GOVERNANCE AT SKYCITY

At SKYCITY, governance reflects the tone and behavioural expectations that the board sets on behalf of stakeholders. It encompasses the company's decision-making structures and the mechanisms used to manage the organisation.

SKYCITY's board and management are committed to ensuring that the company maintains best practice governance structures and principles and the highest ethical standards. In this regard, the board has developed a Board Charter (www.skycitygroup.co.nz) which describes the board's role and responsibilities and regulates board procedures. It incorporates the Australian Stock Exchange (ASX) Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, the New Zealand Exchange (NZX) listing rules relating to corporate governance and the NZX Corporate Governance Best Practice Code recommendations, and the New Zealand Securities Commission Governance Principles and Guidelines.

The Board Charter and its attached schedules are the principal specification of the governance framework within which SKYCITY conducts its affairs. A copy of the Board Charter is posted on the company's website at www.skycitygroup.co.nz in the "Investor Centre" sub-section.

The board will continue to monitor best practice recommendations and developments as they occur, to ensure that SKYCITY's governance is consistent with international best practice both in form and substance.

SKYCITY'S GOVERNANCE FRAMEWORK

The board has adopted the ten governance principles, as set out below. These principles reflect the ASX, NZX and New Zealand Securities Commission governance recommendations.

The board of SKYCITY Entertainment Group, through a set of formal policies and procedures:

- establishes a clear framework for oversight and management of the company's operations and for defining the respective roles and responsibilities of the board and management
- structures itself to be effective in discharging its responsibilities and duties
- sets standards of behaviour expected of company personnel
- safeguards the integrity of the company's financial reporting
- ensures timely and balanced disclosure
- respects and facilitates the rights of shareholders
- recognises and manages risk
- encourages board and management effectiveness
- remunerates fairly and responsibly, and
- recognises its obligations to all stakeholders.

There are a number of supporting charters and policies which combine with the Board Charter to comprise SKYCITY's governance framework. These support charters and policy statements, in addition to the company's constitution, comprise the following:

- Terms of Appointment and Terms of Reference for Directors
- Audit and Risk Committee Charter
- Governance and Remuneration Committee Charter
- Nomination Committee Charter
- Code of Business Practice
- Code for Securities Transactions and Insider Trading Policy
- Delegated Authorities Policies
- Protected Disclosures Policy
- Policies and Procedures for Employees
- Risk Management Programme
- Relationship Governance Policy

COMPLIANCE WITH NZX BEST PRACTICE CODE AND ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

The NZX and ASX Listing Rules require SKYCITY to disclose the extent to which it has followed the NZX Corporate Governance Best Practice Code and the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, respectively.

NZX BEST PRACTICE CODE

In accordance with the requirements of NZX Listing Rule 10.5.3(j), SKYCITY confirms that it has complied with the NZX Corporate Governance Best Practice Code during the 2003/04 year.

The requirements of the NZX Best Practice Code relate to code of ethics, director appointment, training and remuneration, separation of board and management, supply of information from management to board, and board performance. The Code requires that separate Audit, Remuneration and Nomination committees should be established for larger organisations such as SKYCITY and identifies the preferred membership criteria for those committees. The Code also refers to the important relationship between the external auditor and the company.

ASX PRINCIPLES AND BEST PRACTICE RECOMMENDATIONS

In accordance with the requirements of ASX Listing Rule 4.10, SKYCITY confirms that it has complied with the ASX Corporate Governance Principles and Best Practice Recommendations, except in respect of recommendations that the company's internal policies and procedures are made available to external parties and that any options plan are approved by shareholders. SKYCITY believes that the Board Charter and the comprehensive references to governance in this annual report provide good disclosure of the company's internal processes and mechanisms and that the underlying intentions of the various ASX Corporate Governance Council's recommendations on reporting of internal mechanisms have been met. In respect of the Managing Director Share Option Plan, this was approved by shareholders at the 2002 annual meeting. In respect of the Executive Share Option Plan (2002), this Plan was approved by the board in August 2002. The 2002 Plan was essentially a renewal of the Plan, which was approved by shareholders at the 1999 annual meeting of the company, except that the period prior to exercise of the options was (except in special circumstances) extended from one year to three years.

Otherwise the company is in compliance with the ASX Corporate Governance Council's Principles and Recommendations.

ROLE OF THE BOARD

SKYCITY's board of directors is elected by shareholders to govern the business in their interests.

The board establishes the company's objectives, the major strategies for achieving those objectives, the overall policy framework within which the business of the company is conducted, and monitors management's performance with respect to these matters.

The board is also responsible for ensuring that the company's assets are maintained under effective stewardship, that decision-making authorities within the organisation are clearly defined, that the letter and intent of New Zealand and Australian company and casino law is complied with, and that the company is well managed for the benefit of its shareholders. The board also oversees management's risk profiling and business continuity plans.

Specific responsibilities of the board include the following:

- oversight of the company, including its control and accountability procedures and systems, including the delegation of authorities within the company
- approval and monitoring of the progress of significant capital expenditure projects, capital management initiatives, and acquisitions and divestments, and the funding thereof
- approval of the corporate strategy and objectives and oversight of the adequacy of the company's resources required to achieve the strategic objectives
- approval of and monitoring of actual results against the annual business plan and budget (including the capital expenditure plan)
- review and ratification of the company's systems of risk management and internal compliance and control, codes of conduct, and legal compliance
- appointment, performance, and removal of the Managing Director (chief executive officer)
- confirmation of the appointment and removal of the senior executive group (being the direct reports to the Managing Director)
- setting the remuneration of the Managing Director and approval of the remuneration of the senior executive group.

The board has appointed three committees, being:

- the Audit and Risk Committee
- the Governance and Remuneration Committee, and
- the Nomination Committee.

Each committee is authorised to deal with matters as set out in its committee charter and/or falling within its intended mandate, on the following basis:

– to submit recommendations to the board on matters for which decision-making authority has not been delegated by the board
– to make decisions on matters for which decision-making authority has been delegated by the board.

The board maintains a formal set of delegated authorities (including a Treasury Policy) which clearly define the responsibilities that are delegated to management and those which are retained by the board. These delegated authorities are approved by the board and are subject to formal review by the board on a regular basis and not less than annually.

The board appoints new directors under formal terms of reference/appointment. Directors must comply with the terms of reference at all times.

The Code of Business Practice sets out the board's policy on conflicts of interest. When conflicts of interest exist, directors exclude themselves from discussions, and do not vote in respect of the relevant matters.

The chairperson of the board (and the chairpersons of the board committees) are elected by the non-executive directors. SKYCITY supports the separation of the role of board chairperson from the chief executive officer position.

The chairperson's role is to manage the board effectively, to provide leadership to the board, and to facilitate the board's interface with the Managing Director. The current chairman of the board, Mr Rod McGeoch, is a non-executive director and meets the independence criteria as set by the board in the Board Charter at Schedule 2.

STRUCTURE OF THE BOARD AND COMMENTARY ON 2003/04 MATTERS

Directors are appointed under the company's Terms of Appointment, Terms of Reference for Directors and the Board Charter for a term of three years or are subject to re-appointment on a more frequent basis in order for the company to comply with the listing rules of the NZX and the ASX.

The board currently comprises six directors, five of whom are non-executive. Evan Davies, Managing Director of the company, is the only executive director.

Application for approval of an additional director by the casino regulatory authorities to bring the board size up to seven directors is currently in process. The selection of the preferred candidate was undertaken after an extensive search and evaluation process by the Nomination Committee. An external specialist consultant was engaged to assist the Committee in this process.

Whilst regulatory approvals for the proposed new director have already been completed in New Zealand, the South Australian and Northern Territory regulatory processes are still in progress. If regulatory approvals can be completed in time, the proposed new director will stand for election at the 2004 annual meeting. If regulatory processes in Australia have not been completed prior to the cut-off date for the 2004 notice of annual meeting, it is anticipated that the new appointment would be able to be confirmed within a matter of weeks following the annual meeting.

Board changes during the 2003/04 year were:

– Sir Dryden Spring was appointed to the board on 31 October 2003. Sir Dryden, having been appointed by the directors since the 2003 annual meeting of shareholders, is standing for election at the 2004 annual meeting.

– Jon Hartley was chairman of the company until 31 March 2004 but retired as chairman and as a director on that date.

– Rod McGeoch was appointed chairman of the company in place of Jon Hartley, effective 1 April 2004.

Rod McGeoch and Elmar Toime, current directors of the company, will retire by rotation at the 2004 annual meeting of the company and, being eligible, offer themselves for re-election.

Mr Toime, having already served two terms as a director of the company, must under the terms of the Board Charter, be formally requested by the board to offer himself for re-election by shareholders. The board has requested that Mr Toime offer himself for re-election and Mr Toime is pleased to make himself available for a further term as a director. Mr Toime has been a SKYCITY director since February 1996 and the board has affirmed that the tenure of his term in office does not impact on his ability to exercise independent judgement in terms of board decision-making.

The board has established the Nomination Committee to recommend the appointment and removal of directors. Ultimately the appointment and removal of directors is governed by the company's constitution. The constitution requires all potential directors to have satisfied the extensive probity requirements of each jurisdiction in which the company holds gaming licences.

The Nomination Committee determines the appropriate selection process to be undertaken for new director appointments, taking into account such factors as it deems appropriate, including experience, qualifications, availability, business judgment, and the candidate's ability to work effectively with the other directors.

The board meets at least six times per annum (over two days) on a formal, scheduled basis and on other occasions as required. During the 2003/04 year, the board met formally on a total of seven occasions, six of which were scheduled meetings and one of which was called to attend to particular items of business. In addition, the directors convened by teleconference to discuss specific issues on a number of occasions during the year. The number of board meetings attended by each director during the year ended 30 June 2004, with the number of meetings held while each director was in office shown in brackets, is noted below.

– R H McGeoch	7	(7)
– E W Davies	7	(7)
– P L Reddy	7	(7)
– D T Spring*	6	(6)
– E Toime	5	(7)
– W R Trotter	7	(7)
– J P Hartley**	5	(5)

* Appointed to the board during the year ** Retired/resigned from the board during the year

The non-executive directors of the board (and the board's committees) met independently of the Managing Director and management personnel on a number of occasions during the course of the year, to discuss various issues.

During August 2003, the board was assisted by an external consultant in carrying out a formal review of its composition, performance, and effectiveness. The next formal board effectiveness and performance review will be undertaken by the Nomination Committee during the November/December 2004 period.

DIRECTOR INDEPENDENCE

The Board Charter requires that the board contains a majority of its number who are independent of management, substantial shareholders, or other parties with whom SKYCITY has a business or other relationship that could reasonably be perceived to interfere with the exercise of unfettered and independent judgement. In addition, the board will ensure it comprises not less than the minimum number of independent directors required by the listing rules of the stock exchanges on which the company's securities are quoted.

In determining the independence of directors, the board has adopted the definition of independence set out in the NZX Corporate Governance Best Practice Code, and has taken into account the independence guidelines as recommended by the ASX Corporate Governance Council's Principles of Good Corporate Governance.

As required by the Board Charter, the board chairperson, Rod McGeoch, is an independent director, is not the company's chief executive officer, and has ensured that he has the time necessary to discharge the role effectively.

At its April 2004 meeting, the board reviewed the status of each director in accordance with the independence specification as set out in Schedule 2 of its Board Charter which mirrors the independence tests of the NZX Code. The board determined that all current directors, other than the Managing Director (Evan Davies), were independent.

The board noted that, under the ASX Independence Guidelines, all directors except Bill Trotter would be considered independent. Bill Trotter is not independent, under these Guidelines, given his relationship with First NZ Capital Limited, which is a consultant and advisor to the company. Mr Trotter is Executive Chairman of First NZ Capital Group Limited.

Directors are required to ensure that all relationships and appointments bearing on their independence (whether generally or for a specific matter) are disclosed on a timely basis and must provide any further information required to enable the board to make an informed assessment of their independence on a continuous basis.

The disclosure of existing interests is an ongoing responsibility of each director. Where a conflict of interest arises (or where a potential conflict of interest may arise), each director must formally advise the company about any matter relating to that conflict (or potential conflict) of interest.

There have been no subsequent changes to the independence determinations for each director as at the date of this annual report.

GENERAL MATTERS RELATING TO DIRECTORS

Under the Board Charter, directors are required to advise the chairperson of all outside directorships or other appointments which may have a bearing on their role as a SKYCITY director, prior to taking up any such appointment.

Directors are entitled to obtain independent professional advice (at the expense of the company) on any matter relating to their responsibilities as a director or to the company's affairs, provided they have previously notified the board chairperson of their intention to do so. No such requests or notifications occurred during the 2003/04 year.

DIRECTOR INDEMNITY AND INSURANCE

The company has signed a deed of indemnity in favour of each director (and a nominated group of senior executives) which covers acts or omissions of directors (or executives) in their capacity as such.

The company also provides professional indemnity insurance cover for directors acting in good faith in the conduct of the company's affairs.

On 22 September 2003, the company effected directors and officers liability insurance coverage through Vero Liability Insurance Limited and ACE Insurance Limited for the 12 month period 30 September 2003 to 30 September 2004, with an aggregate limit of liability of $50 million. The premium cost of this cover was $72,000 (plus GST).

Also on 22 September 2003, the company effected statutory liability insurance through Vero Liability Insurance Limited for the 12 month period 30 September 2003 to 30 September 2004, with an aggregate limit of liability of $5 million, and employer's liability insurance with Vero Liability Insurance Limited for the 12 month period 30 September 2003 to 30 September 2004, with an aggregate limit of liability of $1 million. The premium cost of these covers was $14,760 (plus GST) and $6,600 (plus GST) respectively.

COMMITTEES OF THE BOARD

The committees of the board review and analyse policies and strategies, usually developed by management, which are within their terms of reference. The board's committees examine proposals and, where appropriate, make recommendations to the board. The committees do not take action or make decisions on behalf of the board except where they have been specifically mandated to do so.

The board appoints the chairperson of each committee.

All committees are required to comprise a minimum of three members.

Each committee operates under a charter document, as agreed by the board, which sets out its role and responsibilities, authorities, relationship with the board, reporting requirements, composition, structure and membership requirements. Copies of these committee charters are attachments to the Board Charter. Each committee charter is subject to formal review by the board on an annual basis.

The board, on an annual basis, reviews the performance of each committee in accordance with its charter.

All directors are entitled to attend any committee meeting and receive the agenda and the papers for each committee meeting and the minutes of each meeting. The Managing Director (Evan Davies) attends meetings of each of the board's committees.

From time to time the board creates specific sub-committees to deal with a particular matter or matters and/or to have certain decision-making authority as the board may elect to delegate to that sub-committee. The minutes of any such sub-committee meetings are circulated to all directors.

GOVERNANCE AND REMUNERATION COMMITTEE

The Governance and Remuneration Committee monitors senior executive performance and remuneration, the ethics of the organisation, protection of the group's casino licences, statutory and regulatory compliance, host responsibility and problem gambling programmes and initiatives, and the identification of and planning for emerging issues.

The Governance and Remuneration Committee meets not less than twice per annum on a formal scheduled basis and on other occasions as required. During the 2003/04 year, the Governance and Remuneration Committee met on three separate occasions.

The current members of the Governance and Remuneration Committee are Patsy Reddy (who chairs the committee), Rod McGeoch and Bill Trotter. Messrs McGeoch, Trotter and Ms Reddy each attended the three meetings of the committee held during the year ended June 2004.

The composition of the committee meets the requirement of the committee charter, being that the committee comprises at least three non-executive directors, a majority of whom are independent.

The Corporate Governance and Remuneration Committee's responsibilities include:

- monitoring relationships with shareholders and ensuring the intent of the Board Charter as to communications with shareholders is achieved
- monitoring organisational integrity of business operations to ensure a high standard of ethical behaviour is maintained by the organisation
- reviewing the company's remuneration policies and procedures and approving senior executive remuneration and incentives
- reviewing incentive remuneration plan performance targets and recommending incentive payments and targets to the board for approval
- overseeing the company's recruitment, retention and termination policies and procedures for senior management
- reviewing the Managing Director's performance evaluation of his direct reports and approving salaries and incentive remuneration, executive share option participation, and any other variation of the terms and conditions of employment of the Managing Director's direct reports
- reviewing the performance of Ms Heather Shotter, an associated person of the Managing Director, and determining her performance objectives, remuneration in terms of salary, incentive bonus and executive share option participation
- reviewing the Relationship Governance Policy and monitoring compliance with that policy. This policy sets out the procedures that are required to be followed with respect to related parties within the organisation
- overseeing management succession planning for key roles within the company
- reviewing non-executive director remuneration
- monitoring issues relating to the group's casino licences and relationships with government licensing and regulatory agencies
- monitoring the company's compliance with NZX and ASX Listing Rules, and companies and commercial legislation applicable to the group's business operations
- overseeing and monitoring the group's host responsibility and problem gambling programmes and initiatives, and ensuring co-operation with social and government agencies
- ensuring the Board Charter and support charters and policies continue to represent best corporate governance practice and are appropriate to the company's operations
- monitoring the company's procedures and authorities governing the communication of company information to external parties including shareholders, financial analysts and commentators, and the media.

NOMINATION COMMITTEE

The Nomination Committee's role is to monitor board composition and performance and to assist the board in identifying suitable candidates for appointment as directors of the company.

The Nomination Committee meets at least once per annum to review board and director performance and on other occasions as required in order to attend to any other matters under its charter. During the 2003/04 year, the Nomination Committee met on two separate occasions. All directors attended both meetings of the committee.

All directors are members of the Nomination Committee and Patsy Reddy is chair of this committee. The current composition of the committee meets the requirements of the committee charter that the committee should comprise a minimum of three independent directors, which directors form the majority of the committee.

The Nomination Committee's responsibilities include:

- making recommendations to the board as to its size
- regularly reviewing the criteria for selection of directors and recommending to the board any necessary alterations
- determining search and selection processes for new potential directors
- recommending appropriate director candidates to the board
- determining appropriate procedures for director and board evaluation and performance review

- recommending the removal of a director from the board
- ensuring that potential director candidates understand the role of the board and the time commitment involved when acting as a member of the board
- ensuring adequate induction, orientation and training for directors in the company's operations and the gaming/entertainment sector generally
- reviewing the board's succession planning

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee's primary roles are to assist the board in fulfilling its responsibilities relating to accounting and reporting, tax planning and compliance, internal control practices and procedures, and protection of the company's assets and business operations through risk planning and mitigation strategies and adequate insurance coverage.

The committee's responsibilities also include the oversight of the quality, reliability, and accuracy of the company's internal and external financial statements, for the accuracy of the company's external result presentations, and for its relationships with its internal and external auditors.

The Audit and Risk Committee must undertake sufficient inquiry of the company's management and the company's internal and external auditors in order to be satisfied as to the validity and accuracy of the company's financial reporting.

The committee meets not less than three times per annum on a formal scheduled basis and on other occasions as required. During the 2003/04 year, the Audit and Risk Committee met on four separate occasions. Mr Toime attended all four meetings of the committee. Mr Hartley attended three meetings (out of three) up until his retirement as a director on 31 March 2004. Sir Dryden Spring attended both meetings of the committee that were held subsequent to his appointment as a director on 31 October 2003. Rod McGeoch attended the June 2004 meeting of the committee having replaced Mr Hartley as a committee member in April 2004.

The Audit and Risk Committee comprises at least three directors, all of whom are independent, non-executive directors who must be financially literate.

The committee is chaired by an independent director who is not also the chairperson of the board. At least one member of the committee must have financial expertise (ie has knowledge and experience of accounting, and of financial matters and regulations).

Current members of the committee are Sir Dryden Spring (chairman), Rod McGeoch and Elmar Toime. Mr McGeoch was appointed to the committee following the resignation of Jon Hartley earlier this year. An appropriate person, with requisite financial and accounting qualifications and experience to join the committee, has been identified (referred to earlier in this report under board structure).

The Audit and Risk Committee meets with the company's internal and external auditors independently of management as often as is appropriate, but not less than twice per annum.

The Audit and Risk Committee oversees the independence of the company's internal and external auditors and monitors the scope and quantum of work undertaken, and fees paid, to the auditor for other than audit work.

This annual report, at Note 3 to the financial statements, identifies the level of audit and other services provided by PricewaterhouseCoopers, the company's auditor, during the 2003/04 financial year. In the year ended 30 June 2004, assurance services provided by PricewaterhouseCoopers totalled $1.011 million and other services totalled $1.385 million. Of the other services, $555k was associated with accounting due diligence work undertaken by PricewaterhouseCoopers on behalf of the company for acquisitions undertaken during the year and $603k related to tax advisory services much of which was also associated with the acquisitions undertaken during the 2003/04 year.

The committee has formally reviewed the independence status of PricewaterhouseCoopers and is satisfied that their objectivity and independence is not compromised as a consequence of other than audit work undertaken for the company. PricewaterhouseCoopers has confirmed to the committee that it is not aware of any matters that could affect its independence in performing its duties as auditor for the company.

The Audit and Risk Committee Charter requires rotation of external and internal audit partners not less frequently than every seven years but with a guideline that five years is, except in special circumstances, an appropriate period of tenure for any one individual. David Randell, current external audit partner for SKYCITY, succeeded John Harvey in this role in February 2003.

Until this year, PricewaterhouseCoopers has provided external audit and internal audit services to SKYCITY. Earlier this year, the Audit and Risk Committee and the board resolved to separate the provision of internal audit services. An alternative internal audit service provider will replace PwC from 1 October 2004.

INTEGRITY AND ETHICAL BEHAVIOUR

Members of the board (and management) must, at all times, comply with the express terms and spirit of their fiduciary obligations to the company, including acting honestly and in good faith and in what they reasonably believe to be the best interests of the company.

The company operates in accordance with a Code of Business Practice (attached as Schedule 3 to the Board Charter). The Code sets out the guiding principles of the company's relationships with stakeholder groups including regulators, shareholders, customers, and employees.

The Code addresses the following areas:

– compliance with laws and casino licences, and co-operation with regulatory bodies
– honest and fair dealing with customers and employees
– respect for and compliance with human rights standards
– preservation of privacy and confidentiality of company and personal information
– insider trading obligations
– conflicts of interest
– competitive behaviours and actions
– promotional and advertising responsibilities
– community participation and contribution
– host responsibility
– receiving gifts or other benefits from external parties.

The company has adopted a policy for employees to report instances of suspected breaches of laws or wrong-doing by the company and/or any of its employees or directors, without fear of adverse consequences, and for such reporting to be properly investigated.

The company maintains a code of practice for directors and senior executives which sets out the procedures that must be followed before trading in the company's securities. Prior consent must be obtained from the company secretary before undertaking any trading in the company's securities. The company secretary must obtain the prior consent of the Managing Director or the chairperson or deputy chairperson of the board. The Managing Director must obtain the prior consent of the chairperson or deputy chairperson of the board.

Details of any share trading by directors or executives who are subject to the company's Insider Trading Policy and Code for Securities Transactions are notified to the board. The company's Policy and Code is supported by education for directors and executives about their obligations when trading in the company's securities. The company's Code prohibits trading in the company's securities by company personnel outside the "window" periods as defined by the Insider Trading (Approved Procedure for Company Officers) Notice 1996.

From 3 May 2004, "officers" of the company (currently comprising 18 senior level executives) must formally disclose their SKYCITY shareholdings and other securities holdings to the NZX within five business days of any change in their holding of such securities.

Directors and staff are not permitted to participate in any gaming or wagering activity at SKYCITY-operated properties or at a related company, including Christchurch Casino.

FINANCIAL REPORTING

The board is responsible for ensuring that effective policies and procedures are in place to provide confidence in the integrity of the company's financial reporting.

The Managing Director and the Group General Manager Finance have certified in writing to the board that the financial statements included in this annual report present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. The Managing Director and the General Manager Corporate have certified in writing that the confirmation referred to above is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

TIMELY AND BALANCED DISCLOSURE

The company communicates its financial and key operational performance results in a clear, effective, balanced, and timely manner to its shareholders, analysts and other market commentators, and to the stock exchanges on which the company's securities are listed.

This result information is available on the company's website.

The company's policy is to provide timely and sufficient information in appropriate format so as to enable external parties to achieve a sound understanding of the company's performance during any six month reporting period and to achieve an understanding of the key elements of the company's business strategy.

The board and the Audit and Risk Committee ensure that company announcements are made in a timely manner, are factual, do not omit any material information, and are expressed in a clear and objective manner.

The agenda for each board meeting includes formal consideration of the company's disclosure obligations and any matters relevant thereto.

The Company Secretary is responsible for bringing any matter relevant to the company's disclosure obligations to the attention of the board.

PROTECTION OF COMPANY INFORMATION

Members of the board (and management) must ensure that sensitive information they have access to about the company is well protected and treated in strict confidence, and that property of the company (including information) is used solely in the best interests of the company.

The company maintains internal policies and procedures and monitors compliance with those policies and procedures in order to protect the confidentiality of its commercially sensitive information.

RECOGNITION AND MANAGEMENT OF RISK

The company maintains a programme for the identification, assessment, monitoring, and management of risk to the company's business. The risk management programme is approved and overseen by the Audit and Risk Committee in accordance with the charter for that committee.

The company maintains an up-to-date risk profile for each of its business operations and ensures that business continuity and disaster recovery plans are in place and are well understood throughout the organisation.

The company also maintains comprehensive business continuity, material damage and liability insurance covers to ensure that the earnings of the business are well covered in the event of adverse circumstances.

PERFORMANCE EVALUATION

The Nomination Committee's charter includes assessment of the role and responsibilities, performance, composition, structure, training, and membership requirements of the board, with this assessment being formally undertaken on an annual basis.

Directors are expected to maintain an up-to-date knowledge of the company's business operations and of the industry sectors within which the company operates. Briefings, circulation of information and site visits are organised as appropriate to assist directors to be aware of and to understand company and industry issues.

REMUNERATION

The board is supported by the Governance and Remuneration Committee on matters relating to staffing, personnel (human resources) and remuneration.

NON-EXECUTIVE DIRECTOR REMUNERATION

Non-executive director remuneration is paid in the form of directors' fees. Director fees for the 2003/04 year were paid in cash.

The total remuneration available to non-executive directors is determined by shareholders at the annual meeting. At the 2003 annual meeting, shareholders approved, effective from 1 November 2003, a total remuneration amount for non-executive directors of $600,000 per annum (plus GST if any).

Non-executive directors are paid the same base fee but additional fees may be paid, at the discretion of the board, to a director who undertakes additional work at the specific request of the board. No such additional fees were paid during the 2003/04 financial year.

The chairpersons of the board and the committees are paid additional remuneration to reflect the additional responsibilities of their positions. Where the board or a committee chairperson is also the chair of the Nomination Committee, no additional remuneration is paid for that chairperson role.

For those directors who were in office on or before 1 May 2004, SKYCITY's constitution permits the company, at the discretion of the board, to make a retirement payment to a director (or to his or her dependants), provided that the total amount of the payment does not exceed the total remuneration of the director in his or her capacity as a director in any three years chosen by the company. For directors appointed after 1 May 2004 the NZX Listing Rules require that the amount or method of calculation of any retirement benefit be authorised by shareholders.

In July 2004, the board resolved to pay Jon Hartley, formerly chairman of the company, a retirement allowance of $284,375. Mr Hartley had served on the board for eight years and this payment represented 8/9ths of the director's fees paid to Mr Hartley during the three years prior to his retirement on 31 March 2004.

The board has resolved that director retirement allowances will be discontinued as at 30 June 2004 and that retirement allowances accrued to that date will be frozen as to amount. Retirement allowances accrued up to 30 June 2004 will be payable upon the retirement of a director, provided that the director has served at least three years on the board. Retirement allowances accrued as at 30 June 2004 will not carry any interest entitlement between 1 July 2004 and the date of payment. The board will recommend to the annual meeting that the company's constitution is amended to provide that any resumption of retirement allowances in the future will require shareholder approval.

In order to reflect the remuneration value foregone as a result of the discontinuation of retirement allowances, the directors have resolved that, effective 1 July 2004, directors' fees should be increased by 23 per cent per annum. The new fees, effective 1 July 2004, are $80,000 for non-executive directors, $160,000 for the chairman of the board, and $12,500 for committee chairpersons. Allowing for the anticipated appointment of one additional non-executive director, the total fee structure has remained within the $600,000 total limit approved by shareholders at the 2003 annual meeting.

The board obtained independent confirmations from John Egan Associates of Sydney that the new level of fees for directors are fair and reasonable having regard to the current market practice for companies of similar size and complexity in Australasia and from Deloitte Corporate Finance Auckland that the 23 per cent adjustment to fees is an appropriate financial adjustment to compensate non-executive directors for the discontinuation of retirement allowances.

Directors' expenses reasonably incurred in carrying out their duties as directors are paid for by the company.

MANAGING DIRECTOR REMUNERATION

The Managing Director (Evan Davies) has an employment contract with SKYCITY which reflects standard conditions appropriate to a chief executive operating within the New Zealand business community. Under his contract, Mr Davies is paid a salary plus an annual performance-related incentive amount, as approved by the board.

The performance-related incentive is a variable amount and is determined with reference to the return on invested capital achieved by the company during the financial year and also various performance measures which are set by the board for each year, in consultation with Mr Davies. These measures include financial and strategic criteria set with reference to the company's business and strategic plans as well as qualitative criteria including corporate governance and leadership. Performance against these measures is assessed at the end of each year and payment of the amount so determined is made in cash. The maximum amount payable to Mr Davies as performance-related incentive is currently set at an amount equal to his fixed salary.

Mr Davies also has a long-term equity incentive, which has not yet vested, comprising 2,338,530 share options issued by the company under the terms of the Managing Director Share Option Plan, as approved by shareholders at the 2002 annual meeting. The options do not vest until 10 September 2005 and the exercise price escalates from the date of issue (10 September 2002) by an amount equal to the company's cost of equity less dividends paid and other returns to shareholders. In this way the options have no value unless the return to shareholders over the period since the date of issue has exceeded the return which shareholders should expect from their investment. The value of these options at the date of issue, as determined by the Black Scholes method of valuation, was $350,000 per annum for the three year period from 1 July 2002–30 June 2005.

Before setting the remuneration for the Managing Director, the board receives formal advice from one or more independent remuneration consultants with expertise in the Australasian listed company environment, to ensure that the remuneration is structured in a way which is fairly aligned with shareholders' interests and appropriately set having regard to the remuneration provided to senior executives in comparable companies in New Zealand and Australia.

SKYCITY EMPLOYEE REMUNERATION

The Governance and Remuneration Committee reviews employee remuneration strategy, policy, and practices. External advice from recognised remuneration consultants is regularly sought on best practice remuneration structure, market trends, and market rates.

The guiding principles that underpin SKYCITY's remuneration policies are:
– to be market competitive at all levels to ensure the company can attract and retain best possible talent

- to be performance-orientated so that remuneration practices recognise and reward high levels of performance and to avoid an "entitlement" culture
- to provide a significant "at risk" component of total remuneration which drives performance to achieve company goals and strategy
- to manage remuneration within levels of cost efficiency and affordability; and
- to align remuneration for senior executives with the interests of shareholders.

Processes and practices exist which ensure consistency throughout the SKYCITY Group in approach and implementation of remuneration policy.

All salaried roles within SKYCITY are job-sized using internationally recognised methodology to measure the impact, accountability, and complexity of each role as it contributes to the organisation. Advice is then sought as to remuneration ranges by job band or level being paid by the market to ensure competitiveness at both base and total remuneration levels. Individual remuneration is set within the appropriate range taking into account such things as individual capability, scarcity of resource, and specific business needs. This process ensures internal equity between roles and allows comparison with the overall market. Remuneration ranges are reviewed annually to reflect any market movements.

Every alternate year SKYCITY also engages an international remuneration consultancy to undertake a survey, with other companies considered appropriate as comparatives, to test senior executive remuneration levels specific to role to ensure further valid comparison data.

SKYCITY also participates in and accesses several recognised remuneration surveys each year to provide detailed information including both data and trends. These also assist SKYCITY in ensuring market competitiveness.

SKYCITY has a formal performance review process. Each year the company reviews its strategic plan and develops an annual operating plan. This cascades to each business and, in turn, to each function and each role. Formal goals are set for each salaried staff member as an individual performance plan to clarify expectations against which individual performance is assessed.

SKYCITY's commitment to paying for performance means that, along with taking market relativities into account, each person's remuneration is directly linked to the degree to which they have delivered the goals set out in their individual performance plan. Remuneration increases for the senior executive group are approved by the Governance and Remuneration Committee.

In addition to base salary, SKYCITY operates an at risk component of total remuneration for all salaried employees called Performance Pay Incentive (PPI). The amount of variable pay a person can receive varies according to the band or level at which their role is evaluated. To enable payment of any at risk incentive component, the business has to achieve minimum financial targets. If those targets are not met no bonus incentive is paid. In addition to overall financial achievement, all salaried staff have a number of individual targets that they must achieve which account for up to 50 per cent of their at risk remuneration. These goals reflect the key accountabilities each staff member has around a "balanced scorecard" concept. Payments under the PPI scheme have a minimum trigger point based on company financial targets and increase according to the degree by which the company over-achieves its financial targets. In this way the PPI incentive scheme links individual reward to business performance and shareholder interests. Staff who participate in the PPI scheme are paid 40 per cent in cash and 60 per cent in SKYCITY shares. The value of shares is determined by the closing price of SKYCITY shares on the NZX for the ten days following the announcement of the SKYCITY annual result. The shares components of the PPI bonus are issued in three equal tranches over a two year period.

SKYCITY also has an at risk incentive plan for waged staff called Customer Experience Incentive (CEI). This scheme reflects the company's commitment to providing outstanding experiences for customers. Waged staff can earn additional bonus remuneration depending on the achievement of financial targets and customer satisfaction targets based on focused surveys run by independent survey companies.

The PPI is only paid when the company's (or business unit's) Return on Investment Capital has exceeded (or is very close to) the pre-determined target(s) as set by the board (on the recommendation of the Governance and Remuneration Committee) at the start of the financial year. The CEI is only paid when the company's (or business unit's) pre-determined financial and customer service targets have been met.

The incentive schemes require that sufficient returns have been created during the period in order to cover the cost of bonuses paid, but also to ensure that the cost of such bonuses are only a proportion of the returns created. In this way, shareholders and employees share in the returns created, but employees only share in those returns (under the PPI/CEI schemes) when they have met the pre-determined financial and other thresholds.

During the 2003/04 year, a total of 830 SKYCITY salaried personnel received total PPI bonuses of $4.63 million (an average bonus payment of $5,604 per participant) and 1,617 waged employees received total CEI bonuses of $740,780 (an average bonus payment of $458 per participant).

Under the PPI, salaried personnel base bonuses range from 6.5 per cent to 30.0 per cent. The actual bonus amount can be zero or between 0.85 times and 1.50 times the base bonus percentage depending on company performance against target. Individual PPI bonus payments are then subject to performance against personal goals set at the beginning of the year.

Bonuses under the CEI range from $150 to $450 net after tax in any six-month period, depending on the number of hours worked in the six month periods ending 31 December and 30 June in each year.

In addition to the Managing Director Share Option plan referred to above, share options are issued to a group of approximately 30 senior executives on an annual basis. Options are issued as a long-term incentive to encourage retention and value creation. The Governance and Remuneration Committee reccomends the number of options to be granted to each executive to the board for approval. The number of options issued to an executive is determined based on an option valuation, independently calculated by Deloitte Corporate Finance using the Black-Scholes methodology.

The exercise price of executive share options is structured so that the employee benefits only if the total return received by the company's shareholders, measured as the combination of share price appreciation and dividends, exceeds the company's estimated cost of equity over the same period. The company's estimated cost of equity to be used in the calculation is equivalent to the market's return expectations for a company with the risk profile and prospects of SKYCITY Entertainment Group Limited.

The estimated cost of equity used to determine the exercise price is recalculated on an annual basis on the anniversary of the issue date of the option, to ensure that the performance target continues to reflect changes in market conditions.

The base exercise price for executive share options is the average closing price of SKYCITY shares on the NZX over the ten trading days following the release of the company's result for the financial year to 30 June to the New Zealand and Australian stock exchanges. The base exercise price, which is independently calculated, is escalated (on a daily basis) by the company's estimated cost of equity capital adjusted for dividends between the date the option was issued and its exercise date.

The executive share option plan is structured to align executive interests with shareholder interests and to motivate executives to drive company performance and to reward executives for their loyalty and commitment throughout a three year period.

Options issued under the SKYCITY Executive Share Option Plan, except in special circumstances, can not be exercised until three years from the date of issue. Options issued under the Plan lapse, if not exercised on the fifth anniversary of their date of issue.

The terms and conditions of the Executive Share Option Plan 2002 are essentially the same as the terms and conditions of the predecessor Plan, the Executive Share Option Plan 1999, which was approved by shareholders at the annual meeting of the company on 28 October 1999. The only significant change in the 2002 Plan, compared to the 1999 Plan, was that the period prior to being able to exercise an option was extended from one year to three years. The board undertook extensive research and obtained independent expert advice on longer-term incentive remuneration alternatives prior to approving the 2002 Executive Share Option Plan in August 2002.

INTERNAL AND EXTERNAL STAKEHOLDERS AND COMMUNITY RESPONSIBILITY

All SKYCITY personnel must comply with the company's Code of Business Practice which sets out how company personnel should undertake their business dealings, and the behaviours that are expected of them.

The company facilitates the effective exercise by shareholders of their rights as shareholders by taking steps to ensure information about the company is available to all shareholders by means of personal and/or website communication, and encouraging shareholders to attend general meetings of the company and making appropriate time available at such meetings for shareholders to ask questions of directors and management.

The company's auditor attends any general meetings of shareholders and is available to answer questions about the conduct of audits and the preparation and content of the audit reports.