Report

2002

tab limited
www.tablimited.com.au

DIRECTOR'S REPORT for the Year ended 30 June 2002

The Directors of Tab Limited present the following report on the consolidated entity consisting of Tab Limited and the entities it controlled at the end of, or during, the year ended 30 June 2002.

Directors

The following held office as directors of Tab Limited during the year and are directors at the date of this report unless otherwise stated:

- Gary Pemberton, AC
- John Ross Cribb, OBE *
- Belinda Hutchinson
- Brian Francis Keane #
- Graham Kelly
- Fergus Allan McDonald
- The Hon Barrie Unsworth
- Geoffrey Wild, AM
- Warren Wilson

* Mr Cribb retired from the Board on 20 August 2001.
# Mr Keane was appointed to the Board on 20 August 2001.

Gary Pemberton, AC, Chairman

Mr Pemberton was appointed Chairman of the Board in July 1997. Mr Pemberton is also Chairman of Billabong International Limited and a director of Queensland Investment Corporation, and NM Rothschild Australia Holdings Pty Limited. He was previously Chairman of Qantas Airways Limited, Chief Executive and subsequently Chairman of Brambles Industries Limited and a director of Commonwealth Bank of Australia, CSR Limited, Rio Tinto plc and Rio Tinto Limited, and John Fairfax Holdings Limited.

Additional Responsibilities:
Chairman; member of the Audit and Remuneration Committees.

Warren Wilson, Managing Director

Mr Wilson was appointed Managing Director in June 1999. He was formerly Group Executive Wagering Sales of TAB and was the incumbent Managing Director of Sky Channel Pty Limited when Tab Limited acquired that business in April 1998. Mr Wilson is a director of the Australian Gaming Council and a member of the National Advisory Board on Gambling.

Additional Responsibilities:
Managing Director; member of the Regulatory and Compliance Committee.

Belinda Hutchinson, Non-executive Director

Ms Hutchinson was appointed a director in July 1997. She is also a director of Telstra Corporation Limited, Energy Australia Limited, Crane Group Limited, QBE Insurance Group Limited, St Vincent's and Mater Health Sydney Limited, a consultant to Macquarie Bank Limited and a member of the State Library of NSW Council. She was previously an executive director of Macquarie Bank Limited and, prior to that, a vice president of Citibank Limited.

Additional Responsibilities:
Chairman of the Audit Committee, member of the Remuneration Committee.

Brian Francis Keane, Non-Executive Director

Mr Keane was appointed a director in August 2001. He retired in July 2002 as Chief Executive of AAMI Limited, a position he had held since 1983. He is a Director of RAC Insurance Pty Limited.

Additional Responsibilities:
Member of the Remuneration Committee, the Audit Committee and the Nomination Committee.

Graham Kelly, Non-executive Director

Mr Kelly was appointed a director in July 1997. He is Chairman of Recruitment Solutions Limited and H-G Ventures Limited. He is also a director of Australian Transport Network Limited and Fresh Food Australia Holdings Pty Limited. He is a consultant to Freehills, of which he was previously National Chairman.

Additional Responsibilities:
Chairman of the Remuneration Committee and the Nomination Committee, member of the Audit Committee and Director of TAB Superannuation Company Pty Limited.

Fergus Allan McDonald, Non-executive Director

Mr McDonald was appointed a director in October 1997. He has had an extensive career in the investment and commercial banking fields and is presently a consultant and company director. Mr McDonald is Chairman of Julia Ross Recruitment Limited and General Cologne Re Australia Limited. His other directorships include Brambles Industries Limited, DCA Group Limited, Billabong International Limited and Securities Exchanges Guarantee Corporation Limited.

Additional Responsibilities:
Member of the Audit Committee and the Nomination Committee.

The Hon Barrie Unsworth, Non-executive Director

Mr Unsworth was appointed a director in July 1997. He is a director of Delta Electricity and Tempo Services Limited, Chairman of the Australia Day Council of NSW, and the Board of the Ambulance Service of NSW, and a former Premier of NSW.

Additional Responsibilities:
Chairman of the Regulatory and Compliance Committee and member of the Remuneration Committee and the Nomination Committee.

Geoffrey Wild, AM, Non-executive Director

Mr Wild has been a member of the Board since April 1994. He is Chairman of WPP Holdings (Australia) Pty Limited and a director of related entities. He is also Chairman of ComOps Limited and Total Sport & Entertainment Group Limited. Mr Wild is a director of OPSM Group Limited, Arab Bank Australia Limited, IBIS Business Information Pty Ltd, the PGA (Professional Golf Association) and an Advisory Board Member of ICI South Pacific (a subsidiary of Imperial Chemical Industries plc). Mr Wild has previously been Vice President and a director of the Sydney Olympic Bid Company Limited and the Chairman of the NSW Tourism Commission.

Additional Responsibilities:
Member of the Regulatory and Compliance Committee and the Nomination Committee.

→ DIRECTOR'S REPORT for the Year ended 30 June 2002

Meetings of Directors

The number of meetings of the directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were:

	Meetings of Directors	Meetings of Committees			
		Audit	Regulatory and Compliance	Remuneration	Nomination
Number of meetings held	11	6	4	2	1
Number of meetings attended:					
Gary Pemberton, AC	11	6	*	2	*
Warren Wilson	11	*	4	*	*
John Ross Cribb, OBE	2(2)	1(1)	*	0(0)	*
Belinda Hutchinson	11	6	*	2	*
Brian Keane	9(9)	5(5)	*	2(2)	1
Graham Kelly	11	6	*	2	1
Fergus Allan McDonald	10	6	*	*	1
The Hon Barrie Unsworth	11	*	4	2	-
Geoffrey Wild, AM	10	*	4	*	1

* Not a member of the relevant committee.
( ) number of meetings held during period while a director

Directors' Shareholdings

At the date of this report, the directors and director-related entities hold the following relevant interests in the share capital of Tab Limited.

Name	Ordinary Shares Directly and Beneficially Held	Ordinary Shares Director Related Entities - Non Beneficially Held	Executive Options
Gary Pemberton, AC	2,500	-	
Warren Wilson	3,578	3,000	1,500,000
Belinda Hutchinson	5,000	-	
Brian Keane	-	-	
Graham Kelly	5,257	-	
Fergus Allan McDonald	5,257	5,000	
The Hon Barrie Unsworth		20,000	
Geoffrey Wild, AM	5,000	29,000	

No financial benefit or assistance has been received by directors in acquiring shares in Tab Limited.

Directors' and Executives Emoluments

The Remuneration Committee, comprising five non-executive directors, advises the Board on remuneration policies and practices generally and the remuneration arrangements for non-executive directors, executive directors and senior management.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by shareholders from time to time.

Senior management remuneration and related matters are reviewed annually by the Remuneration Committee where appropriate, having regard to performance in achieving goals set at the start of the year, relevant comparative information and independent expert advice.
As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements and performance related incentives. Incentives, based on performance, including EBIT measures, are available to senior executives and the Managing Director. Bonuses are not payable to non-executive directors.

Remuneration packages are set at levels that are intended to attract and retain high quality executives. Remuneration and other terms of employment of executives are formalised in employment arrangements.

Details of the nature and amount of each element of the emoluments of each director of Tab Limited and each of the six officers of Tab Limited and the consolidated entity receiving the highest emoluments are set out in the accompanying tables.

DIRECTOR'S REPORT for the Year ended 30 June 2002

Non-executive Directors of Tab Limited

Name	Directors' Base Fee	Superannuation	Total	Retirement
	$	$	$	$
Gary Pemberton, AC, Chairman	148,148	11,852	160,000	
John Ross Cribb, OBE, Deputy Chairman	13,837	909	14,746	312,795
Belinda Hutchinson	74,074	5,926	80,000	
Brian Keane	64,412	5,153	69,565	
Graham Kelly	74,074	5,926	80,000	
Fergus Allan McDonald	74,074	5,926	80,000	
The Hon Barrie Unsworth	74,074	5,926	80,000	
Geoffrey Wild, AM	74,074	5,926	80,000	

Executive Directors of Tab Limited

Name	Salary	Incentive	Motor Vehicle, Superannuation, Other Benefits	Total
	$	$	$	$
Warren Wilson	704,358	475,000	95,642	1,275,000

Other Executives of Tab Limited and the Consolidated Entity

Name	Salary	Incentive	Motor Vehicle, Superannuation, Other Benefits	Total
	$	$	$	$
Russell Chenu*	390,785	75,000	9,215	475,000
Peter Kadar*	304,193	85,000	25,807	415,000
Geoff Want#	253,232	85,000	58,013	396,245
Joe Collins*	227,400	60,000	72,600	360,000
Geoff Elith*	270,000	35,000	30,000	335,000
Ben Heap*	267,812	30,000	12,188	310,000

* Executives of the parent company
\# Executive of the consolidated entity

→ DIRECTOR'S REPORT for the Year ended 30 June 2002

Tab Limited Share Option Plan

The establishment of the Employee Share Option Plan was approved by shareholders at the November 1999 Annual General Meeting. The plan provides for executives to receive options over ordinary shares for no consideration. Each option is convertible to one ordinary share. There are no voting or dividend rights attached to the unissued ordinary shares. Options are exercisable subject to service conditions and agreed performance criteria. Currently seven executive employees participate in the Option Plan.

For details of options on issue refer Note 25 of the financial statements.

Tab Limited Employee Share Plans

On 30 October 2001, 64,843 ordinary shares were purchased by 66 employees of Tab Limited under Tab Limited's Employee Savings Share Plan. Under this Plan employees may purchase shares under salary sacrifice arrangements over a six-month period.

On 17 April 2002, 47,000 ordinary shares were purchased by 47 employees of Tab Limited under Tab Limited's Employee Savings Share Plan. Under this Plan employees may purchase shares under salary sacrifice arrangements over a six-month period.

On 1 November 2001, Tab Limited purchased 447,937 ordinary shares which were issued to 1,056 eligible employees under Tab Limited's Employee Performance Share Plan. Under this Plan eligible employees were issued $1,000 worth of shares which generally must be held for three years before they can be sold.

No directors participate in Tab Limited's Employee Savings Share Plan or the Performance Share Plan.

Dividends

Dividends in respect of the year are as follows:

	2002	2001
	$'000	$'000
Interim ordinary dividend of 6.0 cents per fully paid share paid on 28 March 2002	30,006	30,006
Share Buy-Back dividend of 39.0 cents per fully paid share paid on 27 May 2002	19,074	–
Final ordinary dividend of 7.0 cents per fully paid share to be paid on 3 October 2002	31,583	30,006
Total dividends in respect of the year	80,663	60,012

Review of Operations

A summary of the consolidated Statement of Financial Performance is set out below:

	2002	2001
	$'000	$'000
Revenue	897,467	836,425
Operating Profit before Income Tax	108,856	113,981
Income Tax	(32,226)	(40,669)
Operating Profit after Income Tax	76,630	73,312

Capital expenditure incurred during the year totalled $130.8 million and included expenditure for the development and expansion of wagering operations ($54.2 million), central monitoring system development and implementation ($25.3 million), development of statewide linked jackpot system ($13.7 million), expansion of media operations ($2.5 million) and corporate related projects ($35.1 million).

DIRECTOR'S REPORT for the Year ended 30 June 2002

Wagering Operations

The wagering business unit continues to strengthen, producing record turnover and its best turnover growth in eight years. The 4.5 per cent growth in turnover was underpinned by a sustained focus on improving the wagering service to customers.

The program of upgrading retail venues was actively maintained. Half the Agency network has been refurbished within the past three years and licensed venues benefited from re-imaging and modernisation of wagering facilities.

This was supplemented by the ongoing roll-out of the new Eureka wagering terminal and the introduction of the "Tabatha" Natural Language Speech Recognition system, both providing enhanced customer service.

Further solid growth in Fixed Odds betting was experienced, underscoring this product's value as a key growth platform for TAB Wagering into the future. Fixed Odds attracted unprecedented interest during the Soccer World Cup.

Wagering taxes payable to the NSW State Government increased by 4.2 per cent to $206.6 million, while the distribution to the NSW Racing Industry increased by 4.6 per cent to $191.9 million.

Media Operations

The broadcast operations embracing Sky Channel and Radio 2KY achieved strong performance during the year with revenue of $99.7 million, up 5.2% on the prior year and an EBIT increase of 5.0% to $23.0 million.

Since the acquisition of Radio 2KY in April 2001, the operations of the station have been fully integrated within the Media Group. 2KY continues to provide extensive and informative race-day coverage along with sporting programs.

Sky Channel was successful in renewing on favourable terms the broadcast rights contracts with the Victorian thoroughbred and greyhound racing industry, South Australia and ACT race clubs and authorities whose contracts expired during the year. The achievement of this provided Sky Channel with the opportunity to reduce subscription fees for hotel and club customers by 5% from 1 July 2002.

Sky Channel's international business continues to expand its broadcast of Australian racing, reaching the established markets of New Zealand, North America and parts of Asia.

The continued focus of the Media Group in delivering the highest quality audio and visual coverage of the three codes of racing is a significant factor in growing wagering turnover. Sky Channel services are now available to over 5,000 commercial outlets across Australia. Sky reaches an estimated two million viewers each week and Sky Racing is able to be watched in over 1.5 million Australian homes via Pay TV carriers.

Sky Channel is currently finalising long-term contracts with major Pay TV carriers that will lead to Sky receiving revenue during the 2003/04 financial year.

Gaming Operations

The Central Monitoring System (CMS) commenced monitoring and assessing duty on 1 December 2001 for clubs and 1 January 2002 for hotels. Since these dates two full cycles of monitoring and assessment of approximately 100,000 gaming machines throughout NSW has been successfully completed on behalf of the NSW Government.

In November 2001 Tab Limited launched an internet-based authorisation product called "Quickchange" that facilitates electronic gaming machine changes in venues. A rapid take-up rate of this product has seen Quickchange being utilised by a large number of venues in New South Wales. Revenue in 2001/02 from central monitoring operations, machine investments and Quickchange totalled $18.3 million.

The Statewide Linked Jackpot game, Maximillions, made its initial launch into clubs on 31 January 2002. The game has been highly popular with club patrons with at the end of the financial year, 1,163 machines committed by 170 venues and of these 495 machines had been installed in 60 venues.

A mystery jackpot product for hotels called "The Stash" is currently under development with field trials expected to occur in the latter part of the first quarter of 2002/2003.

→ DIRECTOR'S REPORT for the Year ended 30 June 2002

Principal Activities

The principal activities of the Group during the course of the year were wagering, gaming and broadcasting.

Earnings Per Share (EPS)

	2002	2001
Basic earnings per share	15.5c	14.7c
Diluted earnings per share	15.5c	14.7c

Contingent Liability

Tab Limited and the NSW Racing Industry are parties to a Racing Distribution Agreement (RDA) for a period of 99 years, effective March 1998.

This agreement provides for Tab Limited to make a range of payments to the NSW Racing Industry in return for the staging of an agreed program of races in NSW and for the provision of specified NSW racing information.

NSW Racing Pty Limited has commenced a number of dispute notices and court proceedings relating to alleged breaches by Tab Limited of the RDA in the period since it became effective. Some of these disputes were resolved prior to 30 June 2002, with the financial outcome being included in the financial statements for the year ended 30 June 2002. Tab Limited continues to dispute the remaining claims commenced by NSW Racing Pty Limited. The timing and financial outcome of the remaining disputes is inherently uncertain but in Tab Limited's view, the financial effect on an annual basis will not be material.

Significant Changes in the State of Affairs

No significant changes have occurred during the financial year.

Significant Events After Balance Date

No significant events have occurred after the balance date.

Environmental Regulation

During the year no breaches of environmental regulation were reported. The Company's policy is to ensure that all environmental laws are observed and the Company's operations are monitored by a compliance group overseen by the Regulatory and Compliance Committee. The Company's activities involve relatively low environmental risks. Matters of non-compliance are reported to the Committee quarterly with notification of the corrective action undertaken to rectify the issue.

Indemnification and Insurance of Directors and Officers

The Company has entered into insurance contracts which indemnify Directors and Officers of the Company and its controlled entities against liabilities. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential.

Rounding of Amounts

Tab Limited is a company of the kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to the rounding of amounts in the Directors' Report and Financial Report. Amounts in the Financial Report and the Directors' Report have been rounded to the nearest thousand dollars in accordance with that class order.

This report is made in accordance with a resolution of directors.

Gary Pemberton

Gary Pemberton, AC
Chairman

Warren Wilson
Managing Director

23 August 2002

STATEMENTS OF FINANCIAL PERFORMANCE for the Year ended 30 June 2002

	Note	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Entity 2002 $'000	Parent Entity 2001 $'000
Revenues from ordinary activities	2	**897,467**	**836,425**	**822,766**	**764,235**
Borrowing expenses	3	(21,654)	(16,654)	(21,654)	(16,654)
Other expenses from ordinary activities	3	(766,319)	(705,019)	(693,820)	(634,648)
Share of net loss of associate accounted for using the equity method		(638)	(771)	-	-
Profit from ordinary activities before income tax expense		**108,856**	**113,981**	**107,292**	**112,933**
Income tax expense relating to ordinary activities	4	(32,226)	(40,669)	(22,364)	(28,814)
Net profit		**76,630**	**73,312**	**84,928**	**84,119**
Total changes in equity other than those resulting from transactions with owners as owners		**76,630**	**73,312**	**84,928**	**84,119**

	Note	Cents	Cents
Basic earnings per share	34	15.5	14.7
Diluted earnings per share	34	15.5	14.7

The above statements of financial performance should be read in conjunction with the accompanying notes.

→ STATEMENTS OF FINANCIAL POSITION as at 30 June 2002

	Note	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Entity 2002 $'000	Parent Entity 2001 $'000
Current Assets					
Cash assets	6	27,989	35,332	25,847	26,517
Receivables	7	18,019	13,478	37,930	43,058
Current tax assets	4	2,093	-	2,093	-
Inventories	8	2,770	2,101	2,770	2,101
Other	9	5,632	3,644	4,313	2,390
Total Current Assets		56,503	54,555	72,953	74,066
Non-Current Assets					
Investments accounted for using the equity method	10	-	6,681	-	-
Other financial assets	11	-	-	254,479	262,443
Property, plant & equipment	12	389,971	304,765	374,811	287,159
Deferred tax assets	4	6,407	10,016	5,305	9,038
Intangible assets	13	572,820	588,744	326,437	330,318
Other	14	647	272	500	-
Total Non-Current Assets		969,845	910,478	961,532	888,958
Total Assets		**1,026,348**	**965,033**	**1,034,485**	**963,024**
Current Liabilities					
Customers' balances	15	31,154	30,075	31,154	30,075
Payables	16	115,368	80,212	108,899	72,960
Current tax liabilities	4	5,594	8,409	-	2,771
Provisions	17	43,293	45,755	41,627	43,211
Total Current Liabilities		195,409	164,451	181,680	149,017
Non-current Liabilities					
Interest bearing liabilities	18	420,000	280,000	420,000	280,000
Deferred tax liabilities	4	29,094	18,066	28,765	17,748
Provisions	19	2,988	3,398	2,287	2,543
Total Non-Current Liabilities		452,082	301,464	451,052	300,291
Total Liabilities		**647,491**	**465,915**	**632,732**	**449,308**
Net Assets		**378,857**	**499,118**	**401,753**	**513,716**
Equity					
Contributed equity	20	315,136	431,364	315,136	431,364
Retained profits	21	63,721	67,754	86,617	82,352
Total Equity		**378,857**	**499,118**	**401,753**	**513,716**

The above statements of financial position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS as at 30 June 2002

	Note	Consolidated		Parent Entity	
		2002 $'000	2001 $'000	2002 $'000	2001 $'000
Cash Flows from Operating Activities					
Receipts from customers		4,619,943	4,394,750	4,506,905	4,297,354
Dividends on winning wagers		(3,732,025)	(3,571,786)	(3,732,025)	(3,571,786)
Government wagering tax		(205,556)	(196,512)	(205,556)	(196,512)
Payments to suppliers & employees		(491,231)	(469,830)	(417,473)	(408,241)
		191,131	156,622	151,851	120,815
Interest received		1,310	1,787	1,118	1,212
Other revenue received		1,485	5,320	1,485	5,320
Borrowing costs		(23,830)	(13,584)	(23,822)	(13,326)
Tax refund from Australian Taxation Office		8,648	-	8,648	-
Income tax paid		(31,392)	(37,675)	(21,129)	(27,194)
Net cash inflow from operating activities	33	**147,352**	**112,470**	**118,151**	**86,827**
Cash Flows from Investing Activities					
Payments for property, plant and equipment		(118,501)	(157,145)	(116,173)	(149,989)
Payments for purchase of controlled entity, net of cash acquired		-	(25,338)	-	-
Proceeds from disposal of property, plant and equipment		19,120	14,030	19,065	13,877
Proceeds from sale of investment in subsidiary		-	5,250	-	5,250
Net cash outflow from investing activities		**(99,381)**	**(163,203)**	**(97,108)**	**(130,862)**
Cash Flows from Financing Activities					
Payment of deferred settlement		-	(53,323)	-	(53,323)
Proceeds from borrowings		140,000	150,000	140,000	150,000
Dividends paid		(60,012)	(60,006)	(60,012)	(60,006)
Loan to controlled entity		-	-	(3,400)	(28,283)
Repayment of loan by controlled entity		-	-	37,001	23,030
Payment for share buy-back	20	(135,302)	-	(135,302)	-
Proceeds from issue of shares		-	243	-	243
Net cash inflow (outflow) from financing activities		**(55,314)**	**36,914**	**(21,713)**	**31,661**
Net (decrease) in cash held		**(7,343)**	**(13,819)**	**(670)**	**(12,374)**
Cash at the beginning of the reporting period		35,332	49,151	26,517	38,891
Cash at the end of the reporting period	6	**27,989**	**35,332**	**25,847**	**26,517**
Financing arrangements	18				

The above statements of cash flows should be read in conjunction with the accompanying notes.

NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

1. Statement of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated the accounting policies adopted are consistent with those of the previous year. Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Tab Limited ('the company') as at 30 June 2002 and the results of all controlled entities during the year then ended. Tab Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year its results are included in the consolidated statement of financial performance from the date on which control commences.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the profits or losses of associates is recognised as revenue in the consolidated statement of financial performance, and its share of movements in reserves is recognised in consolidated reserves. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(b) Foreign Currency Transactions

Foreign currency transactions are converted at the rate of exchange applicable at the date of each transaction. Foreign currency amounts outstanding at balance date are translated at the balance date spot rate with resulting gains and losses brought to account in the statement of financial performance.

(c) Cash

Represents cash held (including cash held in retail outlets) and in bank accounts as at balance date. For the purposes of the statement of cash flows, cash includes deposits that are readily convertible to cash on hand and are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

(d) Receivables

Accounts receivable are generally settled within 30 days. Collectability of receivables is reviewed on an ongoing basis. A provision for doubtful debts is raised where some doubt as to collection exists. Debts that are known to be uncollectable are written off.

Subscriptions received before the end of the financial year but relating to future periods are shown as deferred income in the statement of financial position.

(e) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average costs.

(f) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition. In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Goodwill is brought to account on the basis described in Note 1(l)(i).

(g) Recoverable Amount of Non-Current Assets

Non-current assets are reviewed annually to ensure the carrying values are not in excess of recoverable amounts. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Recoverable amounts are determined as the present value of the net cash inflows from the continued use and subsequent disposal of the non-current asset.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using market-determined, risk-adjusted discount rates ranging from 6.0% to 9.0% (2001:8%).

NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

(h) Property, Plant and Equipment

All property, plant and equipment are measured at cost.

The gain or loss on disposal of property, plant and equipment, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the operating profit in the year of disposal.

(i) Depreciation and amortisation of Property, Plant and Equipment

Depreciation and amortisation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated entity. Estimates of remaining useful lives and depreciation rates are reassessed annually. The expected useful lives of major assets are as follows:

Buildings	25	years
Retail outlet improvements	7	years
Plant and equipment	5 -10	years
Computer hardware & software	3 - 8	years
Broadcasting Equipment	5 - 6	years

Expenditure incurred in developing software systems and establishing infrastructure for the Gaming business (state-wide linked jackpots) have been capitalised as work in progress as at balance date. These amounts will be depreciated or amortised when the asset is first put to use or held ready for use.

(j) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Payments for retail premises and motor vehicles are under operating leases and are charged as expenses in the periods in which they are incurred. Operating leases have average lease terms of between 3 and 5 years.

(k) Investments

Investments in associates are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial statements as set out in Note 1 (a). All other non-current investments are carried at the lower of cost and recoverable amount.

(l) Intangible Assets

An assessment of the recoverable amount of each intangible asset is made each reporting period to ensure this is not less than its carrying amount. The recoverable amount is determined based on the net amount expected to be recovered through the net cash inflows arising from the continued use of the intangible asset and subsequent disposal, where applicable, discounted to their present values using a market determined, risk adjusted discount rate.

(i) Goodwill

On acquisition of controlled entities, the identifiable net assets are measured at fair value. The excess of the fair value of the consideration and costs of acquisition over the fair value of the identifiable net assets acquired, is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise to a maximum of 20 years. Goodwill is reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable is written off.

(ii) Wagering and Gaming Licences

Licence costs are amortised on a straight-line basis over the life of the licences, being 99 years for wagering licences and 15 years for gaming licences.

The carrying values of the wagering and gaming licences are reviewed annually to ensure they are not carried at amounts greater than their recoverable amount.

(iii) Right to Narrowcast, Radio Broadcasting Rights and Related Business Names

The identifiable intangible assets of the controlled entity, Sky Channel Pty Limited, comprise the right to narrowcast the Sky Channel service as provided by the Broadcasting Services Act 1992 (Cth), the Sky Channel company name and related business names.

The identifiable intangible assets of 2KY Broadcasters Pty Limited comprise radio broadcasting rights, the 2KY business name and related business names.

No amortisation is provided against these assets as the directors believe that the life of the Sky Channel and 2KY identifiable intangibles to the consolidated entity is of such duration, and the residual value at the end of that life would be such that the amortisation charge, if any, would not be material.

→ NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

(m) Expenditure Carried Forward
Significant items of carried forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

(n) Customers' Balances
This represents balances in customers' betting accounts, outstanding prepaid betting vouchers and unclaimed better returns not more than 12 months old.

(o) Payables
Accounts payable represents liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition.

(p) Employee Entitlements

(i) Salaries, Wages and Annual Leave
Liabilities arising in respect of the provision for employee entitlements to salaries, wages and annual leave represent the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to balance date. The amounts provided have been calculated based on current salary and wage rates and include related on-costs.

(ii) Long Service Leave
The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows expected to be made by the employer resulting from employees' services provided up to balance date. The liability for employee entitlements, which is not expected to be settled within twelve months, is discounted using the rates attached to national government securities at balance date which match the terms of maturity of the related liability up to balance date. In determining the liability for employee entitlements, consideration has been given to future increases in salary and wage rates and the consolidated entity's experience with staff departures. Related on-costs have also been included.

(iii) Superannuation
Superannuation contributions are made by the consolidated entity to the appropriate employee superannuation funds and are charged as expenses when incurred.

(iv) Employee Share and Option Plan
Employee plans have been established and are detailed in Note 25.

(q) Provisions

(i) Onerous Contracts
Provisions for onerous contracts are recognised resulting from the excessive costs associated with Pay TV contractual rights obligations. Provisions are carried at the present value of future cash flows relating to the servicing of contractual rights obligations. Interest arising from the financing of onerous contracts is accrued over the period it becomes due and is recorded as part of other liabilities.

(ii) Dividends
Dividends payable are recognised when a legal obligation to pay the dividend exists.

(r) Interest bearing liabilities and borrowing costs
Interest bearing liabilities are carried at their principal amounts. Interest expense is accrued over the period it becomes due.

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets.

No borrowing costs were capitalised in 2002 (2001:Nil).

(s) Derivative Financial Instruments
Tab Limited is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates.

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

NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

(t) Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue or redemption of ordinary shares are recognised directly in equity.

(u) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

(i) Wagering Revenue

Wagering revenue is the residual value after deducting the statutory returns to customers from wagering turnover. Revenue is recognised at the point when the event on which the wagering investment is made is officially completed.

(ii) Media Revenue

Represents subscription and advertising revenue earned from broadcasting.

(iii) Gaming Revenue

Gaming revenue is recognised when goods are provided or when the service is completed.

(iv) Interest income

Interest income is recognised as it accrues.

(v) Asset Sales

The gross proceeds of asset sales are included as revenue of the consolidated entity. The profit and loss on disposal of assets is brought to account at the time control of the asset is passed, usually at the completion of the sale.

(vi) Dividends

Dividend revenue is recognised when control of the right to receive the dividend payment exists.

(v) Taxation

(i) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. Income tax on cumulative timing differences is set aside to the deferred income tax liability or future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation.

(ii) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

(i) where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable,

(ii) receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

→ NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

(w) Earnings Per Share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Change in basis in determining Earnings per Share

The consolidated entity has adopted the revised Accounting Standard AASB-1027 "Earnings Per Share".

In previous years basic earnings per share (EPS) was calculated by dividing the profit from ordinary activities, after tax, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted EPS was previously determined by dividing the profit from ordinary activities after tax, adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares and potential ordinary shares outstanding during the financial year.

The EPS information for the year ended 30 June 2001 has been recalculated to present the comparative amounts on a consistent basis with the current financial year.

Basic EPS and diluted EPS calculated in accordance with the previous method are not materially different to the revised method adopted.

(x) Segment accounting

Segment information is prepared in conformity with the accounting policies of the entity and the revised segment reporting accounting standard, AASB 1005 Segment Reporting, which has been applied for the first time in the year ended 30 June 2002.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of assets used jointly by segments are allocated based on reasonable estimate of usage. Segment liabilities consist primarily of trade and other creditors and employee entitlements. Segment assets and liabilities do not include income taxes.

(y) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.

2. Revenue from ordinary activities

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Revenue from Operating Activities				
Wagering Services	753,396	720,680	753,396	720,680
Media Services	99,251	91,192	-	-
Gaming Services	18,325	1,340	18,325	1,340
	870, 972	813,212	771,721	722,020
Revenue from Outside the Operating Activities				
Proceeds on sale of non-current assets	19,120	14,030	19,065	13,877
Interest	1,319	1,669	1,126	1,094
Rents	176	245	176	245
Dividends	-	-	25,000	20,000
Other	5,880	7,269	5,678	6,999
	26,495	23,213	51,045	42,215
Total	897,467	836,425	822,766	764,235

NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

3. Expenses and Losses/(Gains)

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
(a) Expenses				
Borrowing costs				
Borrowing costs expensed	21,654	16,654	21,654	16,654
Depreciation				
Buildings	1,188	1,121	1,086	1,019
Plant and equipment	30,623	16,691	26,036	12,468
Total depreciation	31,811	17,812	27,122	13,487
Amortisation				
Retail outlet improvements	4,369	2,610	4,369	2,610
Goodwill	12,597	12,581	542	525
Racecourse communication equipment	125	125	-	-
Licences	3,510	3,096	3,510	3,096
Total amortisation	20,601	18,412	8,421	6,231
Employee costs	67,265	73,022	47,548	57,666
Government wagering tax	206,580	198,209	206,580	198,209
Fees to NSW Racing Pty Limited	191,912	183,460	191,912	183,460
Commission and fees	81,919	77,725	81,919	77,725
On-course Wagering Licence write down	-	3,500	-	3,500
Redundancy and restructuring costs	1,242	1,702	1,242	1,295
Broadcasting and communication costs	63,242	63,023	35,527	20,351
Rental expenses relating to operating leases	15,980	13,790	14,937	13,180
Computer hardware & software maintenance	7,310	3,762	7,189	3,696
Write-off of investment in associate	6,043	-	7,964	-
Property and equipment maintenance	7,688	4,931	7,463	4,647
Advertising and promotion	9,054	10,740	8,231	8,751
Written down value of assets disposed of	8,204	5,398	8,120	5,353
Bad and doubtful assets	320	270	9	32
Other expenses	47,148	29,263	39,636	37,065
Total	**766,319**	**705,019**	**693,820**	**634,648**
(b) Net Gains				
Net gain on disposal of property, plant and equipment	10,916	8,632	10.945	8,524
Net foreign exchange gain (loss)	(11)	5	-	8

3. Expenses and Losses/(Gains) continued

	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Entity 2002 $'000	Parent Entity 2001 $'000
(c) Significant Items				
Profit from ordinary activities before income tax expense includes the following revenue and expenses:-				
(i) Gains				
Gains on property sales	11,670	9,200	11,670	9,200
Less: Income tax applicable	(2,432)	(1,188)	(2,432)	(1,188)
	9,238	8,012	9,238	8,012
SKY Channel deferred consideration settlement tax free gain	-	2,850	-	2,850
(ii) Expenses				
Staff redundancy, agency rationalisation and restructuring costs	1,242	1,702	1,242	1,295
Less: Income tax applicable	(372)	(579)	(372)	(440)
	870	1,123	870	855
On-course Wagering Licence write down	-	3,500	-	3,500
Less: Income tax applicable	-	-	-	-
	-	3,500	-	3,500
Write-off of value of Investment in associate				
Carrying value	6,043	-	7,964	-
Less: Proceed from sale	(2,000)	-	(2,000)	-
Less: Income tax applicable	(1,789)	-	-	-
	2,254	-	5,964	-
Write-off of non-current assets	4,283	-	3,903	-
Less: Income tax applicable	(1,287)	-	(1,171)	-
	2,996	-	2,732	-
Racing Distribution Agreement dispute costs	3,988	-	3,988	-
Less: Income tax applicable	(1,197)	-	(1,197)	-
	2,791	-	2,791	-

NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

4. Income Tax

(a) The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:

	Consolidated		Parent Entity	
	2002 $'000	**2001 $'000**	**2002 $'000**	**2001 $'000**
Profit from ordinary activities before Income Tax	108,856	113,981	107,292	112,933
Income tax calculated @ 30% (2001 - 34%)	32,657	38,754	32,188	38,397
Tax effect of permanent differences:				
Rebateable dividends	-	-	(7,500)	(6,800)
Capital profit on sale of property	(2,057)	(1,929)	(2,057)	(1,929)
Non-deductible depreciation and amortisation	5,158	6,954	1,541	2,456
Non-deductible deferred consideration interest	-	61	-	61
Non-assessable gain on payout	-	(969)	-	(969)
Share of net losses of associate	219	146	-	-
Write-back of associates' losses on disposal	(415)	-	-	-
Sundry items	101	521	391	417
Research and development allowance	(1,562)	(1,407)	(1,562)	(1,407)
Income tax adjusted for permanent differences	34,101	42,131	23,001	30,226
Net adjustment to deferred income tax liabilities and assets reflect the decrease in company tax rate to 34%/30%	-	(1,168)	-	(1,269)
Tax losses utilised	(787)	-	-	-
Under (over) provision in previous year	(1,088)	(294)	(634)	(143)
Income tax expense	**32,226**	**40,669**	**22,364**	**28,814**

(b) Deferred income tax assets and liabilities

Future income tax assets	6,407	10,016	5,305	9,038
Income tax payable	5,594	8,409	-	2,771
Income tax receivable	2,093	-	2,093	-
Provision for deferred income tax	29,094	18,066	28,765	17,748

(c) Income Tax Losses

The potential future income tax benefit in a controlled entity arising from tax losses has not been recognised as an asset because recovery of the tax losses is not virtually certain.Tax losses carried forward at balance date are $11.7 million (2001: $14.3 million).

This future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with;

(c) no changes in the tax legislation adversely affect the consolidated entity in realising the benefit.

5. Dividends

Dividends provided for or paid by the consolidated entity:

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
(a) Current year's dividends				
(i) Final dividend of 7 per cents per share expected to be paid in October 2002 (2001: 6 cents per share). Fully franked at 30% (2001: 30%)	31,583	30,006	31,583	30,006
(ii) Interim dividend 6 per cents per share paid in March 2002 (2001: 6 cents per share). Fully franked at 30% (2001: 34%	30,006	30,006	30,006	30,006
(iii) Dividend relating to share buy-back paid in March 2002 (39 cents per share). Fully franked at 30%	19,074	-	19,074	-
	80,663	60,012	80,663	60,012
(b) Previous year's dividends				
Final dividend of 6 per cents per share paid in October 2001 (2000: 6 cents per share). Fully franked at 30% (2000: 36%)	30,006	30,000	30,006	30,000
Total dividend provided for or paid	110,669	90,012	110,669	90,012

Franked dividends

The franked portions of the dividends proposed as at 30 June 2002 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2003.

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Franked credits available for the subsequent financial years based on a tax rate of 30% (2001:34%)	23,961	40,098	18,954	20,382

The above amounts represent the balances of the franking credits as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of income tax payable as at the end of the year;
(b) franking debits that will arise from the payment of dividends proposed as at the end of the year;
(c) the conversion of the franking account balance to reflect the change in company tax rates from 34% to 30% effective 1 July 2001.

From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after-tax profits.

As a result the "franking credits available" were converted from $23,961,070 to $10,270,497 (parent entity: $18,953,776 to $8,124,207) as at 1 July 2002.

This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

6. Current Assets - Cash

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Cash at bank and on hand	27,989	26,960	25,847	26,517
Deposits at call at 4.95%	-	8,372	-	-
	27,989	35,332	25,847	26,517

7. Current Assets - Receivables

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Receivables	30,785	26,513	11,317	7,861
Provision for doubtful debts	(288)	(252)	(8)	(25)
	30,497	26,261	11,309	7,836
Deferred income	(12,478)	(12,783)	-	-
	18,019	13,478	11,309	7,836
Loan to wholly owned controlled entities	-	-	26,621	35,222
	18,019	13,478	37,930	43,058

Further information relating to loans to the controlled entity is set out in Note 29.

8. Current Assets - Inventories

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Raw materials and stores at cost	2,770	2,101	2,770	2,101

9. Current Assets - Other

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	2002 $'000	2001 $'000
Prepayments	5,127	3,512	4,277	2,299
Other	505	132	36	91
	5,632	3,644	4,313	2,390

→ NOTES to and forming part of the Financial Statements for the Year ended 30 June 2002

10. Non-Current Assets - Investments Accounted for using the Equity Method

	Consolidated		Parent Entity	
	2002	2001	2002	2001
	$'000	$'000	$'000	$'000
Shares in associate	-	6,681	-	-
	-	6,681	-	-

Investments in associate are accounted for in the consolidated financial statements using the equity method accounting and are accounted for at cost by the parent entity. Information relating to the associate is set out below.

Company	Principal Activity	Equity Holding (ordinary shares)	
		2002 %	2001 %
Mikohn Gaming Australasia Pty Ltd. (balance date 31 December)	Production and sale of visual display equipment and products for the gaming industry	Nil	50

	Consolidated	
	2002	2001
	$'000	$'000
Share of associate's loss		
Share of associate's:		
Operating loss before income tax	(730)	(653)
Income tax benefit attributable to operating loss	219	222
Operating loss after income tax	(511)	(431)
Amortisation of goodwill on acquisition	(127)	(340)
Share of associate's net loss	(638)	(771)
Movements in carrying amounts of investments in associate		
Carrying amount at the beginning of the financial year	6,681	7,452
Share of operating loss before tax	(638)	(771)
Sale proceeds	(2,000)	-
Investments in associate written-off during the year	(4,043)	-
Carrying amount at the end of the financial year	-	6,681
Share of accumulated losses of associate		
Balance at the beginning of the financial year	(1,283)	(512)
Share of associate's net loss	(638)	(771)
Balance written off during the year	1,921	-
Balance at the end of the financial year	-	(1,283)
Share of associate's contingent liabilities	-	-
Share of associate's expenditure commitments		
Capital commitments	-	-
Lease commitments	-	161
Summary of the performance and financial position of associate		
The aggregate loss, assets and liabilities of associate are:		
Net loss before income tax expense	-	(1,306)
Assets	-	8,361
Liabilities	-	8,493