated clearly in the Racing Act 2003 (and are included in the Governance section, page 16 of this report).

These objectives require us to be conscious of the needs and expectations of our various stakeholders. Accordingly, the initiatives we have instigated must be multi-faceted, but at the same time have the common underlying theme of building stronger relationships with all. This includes the important role of the TAB's wagering customers through turnover and earnings flows.

The significance of these different component parts is embedded in the following financial highlights from 2004/05:

- Total turnover reached a new record of \$1,273 million, up 3.3% on 2003/04;
- The year on year operating performance of \$82.1 million, up 4.6% on the comparable 2003/04 figure;
- Domestic off course betting increased 4.0% over the year to \$709.2 million;
- The growth in Thoroughbred starter numbers was the largest annual increase since 1997;
- The Nufarm InterDominion Championships at Alexandra Park added \$3.5 million to total turnover;

- The introduction of new Wednesday Harness racing and additional Greyhound race numbers together added \$3.5 million in turnover;
- Expanded operating hours from 7:30pm to midnight on Tuesday and continued growth in the second year of racing after 7:30pm on Wednesday, added \$9.0 million in turnover;
- Products such as Pick6 and Six Pack showed strong growth;
- Fixed odds racing betting grew dramatically from \$7.1 million in 2004 to \$18.9 million, as a result of the greater number of races covered;
- Internet betting via the improved and upgraded www.tab.co.nz website increased 19.3%;
- Sports betting turnover was down due to the absence of a major championship event internationally. However, the net betting revenue budget was met through improved margin performance.

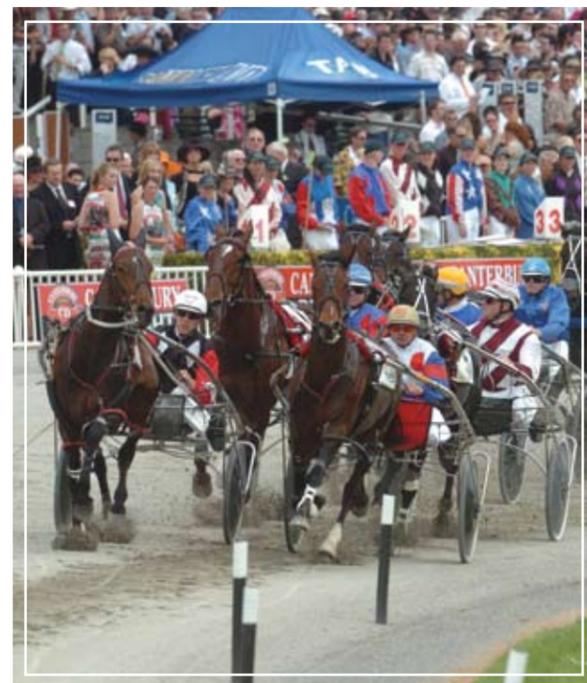
There is no doubt that building a new management team has played a key part in the results achieved by the NZ Racing Board this year. The team is coming together well and will be complemented by other appointments, including mid-management resourcing, in the near future. In particular, the role of Chief Information Officer – as head of systems and technology, both strategic and operational – is of critical importance in today's world of global markets and borderless competition.

The new CIO – as with most of the management appointments – is a replacement, not an additional resource. So, the rebuilding of the team is not so much an increase in numbers as a change in the talent and skill mix within the NZ Racing Board.

Other parts of the industry similarly suffer from a lack of talent depth and available skilled resources. Not enough young people are being attracted by the prospects of exciting and rewarding career opportunities. The shortage of talent in a number of areas of activity – not just the obvious ones – is hampering efforts to rebuild and expand the industry. Accordingly, we are in dialogue with the New Zealand Equine Industry Training Organisation and others to review how these issues can best be addressed through a co-ordinated industry approach.

In order to work better together, there is a need (as noted in the Chairman's Report) to get greater clarity around the respective roles and responsibilities of the NZ Racing Board, the three racing Codes and the clubs. This is certainly applicable in areas such as:

- Integrity in racing and, in particular, existing and potential customers' perceptions around standards and best practice. There is a serious reputational risk if we do not get this right, so we are determined to take the lead role, working with the stakeholders. We expect an early outcome will be new service level agreements between the NZ Racing Board, the Codes and the laboratory. This follows recent decisions to upgrade and extend the laboratory equipment at the industry's disposal;
- A closer shared understanding of what drives race starter numbers and field sizes. After much debate and discussion, the NZ Racing Board committed \$1.5 million over the next two years to a Thoroughbred Starters Incentive Scheme. This, too, goes to the key issue of foaling numbers and what can be done to retain and attract investors in an export industry worth more than \$120 million to the New Zealand economy each year;
- Nothing beats the excitement of a day's on course racing, provided it is done properly. Many new customers will place their first bet at a race meeting, so it is vital to ensure they are inspired to become repeat customers, on and off course;



- Dates and the racing calendar. It is encouraging that the Codes have taken their own initiative on a combined calendar structure for discussion with us. This will complement work we are doing on the costs of staging individual events. A co-ordinated approach on these separate workstreams should enhance the 2006/07 dates setting process.

We recognise that in addition to helping industry stakeholders pull together, we need to provide greater clarity around some of the things we are doing within the NZ Racing Board, such as:

- The Board has committed \$10.0 million from reserves to help drive change and improvement. Note 21 to the financial statements shows that at balance date \$270,000 had been applied to industry revitalisation. This represents the actual spend to 31 July, but that is only a small fraction of what has already been earmarked for new initiatives such as big screens, starters incentives and sponsorship campaigns. In total, \$8.3 million of the \$10.0 million has been assigned and we are now looking to work closely again with the stakeholders to ensure the remaining \$1.7 million is applied to greatest effect;
- The Racing Act 2003 requires the Codes to submit Business Plans to the NZ Racing Board annually for approval. We have a responsibility to work with the Codes to ensure their plans are cohesive and rigorous, and address the key issues for the future well-being of racing. Again as noted in the Chairman's Report, venue strategies are a pivotal part of this process. A considerable amount of information is available within the TAB's database and we will work with the Codes and clubs to use this for more informed analysis of venue costs and efficiencies;
- Broadcasting is another area we have to get right. Whilst we have made some good progress with new programming, full time Trackside television and the introduction of Radio Trackside, there is more to be done. This applies to continuing to improve the quality and cost of service as well as raising the entertainment value of our networks.

Broadcasting also carries some significant capital investment commitments. The Outside Broadcast Units (OBUs) are overdue for replacement and upgrade, at a cost of several million dollars. These form a significant part of the overall capital costs the NZ Racing Board expects to incur in order to both maintain basic services and support new growth initiatives.

Note 13 to the financial statements shows capital commitments at balance date of \$4.746 million. This figure covers only those contracts signed at that date. There are, however, plans for significantly more capital investment:

Growth Commitments

NZ Racing Board Strategic Plan initiatives such as increased retail outlets, internet developments

\$19.5 million

Infrastructure Investments

Including the OBUs mentioned above, tote terminal replacements and Radio Trackside

\$24.0 million

\$43.5 million

This figure needs to be read alongside the reserves item in the Statement of Financial Position. Total reserves stand at \$101.664 million before allowing for investments in fixed assets of \$50.815 million. The net difference is needed to cover the planned capital investments of \$43.5 million (above). These funds are to be deployed in this way to support the growth in sustainable earnings necessary to fund the industry in the future.

A lot of issues have been raised in this report. We believe we have no choice but to get on with them. The NZ Racing Board's performance has to be improved, and the racing industry needs revitalising. And, if that's not enough, there are many external threats to combat as well, including betting exchanges, global competition through electronic channels and the vexed issue of Intellectual Property Rights. These have the potential to adversely impact the very fabric of our funding structure as well as raising fundamental concerns around integrity, motive and gain. Other jurisdictions are resorting to legislative action as one of the options to manage such threats. We – as the NZ Racing Board and as an industry – need to be vigilant to the threats and alive to opportunities.

So, there are plenty of challenges – now and in the future. Some are beyond our immediate control, but we have to face them anyway. Some of the others are simply of our own making as we strive for excellence.

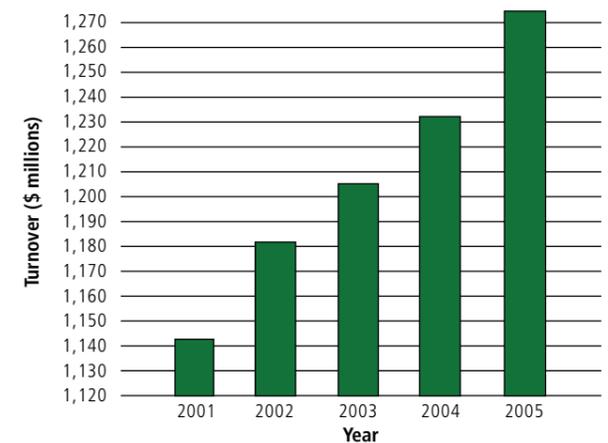
We can take satisfaction from the progress already made in meeting the early challenges. We have made good ground. However, we are certainly not complacent. There is still much to be done and we will be looking for a full partnership approach with our stakeholders in pursuit of common goals.

Graeme Hansen
Chief Executive

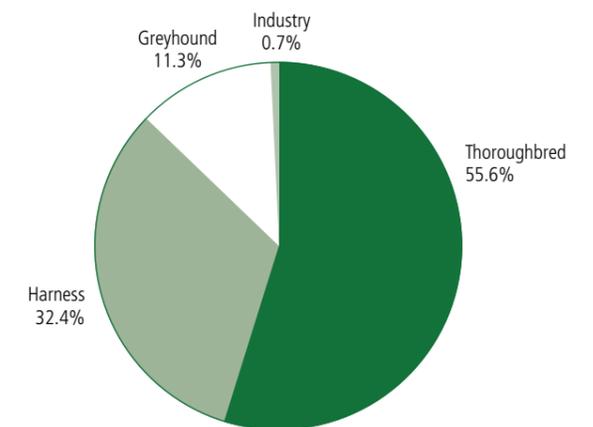
The pie graph at right illustrates the total amount of distributions and industry operating expenses paid by the NZ Racing Board to the Codes, clubs and other industry groups during the year. Of the \$81.8 million total, \$64.0 million net surplus is subject to domestic market share calculations under the Racing Act 2003.



TOTAL TURNOVER



INDUSTRY CONTRIBUTION



CODE CHAMPIONS 2005

THOROUGHBRED RACING

XCELLENT



GREYHOUND RACING

WILLY WHAT



HARNESS RACING

ELSU



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SPORTS BETTING & SPORTING BODIES' LEVIES



Again - as in 2003/04 - just on \$1.8 million was paid by way of levies to New Zealand sporting bodies. This brings the total paid to New Zealand sporting bodies since sports betting was introduced here to \$13.0 million.

The governing bodies of the individual sports in New Zealand receive a minimum of 1% of turnover and 5% of gross profit from all wagering on their respective sports, regardless of where the event is held. The levies apply to any bet placed with the New Zealand TAB on a local or international sporting event.

Sports wagering turnover suffered this year through the lack of a major championship event internationally. There were no matching events to replace Football's European Championships and the Rugby World Cup that attracted strong participation from our domestic customers in 2003/04. In addition, the cancellation of the North American National Hockey League (NHL) owing to industrial action further reduced our supply of wagering product for the season.

However, the British and Irish Lions Tour that was underway by the end of our financial year, helped to compensate for the loss of a major championship event internationally. This proved a very popular wagering opportunity with significant participation from existing and new customers right across the country, as well as from many of the huge contingent of touring Lions' supporters.

The two domestic Rugby competitions, the Rebel Sport Super 12 and the Air New Zealand NPC, both also contributed with strong turnover, whilst the Telstra NRL Premiership proved popular with customers.

Rugby, not surprisingly, continues to dominate our sports betting with around one third of sports wagering bet on rugby matches in New Zealand and internationally. Rugby League is next with approximately 20% of sports wagering while Soccer and Basketball are the next most popular. We have seen a number of smaller sports receive sharp increases in wagering activity this year, mainly driven by individual events. Cycling was one such sport with the Tour de France attracting attention on the back of Lance Armstrong competing in the event for the final time. Tennis and Golf showed strong growth throughout the year, the result of greater product on offer.

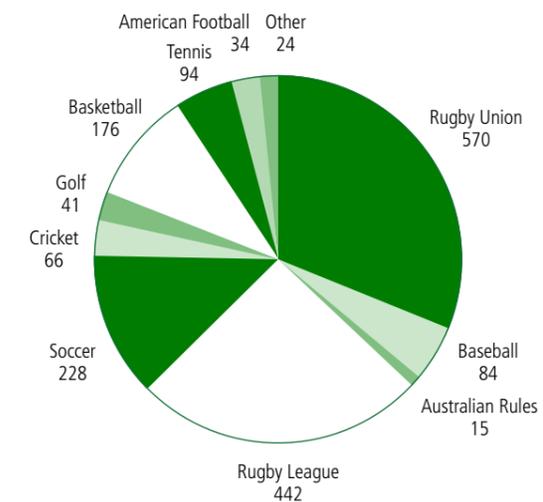
The sales of our Multi product increased through all competitions, and unpredictable results provided for strong margins throughout the season. Multi betting allows our customers to combine a series of sports and racing fixed odds options into one bet – the higher the number of options the higher the possible winnings. One of our customers managed to turn \$5 into almost \$40,000 by picking a six leg Multi culminating with a series win for the All Blacks over the British and Irish Lions.

A number of sporting bodies received significantly increased levies. The New Zealand Rugby Football League received an increase of over 14% on the previous year, while New Zealand Tennis and the New Zealand Baseball Federation received levies around one third greater than 2003/04.

Like the Lions' supporters who continued to show admirable – but misplaced – faith in their side, the past season demonstrated that New Zealanders continue to bet with a patriotic approach. The ongoing support of the Warriors was a strong example of this attitude, while Michael Campbell has had his followers for many years and those supporters were rewarded by his win in the June US Open.

For 2005/06, the expansion of the Rebel Sport Super 12 into a new 14 team competition provides a point of interest for our legion of customers interested in Rugby. And the 2006 Soccer World Cup in Germany next June looms as the largest single event in the season. Meanwhile, we are hopeful of reaching agreement to enable sports enthusiasts to place bets on events at the Melbourne Commonwealth Games in March 2006. Betting was available on some individual sports competing at Athens in August 2004, indicating the interest our customers have in these popular championships.

SPORTING BODIES' LEVIES (\$'000)



The pie graph above illustrates the amounts paid to New Zealand sporting bodies by the NZ Racing Board during the year. Every sports bet helps fund New Zealand sport.

PROBLEM GAMBLING INITIATIVES



The New Zealand Racing Board is committed to providing wagering services to its customers in a way that minimises problem gambling and the effects of such gambling.

The NZ Racing Board has been proactive in ensuring we meet our obligations under the Racing Act 2003 and related legislation. Two pieces of related legislation came into force during the year. The Racing Gambling (Harm Prevention and Minimisation) Regulations 2004 introduced new signage requirements and restrictions on the presence of automatic teller machines with effect from 1 April 2005. Further obligations relating to problem gambling awareness training came into effect on 1 October 2005. The Gambling (Harm Prevention and Minimisation) Regulations 2004 introduced new requirements relevant to the NZ Racing Board agencies that have gaming machine operations.

To give effect to both the spirit and intent of the new legislation, the NZ Racing Board has introduced a harm prevention and minimisation policy (backed up by detailed procedures) applying to all NZ Racing Board personnel and venues. This will ensure a consistent and comprehensive approach to problem gambling throughout the NZ Racing Board network.

During the year the total spend on responsible gambling measures by the NZ Racing Board amounted to \$1.3 million. Of this, approximately \$1.2 million was paid to the Problem Gambling Foundation to support its work. The balance funded the external cost of training and signage initiatives. The figure does not include internal costs associated with problem gambling initiatives.

In 2004/05, the NZ Racing Board undertook a network-wide problem gambling awareness training programme, conducting 35 training workshops, involving 507 participants. This programme will continue in the 2005/06 year to ensure all relevant staff are trained to:

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

The NZ Racing Board is a participant in the Problem Gambling Data Advisory Group, organised by the Ministry of Health. This ensures that the NZ Racing Board maintains strong relationships with the organisations that provide help to problem gamblers, enabling customers to be assisted in the best manner possible.

The NZ Racing Board has adopted a "self exclusion" scheme, designed to allow problem gamblers who have recognised their problem to help themselves by ensuring they are prevented from wagering at the NZ Racing Board venues. In addition, the NZ Racing Board has the right under the Racing Act 2003 to refuse bets in any circumstances. The NZ Racing Board uses this power to curtail wagering, as a last resort, where attempts to encourage a potential problem gambler to seek help have failed.

We are committed to communicating responsible gambling messages. Signage relating to problem gambling is displayed in all retail outlets, and information on the help mechanisms available to problem gamblers is available on our website, www.tab.co.nz. Where the NZ Racing Board's agencies have gaming machine operations, the NZ Racing Board works with the operator of those gaming machines to ensure that effective problem gambling mechanisms are in place and that all statutory requirements are met. 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.

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 the NZ Racing Board's 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 the NZ Racing Board's 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 that 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 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 2005. 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 Compensation and Development 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 written Charters setting out their roles 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).

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 auditor, Deloitte.

The committee consists of Anne Urlwin (Chairperson), Murray Acklin and Julie Crengle.

3. COMPENSATION AND DEVELOPMENT COMMITTEE

The Compensation and Development 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 management team.

The committee consists of Alan Jackson (Chairperson), Thayne Green and Warren Larsen.

4. TAXATION COMMITTEE

The Taxation Committee was formed to review industry taxation issues and was responsible for submitting a report on taxation to the Government during the year. Its membership is Alan Jackson (Chairperson), Anne Urlwin and Jim Wakefield.

STATEMENT OF FINANCIAL PERFORMANCE

FOR YEAR ENDED 31 JULY 2005

FINANCIAL STATEMENTS 2005



	Notes	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
REVENUE				
Betting Turnover (including GST)	1	1,272,839	1,275,564	1,232,171
Dividends Payable		(1,034,836)	(1,039,631)	(1,002,530)
Other Direct Income		9,297	9,293	9,030
Dividends Paid to Customers (including GST)		(1,025,539)	(1,030,338)	(993,500)
Betting Deductions (including GST)	2	(70,512)	(70,140)	(60,959)
Net Betting Revenue (excluding GST)		176,788	175,086	177,712
Other Income	3	12,565	9,642	11,343
Operating Revenue	3	189,353	184,728	189,055
OPERATING EXPENDITURE				
Operating Expenses	4	112,436	112,388	107,950
INTEREST INCOME				
Interest Income		5,139	5,047	4,079
NET RETURN BEFORE INDUSTRY EXPENDITURE		82,056	77,387	85,184
INDUSTRY EXPENDITURE				
Industry Operating Expenses	20	17,750	16,379	16,698
Industry Revitalisation Expenses	21	270	-	-
NET SURPLUS		64,036	61,008	68,486

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THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF MOVEMENTS IN EQUITY

FOR YEAR ENDED 31 JULY 2005

Notes	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Reserves at Beginning of Year	101,980	104,885	98,315
Net Surplus for the Year	64,036	61,008	68,486
Distribution from Reserves for Industry Expenses	630	-	-
Net Surplus Available for Distribution	64,666	61,008	68,486
Interim Surplus Distributions to Codes	(63,746)	(59,918)	(58,311)
	920	1,090	10,175
Final Surplus Distributions to Codes	(606)	(782)	(2,542)
Transfers to Reserves	314	308	7,633
Distribution from General Reserve	21 (360)	-	(3,968)
Distribution from Industry Revitalisation Reserve	21 (270)	-	-
NET (DECREASE)/INCREASE IN RESERVES	(316)	308	3,665
Reserves at End of Year	21 101,664	105,193	101,980

STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2005

Notes	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
EQUITY			
Reserves	21 101,664	105,193	101,980
Total Equity	101,664	105,193	101,980
<i>Represented By:</i>			
CURRENT ASSETS			
Cash and Bank	6 1,744	1,420	2,393
Short Term Investments	6 63,921	45,679	50,641
Receivables and Prepayments	7 5,321	4,731	4,502
Inventories	161	225	229
	71,147	52,055	57,765
CURRENT LIABILITIES			
Payables	8 22,935	21,871	21,103
Account Betting Deposits and Vouchers	6 11,056	10,765	10,911
Unpaid Dividends and Jackpot Retentions	9 5,393	5,638	5,095
	39,384	38,274	37,109
WORKING CAPITAL	31,763	13,781	20,656
NON CURRENT ASSETS			
Loans and Advances to Clubs	10 2,273	2,572	2,525
Long Term Investments	6 14,681	22,954	22,940
Property, Plant and Equipment	12 50,815	65,886	55,148
Intangible Assets	11 5,282	-	711
	73,051	91,412	81,324
NON CURRENT LIABILITIES	14 3,150	-	-
NET ASSETS	101,664	105,193	101,980

The Members of the New Zealand Racing Board authorised these Financial Statements for issue on 27 September 2005.



Warren Larsen
Chairman of New Zealand Racing Board



Anne Urlwin
Chairperson of Audit and Finance Committee

THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM PART OF THESE FINANCIAL STATEMENTS

THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS

FOR YEAR ENDED 31 JULY 2005

	Notes	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
OPERATING ACTIVITIES				
<i>INFLOWS</i>				
Betting Turnover		1,272,926	1,266,332	1,232,268
Racing Services Income		4,475	4,446	4,440
Current Dividends and Deposits		442	-	1,683
Interest Received		5,214	3,037	3,815
Other Income		14,768	4,874	5,547
		1,297,825	1,278,689	1,247,753
<i>OUTFLOWS</i>				
Dividends Paid		1,034,836	1,024,093	994,107
Payments to Suppliers		72,545	76,693	69,983
Industry Distributions		66,251	60,191	62,038
Industry Expenses		17,750	16,379	16,698
Sporting Bodies' Levies		1,774	2,005	1,848
Payments to Employees		24,411	24,201	21,691
Net Goods and Services Tax		25,601	20,810	23,315
Totalisator Duty Paid		42,300	38,549	33,635
		1,285,468	1,262,921	1,223,315
Net Cash from Operating Activities	16	12,357	15,768	24,438
INVESTING ACTIVITIES				
<i>INFLOWS</i>				
Disposal of Property, Plant and Equipment		100	-	62
Disposal of Properties Held For Sale		-	-	6,743
Repayments of Loans and Advances to Clubs		302	-	492
Repayments of Long Term Investments		8,171	-	-
		8,573	-	7,297
<i>OUTFLOWS</i>				
Purchases of Property, Plant and Equipment		8,247	22,807	14,417
Loans and Advances to Clubs		50	-	-
Purchase of Long Term Investments		-	-	17,367
		8,297	22,807	31,784
Net Cash from Investing Activities		276	(22,807)	(24,487)
Net Increase/(Decrease) in Cash Held		12,633	(7,039)	(49)
Cash Brought Forward		53,034	54,126	53,102
Effect of Exchange Rate Change on Foreign Currency Balances		(2)	12	(19)
		65,665	47,099	53,034
Represented By:				
Cash and Bank	6	1,744	1,420	2,393
Short Term Investments	6	63,921	45,679	50,641
		65,665	47,099	53,034

THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

FOR YEAR ENDED 31 JULY 2005

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.

MEASUREMENT BASIS

The financial statements have been prepared on the historical cost basis, modified for the revaluation of land and buildings.

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 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.

STATEMENT OF ACCOUNTING POLICIES

FOR YEAR ENDED 31 JULY 2005

Property, Plant and Equipment 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, property, plant and equipment are stated at cost less accumulated depreciation, unless a diminution in value below cost occurs, in which case property, plant and equipment 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 annual depreciation rates are as follows:

Buildings at Valuation	1.0% - 2.5%
Leasehold Improvements	10.0% - 15.0%
Furniture, Office Equipment and Plant	10.0% - 20.0%
Motor Vehicles	20.0%
Operations and Trackside Equipment	10.0%
Computer Equipment and Software	15.0% - 50.0%

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, and 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.

Intangible Assets

The New Zealand Racing Board acquired intangible assets relating to radio frequency broadcasting licences when it took over Radio Trackside operations from Canwest NZ Radio Holdings Ltd.

Broadcasting licenses are recognised at cost and are amortised on a straight line basis over the remaining term of the license period (equivalent to 5.0% and 17.0% per annum). When the carrying amount of an intangible asset exceeds its recoverable amount, it is written down to its recoverable amount.

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 Pick6, 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.

STATEMENT OF ACCOUNTING POLICIES

FOR YEAR ENDED 31 JULY 2005

Reserves

In terms of the Racing Act 2003 reserves comprise the amalgamation of the reserves of the previous Totalisator Agency Board and 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 CW40(1)(a) of the Income Tax Act 2004.

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, long term 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.

COMPARATIVE FIGURES

Comparative information has been reclassified, where necessary, to achieve consistency in disclosure with the current year.

CHANGES IN ACCOUNTING POLICIES

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

NOTE 1. BETTING TURNOVER (INCLUDING GST)

	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Off Course Racing - Totalisator (Tote)	1,079,580	1,068,067	1,045,792
Off Course Racing - Fixed Odds Betting (FOB)	18,906	14,868	7,129
On Course Racing	74,457	74,894	74,319
Total Racing Turnover	1,172,943	1,157,829	1,127,240
Sports - Totalisator (Tote)	2,520	3,057	2,543
Sports - Fixed Odds Betting (FOB)	97,376	114,678	102,388
Total Sports Betting	99,896	117,735	104,931
Total Analysis of Betting Turnover	1,272,839	1,275,564	1,232,171

NOTE 2. BETTING DEDUCTIONS (INCLUDING GST)

	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Sporting Bodies' Levies	1,774	2,016	1,848
Goods and Services Tax	26,438	26,202	24,867
Totalisator Duty	42,300	41,922	34,244
Total Betting Deductions	70,512	70,140	60,959

NOTE 3. TOTAL OPERATING REVENUE

	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Net Betting Revenue	176,788	175,086	177,712
Racing Services Income	4,475	4,421	4,440
International Racing	3,588	2,640	2,424
* Gain on Disposal of Assets	1,640	-	1,905
Other Income	2,862	2,581	2,574
Total Other Income	12,565	9,642	11,343
Operating Revenue	189,353	184,728	189,055
Interest Income	5,139	5,047	4,079
Total Operating Revenue	194,492	189,775	193,134

* See Note 4

NOTE 4. OPERATING EXPENSES

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

	Notes	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Amortisation of Intangible Assets	11	429	-	103
Auditor's Remuneration	5	132	72	123
Bad Debts Written Off		36	5	13
Net Movement In Provision For Doubtful Debts		41	-	-
Foreign Exchange Losses/(Gains)		2	(12)	19
Board Members' Remuneration and Expenses		274	291	221
Depreciation	12	11,915	13,480	12,957
Insurance		961	731	877
Overseas Racing Rights		11,430	10,907	11,132
Problem Gambling Levy and Expenses		1,257	1,349	1,097
Property and Equipment Leases		3,364	3,336	3,072
Retail and Internet Fees		23,061	23,633	22,808
* Writedown on Impairment of Assets		3,065	-	-
Loss on Disposal of Assets		-	14	248
Staff Costs		27,746	29,142	26,210
Other Operating Expenses		28,723	29,440	29,070
Total Operating Expenses		112,436	112,388	107,950

* The Writedown on Impairment of Assets includes an impairment adjustment on Broadcast Licenses of \$1.4 million offset by a Gain on Disposal of Broadcast License assets of \$1.6 million.

NOTE 5. AUDITOR'S REMUNERATION

	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Auditing Services	95	72	100
Other Services	37	-	23
Total Auditor's Remuneration	132	72	123

NOTE 6. CASH AND INVESTMENTS

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Foreign Currency Bank Accounts	181	200	202
Foreign Currency Betting Accounts	220	220	223
NZ Dollar Bank Accounts	1,273	619	1,900
NZ Dollar Cash Floats	70	70	68
Cash and Bank	1,744	1,109	2,393
Call Deposits	7,196	2,040	7,910
Corporate Notes and Bonds	56,725	43,639	42,731
Short Term Investments	63,921	45,679	50,641
Corporate Bonds	14,681	22,954	22,940
Long Term Investments	14,681	22,954	22,940
Total Cash and Investments	80,346	69,742	75,974

Effective interest rates at 31 July 2005 range between 6.33% and 7.75% per annum.

Note that \$13,000,000 is held in trust to cover the amounts owing to customers for Account Betting Deposits and Vouchers. The balance of these items as at 31 July 2005 was \$11,056,008 (2004 \$10,911,316).

NOTE 7. RECEIVABLES AND PREPAYMENTS

	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Trade Debtors	461	1,526	2,866
Sundry Debtors and Receivables	4,860	3,205	1,636
Total Receivables and Prepayments	5,321	4,731	4,502

NOTE 8. PAYABLES

	2005 Actual \$'000	2005 Budget \$'000	2004 Actual \$'000
Trade Creditors	6,042	1,307	5,532
Sundry Creditor Accruals	8,788	14,726	6,105
GST and NRWT	1,691	700	1,640
Code Liability	4,408	2,197	6,037
* Annual and Long Service Leave:			
Balance at Beginning of Year	1,789	2,789	1,950
Leave Earned by Employees	1,393	1,055	1,253
Leave Paid Out to Employees	(1,176)	(903)	(1,414)
Balance at End of Year	2,006	2,941	1,789
Total Payables	22,935	21,871	21,103

* The New Zealand Racing Board policy is that all annual leave is taken within two years and long service leave taken within five years of entitlement accruing.

NOTE 9. UNPAID DIVIDENDS AND JACKPOT RETENTIONS

	2005 \$'000	2004 \$'000
Current Unpaid Dividends	3,031	3,326
Jackpot Retentions		
Balance at Beginning of Year	1,769	1,729
Amounts Retained from Dividend Pool	2,031	1,773
Amounts Released to Dividends	(1,438)	(1,733)
Balance at End of Year	2,362	1,769
Total Unpaid Dividends and Jackpot Retentions	5,393	5,095

NOTE 10. LOANS AND ADVANCES TO CLUBS

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

	2005 \$'000	2004 \$'000
Avondale JC	1,872	2,022
Awapuni Partnership	40	60
Canterbury JC	70	105
Christchurch GRC	-	24
Racing Southland	40	4
Waikato GRC	-	22
Wanganui GRC	251	288
Total Loans and Advances to Clubs	2,273	2,525

Interest rates on these loans range from 0% to 8% per annum. The New Zealand Racing Board is satisfied as to the ultimate collectability of these loans.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

NOTE 11. INTANGIBLE ASSETS

Broadcasting Licences

	Note	2005 \$'000	2004 \$'000
Opening Balance		711	814
Cost		5,000	-
Current Amortisation	4	(429)	(103)
Total Intangible Assets		5,282	711

	Actual 2005			
	Cost/ Valuation \$'000	Accumulated Depreciation \$'000	Book Value \$'000	Current Year Depreciation \$'000
Land	2,593	-	2,593	-
Buildings at Valuation	21,697	10,619	11,078	1,208
	24,290	10,619	13,671	1,208
Furniture, Office Equipment and Plant	7,490	5,414	2,076	687
Leasehold Improvements	2,075	540	1,535	35
Motor Vehicles	3,742	2,813	929	355
Operations and Trackside Equipment	18,033	13,058	4,975	729
Computer Equipment and Software	71,269	48,610	22,659	8,901
Work In Progress	4,970	-	4,970	-
Total Property, Plant and Equipment	131,869	81,054	50,815	11,915

	Actual 2004			
	Cost/ Valuation \$'000	Accumulated Depreciation \$'000	Book Value \$'000	Current Year Depreciation \$'000
Land	2,593	-	2,593	-
Buildings at Valuation	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 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
Work In Progress	8,962	-	8,962	-
Total Property, Plant and Equipment	132,654	77,506	55,148	12,957

A valuation of assets was conducted as at 31 July 2002 by CB Richard Ellis, registered valuers. Assets were valued at fair value. Valuations of these assets will be conducted every five years from this date.

NOTE 13. COMMITMENTS

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

	2005 \$'000	2004 \$'000
Capital Commitments		
Contracts entered into for capital expenditure within the next 12 months which have not been provided for in the statement of financial position.	4,746	435
Lease Commitments		
The New Zealand Racing Board has the following commitments under all leases as at 31 July 2005:		
Current	3,155	2,789
One to Two Years	2,253	1,967
Two to Five Years	3,044	2,379
Over Five Years	669	272
Total Lease Commitments	9,121	7,407

NOTE 14. NON CURRENT LIABILITIES

	2005 \$'000	2004 \$'000
Repayable within one to two years	1,467	-
Repayable within two to five years	1,683	-
Total Non Current Liabilities	3,150	-

The non current liability relates to the deferred settlement on the purchase of the Radio Trackside network from Canwest NZ Radio Holdings Ltd. The current portion of this liability (\$1,475,000) is provided for in Payables.

NOTE 15. FINANCIAL INSTRUMENTS

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

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 the financial instruments being utilised at balance date are outlined below.

Credit Risk

The New Zealand 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 New Zealand 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 relation to the size of the balance.

Liquidity Risk

The New Zealand 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 maturity basis.

Currency Risk

The New Zealand 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 New Zealand Racing Board also holds foreign currency bank accounts and foreign currency denominated accounts with overseas betting agencies. Total foreign currency contained in Cash and Bank at balance date was:

	2005 \$'000	2004 \$'000
Australian Dollars	316	242
Pounds Sterling	58	31
United States Dollars	27	152
	401	425

FINANCIAL INSTRUMENTS

	2005 Carrying Value \$'000	2005 Fair Value \$'000	2004 Carrying Value \$'000	2004 Fair Value \$'000
Current Assets				
Cash and Bank	1,744	1,744	2,393	2,393
Short Term Investments	63,921	63,998	50,641	50,904
Receivables and Prepayments	5,321	5,321	4,502	4,502
Current Liabilities				
Payables	22,935	22,935	21,103	21,103
Account Betting Deposits and Vouchers	11,056	11,056	10,911	10,911
Unpaid Dividends and Jackpot Retentions	5,393	5,393	5,095	5,095
Loans and Advances to Clubs	2,273	1,817	2,525	1,973
Long Term Investments	14,681	14,889	22,940	23,011
Non Current Liabilities	3,150	2,675	-	-
MATURITY PROFILE				

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

	Interest Rate per annum	Current \$'000	2005		
			One to Two Years \$'000	Two to Five Years \$'000	Over Five Years \$'000
Cash and Bank	2.25%	1,744	-	-	-
Short Term Investments	6.33% to 7.42%	63,921	-	-	-
Receivables and Prepayments		5,321	-	-	-
Payables		22,935	-	-	-
Account Betting Deposits and Vouchers		11,056	-	-	-
Unpaid Dividends and Jackpot Retentions		5,393	-	-	-
Loans and Advances to Clubs	0.00% to 8.00%	252	449	1,506	66
Long Term Investments	6.64% to 7.75%	-	11,665	2,020	996
Non Current Liabilities		-	1,467	1,683	-

	Interest Rate per annum	Current \$'000	2004		
			One to Two Years \$'000	Two to Five Years \$'000	Over Five Years \$'000
Cash and Bank	2.25%	2,393	-	-	-
Short Term Investments	5.88% to 6.27%	50,641	-	-	-
Receivables and Prepayments		4,502	-	-	-
Payables		21,103	-	-	-
Account Betting Deposits and Vouchers		10,911	-	-	-
Unpaid Dividends and Jackpot Retentions		5,095	-	-	-
Loans and Advances to Clubs	0.00% to 8.00%	292	484	1,646	103
Long Term Investments	6.33% to 7.75%	4,116	7,012	11,812	-
Non Current Liabilities		-	-	-	-

NOTE 16. STATEMENT OF CASH FLOWS

2005

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2004

	Actual \$'000	Budget \$'000	Actual \$'000
Reconciliation of Net Surplus to Net Cash			
Flows from Operating Activities			
NET SURPLUS	64,036	61,008	68,486
Impact of Non Cash Items:			
Depreciation	11,915	13,480	12,957
Amortisation of Intangible Assets	429	-	103
Amortisation of Investment Premiums	88	-	(264)
Bad Debts Written Off	36	5	13
Provision for Doubtful Debts	41	-	-
Impact of Movements in Reserves	316	(322)	(3,968)
Writedown on Impairment of Assets	3,065	-	-
Effect of Exchange Rate Change on Foreign Currency Balances	2	(12)	19
Impact of Movements in Working Capital:			
Receivables and Prepayments	(819)	(595)	(928)
Inventories	68	-	60
Payables	1,832	4,504	8,787
Account Betting Deposits and Vouchers	145	-	1,062
Unpaid Dividends and Jackpot Retentions	298	14	621
Interim Distributions to Codes	(63,746)	(59,918)	(58,311)
Final Distributions to Codes	(606)	(781)	(2,542)
Impact of Items Classified as Investing Activities:			
(Gain)/Loss on Sale of Properties Held for Resale	-	-	(1,905)
(Gain)/Loss on Disposal of Assets	(1,640)	14	248
Current Portion of Non Current Liabilities included in Payables	(1,475)	-	-
Property, Plant and Equipment Purchases in Sundry Creditors	(1,628)	(1,629)	-
Net Cash from Operating Activities	12,357	15,768	24,438

NOTE 17. RELATED PARTY TRANSACTIONS

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

A number of Members of the New Zealand Racing Board have interests in organisations which have, or may 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 The Boston Consulting Group.

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

Anne Urlwin is a Director of New Zealand Cricket.

Jim Wakefield is a Member of the Board of Harness Racing New Zealand.

Murray Acklin is a Trustee of The Trusts Charitable Foundation.

The New Zealand Racing Board in the normal course of business has, or may have, transactions with all these organisations which are made on a normal commercial basis. The New Zealand Racing Board considers that The Boston Consulting Group meets the definition of a related party. Transactions with The Boston Consulting Group included in these financial statements total \$14,269 (2004 \$250,000).

NOTE 18. 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 (2004 \$nil).

NOTE 19. 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 the New Zealand Greyhound Racing Association) and other recognised industry organisations.

NOTE 20. INDUSTRY OPERATING EXPENSES

	2005	2005	2004
	Actual	Budget	Actual
	\$'000	\$'000	\$'000
On course Commission Payments to Clubs	9,679	9,717	9,661
Local Club Payments - International Racing	3,112	2,373	2,075
Premier Marketing Subsidies	2,183	2,237	2,047
* Other Industry Expenses	1,016	559	488
Stakes Support to Codes	598	559	558
Ownership and Breeding Programmes	427	473	1,290
Industry Research, Training and Education	208	252	308
** Industry Interest Paid	195	-	-
Final Field FOB Racing Levies	185	64	128
Racing Services Rebates	147	145	143
Total Industry Operating Expenses	17,750	16,379	16,698

NOTES TO THE FINANCIAL STATEMENTS

FOR YEAR ENDED 31 JULY 2005

* Other industry expenses includes a payment of \$360,000 to New Zealand Greyhound Racing Association to settle an historical funding disagreement.

** The New Zealand Racing Board agreed to pay or charge interest on outstanding funding balances owed to or by the racing Codes (code liability in note 8) on a monthly basis from 1 August 2004. Interest is charged at a rate equivalent to the average call deposit rate achieved by the Board on its deposit investments during the month.

NOTE 21. RESERVES

	2005	2004
	\$'000	\$'000
General Reserve		
Opening Balance	101,980	98,315
Transfer to Reserves from Net Surplus	314	7,633
<i>less</i>		
Distributions	(360)	(3,968)
Transfer to Revitalisation Reserve	(10,000)	-
Closing Balance	91,934	101,980
Industry Revitalisation Reserve		
Opening Balance	-	-
Transfer from General Reserve	10,000	-
<i>less</i>		
Revitalisation Expenditure	(270)	-
Closing Balance	9,730	-
Total Reserves	101,664	101,980

NOTE 22. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

On 24 November 2004 the Accounting Standards Review Board approved the stable platform of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). All reporting entities must comply with NZ IFRS for reporting periods beginning on or after 1 January 2007.

In preparation for adoption of NZ IFRS, the New Zealand Racing Board is currently investigating the impact of changes required in accounting policies and the impact on its financial statements. Until this investigation is completed the New Zealand Racing Board will be unable to conclude if the impact of the adoption of NZ IFRS will result in a material variation to the financial statements of the New Zealand Racing Board.

The New Zealand Racing Board will have a full plan in place for implementation by 31 July 2006. The New Zealand Racing Board is required to adopt NZ IFRS no later than for the year ending 31 July 2008.

AUDIT REPORT

TO THE MEMBERS OF THE NEW ZEALAND RACING BOARD



We have audited the financial statements on pages 19 to 37. The financial statements provide information about the past financial performance of the New Zealand Racing Board and its financial position as at 31 July 2005. This information is stated in accordance with the accounting policies on pages 23 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 financial statements which fairly reflect the financial position of the New Zealand Racing Board as at 31 July 2005 and the results of its operations and cash flows for the year ended on that date.

AUDITOR'S RESPONSIBILITIES

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

BASIS OF OPINION

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

- the significant estimates and judgements made by the Board Members in the preparation of the financial statements, 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 statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 that we have required.

In our opinion the financial statements on pages 19 to 37 fairly reflect the financial position of the New Zealand Racing Board as at 31 July 2005 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 27 September 2005 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Wellington, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS

This audit report relates to the financial statements of the New Zealand Racing Board (the "Board") for the year ended 31 July 2005 included on the Board's website. The Board is responsible for the maintenance and integrity of the Board's website. We have not been engaged to report on the integrity of the 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 website. 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 27 September 2005 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PERCENTAGE BETTING

What is percentage betting?

It's simple – percentage betting puts you in control by letting you spend an amount that suits your budget and you can take as many runners in a race as you fancy.

You pay a percentage of the normal price of a Trifecta, Treble, Pick6 or Six Pack in return for a percentage of the dividend.

Bet types you can take a percentage bet on include Trifecta, Treble, Pick6 and Six Pack.

Percentage betting in action

Say you want to take a boxed trifecta with four runners. This would normally cost you \$24, but you only want to spend \$5. You can take a percentage boxed trifecta bet and take your four runners for \$5 and get 21% of the dividend. So on a dividend of \$200 you would collect \$42.

It is important to note that the minimum percentage bet is \$5 and the minimum bet unit is 5 cents and you are welcome to make a bet larger than 100%.

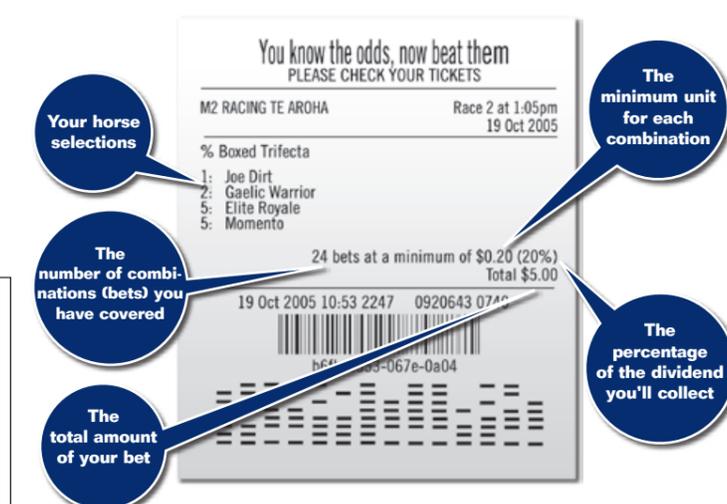
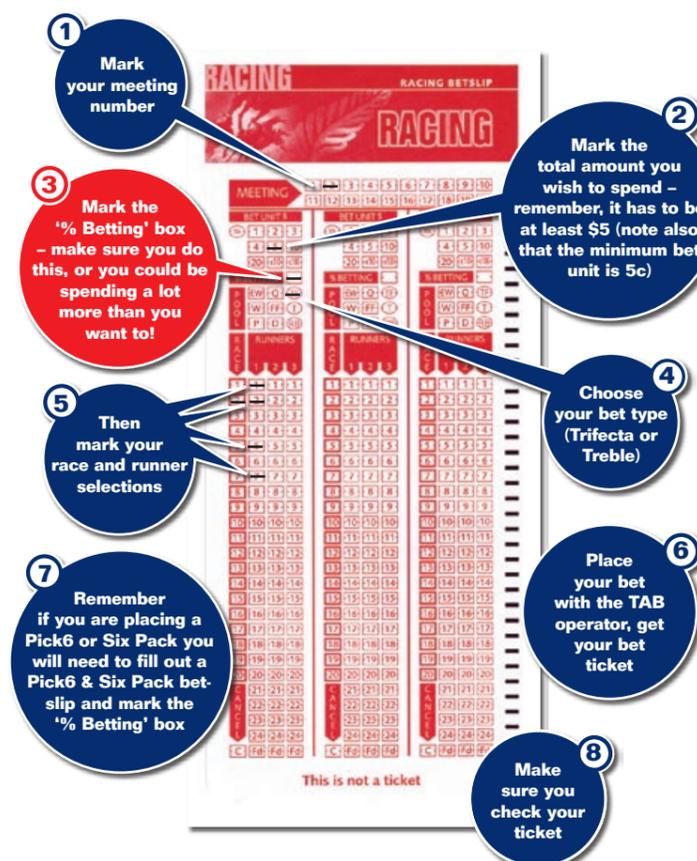
Your percentage betting ticket

All the information you need will be on your percentage bet ticket:

- Your horse selections
- The number of combinations (bets) you have covered
- The minimum unit for each combination
- The percentage of the dividend you'll collect
- The total amount of your bet.

Large Percentage Bet wins from last season

Ticket Cost	Event	Percentage	Return
\$30	\$650k Gallops Pick6 at Taumarunui	10%	\$65,198
\$20	\$398k Gallops Pick6 at Ellerslie	20%	\$50,422
\$20	Trifecta NZ Metro Harness Race 2	33%	\$13,948
\$10	Trifecta Ashburton Gallops Race 9	16%	\$6,673



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DIRECTORY

NATIONAL OFFICE

106-110 Jackson Street
Petone
PO Box 38899
Wellington Mail Centre
New Zealand
Phone: +64 4 576 6999
Fax: +64 4 576 6942

NORTHERN REGION

6 Mitchelson Street
Ellerslie
Private Bag 17902
Greenlane
Auckland
Phone: +64 9 520 8200
Fax: +64 9 520 8201

WAIKATO/BAY OF PLENTY REGION

391 Te Rapa Road
PO Box 10501
Te Rapa
Hamilton
Phone: +64 7 838 8800
Fax: +64 7 838 8801

CENTRAL REGION

690 Tremaine Avenue
PO Box 637
Palmerston North
Phone: +64 6 357 2054
Fax: +64 6 357 2845

CANTERBURY/WEST COAST/ MARLBOROUGH REGION

Moule Street
Addington
Private Bag 4746
Christchurch
Phone: +64 3 338 1420
Fax: +64 3 338 1424

OTAGO/SOUTHLAND REGION

30 Teviot Street
PO Box 600
Dunedin
Phone: +64 3 455 9710
Fax: +64 3 455 9715

SOLICITORS

Minter Ellison Rudd Watts
Wellington

AUDITOR

Deloitte
Wellington

BANK

Bank of New Zealand
Wellington



NEW ZEALAND RACING BOARD



New Zealand Racing Board

106-110 Jackson Street
Petone

PO Box 38899
Wellington Mail Centre
New Zealand

Phone: +64 4 576 6999
Fax: +64 4 576 6942