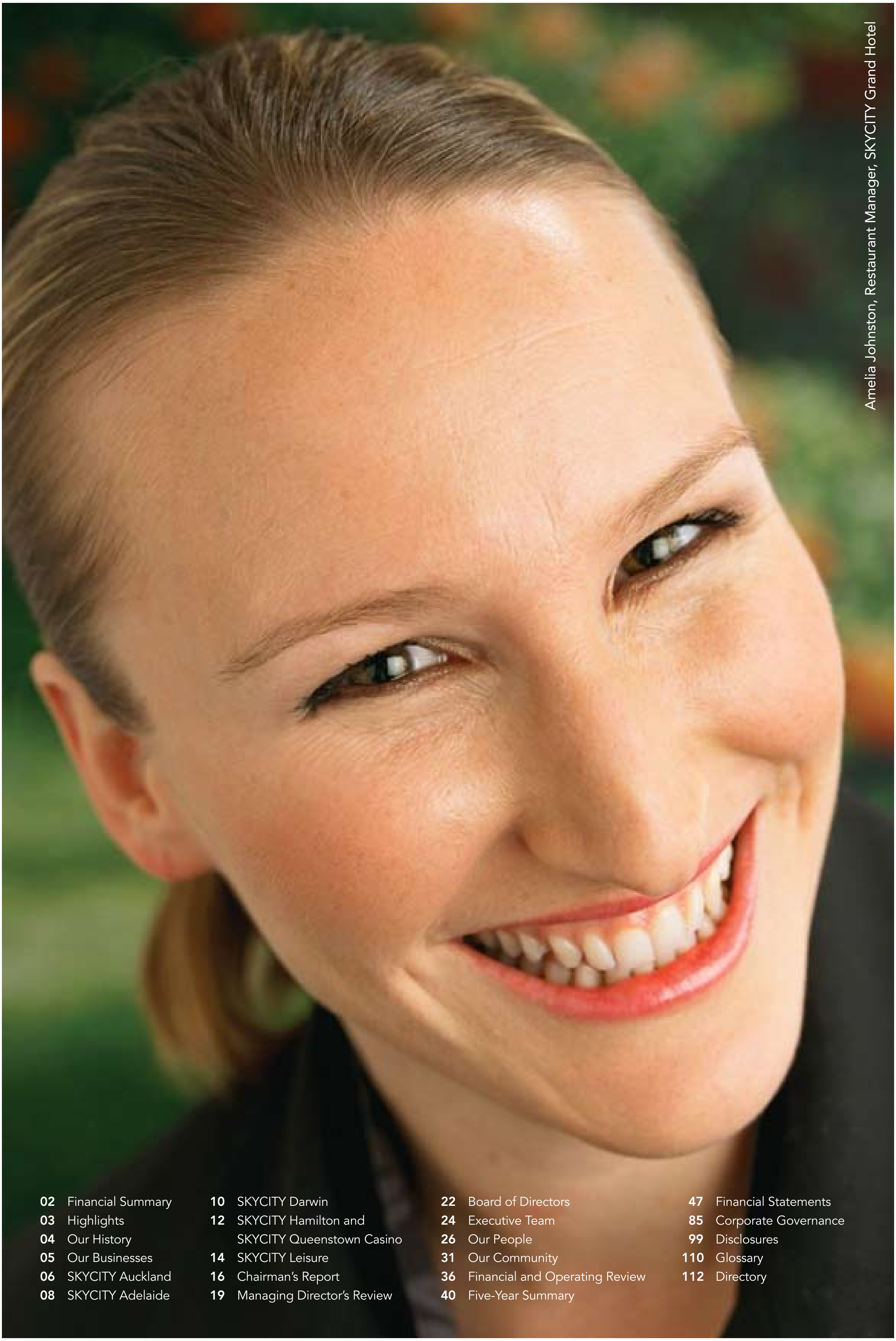
# BRIGHT LIGHTS...

SKYCITY
ENTERTAINMENT GROUP

SKYCITY Entertainment Group Limited Annual Report 2005



Amelia Johnston, Restaurant Manager, SKYCITY Grand Hotel

# BIG CITY.

WHATEVER. WHENEVER. We're here to entertain people. To give them a great time. To ensure that for the time they are with us, every experience is as exciting as possible. Partly that's about what we do. Mostly it's about the ways in which we do it. At SKYCITY, you can quite literally put a face to every experience. Because, no matter what you're doing while you're here, someone is personally responsible for ensuring you have the best fun doing it.

# SKYCITY FINANCIAL SUMMARY 2005

SKYCITY ENTERTAINMENT GROUP

| Years ended 30 June | 2005 | 2004 | Change (%) |
|---|---|---|---|
| Revenues | **$684m** | $594m | +15% |
| EBITDA[1] | **$286m** | $260m | +10% |
| Net surplus after tax | **$104.0m** | $100.2m | +4% |
| Earnings per share | **24.9cps** | 24.0cps | +4% |

[1] Earnings before interest, tax, depreciation and amortisation.

DIVIDEND

Total dividends paid for the 2004/05 year are 24.0 cents per share (fully imputed). The final 2004/05 dividend of 12.0 cents per share will be paid on 7 October 2005 to those shareholders on the SKYCITY register as at 5.00pm on 23 September 2005.

ANNUAL MEETING

The 2005 annual meeting of SKYCITY Entertainment Group Limited will be held in the New Zealand Room, SKYCITY Auckland Convention Centre, 88 Federal Street, Auckland on Friday 28 October 2005, commencing at 10.00am.

The notice of meeting, including the agenda, will be mailed to shareholders on 12 October 2005.

ANNUAL REPORT

The board of directors is pleased to present the annual report of SKYCITY Entertainment Group Limited for the year ended 30 June 2005.

For, and on behalf of, the board:

Rod McGeoch
CHAIRMAN
27 SEPTEMBER 2005

Evan Davies
MANAGING DIRECTOR

Current and historical financial information, governance statements, news releases and other corporate information are available online at www.skycitygroup.co.nz

SKYCITY ENTERTAINMENT GROUP GOALS | 2004/05 HIGHLIGHTS

## Customers

Focus the business on customer segments that will drive revenue that translates into profitable growth

+ Strong Auckland Convention Centre performance generated additional visitation to main site facilities
+ Positive early customer reaction to A$21m first stage Adelaide redevelopment
+ Smoking bans proactively addressed in New Zealand through smoking decks and a customer and staff information campaign
+ Introduction of VIP/commission play in Darwin
+ Customer loyalty programme 'Action' introduced in Darwin

## Experiences

Develop distinctive propositions creating fun and entertainment to attract key customer segments

+ 'North' restaurant, two new bars, private dining areas and state-of-the-art gaming facilities open in Adelaide
+ Opening of five-star SKYCITY Grand Hotel and restaurant, 'dine by Peter Gordon', in Auckland
+ Completion of three VIP/premium gaming facilities in Auckland
+ Redevelopment of Darwin property entrance and addition of 10 premium hotel rooms
+ Refurbishment of Queenstown's 'Wild Thyme' bar and restaurant and Stratton House atrium/entrance

## People

Develop our people to deliver exceptional customer entertainment experiences

+ 'Great Service' customer training programme rolled out across Auckland and Queenstown
+ Successful recruitment of 250 staff for Adelaide's new facilities and 160 for Auckland's Grand Hotel
+ Apprentice chef programmes in place at Adelaide and Auckland
+ Adelaide dealer Jenni Evans ranked third in world champs and named 'Australasian Dealer of the Year'
+ Bonus plans to motivate staff to drive great customer service and to reward exceptional performance

## Reputation

Create a diversified and reputable gaming and entertainment franchise

+ Named 'Trans-Tasman Business of the Year' in March 2005
+ First contributions from SKYCITY Darwin and Christchurch Casino
+ 100% purchase of Hamilton completed
+ New multiplex cinema developments planned for Albany, Manukau, Hamilton and Wellington
+ New Adelaide Cup, Adelaide Film Festival and Darwin V8 Supercar Championship sponsorships

## Resources

Focus on systems/knowledge that support the delivery of exceptional customer experiences

+ PeopleSoft enterprise application software introduced across the Group
+ Gaming machine ticket in/ticket out facility 'Quick Ticket' introduced in Auckland
+ Dedicated host responsibility co-ordinators established in Adelaide
+ SKYCITY's 'Responsible Service of Alcohol Model' incorporated into ALAC's national guidelines for licensed premises
+ Micros 9700 Hospitality Management system introduced in Adelaide

# OUR HISTORY

## 1994

+ Construction of SKYCITY Auckland commences

## 1995

+ SKYCITY job expo attracts 18,000 people

## 1996

+ SKYCITY Auckland opens
+ SKYCITY lists on the New Zealand Stock Exchange

## 1997

+ Sky Tower opens

## 1998

+ SKYCITY becomes a New Zealand-managed operation

## 1999

+ SKYCITY lists on the Australian Stock Exchange

## 2000

+ SKYCITY Adelaide acquired
+ SKYCITY Queenstown Casino opens
+ Managing Director Evan Davies named 'New Zealand Executive of the Year'

## 2001

+ SKYCITY Auckland named 'Supreme Award Winner', New Zealand Tourism Awards
+ Acquisition of majority shareholding in Force Corporation (subsequently renamed SKYCITY Leisure)
+ SKYCITY Entertainment Group named 'New Zealand Company of the Year'

## 2002

+ SKYCITY Hamilton opens
+ SKYCITY's 'Action' loyalty programme wins international excellence award at the 2002 US National Centre for Database Marketing Awards

## 2003

+ First joint-branded Village SKYCITY Cinema opens in Auckland
+ Sky Tower named 'New Zealand's Leading Visitor Attraction' at the New Zealand Tourism Awards

## 2004

+ SKYCITY Darwin acquired
+ 40.5% shareholding in Christchurch Casino acquired
+ Increase to 70% shareholding in SKYCITY Hamilton
+ Full acquisition of SKYCITY Leisure Limited
+ SKYCITY Auckland Convention Centre opens
+ SKYCITY Entertainment Group Limited wins PricewaterhouseCoopers Corporate Value Award

## 2005

+ Five-star SKYCITY Grand Hotel opens in Auckland
+ First stage of SKYCITY Adelaide redevelopment opens
+ Full acquisition of SKYCITY Hamilton
+ SKYCITY named 'Trans-Tasman Business of the Year'

## 2006

+ SKYCITY will celebrate 10 years since the opening of SKYCITY Auckland

# OUR BUSINESSES

## SKYCITY Auckland (100%)*

Large entertainment, casino and hospitality complex prominently located in the CBD of New Zealand's largest city

+ Gaming: 110 gaming tables, 1,647 gaming machines and 3 members' rooms
+ Restaurants, bars and cafes: 17
+ Accommodation: 344 room 4+ star hotel and 316 room 5-star hotel
+ Conventions: 21 function rooms catering for up to 4,000

## SKYCITY Queenstown Casino (60%)*

Boutique casino and restaurant in New Zealand's premium alpine location

+ Gaming: 12 gaming tables, 86 gaming machines and VIP members' room
+ Restaurants, bars and cafes: 1
+ SKYCITY operates the Queenstown facility under a management contract

## SKYCITY Adelaide (100%)*

Large entertainment, casino and hospitality complex centrally located in Australia's fifth-largest city

+ Gaming: 87 gaming tables, 900 gaming machines and VIP members' room
+ Restaurants, bars and cafes: 9

## Christchurch Casino (40.5%)*

Mid-sized casino operation centrally located in New Zealand's second-largest city

+ Gaming: 35 gaming tables, 500 gaming machines
+ Restaurants, bars and cafes: 5
+ Adjacent to 298 room Crowne Plaza Hotel in which Christchurch Casino has a 32% shareholding
+ Christchurch Casinos Limited has a 33% shareholding in Dunedin Casino

## SKYCITY Darwin (100%)*

Mid-sized casino and hospitality complex located beachside within 5 minutes of the CBD

+ Gaming: 26 gaming tables, 505 gaming machines and 50 NT Keno venues
+ Restaurants, bars and cafes: 9
+ Accommodation: 117 room 5-star hotel
+ Conventions: 3 function rooms and unique outdoor venue 'The Lawns' which can cater for up to 5,000

## SKYCITY Leisure (100%)*

Cinema exhibition company operating the Village SKYCITY Cinemas joint venture and SKYCITY Cinemas

+ Cinemas: 93 cinema screens in New Zealand and 10 screens in Fiji
+ SKYCITY Metro Entertainment Centre in central Auckland (13 cinema screens within retail and entertainment complex)

## SKYCITY Hamilton (100%)*

Mid-sized entertainment and casino complex in New Zealand's fourth-largest city

+ Gaming: 23 gaming tables, 339 gaming machines and members' room
+ Restaurants, bars and cafes: 2
+ Conventions: 2 function rooms catering for up to 400

** shows percentage ownership*

# SKYCITY Auckland

Jeremy Wilson CHIEF CONCIERGE, SKYCITY HOTEL AUCKLAND


Revenue at SKYCITY Auckland was up 3% during 2004/05. Star performers included the Convention Centre, which hosted 525 events and 88,000 people during the year and brought new customers to our hotels, restaurants, bars and casinos. 'dine by Peter Gordon' has quickly established a reputation as one of New Zealand's premier dining experiences.


Jonathan Richards BAR PORTER, SKYCITY ADELAIDE


SKYCITY Adelaide had a challenging year financially, yet looks forward to a promising future. Customers have responded positively to the A$21m redevelopment, which delivers on SKYCITY's broad-based entertainment strategy and has created 250 new jobs. SKYCITY Adelaide now boasts a new entrance that enhances the heritage features of the iconic Adelaide Railway Station, a family-friendly restaurant called 'North', two new bars, private dining areas and state-of-the-art gaming facilities.

# SKYCITY Darwin

Anne Nguyen-Huyen BANQUET SALES EXECUTIVE, SKYCITY DARWIN


SKYCITY Darwin had a strong first year under SKYCITY management, with earnings ahead of pre-acquisition expectations. Changes at the property included an enhanced entrance-way, 10 new premium hotel rooms and a 10% increase in the number of gaming machines. Other highlights included securing the naming rights to the Darwin V8 Supercar Championship and industry awards for Evoo Restaurant and the convention facilities.

# SKYCITY Hamilton and SKYCITY Queenstown Casino

Rebekah Taylor DEALER/SUPERVISOR, SKYCITY HAMILTON

Brendon Roy SECURITY AND SURVEILLANCE SHIFT MANAGER, SKYCITY HAMILTON


Both SKYCITY Hamilton and SKYCITY Queenstown Casino had a solid year during 2004/05. Highlights for Hamilton included assuming full ownership of SKYCITY Hamilton, enhancements to the gaming floor, and the purchase of retail space in the Riverside Entertainment Centre. In Queenstown, customers responded well to new gaming machine products and a refurbishment of 'Wild Thyme' restaurant and bar.


David Tupou FOOD BOULEVARD MANAGER, SKYCITY METRO

Rachel Eriksen ADMINISTRATIVE ASSISTANT, SKYCITY METRO


Earnings for our cinema exhibition business, SKYCITY Leisure, were steady despite a lack of high-performing box-office movies. Highlights included high lease occupancy at SKYCITY Metro and the announcement of plans to develop new Village SKYCITY multiplexes in Albany, Manukau, Hamilton and Wellington. With 'King Kong', 'Harry Potter' and the 'The Lion, the Witch and the Wardrobe' scheduled for pre-Christmas 2005 releases, a stronger 2005/06 cinema season is anticipated.

# ENTERTAINMENT IS ALL ABOUT PERFORMANCE

ROD McGEOCH, CHAIRMAN

The 2004/05 financial year has been a period of both development and consolidation for SKYCITY. Earnings were impacted by a number of external pressures imposed by smoking bans and restrictions in New Zealand and South Australia, and from more complex regulatory requirements in New Zealand.

The company has added significantly to its asset base with the completion of a number of development projects commenced in the previous financial year. Some of these assets, such as SKYCITY Darwin, have made an immediate contribution to earnings and others, such as the new SKYCITY Grand Hotel in Auckland, will build revenues over time.

Because the investment programme has been fully debt-funded, the company has incurred higher servicing costs relating to the carrying cost of the new assets, with increases in interest and depreciation costs offsetting the new revenue streams. It will take a number of years to achieve the full payback on the capital which has been invested during the last 18 months, but the board is pleased to have been able to grow and diversify the business base without dilution of existing shareholder equity.

The 2004/05 year proved a difficult period for the company. In particular, various regulatory changes, including smoking bans and restrictions in New Zealand and South Australia, have imposed a range of pressures on the business. On behalf of the board and shareholders, I would like to congratulate the company's employees for their commitment and willingness to embrace the new challenges and to adapt to the new circumstances. Shareholders can be assured that the company has been fully committed to dealing as effectively as possible with the various challenges as they have arisen. The earnings result for 2004/05, while lower than underlying earnings produced in the 2003/04 year, nevertheless reflects the determination by the company and its people to continue to deliver an appropriate return on the capital invested in this business.

Evan Davies, SKYCITY's Managing Director, outlines the key elements of SKYCITY's 2004/05 financial year performance in his Managing Director's Review on pages 19-21 of this annual report and details of the result are included in the Financial and Operating Review on pages 36-39.

## Corporate Governance

Corporate governance has become a focus for all publicly-listed companies in recent times, but SKYCITY has always had a strong commitment to governance best practice.

SKYCITY has an excellent record of compliance with gaming rules and procedures, liquor licensing requirements and the monitoring of financial transactions. In addition, SKYCITY has an extensive programme in place to manage and mitigate business risk and ensure business continuity, to maintain a robust and effective internal control environment, and to ensure that the corporate governance principles of the New Zealand and Australian stock exchanges which are incorporated into the company's charter, are complied with.

A company charter is not effective if it is simply a paper document. In this regard, the board of SKYCITY is active in ensuring that the charter is well understood by the directors and within the company, is complied with at all times, and facilitates the company's business activities.

Corporate governance at SKYCITY is described in more detail on pages 85-98 of this annual report.

## Harm Minimisation

At SKYCITY, governance includes host responsibility and harm minimisation and the company, at all levels, has always adopted a proactive approach in these important areas.

Over the years, SKYCITY has established effective and co-operative working relationships with problem gambling service providers, alcohol advisory and other community agencies. Many of the company's industry-leading host responsibility and harm minimisation initiatives have been researched and implemented in conjunction with the various community agencies which are active in this field.

The Gambling Act 2003 (New Zealand) requires that any new gaming initiative is considered in the context of potential to cause harm. SKYCITY is supportive of the harm minimisation focus of the Gambling Act and this is consistent with the company's approach to gaming activities since it commenced operations in 1996. However, we believe that the mechanisms adopted need to be well targeted to be effective.

SKYCITY strongly favours the collaborative approach to the complex issue of harm minimisation that has been adopted in Queensland and more recently in South Australia. In these states, the regulators, service providers and operators have combined their expertise and experience to develop an appropriate set of protocols and procedures that are well considered and well targeted in terms of mitigating risk of harm, whilst at the same time avoid unnecessary disruption to the majority of customers. We have not yet achieved that combination of experience and knowledge in New Zealand. We would welcome an inclusive approach by regulators to the protocols and procedures which need to be developed in order to give best effect to the intentions of the Gambling Act.

In South Australia, good progress has been made in development of the Codes of Practice as a consequence of service providers and operators working together with regulators to develop an agreed approach to harm management and host responsibility.

In the Northern Territory, SKYCITY Darwin enjoys an excellent working relationship with the regulatory agencies. This relationship is conducive to the development of effective practices and protocols for the benefit of all customers.

SKYCITY has always been aware that, for a small percentage of the population, gaming can create risk and that protection mechanisms need to be in place for this group of people. At the same time, the company has also been mindful that, for the great majority of people, gaming is an enjoyable activity which they can manage effectively at their own discretion.

The intentions of the new gaming legislation align with the company's own philosophies. However, the point of difference at the current stage of the new regulatory environment in New Zealand relates to how these commonly-held intentions can be most effectively implemented. Implementation measures should take account of the need to protect the interests of the at-risk group while, at the same time, minimising the number of restrictions to be imposed on the large number of customers who enjoy and can manage their own gaming experience.

## Board of Directors

In October last year, the directors welcomed Rob McLeod to the board and also to the Audit and Risk Committee. Rob has made an excellent contribution to board stewardship during his first year as a director and we look forward to his continuing involvement in the future.

Patsy Reddy and Bill Trotter retire by rotation at this year's annual meeting and have offered themselves for re-election. SKYCITY's board charter requires that, where a director has completed two terms in office since they were first appointed by shareholders, they must be formally invited by the board to stand again for re-election. The directors confirm that Ms Reddy and Mr Trotter continue to contribute effectively and independently to the stewardship of the company's affairs and the board is fully supportive of Ms Reddy and Mr Trotter standing for re-election at this year's annual meeting in October.

The board, at its August 2005 meeting, reviewed the independence status of its directors and confirmed that each non-executive director is independent in accordance with the company's definition of independence which is set out in the board charter. The independence of directors is further detailed on page 88 of the Corporate Governance section of this annual report.

## Accounting and Reporting

SKYCITY has adopted the new International Financial Reporting Standards (IFRS) for its 2005/06 financial year. The company's first set of IFRS financial statements will be for the half-year ending 31 December 2005. While there will inevitably be some complexities for readers of financial statements during the transition period from one basis of reporting to another, SKYCITY has advised that it does not anticipate any significant impact on its reported profits as a consequence of the change to the IFRS basis of accounting.

## Looking Ahead

The board expects that 2005/06 will be a year of consolidation for SKYCITY as regulatory issues are worked through and the non-smoking legislation continues to impact on the New Zealand businesses.

The board is mindful that the company must be fully resourced to optimise its position in respect of the various challenges that will continue to confront the business during the coming year, and is actively engaged with the senior executive in this regard.

In accordance with the policy adopted since listing in 1996, the directors have maintained a 90% dividend payout ratio for the 2004/05 year. It remains the board's priority to ensure that shareholder expectations for capital growth and dividend return continue to be met into the future.

## Annual Meeting

The directors look forward to meeting with shareholders at the company's annual meeting to be held at the SKYCITY Auckland Convention Centre on 28 October 2005.

Rod McGeoch
CHAIRMAN

# SERIOUSLY ENTERTAINING

EVAN DAVIES, MANAGING DIRECTOR

SKYCITY's 2004/05 financial year was dominated by a number of external influences on the business and the addition of a number of new earnings streams to the overall gaming and entertainment mix.

Operating earnings (as measured by earnings before interest, tax, depreciation and amortisation: EBITDA) were up 10% at $286 million. However, the additional depreciation and interest costs associated with the new invested capital base reduced the net pre-tax surplus from $163 million (before non-recurring item) in 2003/04, to $142 million in 2004/05.

Costs associated with the new invested capital apply immediately, while a number of the revenue elements will take some time to develop. The 2004/05 SKYCITY result reflects this timing aspect of up-front investment followed by increased returns building over a period of time.

The key influencing factors on SKYCITY's 2004/05 performance were:

+ Imposition of smoking bans in New Zealand from December 2004
+ Imposition of partial smoking restrictions in Adelaide from December 2004
+ $20 note acceptor limitation in New Zealand from March 2004
+ Extended delay in achieving 'Quick Ticket' functionality at SKYCITY Auckland
+ Delay in completion of the stage 1 redevelopment at SKYCITY Adelaide

+ New additions to the earnings mix from SKYCITY Darwin, an increased shareholding and therefore an increased earnings share in SKYCITY Leisure and SKYCITY Hamilton, a new shareholding position in Christchurch Casino (40.5%), and new revenues from the Convention Centre and the new members' facilities at SKYCITY Auckland
+ Two quite different experiences in Australia with SKYCITY Adelaide producing a disappointing second-half result but SKYCITY Darwin producing a strong result for the year which was well ahead of pre-acquisition expectations
+ Increased asset carrying costs (depreciation and interest) associated with expansion of the company's invested capital base.

## Smoking Bans in New Zealand

The prohibition in New Zealand on smoking in all indoor areas to which there is public access, applied from 10 December 2004. This, as expected, has had a significantly adverse impact on the revenues of many New Zealand business operations, particularly in the hospitality and entertainment sectors.

As advised in SKYCITY's May earnings guidance, the impact of smoking bans has been somewhat greater, and the recovery/abatement period is expected to be more extended, than was projected prior to the bans being imposed. There was good reason to expect that the effect of smoking bans in New Zealand would be less extensive and less prolonged than was the case in Australia, but it now appears likely that the scale and duration of the impact could be similar.

SKYCITY's assessment that the impact of smoking bans in New Zealand might be less than in Australia was based on the fact that there was a 12-month notice period in New Zealand prior to imposition and there was already a more extensive requirement for smoke-free facilities in New Zealand than was the case in Australia.

SKYCITY took good advantage of the 12-month lead time. The company established outdoor deck/balcony facilities for smoking customers at each of its New Zealand properties and took other proactive measures including staff training and customer assistance, for the introduction of the bans in December 2004.

Our current expectation is that the impact of smoking bans will abate slowly during the 2005/06 financial year with minimal residual impact prevailing into the 2006/07 financial year.

## Smoking Restrictions in Adelaide

Smoking within one metre of a serviced workspace was prohibited in South Australia from 6 December 2004, meaning that table games players could not smoke at a gaming table from that date.

While it is always difficult to isolate individual cause-and-effect relationships within an overall financial outcome, it is nevertheless clear that the introduction of these restrictions had a material impact on table games revenues at SKYCITY Adelaide during the second half of the 2004/05 year.

Full smoking bans apply in South Australia from October 2007 and there seems to be no reason to expect that the South Australian experience will be significantly different for hospitality and entertainment venues than has occurred in other locations.

## $20 Note Acceptor Limitation in New Zealand

The Gambling Act 2003 included provision limiting note acceptors on New Zealand gaming machines to a maximum denomination of $20 from March 2004. This had a significant impact on gaming machine play in the period immediately following introduction and that impact continued through the 2004/05 year, gradually abating as the year progressed and as customers became more acclimatised to the restriction.

As a consequence, gaming machine revenues in New Zealand reduced, but with a gradual recovery becoming evident during the second half of the 2004/05 year. There will inevitably be an ongoing residual impact of the $20 note acceptor limitation, but that impact is expected to be less significant in 2005/06 than was the case in the latter part of 2003/04 and during 2004/05.

## Ticket Technology

Following an extended and comprehensive process, the Casino Control Authority approved the use of ticket technology in June 2004 for a restricted number of machines (300 out of 1,647 machines) at SKYCITY Auckland, for play at 20 cent denominations and above. The objective of ticket technology is to improve the convenience for higher-end players who represent a significant proportion of SKYCITY's gaming machine revenue mix.

Installation of the technology and associated systems proved problematic, resulting in a delay in the effective operation of the new feature for a period of eight months – from September 2004 until May 2005.

We were pleased to report, in conjunction with the SKYCITY result announcement in August, that ticket technology is now functioning well and is generating a positive response from customers at the higher end of our player market.

## Stage 1 Adelaide Redevelopment

Stage 1 of the Adelaide redevelopment project was scheduled to be complete and open to customers by March 2005. However, delays associated with the heritage status of the building meant that the new facilities (200-seat brasserie-style restaurant, new street-front bar and new gaming area) were not revenue-generating until early June 2005.

The SKYCITY Adelaide facility requires renewal in order to grow revenues and earnings and to reposition the venue as an attractive and convenient gaming and entertainment destination for customers. The first stage (now completed) is the initial step in that direction.

The delays were disappointing but, following their opening on 6 June 2005, the new facilities are ready to provide a refreshed earnings impetus for a full 12 months in the 2005/06 year.

## New Investments and Facilities

SKYCITY Darwin provided 49 weeks of revenues and earnings during the 2004/05 year, delivering a strong return on investment in the first year of SKYCITY ownership. The result represents a highly favourable 6.5 times EBITDA multiplier for the acquisition, and a pre-tax return on investment in excess of 12%.

In July 2004, SKYCITY completed the full takeover of SKYCITY Leisure Limited, moving from a 74% equity position to 100%. As a consequence, SKYCITY's 2004/05 result reflects an increased share of the earnings from SKYCITY Leisure's cinema exhibition operations.

In July 2004, SKYCITY increased its shareholding in SKYCITY Hamilton from 55% to 70% and on 30 June 2005 moved to 100% ownership. The 15% increased share of Hamilton earnings is reflected in the 2004/05 result, with the additional 30% share to be reflected in 2005/06.

Stage 1 of the Adelaide redevelopment programme is referred to in the previous section of this review.

Other new facilities introduced during the 2004/05 financial year were the SKYCITY Auckland Convention Centre, the 316-room, 5-star SKYCITY Grand Hotel in Auckland, and the new members' playing facilities at SKYCITY Auckland which were introduced progressively during the year. The new Pacific Room for local VIP players opened in December 2004, the refurbished International Room (for international VIP player groups) opened in March 2005 and the new Platinum Room for higher-end machine players opened in July 2005. We look forward to a full 12 months of operations in the new premium player facilities in 2005/06.

An additional 10 hotel rooms were added to the SKYCITY Darwin property during the year, taking the total number of rooms up to 117.

Convenient carparking facilities are of fundamental importance to entertainment facilities and SKYCITY looks forward to receiving the necessary consents for its carpark development in Adelaide. We are pleased to report that potential pressure on carparking capacity at SKYCITY Auckland has been addressed, with the acquisition of two properties which will provide additional capacity of up to 900 spaces.

## Interest and Depreciation

Group earnings before interest, depreciation and tax were up 10% on prior year with the new assets and investments contributing to that outcome. The immediate impact of higher interest and depreciation costs will be steadily offset by increased earnings from the new assets and investments, some of which will take some time to develop rather than being realised immediately. This timing differential had a significant impact on Group bottom line earnings for the 2004/05 year.

## Our People

It is our people who provide the SKYCITY experience. Whether in the tropics of Darwin, or the icy climes of Queenstown, our people are the face of SKYCITY.

This year's annual report profiles SKYCITY's executive team on pages 24-25. Several of our senior managers have been with the company since establishment in 1996. They combine their knowledge of SKYCITY's operations with the skills and experience of managers who have joined the team in the intervening period.

Our employee incentive remuneration schemes which have been in place since 1999 continue to prove effective in motivating both our wage-earner and salaried personnel to achieve their individual objectives as well as the company's objectives during each financial year.

## Our Communities

SKYCITY is proud of its ongoing commitment and contribution to the communities in which it operates. During 2004/05, SKYCITY contributed more than $2.8 million in charitable donations and more than $1.9 million in sponsorship support.

One of SKYCITY's primary objectives is to be a cornerstone enterprise in the communities in which we operate, in terms of employment opportunity, tourism development, community support and host responsibility. We see this community role as being totally consistent with the company's financial and governance responsibilities on behalf of our 25,000 shareholders.

We trust that you will find this annual report an interesting and informative outline of the company's activities during the 2004/05 financial year.

To obtain further information, please visit our website at www.skycitygroup.co.nz or email us at sceginfo@skycity.co.nz

Evan Davies
MANAGING DIRECTOR

# Board of Directors

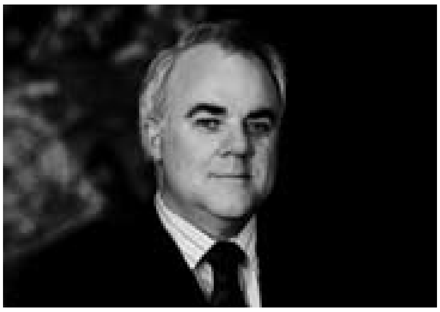
The SKYCITY board of directors is responsible for stewardship of the company's assets and investments. The board has a comprehensive set of governance procedures in place to ensure that the interests of stakeholders are met and that the company's responsibilities to internal and external stakeholders are fully complied with at all times.

The board currently comprises six non-executive directors and one executive director. The chairpersons of the board and the board committees are non-executive directors, according to the requirements of the board charter. Patsy Reddy and Bill Trotter, current directors of the company, retire by rotation at the 2005 annual meeting and offer themselves for re-election. During the 2004/05 year, the board formally met on seven occasions. The board's Audit and Risk Committee met four times, the Governance and Remuneration Committee met four times and the Nomination Committee met on one occasion. In addition, the directors held a number of meetings (by teleconference) on an as-required basis to consider a range of specific issues.

### ROD McGEOCH

Chairman

Rod McGeoch was appointed a director in September 2002 and Chairman of the company on 1 April 2004. Based in Sydney, Australia, Mr McGeoch is a director of Gulliver's Travel Group Limited, LIPA Pharmaceuticals Limited, Telecom Corporation of New Zealand Limited, Ramsay Health Care Limited and Frontiers Group Limited. He is chairman of Pacific Healthcare Limited and Saatchi & Saatchi's Trans-Tasman Advisory Board. Mr McGeoch is an Australian Prime Ministerial appointment to the Australia and New Zealand Leadership Forum.



### EVAN DAVIES

Managing Director

Evan Davies has been Managing Director of SKYCITY Entertainment Group Limited since February 1996. Mr Davies is an executive director and is also a director of SKYCITY subsidiary companies, including Queenstown Casinos Limited, and is a director of Christchurch Casinos Limited. He is a trustee of the Anglican Trust for Women and Children and the Melanesian Mission Trust.

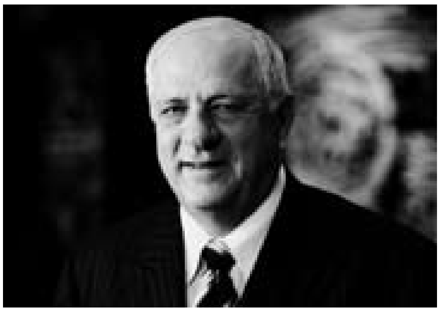
## PATSY REDDY

Deputy Chairperson

Patsy Reddy has been a director since 1994. She is Deputy Chairperson of the board and chairs the Governance and Remuneration Committee. Ms Reddy is also a non-executive director of Telecom Corporation of New Zealand Limited and Active Equities Limited and is a member of NZX Discipline. She is a trustee of the New Zealand International Festival of the Arts, the Victoria University of Wellington Art Collection Trust, the SKYCITY Auckland Community Trust and a member of the Adam Art Gallery Advisory Board.

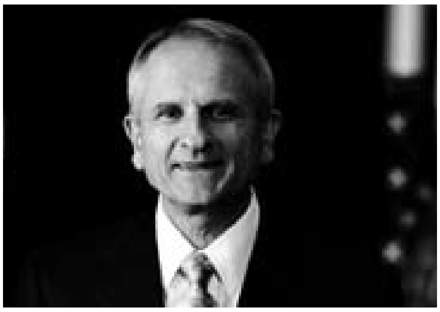
## ROB McLEOD

Rob McLeod was appointed a director in October 2004. He is chairman of the New Zealand Business Roundtable and has been a councillor and member of the Executive Board of the Institute of Chartered Accountants of New Zealand. Mr McLeod is a director of Aotearoa Fisheries Limited, ANZ National Bank Limited, Gulliver's Travel Group Limited, Telecom Corporation of New Zealand Limited and Tainui Group Holdings. He is a member of the Audit and Risk Committee.



## SIR DRYDEN SPRING

Sir Dryden Spring was appointed a director on 30 October 2003 and is chairman of the Audit and Risk Committee. He is chairman of the Asia 2000 Foundation of New Zealand and the New Zealand APEC Business Advisory Council. He is a director of ANZ National Bank Limited and certain subsidiaries, Fletcher Building Limited and Port of Tauranga. Sir Dryden is also a trustee of the New Zealand Business and Parliamentary Trust.



## ELMAR TOIME

Elmar Toime was appointed a director in February 1996 and is a member of the SKYCITY Audit and Risk Committee. Mr Toime is an independent consultant to the postal and mail sector in the UK and Europe. Formerly chief executive officer of New Zealand Post Limited, he has been based in London since March 2003.

## BILL TROTTER

Bill Trotter was appointed to the SKYCITY board in March 2000 and is a member of SKYCITY's Governance and Remuneration Committee. Mr Trotter is Executive Chairman of First NZ Capital Group Limited.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# Executive Team

## 1 KEVIN BREWER

General Manager Leisure Investments

Kevin Brewer joined SKYCITY as General Manager Leisure Investments in October 2000. He is responsible for the company's cinema business, SKYCITY Leisure, as well as business development and acquisitions. Kevin's previous roles include director of finance and operations at Wendy's Old Fashioned Hamburgers and associate director with Bancorp merchant bankers.

## 2 GILLIAN GIBSON

General Manager Group Human Resources

Gillian Gibson was appointed General Manager Group Human Resources in September 2005, having been associated with Human Resources at SKYCITY since 1998, most recently as General Manager of Human Resources for the New Zealand business. Gillian has previously held senior human resources roles with Telecom New Zealand, Lion Nathan and KFC.

## 3 DAVID KENNEDY

General Manager Public Policy and Corporate Strategy

David Kennedy is responsible for SKYCITY's public policy positions and corporate strategy. He joined SKYCITY in 2000 as General Manager – Group Operations. David was previously CEO of publicly listed property company, St Lukes Group. He has also held a number of senior operational and strategic roles with Westfield.

## 4 DAVID LILLY

General Manager Group Finance

David Lilly joined SKYCITY in January 2002 and is responsible for financial management (including treasury and taxation) and information services for the Group. He has previously held CFO roles at Clear Communications and Heinz Wattie's.

## 5 BRYCE MORRIN

General Manager Capital Projects

Bryce Morrin has been responsible for overseeing the design and managing the construction of SKYCITY's major capital projects in New Zealand and Australia since 1994. Previously a self-employed property consultant, Bryce was also an executive with Brierley Properties.

## 6 ALISTAIR RYAN

General Manager Corporate and Company Secretary

Alistair Ryan is responsible for investor relations, stock exchange and equity-related matters, internal audit and control, and insurance and risk management. Alistair is Company Secretary for SKYCITY Entertainment Group Limited, and a director of Christchurch Casinos Limited, Queenstown Casinos Limited and other SKYCITY subsidiary companies. Prior to joining SKYCITY in 1995, Alistair was a financial services partner with international accounting firm, Ernst & Young.

## 7 HEATHER SHOTTER

General Manager Group Marketing and New Zealand Operations

Heather Shotter has held several senior management positions since joining SKYCITY in 1994. She is currently responsible for SKYCITY's New Zealand business operations, and for the marketing, sales, communications and business planning functions across the Group. Prior to joining SKYCITY, Heather held a number of corporate roles at Telecom New Zealand and Shell Oil New Zealand.

## 8 MICHAEL SILBERLING

General Manager Australian Operations

Appointed in April 2004, Michael Silberling is responsible for the SKYCITY Adelaide and SKYCITY Darwin operations. He has held a number of senior positions in management, finance and operations with American gaming company Harrah's Entertainment, his most recent role being Senior Vice-President and General Manager for Harrah's Reno, Nevada complex.

## 9 PETER TREACY

General Manager Group Regulation and Legal

Peter Treacy was appointed in July 2005 and is responsible for SKYCITY's legal and regulatory affairs. Peter has extensive experience in major international financing and corporate transactions, having spent the previous 16 years, including eight as partner, with international law firm Linklaters in London, Hong Kong and, most recently, Bangkok.

## EVAN DAVIES

Managing Director

Evan Davies has led the SKYCITY executive team as Managing Director since February 1996. Formerly SKYCITY Project Director for Brierley Properties, Evan was responsible for managing the SKYCITY Auckland casino licence application process and complex construction. (See page 22 for photograph).

# OUR PEOPLE

"Every day, all day, the fun of SKYCITY is brought to life by our people."

EVAN DAVIES – MANAGING DIRECTOR

SKYCITY has developed a reputation as an exciting, fun place to work, with great opportunities for career development.

The company has a range of strategies and plans in place to attract and retain the right people in what is a rapidly changing and competitive employment market, especially in New Zealand.

A priority during 2004/05 was a company reorganisation to lift capability and increase accountability and ownership of results. Significant recruitment exercises were also successfully undertaken for the opening of the redeveloped SKYCITY Adelaide complex, which created 250 new jobs, and the SKYCITY Grand Hotel in Auckland.

Key 2005/06 initiatives include:

+ Establishment of e-performance and e-recruitment systems
+ Developing the pool of leaders within the company through leadership training programmes and coaching
+ Programmes to lift employee engagement and satisfaction, including a review of SKYCITY's group-wide annual staff satisfaction survey and action planning process
+ Enhancing the customer service ethic across the business, including the ongoing implementation of the staff training programme 'Great Service'.

## Gearing up for the Future

Over the last 18 months SKYCITY has undertaken a broad-reaching organisational restructure, designed to align internal capability with the company's growth objectives.

Major factors influencing the changes included the acquisition of SKYCITY Darwin, and the opening of the SKYCITY Auckland Convention Centre and Grand Hotel.

Reflecting our expanded presence in Australia, the position of General Manager Australian Operations was created to oversee SKYCITY Adelaide and SKYCITY Darwin.

In New Zealand, operations and marketing team structures have been integrated and flattened, resulting in better alignment, efficiencies and improved information sharing.

A new operational model for SKYCITY Auckland's gaming management and supervisory structure has also been implemented. The changes have enabled an increased focus on customers and people, improved commercial awareness and competency across the business, and reduced operating costs.

"We've created a flatter organisational structure, bringing decision-making responsibilities closer to our customers and increasing accountability for results."

HEATHER SHOTTER – GENERAL MANAGER GROUP MARKETING AND NEW ZEALAND OPERATIONS

### Leadership Trainee Programme

Recent university graduates and SKYCITY employees with leadership potential are eligible to apply for one of the six places available each year on SKYCITY's Leadership Trainee Programme.

The programme was introduced in 2004 to help find and develop a new generation of operational leaders.

The first year of the competitive two-year programme includes intensive training in leadership development and management, and a range of hands-on placements within SKYCITY Auckland. In their second year, trainees take up entry-level leadership positions within the wider Group.

"I recommend the programme to anyone who wants the chance to work in a dynamic and exciting industry that fosters ongoing learning and development."

KATE LILLY – LEADERSHIP TRAINEE

## Customer Focus

### 'Great Service'

During 2004/05 SKYCITY commenced the implementation of 'Great Service', a training programme for New Zealand staff.

SKYCITY tailored the well-known DDI Service Plus® programme to suit its specific needs. The 5½-hour programme aims to increase customer loyalty and satisfaction by building a service culture in the business, and provides staff with an understanding of the behaviour and skills involved in delivering great service.

'Great Service' is being rolled out at SKYCITY Auckland and Queenstown, with Hamilton and the Australian properties targeted for implementation in 2005/06. All new SKYCITY employees in New Zealand now have 'Great Service' training during their induction process.

Uleah Westbrook
GUEST SERVICES REPRESENTATIVE, SKYCITY GRAND HOTEL

### Staff bonus schemes renewed

SKYCITY's staff bonus schemes, the Customer Experience Incentive (CEI) for waged staff and Performance Pay Incentive (PPI) for salaried staff, which were first introduced in 1999/2000, have been renewed for further three-year terms to June 2008.

CEI and PPI focus staff on customers, company goals and financial performance.

The incentive schemes will apply at all properties in 2005/06 including, for the first time, SKYCITY Darwin. New features incorporated into the CEI include larger potential bonus payments and a scale that links the size of CEI payments to financial results.

### Casino training a world first

SKYCITY Darwin achieved a world first with the introduction of casino training programmes at the new Asia Pacific Casino and Hospitality Management School in October 2004.

The school is the only casino management school in Australia and the only one in the world that is actually within an operating casino and hotel complex.

The initiative is a unique collaboration between Darwin's award-winning International College of Advanced Education and SKYCITY Darwin.

Graduates receive an Advanced Diploma of Hospitality Management and paid work experience at SKYCITY Darwin. With one extra year's study, they can also complete the Regency College Bachelor of Business programme.

### Grand Hotel seeks 'can do' attitude

A vibrant personality and positive 'can do' attitude were the key attributes SKYCITY looked for when recruiting staff for Auckland's new SKYCITY Grand Hotel.

SKYCITY Grand Hotel Manager Paul Gallop says while previous front-line experience in hotels and customer service was important, it was personality and passion that separated the top candidates from the pack.

"The SKYCITY Grand Hotel is a uniquely Kiwi interpretation of a five-star hotel," says Paul. "Our people bring the Grand's contemporary, friendly and unpretentious style to life."

A total of 600 candidates attended a 'walk-in day' during which they listened to a presentation and undertook a mini-interview. Of this group, 250 were selected to attend a group problem-solving exercise and a traditional interview. The 160 successful recruits then attended a three to four-week pre-opening training programme.

## Snapshot – SKYCITY People

| STAFF NUMBERS | 2003/04 | 2004/05 |
|---|---|---|
| SKYCITY Auckland | 2,217 | 2,302 |
| SKYCITY Adelaide | 778 | 997 |
| SKYCITY Darwin* | N/A | 264 |
| SKYCITY Hamilton | 240 | 221 |
| SKYCITY Queenstown | 68 | 69 |
| Group/Corporate | 60 | 61 |
| TOTAL** | 3,363 | 3,914 |

* Acquired July 2004. Staff numbers in 2003/04 (pre-acquisition) were 279.

** This table sets out the average number of permanent SKYCITY employees (full-time and part-time). SKYCITY also employs around 1,000 - 1,200 casual staff across the Group. Numbers fluctuate to accommodate special events.

## Health and Safety

SKYCITY aims to build a strong health and safety culture at each of its properties.

The year's highlights included improved reporting, increased staff training and a significant reduction in lost-time injuries at SKYCITY Auckland.

There were no prosecutions in the financial year under the New Zealand Health and Safety in Employment Act, 1992, or under South Australian and Northern Territory health and safety legislation.

In New Zealand, SKYCITY has been an Accredited Employer in the Accident Compensation Corporation (ACC) Partnership Programme since August 2000. As part of this accreditation SKYCITY's work and injury management practices are audited annually by ACC.

Managers, supervisors and elected employee representatives operate 10 health and safety committees at SKYCITY Auckland, and one each at SKYCITY Hamilton and SKYCITY Queenstown.

In Australia, SKYCITY Adelaide has an Executive Occupational Health & Safety (OHS) Committee including senior management and representatives from departmental committees. The business achieved a Safety Achiever Business System level two rating in 2004/05.

SKYCITY Darwin has a Workplace Health and Safety Committee, including not less than 50% representation from frontline employees.

In March 2000, SKYCITY Darwin adopted a risk management and workers' compensation programme for compensation claims management, in conjunction with the Territory Insurance Office. Claims are reviewed on a monthly basis.

Managers and supervisors are assessed and rewarded on their health and safety performance.

## 2004/05 Highlights

+ 114 SKYCITY Auckland employees received two days' health and safety training, earning New Zealand Qualifications Authority (NZQA) Health and Safety qualifications
+ 57 SKYCITY Adelaide managers received OHS responsibility training and a further 20 staff trained as OHS representatives
+ At SKYCITY Auckland, lost-time injuries per 100,000 hours worked reduced from an average 3.11 in 2003/04 to 2.05 in 2004/05.

Priorities for 2005/06 include:

+ moving the organisation from a safety compliance approach to a behaviour-based health and safety approach
+ further training in health and safety for managers and employees
+ improvements to reporting capabilities
+ a significant upgrade to SKYCITY Darwin's fire protection system
+ enhanced contractor compliance control measures
+ the establishment of a New Zealand-wide Health and Safety Committee.

Kat Gear LOCO BAR ATTENDANT, SKYCITY ADELAIDE

Ja-Hyung Kwon TABLE GAMES DEALER, SKYCITY AUCKLAND

## Case Study: World First in Ergonomic Gaming Tables for SKYCITY Staff

Ergonomically-designed gaming tables are being rolled out at SKYCITY in a world-leading effort to minimise discomfort and lost-time injuries for staff.

Upper extremity, neck and back discomfort are recognised worldwide as an occupational health and safety concern for dealers.

A team of SKYCITY staff and a consultant ergonomic expert analysed the existing table designs and conducted interviews with dealing staff. Prototype blackjack and roulette tables were then developed and refined following field-testing. A modified tilted card-dealing 'shoe' (from which cards are dealt for blackjack) was also developed.

Since the initial introduction of the new tables at SKYCITY Auckland's 'PLAY' casino, the company has recorded a significant reduction in work-related discomfort among employees using the new equipment, and received positive feedback from staff.

SKYCITY is progressively rolling out the ergonomic design features, most recently at the redeveloped VIP Pacific Room in Auckland and the new gaming areas at SKYCITY Adelaide.

SKYCITY plans to continue to modify and improve the designs of its gaming tables. The initiative was presented to positive feedback at three major health and safety conferences during 2004/05.

"SKYCITY's new ergonomic gaming tables are innovative and world-leading. The company has, without compromise, done what is needed to make staff as comfortable as possible, and is a role model for future such development within the industry."

DES GORMAN – PROFESSOR OF MEDICINE, UNIVERSITY OF AUCKLAND

# OUR

## COMMUNITY

Ten-year-old Mosimane Tuitupou plays in the new rainforest-themed atrium at Starship Children's Hospital in Auckland, an initiative that was part-funded by a grant from the SKYCITY Auckland Community Trust. *(Picture: New Zealand Herald)*

## COMMUNITY INVOLVEMENT AND SUPPORT IS AN IMPORTANT AND DISTINCTIVE ELEMENT OF SKYCITY ENTERTAINMENT GROUP'S BUSINESS PHILOSOPHY.

"The challenge we have set ourselves is to become a cornerstone enterprise in every community in which we operate."

EVAN DAVIES – MANAGING DIRECTOR

SKYCITY aims to operate gaming and entertainment properties that are regarded as cornerstone enterprises in their communities: businesses that act responsibly, demonstrate leadership and integrity, and are sensitive to local needs and aspirations.

This commitment to making a positive contribution is motivated by SKYCITY's desire, as a major business enterprise with significant interests in gaming, to reach the highest standards of ethical business practice and governance.

Delivering on the company's community responsibilities is also an important part of SKYCITY's strategy to manage risk and achieve continued growth over the long term.

As well as being the mainstay of a wide range of charitable and grass-roots organisations, the gaming sector makes a substantial broad economic contribution. Annually, New Zealand's casinos contribute $1 billion to GDP and $0.5 billion of wages and salaries to New Zealand households.*

*NEW ZEALAND CASINOS ECONOMIC IMPACT REPORT, URS FINANCE & ECONOMICS, JULY 2005

## Host Responsibility

SKYCITY is committed to investing in host responsibility and participating in productive dialogue with regulators and stakeholders over harm minimisation.

Our approach is based on a determination to act with integrity and create a company of which all our stakeholders can be justifiably proud.

Taking a proactive approach to problem gambling and alcohol management supports SKYCITY's 'fun and entertainment' vision and focus on excellent customer service.

Host responsibility also makes good business sense, contributing to the long-term sustainability of the gaming industry.

A comprehensive Group-wide policy sets out the company's commitment to host responsibility, including early intervention with customers who show signs of problem gambling and drinking, and training for all staff. Specific, tailored programmes are in place at each property.

SKYCITY has taken a collaborative approach to developing and delivering its host responsibility programmes and training courses, receiving valuable input from problem gambling experts and treatment providers.

### 2004/05 Highlights

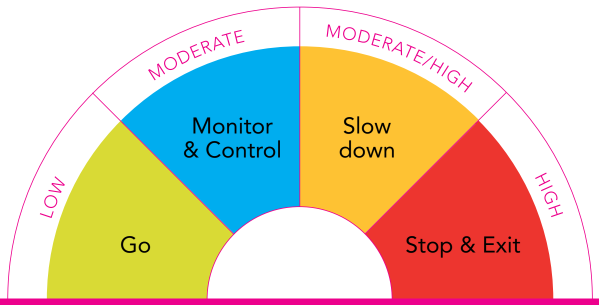
SKYCITY's Group-wide host responsibility policy was implemented at SKYCITY Darwin upon taking ownership of the property. Specific changes made as a result of the policy's introduction included the appointment of a Host Responsibility Manager and increased staff training. SKYCITY Darwin is planning to further enhance its host responsibility programme, including expanding its contact base within the local community, in 2005/06.

SKYCITY Adelaide introduced a team of host responsibility co-ordinators in December 2004. This early intervention programme, which resulted from collaboration between SKYCITY Adelaide, the Churches Gambling Taskforce and Break Even counselling network, is unique within the wider Australasian gaming industry.

In New Zealand, one of the year's highlights was the development of an e-learning module for SKYCITY's staff training programme. The online training means employees can complete the host responsibility training at a time convenient to them.

In March 2005, New Zealand's Alcohol and Liquor Advisory Council (ALAC) recognised SKYCITY's leading approach to the service of alcohol. SKYCITY's 'responsible service of alcohol model' was included in ALAC's National Guidelines for Licensed Premises.

The model was based on feedback from front-line staff and is used as a decision-making tool for intervening with drinking customers.




SKYCITY'S RESPONSIBLE SERVICE OF ALCOHOL MODEL

Based on feedback from staff, we found that the commonly used three-step 'Traffic light' model was difficult to implement.

So we developed the four-step model, shown here. This programme is more sensitive to the different stages of intoxication in customers, and therefore provides more tools for staff to work with.

The model runs from Green – the low 'go' zone, through to Red – the high 'stop and exit' zone.

We explain it to staff like this:

+ Green and Blue are like a two-way street – customers might go between green and blue states – everyone has a good time
+ Yellow and Red are like a one-way street – customers can't go back down to green or blue until a long time has passed (10-12 hours) – not everyone has a good time
+ Our aim is to keep customers 'in the blue' – this helps us offer a comfortable and sophisticated environment, supports our vision to create fun and entertainment and helps to ensure everyone – customers and staff – has a good time.

### Outlook

Priorities for 2005/06 include evaluating existing initiatives, improving the consistency of host responsibility implementation across the Group, expanding e-learning programmes to include SKYCITY's Australian properties and linking host responsibility deliverables to employee key performance indicators.

SKYCITY is also preparing for the introduction, under the Gambling Act 2003, of further harm-minimisation measures in New Zealand. New regulations regarding player information display requirements (pop-up screens) and restrictions on jackpot advertising and branding will come into effect from 1 October 2005.

## PROFILE: Junior Toleafoa Host Responsibility Manager

Junior Toleafoa was appointed Host Responsibility Manager for SKYCITY Entertainment Group in January 2005. Mr Toleafoa was formerly Employee Advocate at SKYCITY Auckland. In his new role he is responsible for host responsibility across the SKYCITY Group.

"My focus is on ensuring host responsibility has a high profile with front-line staff, and that it remains at the forefront of our everyday work culture and ethic.

Externally, I work closely with industry experts and problem gambling treatment providers, explaining the latest initiatives at SKYCITY and gathering their input and feedback.

Problem gambling management is an emerging field – we're all learning. My team and I work hard to identify and monitor international best practice in problem gambling and alcohol management.

SKYCITY's implementation of an early intervention policy with problem gamblers and drinkers is a leading-edge initiative that we can be really proud of."

Further details of SKYCITY's host responsibility policy and programmes are available on www.skycity.co.nz

"We acknowledge our very real obligations to our customers and the community in general. If we fail to meet those obligations, then our industry will not – and should not deserve to – enjoy a prosperous future. However, harm minimisation initiatives must be appropriately targeted, based on research, and shown to be effective. SKYCITY is committed to productive dialogue and a strong working relationship between the industry, regulators and our stakeholders in the community."

EVAN DAVIES – MANAGING DIRECTOR

Junior Toleafoa HOST RESPONSIBILITY MANAGER

## Community Partnerships

SKYCITY supports a wide range of local charities, events and sports in the communities in which it operates. As well as financial support, SKYCITY also provides expertise in marketing, communications and project management, and makes its facilities available to selected community partners.

During the past year, SKYCITY has extended its sponsorship portfolio in Adelaide, securing the naming rights to the May 2005 Adelaide Cup carnival, supporting the Adelaide Film Festival for the first time, and continuing its four-year partnership with the McGuinness McDermott Foundation, which raises funds for child health.

SKYCITY Darwin also signed a major new sponsorship – naming rights sponsor of the 2005 and 2006 Darwin round of the V8 Supercar Championship.

In New Zealand, our relationships with Auckland and Waikato rugby continued during 2004/05, with SKYCITY sponsoring NPC and Super 12 teams in both regions. SKYCITY Queenstown continued its long-standing sponsorship of the Lindauer Queenstown Winter Festival and SKYCITY Hamilton again sponsored the 'Boathouse 8s' Waikato/Cambridge rowing race.

SKYCITY Auckland's involvement with the Starlight Symphony, Starship Foundation, Kidz First Children's Hospital, The New Zealand Breast Cancer Foundation and Special Olympics New Zealand continued during 2004/05. One of the year's highlights was the opening in May of Starship's new rainforest-themed atrium, part-funded by a $100,000 grant from the SKYCITY Auckland Community Trust.

## SKYCITY Community Trusts

SKYCITY has established Community Trusts in Auckland, and in Hamilton and Queenstown, to provide funds for community and charitable purposes.

Each trust aims to support local and regional organisations in undertaking community assistance and development work, with a focus on projects relating to health, education, tourism, entertainment, arts and culture. These areas of focus were selected based on research into community preferences, and to complement SKYCITY's own focus on entertainment and tourism.

In 2004/05, the three trusts made 249 grants and distributed $2.99 million. The total amount was lower than the $3.78 million distributed in 2003/04, due in the main to the impact of non-smoking legislation on company profits in New Zealand.

Trust funds distributed to date total $18.6 million, including $5.7 million to New Zealand's Problem Gambling Committee.*

SKYCITY COMMUNITY TRUST GRANTS, 1996 – 30 JUNE 2005

| | |
|---|---|
| Contributions to Problem Gambling Committee | $5.7 million |
| Grants to community groups and charitable organisations | $12.9 million |
| Total Trust distributions | $18.6 million |

* The Problem Gambling Committee, which funded problem gambling services until 2004, has been disestablished. Instead of contributing to the Committee via the three community trusts, between 1 October 2004 and 30 June 2005, SKYCITY Auckland, Hamilton and Queenstown paid problem gambling levies equal to 0.51% of gaming revenue ($1.5 million Auckland, $109,000 Hamilton, $31,000 Queenstown). The money raised through this levy is administered by the Ministry of Health and continues to fund problem gambling prevention and treatment initiatives in New Zealand.

SKYCITY will continue to fund each community trust at existing levels:

+ 2.5% of net profit from the casino operations of SKYCITY Auckland
+ 1.5% of the revenue from the casino operations of SKYCITY Hamilton
+ 2.5% of net profit from SKYCITY Queenstown Casino or a minimum of $100,000 p.a.

### Auckland Grants

The SKYCITY Auckland Community Trust celebrated its 10th funding round in June 2005. Grants for 2004/05 equalled $2.4 million, and were distributed to 120 community groups and charitable organisations.

Major grants included:

+ $110,000 to the Mangere Community Health Trust, to purchase a portable tattoo removal machine and a van in which to transport it
+ $70,000 to the Chinese Language Foundation, to encourage the learning of Chinese in schools and businesses
+ $60,000 to Auckland Zoo's new Wildlife Health and Research Centre
+ $60,000 to the DOCNZ Festival Trust to run New Zealand's first International Documentary Film Festival
+ $58,000 to the Howick Historical Village's Living History Museum.

### Hamilton Grants

SKYCITY Hamilton distributed $458,000 in the 2004/05 year. Ninety-one organisations benefited.

Major grants included:

+ $30,000 towards the Indian Char Bagh Garden at Hamilton Gardens
+ $10,000 to Habitat for Humanity, to build a house at the Parachute Music Festival held at Mystery Creek
+ $10,000 to the Hamilton Operatic Society, for staging the 'Rocky Horror Show' musical in conjunction with the 30th anniversary of the film's release.

### Queenstown Grants

SKYCITY Queenstown distributed $144,000 in the 2004/05 year. Thirty-five organisations benefited.

Major grants included:

+ $17,000 to St John Wakatipu, for the purchase of a mannequin for resuscitation training
+ $10,000 to the Wakatipu Trails Trust, for signage on local walking and cycling trails
+ $8,000 for the 2005 Wanaka 'Festival of Colour' – an arts festival featuring theatre, dance, music, photography and film.

Full details of the year's trust grants are available on www.skycity.co.nz

# FINANCIAL AND OPERATING REVIEW

Operating earnings (EBITDA) up 10% on previous year to $286 million.

70% of revenues derived from New Zealand operations and 30% from Australian operations. 74% of revenues from gaming operations and 26% from hotel, convention, food and beverage, cinema exhibition and other operations.

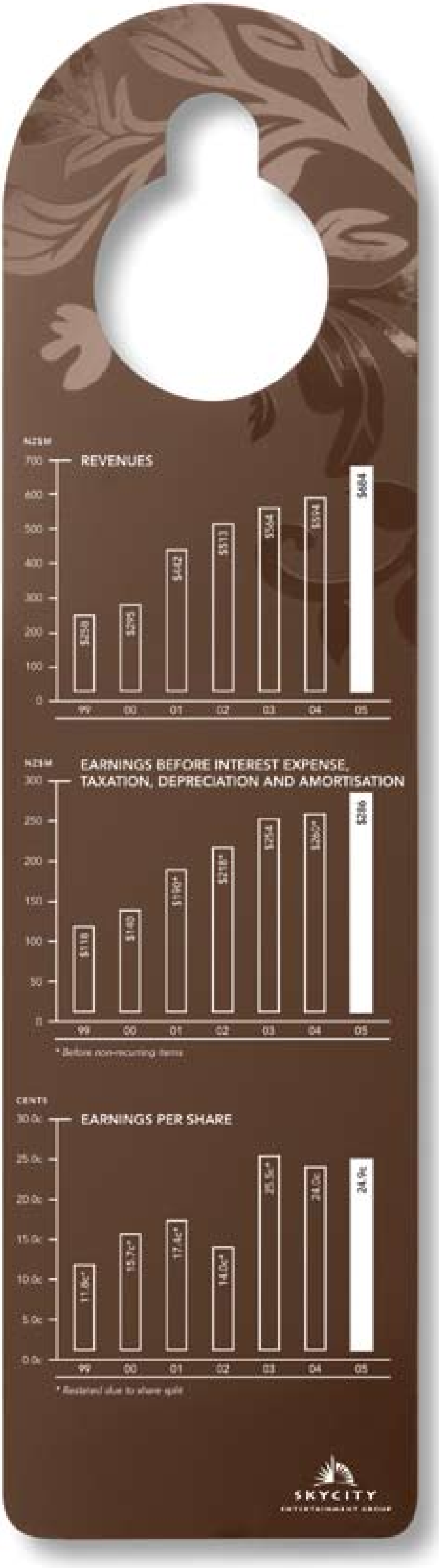
Net surplus after tax $104 million, up 4% on prior year.

Dividend payout ratio maintained at 90% of tax-paid earnings.

Major investment and capital expenditure programme during the year (fully debt-funded).

Total dividends paid for the 2004/05 year: 24.0 cents per share (fully imputed). Interim dividend paid in April 2005: 12.0 cents per share. Final dividend to be paid in October 2005: 12.0 cents per share.

Long-term debt facilities (to replace existing shorter-term facilities) negotiated at favourable interest rates for terms between 7 and 15 years.




## Key Elements of the 2004/05 Result

The key features of the 2004/05 result (financial year ended 30 June 2005) were:

+ 15% increase in Group revenues from $594 million to $684 million
+ 10% increase in Group operating earnings (earnings before interest, tax, depreciation and amortisation: EBITDA) from $260 million to $286 million
+ Increased asset carrying costs (depreciation and interest), as a result of the significant investment and capital expenditure programme undertaken during 2004/05
+ Net surplus after tax at $104 million compared with $100.2 million in 2003/04 (after Canbet write-off of $20.9 million)
+ Earnings per share at 24.9 cents up 4% on prior year (24.0 cents per share).

## Smoking Bans and Regulatory Restrictions (New Zealand)

The imposition of smoking bans in New Zealand restricted the earnings performance of SKYCITY's Auckland, Hamilton and Queenstown operations during the seven month period following introduction of the bans in December 2004.

Issues associated with the new regulatory environment in New Zealand also inhibited the earnings of the New Zealand operations (mainly at SKYCITY Auckland) during the year. The new regulatory environment (from 1 July 2004) is taking time to settle in and this is creating some restrictions on the company's ability to operate its businesses in an optimum manner for the enjoyment of its customers. It is anticipated that the new regulatory processes will continue to impede the company's ability to best respond to customer preferences but that, as the regulatory environment develops and matures, the situation should gradually improve.

## Investment and Capital Expenditure

A number of investment initiatives added new revenue streams or increased existing earnings during the 2004/05 financial year. SKYCITY Darwin was the most significant addition to Group earnings during the period but increased shareholdings in SKYCITY Hamilton and SKYCITY Leisure, and dividends received from SKYCITY's 40.5% investment in Christchurch Casinos were also important contributors.

A range of asset enhancement capital expenditures were also completed during the period. The new SKYCITY Auckland Convention Centre contributed $13 million in new revenues during 2004/05 and new and refurbished facilities for Auckland's member players were completed. The 316-room SKYCITY Grand Hotel opened in April 2005 and will contribute a full 12 months' revenues in 2005/06. And in Adelaide the first stage of the proposed A$70 million redevelopment programme opened in June 2005. A full 12 months' revenues from these facilities will contribute to 2005/06 earnings.

The significant investment and asset development and enhancement programmes carried out during the last 18 months have been fully financed without recourse to the company's shareholders. As a consequence, there has been a significant uplift in asset carrying costs (interest and depreciation) with an immediate impact on cost structures but with revenues and earnings developing over subsequent periods.

## SKYCITY Auckland

+ Total revenues up 3% despite the imposition of smoking bans from December 2004, delay in the introduction of ticket technology for higher-play customers, and the continuing impact of the $20 note acceptor restriction introduced in March 2004
+ As a consequence of the factors referred to above, gaming revenues were down 3%, but food and beverage, hotel and convention and Sky Tower revenues were all up strongly
+ The highly-acclaimed Auckland Convention Centre was a stand-out performer, hosting 525 events with 88,000 attendees and contributing $13 million to Auckland revenues during the period
+ Despite the increased contribution from convention, hotel, food and beverage and Sky Tower, the externally-imposed inhibitors to earnings (primarily smoking bans and gaming regulatory restrictions) resulted in a 2% reduction in the Auckland EBITDA result for 2004/05
+ Regulatory issues are expected to continue to impact on earnings during 2005/06 but the new facilities developed during 2004/05 (hotel, convention, members' facilities) and the addition of new carparking capacity will provide earnings momentum for the Auckland operation going forward.

SKYCITY Adelaide's iconic chandeliers

## Other New Zealand Operations

+ SKYCITY Hamilton and SKYCITY Leisure were both able to maintain their earnings levels consistent with the prior financial year, despite the introduction of smoking bans and other regulatory issues for SKYCITY Hamilton and the absence of high-performing box-office film product for SKYCITY Leisure
+ SKYCITY's boutique facility, SKYCITY Queenstown Casino, performed well, with a significant earnings uplift over the prior year
+ Christchurch Casino's 2004/05 earnings were impacted by smoking bans and note acceptor limitations, but dividends received were in line with expectations held prior to the acquisition of SKYCITY's 40.5% shareholding in June last year.

## SKYCITY Adelaide

+ SKYCITY Adelaide disappointed in 2004/05, with second-half earnings well down on the corresponding prior period. Gaming machines performed reasonably well (up 6%) but table games were down significantly on the prior year with the introduction of the one-metre smoking ban from December 2004 having an adverse impact on table revenues during the second half
+ EBITDA fell from A$25.3 million to A$18.0 million as a consequence of lower table games revenues and a range of cost increases, including a new levy of A$850,000 imposed by the Liquor and Gambling Commission
+ The first stage (A$21 million) of the A$70 million Adelaide redevelopment programme (new gaming area, new bar and restaurant at the North Terrace frontage of the building) opened in June and initial results are providing confidence that the expectations for the redevelopment programme will be realised.

### SKYCITY Darwin

+ A strong first year under SKYCITY management with revenues up 9% and operating earnings (EBITDA) up 8% over the previous year
+ First-year earnings were ahead of pre-acquisition expectations and the strong momentum in the Darwin economy is expected to continue to drive earnings for some time
+ Return on investment was well ahead of the company's investment threshold requirement
+ Removal of the community machines rebate from 1 July 2005 will impact on 2005/06 earnings, but this change was known and anticipated prior to acquisition of the property in 2004.

## Capital Structure and Funding

During the 2004/05 financial year, the Group expanded and restructured its debt facilities. Introduction of longer-term debt funding (7 to 15-year term) was achieved through a private placement in the US and Australian markets. This long-term debt, coupled with the company's existing senior debt facilities, means that Group debt is well structured for current and known future requirements.

The company's gearing ratio (debt:enterprise value) as at 30 June 2005 was 39% and is expected to continue in the 35%-40% range during the 2005/06 year. SKYCITY enjoys a regular flow of cash-based earnings and, as a consequence, a gearing ratio of between 30% and 40% is considered an appropriate approach to debt management for the Group.

## Share Buyback

An on-market share buyback of 3 million shares was completed during 2004/05 at an average price of $4.58 per share.

The buyback was not a capital management strategy but rather was undertaken to reduce any dilution impact on existing shareholders arising from the issue of new shares under the terms of the company's executive remuneration and share option programmes. All shares issued under these programmes were offset by shares purchased, resulting in no dilution for existing shareholders.

A similar buyback programme of up to 4.5 million shares has been initiated for the 2005/06 year.

## Current Trends

The company advised at its 2004/05 result release (August 2005) that revenue trends at SKYCITY Auckland continue to provide support to the expectation for a steady recovery from the impacts of smoking bans within approximately 18 months from imposition of the bans (in December 2004).

The company further advised that the impacts of smoking bans on SKYCITY's New Zealand revenue streams are expected to continue into 2005/06, but that a steady revenue recovery is anticipated as the year progresses, with little, if any, residual impact carrying through into the 2006/07 year.

At the August result announcement, the company also advised that trading patterns at SKYCITY Adelaide during the three-month period (June-August 2005) show the new facilities (stage 1 of the A$70 million redevelopment programme) are generating favourable customer response and are providing early encouragement that expectations for growth resulting from the redevelopment plan will be achieved.

The company's August statement also advised that the SKYCITY Darwin operation is anticipated to continue to benefit from the strong economic momentum in the Northern Territory.

## Five-year Summary

Five-year historical financial statements for the period 2001-2005 are set out in the following pages.

SKYCITY Darwin's first birthday celebration in June 2005

# Five-Year Summary

## STATEMENTS OF FINANCIAL PERFORMANCE

| YEARS ENDED 30 JUNE | 2005 $000 | 2004 $000 | 2003 $000 | 2002 $000 | 2001 $000 |
|---|---|---|---|---|---|
| **Operating revenue** | | | | | |
| Sales revenue | 671,941 | 590,479 | 556,493 | 510,243 | 437,406 |
| Investment revenue | 10,496 | 2,178 | 3,041 | 2,496 | 2,435 |
| Other | 1,794 | 1,500 | 4,779 | 561 | 1,676 |
| **Total revenue** | **684,231** | **594,157** | **564,313** | **513,300** | **441,517** |
| **Operating expenses** | | | | | |
| Remuneration/staff | 185,790 | 160,675 | 148,904 | 131,751 | 118,983 |
| Other | 212,629 | 173,817 | 161,491 | 163,729 | 132,243 |
| **Total operating expenses** | **398,419** | **334,492** | **310,395** | **295,480** | **251,226** |
| **Earnings before interest expense, taxation and depreciation (EBITDA)** | **285,812** | **259,665** | **253,918** | **217,820** | **190,291** |
| Depreciation and amortisation expense | 62,691 | 47,677 | 46,032 | 42,039 | 36,270 |
| **Earnings before interest expense and taxation (EBIT)** | **223,121** | **211,988** | **207,886** | **175,781** | **154,021** |
| Interest expense | 81,035 | 48,563 | 49,266 | 45,708 | 47,716 |
| **Surplus before income tax** | **142,086** | **163,425** | **158,620** | **130,073** | **106,305** |
| Income tax | 36,968 | 40,400 | 51,117 | 44,286 | 38,047 |
| **Surplus after income tax** | **105,118** | **123,025** | **107,503** | **85,787** | **68,258** |
| **Net surplus attributable to minority interests** | (1,111) | (1,899) | (286) | 10,518[2] | 1,832 |
| **Net surplus after tax and minority interests before non-recurring items** | **104,007** | **121,126** | **107,217** | **96,305** | **70,090** |
| Non-recurring items[1] | – | (20,904) | – | (39,152)[2] | (1,782) |
| **Net surplus after tax, minority interest and non-recurring items** | **104,007** | **100,222** | **107,217** | **57,153** | **68,308** |

[1] *Non-recurring items:*
- *FY01 relates to IRD settlement for the pre-opening expenses*
- *FY02 relates to the write-off of the Force investment in Argentina and SKYCITY goodwill on consolidation of Force Corporation Limited*
- *FY04 relates to the write-off of the investment in Canbet Limited*

[2] *Includes Force Corporation Limited's minority share of the write-off of the investment in Argentina. The net impact of the write-off of the Argentina investment and goodwill on the financial performance of SKYCITY Entertainment Group Limited was $27.9 million.*

## STATEMENTS OF MOVEMENTS IN EQUITY

| YEARS ENDED 30 JUNE | 2005 $000 | 2004 $000 | 2003 $000 | 2002 $000 | 2001 $000 |
|---|---|---|---|---|---|
| **Total recognised revenues and expenses** | | | | | |
| Net surplus after tax, minority interests and non-recurring items | 104,007 | 100,222 | 107,217 | 57,153 | 68,308 |
| Net surplus attributable to minority interests | 1,111 | 1,899 | 286 | (10,518) | (1,832) |
| Foreign currency translation reserve movement | (8,429) | (9,953) | 1,111 | (5,152) | (415) |
| | 96,689 | 92,168 | 108,614 | 41,483 | 66,061 |
| Changes in share capital | (2,963) | (23,463) | 11,960 | 32,690 | 30,003 |
| Dividends paid | (114,658) | (100,004) | (133,362) | (67,150) | (27,715) |
| Other movements | (923) | (663) | 3,485 | 16,770 | 6,332 |
| **Movements in equity for the period** | **(21,855)** | **(31,962)** | **(9,303)** | **23,793** | **74,681** |
| **Equity at the beginning of the year** | 214,603 | 246,565 | 255,868 | 232,075 | 157,394 |
| **Equity at the end of the year** | **192,748** | **214,603** | **246,565** | **255,868** | **232,075** |

# Five-Year Summary (continued)

## STATEMENTS OF FINANCIAL POSITION

| AS AT 30 JUNE | 2005 $000 | 2004 $000 | 2003 $000 | 2002 $000 | 2001 $000 |
|---|---|---|---|---|---|
| **Shareholders' equity** | | | | | |
| Share capital | 225,777 | 225,871 | 246,518 | 232,180 | 197,911 |
| Reserves | (17,948) | (7,510) | 1,932 | (286) | 3,872 |
| Retained earnings | (17,925) | (7,274) | (7,492) | 18,653 | 28,650 |
| Minority interests | 2,844 | 3,516 | 5,607 | 5,321 | 1,642 |
| | **192,748** | **214,603** | **246,565** | **255,868** | **232,075** |
| **Non-current liabilities** | | | | | |
| Borrowings | 956,795 | 579,967 | 437,113 | 405,825 | 382,154 |
| Subordinated debt – capital notes | 121,510 | – | 149,266 | 148,888 | 148,510 |
| Convertible notes | – | 8,910 | 13,365 | 9,315 | 9,315 |
| Deferred tax | 35,450 | 27,216 | 24,683 | 20,811 | 19,316 |
| | **1,113,755** | **616,093** | **624,427** | **584,839** | **559,295** |
| **Current liabilities** | | | | | |
| Bank overdraft | – | – | – | 372 | 1,081 |
| Payables and accruals | 97,297 | 93,619 | 64,836 | 61,140 | 70,137 |
| Subordinated debt – capital notes | – | 149,644 | – | – | – |
| Borrowings | 100,758 | 101,000 | 1,000 | 1,000 | 88,572 |
| | **198,055** | **344,263** | **65,836** | **62,512** | **159,790** |
| **Total equity and liabilities** | **1,504,558** | **1,174,959** | **936,828** | **903,219** | **951,160** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 932,658 | 750,267 | 636,990 | 596,037 | 524,022 |
| Investments (including associates) | 79,820 | 78,280 | 21,586 | 10,051 | 8,414 |
| Intangible assets | 357,402 | 212,373 | 207,844 | 223,389 | 257,795 |
| Other non-current assets | 16,384 | 14,645 | 3,151 | 2,250 | 2,250 |
| | **1,386,264** | **1,055,565** | **869,571** | **831,727** | **792,481** |
| **Current assets** | | | | | |
| Cash and bank balances | 62,849 | 53,272 | 57,264 | 48,456 | 42,684 |
| Inventories | 5,382 | 3,017 | 2,898 | 3,066 | 3,296 |
| Receivables and prepayments | 37,158 | 53,106 | 6,780 | 19,970 | 46,149 |
| Income tax receivable | 12,905 | 9,999 | 315 | – | – |
| Properties intended for sale | – | – | – | – | 66,550 |
| | 118,294 | 119,394 | 67,257 | 71,492 | 158,679 |
| **Total assets** | **1,504,558** | **1,174,959** | **936,828** | **903,219** | **951,160** |

## STATEMENT OF CASH FLOWS

| YEARS ENDED 30 JUNE | 2005 $000 | 2004 $000 | 2003 $000 | 2002 $000 | 2001 $000 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Cash was provided from: | | | | | |
| Receipts from customers | 667,845 | 574,325 | 569,979 | 514,913 | 443,026 |
| Interest received | 3,571 | 6,421 | 3,009 | 2,169 | 3,285 |
| Dividends | 5,624 | 163 | – | – | 1 |
| | 677,040 | 580,909 | 572,988 | 517,082 | 446,312 |
| Cash was applied to: | | | | | |
| Payments to suppliers and employees | (347,654) | (296,113) | (281,034) | (267,702) | (217,986) |
| Interest paid | (81,035) | (47,230) | (44,847) | (45,575) | (40,793) |
| Income tax paid | (33,799) | (53,828) | (34,318) | (48,124) | (33,006) |
| Other taxes paid | (35,898) | (27,024) | (38,106) | (32,949) | (28,280) |
| | (498,386) | (424,195) | (398,305) | (394,350) | (320,065) |
| **Net cash flows from operating activities** | **178,654** | **156,714** | **174,683** | **122,732** | **126,247** |
| **Investing activities** | | | | | |
| Cash was provided from: | | | | | |
| Sale of fixed assets | – | – | – | 3,384 | 554 |
| Sale of investments | – | – | – | 21,878 | – |
| | – | – | – | 25,262 | 554 |
| Cash was applied to: | | | | | |
| Purchase of property, plant and equipment | (146,159) | (145,874) | (80,760) | (51,199) | (52,172) |
| Purchase of investments | – | (94,609) | – | (8,853) | (17,099) |
| Capitalised interest paid | (5,780) | (6,784) | (1,173) | – | (2,166) |
| Purchase of subsidiaries | (247,910) | (33,270) | – | (563) | (19,667) |
| Payment for other intangibles | – | – | – | – | (287) |
| | (399,849) | (280,537) | (81,933) | (60,615) | (91,391) |
| **Net cash flows applied to investing activities** | **(399,849)** | **(280,537)** | **(81,933)** | **(35,353)** | **(90,837)** |

# Five-Year Summary (continued)

## STATEMENT OF CASH FLOWS (CONTINUED)

| YEARS ENDED 30 JUNE | 2005 $000 | 2004 $000 | 2003 $000 | 2002 $000 | 2001 $000 |
|---|---|---|---|---|---|
| **Financing activities** | | | | | |
| Cash was provided from: | | | | | |
| Increase in borrowings | 665,850 | 617,000 | 187,516 | 75,599 | 95,056 |
| Other | 4,685 | 6,893 | 4,903 | 12,594 | 9,128 |
| | 670,535 | 623,893 | 192,419 | 88,193 | 104,184 |
| Cash was applied to: | | | | | |
| Decrease in borrowings | (317,398) | (375,071) | (152,897) | (110,064) | (94,990) |
| Shares repurchased | (13,754) | (27,656) | (12,967) | – | – |
| Dividends paid | (108,552) | (100,004) | (110,990) | (43,923) | (34,894) |
| Other | – | – | – | (14,103) | (6,276) |
| | (439,704) | (502,731) | (276,854) | (168,090) | (136,160) |
| **Net cash flows applied to financing activities** | **230,831** | **121,162** | **(84,435)** | **(79,897)** | **(31,976)** |
| **Net increase/(decrease) in cash held** | **9,636** | **(2,661)** | **8,315** | **7,482** | **3,434** |
| Foreign currency translation adjustment | (59) | (1,331) | 865 | (1,001) | 375 |
| Opening cash and bank | 53,272 | 57,264 | 48,084 | 41,603 | 37,794 |
| **Cash at the end of the year** | **62,849** | **53,272** | **57,264** | **48,084** | **41,603** |

## FINANCIAL RATIOS

| YEARS ENDED 30 JUNE | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| EBITDA/revenue | 41.8% | 43.7% | 45.0% | 42.4% | 43.1% |
| Surplus after tax/revenue | 15.2% | 16.9% | 19.0% | 11.1% | 15.5% |
| Revenue/total assets | 45.5% | 50.6% | 60.2% | 56.8% | 46.4% |
| Return on total assets | 6.9% | 8.5% | 11.4% | 6.3% | 7.2% |
| Earnings per share[(1)] | 24.9cps | 24.0cps | 25.5cps | 14.0cps | 17.4cps |
| Operating cash flow per share [(1)] | 42.8cps | 37.5cps | 41.6cps | 30.0cps | 32.1cps |
| Net tangible assets per share [(1)] | $(0.39) | $0.01 | $0.09 | $0.08 | $(0.07) |
| Dividends paid [(1)(2)] | 24.0cps | 26.5cps | 33.5cps | 19.0cps | 15.75cps |
| Interest coverage | 3.5x | 5.4x | 5.2x | 4.8x | 4.0x |

[(1)] *The number of ordinary shares on issue has been adjusted for the 1:1 share splits in November 2001 and November 2003*

[(2)] *The dividend paid in the 2002/03 year of 33.5cps included a special additional dividend of 10.0cps*


Joel Marsters, Concierge, SKYCITY Grand Hotel

# FINANCIAL STATEMENTS

# Auditor's Report

PRICEWATERHOUSECOOPERS

**TO THE SHAREHOLDERS OF SKYCITY ENTERTAINMENT GROUP LIMITED**

We have audited the financial statements on pages 49 to 84. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2005 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 54 to 57.

**DIRECTORS' RESPONSIBILITIES**

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2005 and their financial performance and cash flows for the year ended on that date.

**AUDITOR'S RESPONSIBILITIES**

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

**BASIS OF OPINION**

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

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

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

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors, tax and accounting advisors.

**UNQUALIFIED OPINION**

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 49 to 84:

  (i) comply with generally accepted accounting practice in New Zealand; and

  (ii) give a true and fair view of the financial position of the Company and Group as at 30 June 2005 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 19 August 2005 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Auckland

# Statements of Financial Performance

| FOR THE YEAR ENDED 30 JUNE 2005 | NOTES | CONSOLIDATED 2005 $000 | CONSOLIDATED 2004 $000 | PARENT COMPANY 2005 $000 | PARENT COMPANY 2004 $000 |
|---|---|---|---|---|---|
| Operating revenue | | **671,941** | 590,479 | – | – |
| Investment revenue | | **10,496** | 2,178 | 135,972 | 131,829 |
| Other revenue | | **1,794** | 1,500 | 2,653 | 7,163 |
| Total operating revenue | 2 | **684,231** | 594,157 | 138,625 | 138,992 |
| Total operating expenses | 3 | **(398,419)** | (355,396) | (17,365) | (20,098) |
| **Earnings before interest expense, taxation, depreciation and amortisation (EBITDA)** | | **285,812** | 238,761 | 121,260 | 118,894 |
| Depreciation | 3 | **(55,750)** | (44,668) | (14) | (13) |
| Amortisation of other intangibles and licences | | **(5,567)** | (2,464) | – | – |
| Amortisation of goodwill | | **(1,374)** | (545) | – | – |
| Total depreciation and amortisation | | **(62,691)** | (47,677) | (14) | (13) |
| **Earnings before interest and taxation (EBIT)** | | **223,121** | 191,084 | 121,246 | 118,881 |
| Interest expense | 3 | **(81,035)** | (48,563) | (13,444) | (14,050) |
| **Surplus before taxation** | | **142,086** | 142,521 | 107,802 | 104,831 |
| Taxation expense | 12 | **(36,968)** | (40,400) | – | – |
| **Surplus after taxation** | | **105,118** | 102,121 | 107,802 | 104,831 |
| Net surplus attributable to minority interest | 9 | **(1,111)** | (1,899) | – | – |
| **Net surplus attributable to parent shareholders** | | **104,007** | 100,222 | 107,802 | 104,831 |

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

# Statements of Movements in Equity

| | | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|---|
| FOR THE YEAR ENDED 30 JUNE 2005 | NOTES | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **NET SURPLUS FOR THE YEAR** | | | | | |
| Comprising: | | | | | |
| Parent shareholder's interest | 6 | **104,007** | 100,222 | 107,802 | 104,831 |
| Minority interest | 9 | **1,111** | 1,899 | – | – |
| | | **105,118** | 102,121 | 107,802 | 104,831 |
| **Other recognised revenues and expenses** | | | | | |
| Foreign currency translation reserve movement | 5 | **(8,429)** | (9,953) | – | – |
| **Total recognised revenues and expenses** | | **96,689** | 92,168 | 107,802 | 104,831 |
| Acquisition of minority interest | 9 | **(1,783)** | (5,190) | – | – |
| Buyback of shares | 4 | **(13,754)** | (27,656) | (13,754) | (27,656) |
| Movement in employee share entitlement reserve | 5 | **(2,009)** | 511 | (2,009) | 511 |
| Exercise of share options | 4 | **4,685** | 4,193 | 4,685 | 4,193 |
| Shares issued under dividend reinvestment plan | 4 | **6,106** | – | 6,106 | – |
| Employee share entitlements issued | 4 | **2,869** | 2,816 | 2,869 | 2,816 |
| Distributions to owners | 7 | **(114,658)** | (100,004) | (114,658) | (100,004) |
| Minority interest in contributions from owners | 9 | **–** | 1,200 | – | – |
| Movements in equity for the year | | **(21,855)** | (31,962) | (8,959) | (15,309) |
| **EQUITY AT THE BEGINNING OF THE YEAR** | | | | | |
| Comprising: | | | | | |
| Parent shareholder's interest | | **211,087** | 240,958 | 202,359 | 217,668 |
| Minority interest | | **3,516** | 5,607 | – | – |
| | | **214,603** | 246,565 | 202,359 | 217,668 |
| **EQUITY AT THE END OF THE YEAR** | | | | | |
| Comprising: | | | | | |
| Parent shareholder's interest | | **189,904** | 211,087 | 193,400 | 202,359 |
| Minority interest | | **2,844** | 3,516 | – | – |
| | | **192,748** | 214,603 | 193,400 | 202,359 |

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

# Statements of Financial Position

| AS AT 30 JUNE 2005 | NOTES | CONSOLIDATED 2005 $000 | CONSOLIDATED 2004 $000 | PARENT COMPANY 2005 $000 | PARENT COMPANY 2004 $000 |
|---|---|---|---|---|---|
| **EQUITY** | | | | | |
| Share capital | 4 | **225,777** | 225,871 | 225,777 | 225,871 |
| Reserves | 5 | **(17,948)** | (7,510) | 4,653 | 6,662 |
| Retained earnings | 6 | **(17,925)** | (7,274) | (37,030) | (30,174) |
| **Shareholders' equity** | | **189,904** | 211,087 | 193,400 | 202,359 |
| Minority interests | 9 | **2,844** | 3,516 | – | – |
| **Total equity** | | **192,748** | 214,603 | 193,400 | 202,359 |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 10 | **956,795** | 579,967 | – | – |
| Deferred tax | 11 | **35,450** | 27,216 | – | – |
| Convertible notes | 16 | **–** | 8,910 | – | – |
| Subordinated debt – capital notes | 14 | **121,510** | – | 121,510 | – |
| **Total non-current liabilities** | | **1,113,755** | 616,093 | 121,510 | – |
| **Current liabilities** | | | | | |
| Payables and accruals | 13 | **97,297** | 93,619 | 287,755 | 1,891 |
| Borrowings | 10 | **758** | 101,000 | – | – |
| Subordinated debt – capital notes | 14 | **–** | 149,644 | – | 149,644 |
| Subordinated debt – other | 15 | **100,000** | – | – | – |
| **Total current liabilities** | | **198,055** | 344,263 | 287,755 | 151,535 |
| **Total liabilities** | | **1,311,810** | 960,356 | 409,265 | 151,535 |
| **Total equity and liabilities** | | **1,504,558** | 1,174,959 | 602,665 | 353,894 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Investments in subsidiaries | 19 | **–** | – | 598,950 | 211,660 |
| Investments in associates | 20 | **281** | 255 | – | – |
| Property, plant and equipment | 17 | **932,658** | 750,267 | 788 | 245 |
| Intangible assets | 24 | **357,402** | 212,373 | – | – |
| Other investments | 22 | **79,539** | 78,025 | – | – |
| Future income tax benefit | 23 | **16,384** | 14,645 | – | – |
| **Total non-current assets** | | **1,386,264** | 1,055,565 | 599,738 | 211,905 |
| **Current assets** | | | | | |
| Cash and bank balances | | **62,849** | 53,272 | 3 | 2 |
| Receivables and prepayments | 25 | **37,158** | 53,106 | 2,924 | 141,987 |
| Inventories | | **5,382** | 3,017 | – | – |
| Income tax receivable | | **12,905** | 9,999 | – | – |
| **Total current assets** | | **118,294** | 119,394 | 2,927 | 141,989 |
| **Total assets** | | **1,504,558** | 1,174,959 | 602,665 | 353,894 |

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

# Statements of Cash Flows

| FOR THE YEAR ENDED 30 JUNE 2005 | NOTES | CONSOLIDATED 2005 $000 | CONSOLIDATED 2004 $000 | PARENT COMPANY 2005 $000 | PARENT COMPANY 2004 $000 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| **Cash was provided from:** | | | | | |
| Receipts from customers | | **667,845** | 574,325 | – | – |
| Interest received | | **3,571** | 6,421 | 2,399 | 598 |
| Dividends received | | **5,624** | 163 | 3,467 | – |
| | | **677,040** | 580,909 | 5,866 | 598 |
| **Cash was applied to:** | | | | | |
| Payments to suppliers and employees | | **(347,654)** | (296,113) | (13,509) | (18,241) |
| Interest paid | | **(81,035)** | (47,230) | (13,444) | (14,273) |
| Income taxes paid | | **(33,799)** | (53,828) | – | (51,014) |
| Other taxes paid | | **(35,898)** | (27,024) | – | 93 |
| | | **(498,386)** | (424,195) | (26,953) | (83,435) |
| **Net cash inflows/(outflows) from operating activities** | | **178,654** | 156,714 | (21,087) | (82,837) |
| **INVESTMENT ACTIVITIES** | | | | | |
| **Cash was provided from:** | | | | | |
| Dividends from subsidiaries | | **–** | – | 130,000 | 130,000 |
| | | **–** | – | 130,000 | 130,000 |
| **Cash was applied to:** | | | | | |
| Purchase and construction of fixed assets | | **(146,159)** | (145,874) | (557) | (121) |
| Capitalised interest paid | | **(5,780)** | (6,784) | – | – |
| Advances and loans to subsidiaries | | **–** | – | – | (1,800) |
| Purchase of investment | | **–** | (94,609) | – | – |
| Purchase of subsidiaries | 19 | **(247,910)** | (33,270) | – | (25,377) |
| | | **(399,849)** | (280,537) | (557) | (27,298) |
| **Net cash inflows/(outflows) from investment activities** | | **(399,849)** | (280,537) | 129,443 | 102,702 |
| **FINANCING ACTIVITIES** | | | | | |
| **Cash was provided from:** | | | | | |
| Proceeds from long-term debt | | **665,850** | 617,000 | – | – |
| Exercise of share options | | **4,685** | 4,193 | 4,685 | 4,193 |
| Advances from subsidiaries | | **–** | – | 37,400 | 103,604 |
| Advances from minority interests | | **–** | 1,200 | – | – |
| Gains on foreign currency swaps hedging investment in foreign operations | | **–** | 1,500 | – | – |
| | | **670,535** | 623,893 | 42,085 | 107,797 |
| **Cash was applied to:** | | | | | |
| Buyback of shares | | **(13,754)** | (27,656) | (13,754) | (27,656) |
| Repayment of short-term debt | | **–** | (1,000) | – | – |
| Repayment of long-term debt | | **(317,398)** | (374,071) | (28,134) | – |
| Distributions to shareholders | | **(108,552)** | (100,004) | (108,552) | (100,004) |
| | | **(439,704)** | (502,731) | (150,440) | (127,660) |
| **Net cash inflows/(outflows) from financing activities** | | **230,831** | 121,162 | (108,355) | (19,863) |

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

| FOR THE YEAR ENDED 30 JUNE 2005 | NOTES | CONSOLIDATED 2005 $000 | CONSOLIDATED 2004 $000 | PARENT COMPANY 2005 $000 | PARENT COMPANY 2004 $000 |
|---|---|---|---|---|---|
| **Net increase/(decrease) in cash held** | | **9,636** | (2,661) | 1 | 2 |
| Foreign currency translation adjustment | | **(59)** | (1,331) | – | – |
| Opening cash and bank | | **53,272** | 57,264 | 2 | – |
| **Cash at the end of the year** | | **62,849** | 53,272 | 3 | 2 |
| **Composition of cash** | | | | | |
| Cash and bank | | **62,849** | 53,272 | 3 | 2 |
| | | **62,849** | 53,272 | 3 | 2 |
| **RECONCILIATION WITH OPERATING SURPLUS** | | | | | |
| **Reported surplus after tax** | | **104,007** | 100,222 | 107,802 | 104,831 |
| Associated entity surpluses | | **(26)** | (117) | – | – |
| Minority interests | | **1,111** | 1,899 | – | – |
| | | **105,092** | 102,004 | 107,802 | 104,831 |
| **Items not involving cash flows and non-operating cash flows** | | | | | |
| Depreciation expense | | **55,750** | 44,668 | 14 | 13 |
| Increase in employee share entitlement reserve | | **869** | 3,336 | 869 | 3,336 |
| Amortisation of licences, goodwill and other intangibles | | **6,941** | 3,010 | – | – |
| Amortisation of deferred expenditure | | **–** | 1,303 | – | 378 |
| Increase in deferred taxation | | **8,234** | 2,533 | – | – |
| Increase in future income tax benefit | | **(1,739)** | (11,494) | – | – |
| Write-off of associate (Canbet investment) | | **–** | 20,904 | – | – |
| Dividend from subsidiary | | **–** | – | (130,000) | (130,000) |
| Write-down of subsidiary | | **–** | – | – | 2,214 |
| Subsidiary funding transactions | | **–** | – | (424,699) | (80,456) |
| Gain on foreign currency interest rate swap | | **–** | (1,500) | – | – |
| Unrealised gain on investments | | **(1,488)** | – | – | – |
| Movement in foreign exchange | | **–** | 1,573 | – | 6 |
| | | **68,567** | 64,333 | (553,816) | (204,509) |
| **Impact of changes in working capital items** | | | | | |
| (Increase)/decrease in receivables and prepayments | | **15,986** | (29,742) | 139,063 | 17,328 |
| (Increase)/decrease in inventory | | **(2,391)** | (119) | – | – |
| Increase/(decrease) in payables and accruals | | **3,678** | 28,783 | 285,864 | (487) |
| (Increase)/decrease in income tax receivable | | **(2,906)** | (9,684) | – | – |
| | | **14,367** | (10,762) | 424,927 | 16,841 |
| **Items classified as investing activities** | | | | | |
| Capitalised items included in working capital movements | | **(9,372)** | 1,139 | – | – |
| | | **(9,372)** | 1,139 | – | – |
| **Net cash flow from operating activities** | | **178,654** | 156,714 | (21,087) | (82,837) |

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

# Statement of Accounting Policies

FOR THE YEAR ENDED 30 JUNE 2005

**Entities reporting**

The financial statements for the parent are for SKYCITY Entertainment Group Limited (the parent company) and the consolidated financial statements of the group comprising SKYCITY Entertainment Group Limited, its subsidiaries, associates and joint ventures.

**Statutory base**

SKYCITY Entertainment Group Limited is a company registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

**Measurement base**

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain assets as identified in specific accounting policies below.

**Accounting policies**

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

## GROUP FINANCIAL STATEMENTS

The group financial statements consolidate the financial statements of subsidiaries, using the purchase method, and include the results of associates using the equity method.

Subsidiaries are entities that are controlled, either directly or indirectly, by the parent.

Associates are entities in which the parent, either directly or indirectly, has significant influence but not a controlling interest.

All material transactions between subsidiaries or between the parent and subsidiaries are eliminated on consolidation.

The results of subsidiaries or associates acquired or disposed of during the year are included in the consolidated Statements of Financial Performance from the date of acquisition or up to the date of disposal.

## REVENUE

Revenues include casino, hotel, conventions, food and beverage, tower admissions, cinema admissions and other revenues. Casino revenues represent the net win to the casino from gaming activities, being the difference between amounts wagered and amounts won by casino patrons.

Revenues exclude the retail value of rooms, food, beverage and other promotional allowances provided on a complimentary basis to customers.

## INCOME TAX

The company follows the liability method of accounting for deferred taxation. The taxation charge against surplus for the year is the estimated liability in respect of that surplus after allowance for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or future income tax benefit. This is the comprehensive basis for the calculation of deferred tax under the liability method. Timing differences relating to interest capitalised to buildings are determined on a net present value basis over the estimated life of the buildings.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

## GOODS AND SERVICES TAX (GST)

The Statements of Financial Performance and Statements of Cash Flows have been prepared so that all components are stated net of GST. All items in the Statements of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

## FOREIGN CURRENCIES

### Transactions

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction, except when forward foreign exchange contracts have been taken out to cover short-term forward currency commitments. Where short-term forward foreign exchange contracts have been taken out, the transaction is translated at the rate contained in the contract.

Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange gains and losses are brought to account in determining the surplus for the year, except where monetary liabilities are identified as a hedge against an independent foreign operation.

### Foreign operations

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the date of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date.

Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations.

## PROPERTY, PLANT AND EQUIPMENT

The cost of assets is the value of the consideration given to acquire the assets, and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service. Funding costs incurred during the period of construction are capitalised as part of the total cost of the assets.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, costs of obtaining Resource Management Act consents, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

## DEPRECIATION

As construction is completed and property, plant and equipment are used in operations, depreciation is charged on a straight-line basis so as to write off the cost of the assets to their estimated residual value over their expected useful lives. Gains and losses on disposals of property, plant and equipment are taken into account in determining the operating result for the year. The estimated economic lives are as follows:

| Category | Estimated useful life |
|---|---|
| Buildings | 5-75 years |
| Building fit-out | 10 years |
| Plant and equipment | 2-75 years |
| Fixtures and fittings | 3-20 years |
| Software | 3-5 years |
| Vehicles | 3 years |

## DEFERRED EXPENDITURE

Costs directly incurred in obtaining and operating funding arrangements, such as origination, commitment and transaction fees, are amortised to earnings over the period of the funding arrangement. If an arrangement does not proceed, costs incurred in setting up the arrangement are expensed to earnings immediately.

Operator rights are expensed to earnings over the period of each management contract.

# Statement of Accounting Policies (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## LEASED ASSETS

**As lessee – operating leases**

Leases under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the periods of expected benefit.

**As lessor – operating leases**

Property leased out under operating leases is included as property, plant and equipment in the Statements of Financial Position and depreciated over its expected useful life. Rental income is brought to account on a straight-line basis over the lease term.

## INVESTMENTS

The parent company's investment in the share of its subsidiaries is stated at cost in the Statements of Financial Position.

Other investments are stated at the lower of cost or net realisable value.

## JOINT VENTURES

When a member of the group participates in a joint venture arrangement, that member recognises its proportionate interest in the individual assets, liabilities, revenues and expenses of the joint venture. The liabilities recognised include its share of those for which it is jointly liable.

## INTANGIBLE ASSETS

**Amortisation of casino licences acquired**

Amortisation of casino licences is calculated on a straight-line basis so as to expense the cost of the licences over their legal lives. The directors review the carrying amounts annually and adjust the value of amortisation if an impairment in value above normal amortisation has occurred.

**Goodwill**

Goodwill represents the excess of purchase consideration over the fair value of the net identifiable assets held by a subsidiary at the time of acquisition of shares in that subsidiary. Goodwill is capitalised and amortised over the period of expected benefit, which may be up to 20 years from the time of acquisition. The directors review the carrying amount annually and adjust the value of goodwill if impairment in value above normal amortisation has occurred.

## IMPAIRMENT

Annually, the directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the Statements of Financial Performance.

## INVENTORIES

Inventories, all of which are finished goods, are stated at the lower of cost and net realisable value determined on a first in, first out basis.

## ACCOUNTS RECEIVABLE

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the year in which they are identified.

## EMPLOYEE ENTITLEMENTS

Employee entitlements to salaries and wages, non-monetary benefits, annual leave and other benefits are recognised when they accrue to employees. This includes the estimated liability for salaries and wages and annual leave as a result of services rendered by employees up to balance date.

## FINANCIAL INSTRUMENTS

### Recognised

Financial instruments carried on the Statements of Financial Position include cash and bank balances, investments, receivables, trade creditors and borrowings. These instruments are carried at their estimated fair value. For example, receivables are carried net of the estimated doubtful receivables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Where possible, financial assets are supported by collateral or other security. These arrangements are described in the individual policy statements associated with each item.

### Unrecognised

The parent company and group are also parties to financial instruments that have not been recognised in the financial statements. These instruments reduce exposure to fluctuations in interest rates and include fixed rate borrowings, cross-currency interest rate swaps, interest rate swaps and forward rate agreements, which have been transacted. Any risks associated with these instruments are not recorded in the financial statements. The net differential paid or received is recognised as a component of interest expense over the period of the agreement.

Forward exchange contracts entered into as hedges of foreign exchange assets and liabilities are valued at exchange rates prevailing at period end. Any unrealised gains or losses are offset against foreign exchange gains and losses on the related asset or liability. Premiums paid on currency options are amortised over the period to maturity.

Full disclosure of information about financial instruments to which the group is a party is provided in note 26.

## STATEMENTS OF CASH FLOWS

The following are definitions of the terms used in the consolidated and parent company's Statements of Cash Flows:

- Operating activities are those activities relating to the trading and management of the business and include all transactions and other events that are not investing or financing activities. Cash receipts from customers are net of complimentaries.
- Investing activities are those activities relating to the acquisition, construction, holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the capital structure of the group. This includes both equity and debt not falling within the definition of cash. Share issues/repurchases and dividends paid in relation to the capital structure are included in financing activities.
- Cash is considered to be cash on hand including cash for use within the casino and current accounts in banks, net of bank overdrafts and short-term deposits.

## CAPITAL NOTE INTEREST

Interest on capital notes is expensed to earnings consistent with other interest costs and is included in funding expenses in the Statements of Financial Performance.

## SHARE OPTIONS

No remuneration expense is recognised in respect of share options issued pursuant to Executive and Non-Executive Director Share Option Plans. The Non-Executive Director Share Option Plan expired in June 2003 and was not renewed. When the options are exercised, the proceeds received are credited to share capital.

## PRE-LICENCE EXPENDITURE

Pre-licence expenditure relates to expenditure incurred to obtain a casino premises licence. Pre-licence expenditure is expensed as incurred.

## COMPARATIVES

Certain comparatives have been restated in order to conform with current year presentation.

### Changes in accounting policies

There have been no significant changes in accounting policies during the current year. Accounting policies have been applied on a basis consistent with the prior year.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

## 1. SEGMENT INFORMATION

| | NEW ZEALAND | | AUSTRALIA | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | **2005 $000** | 2004 $000 | **2005 $000** | 2004 $000 |
| **GEOGRAPHIC SEGMENTS** | | | | | | |
| **Assets** | **1,028,490** | 948,833 | **476,068** | 226,126 | **1,504,558** | 1,174,959 |
| **Revenue** | **485,000** | 469,916 | **199,231** | 124,241 | **684,231** | 594,157 |
| **Result** | | | | | | |
| Segment | **188,646** | 193,982 | **34,475** | 18,006 | **223,121** | 211,988 |
| Interest expense | **(51,688)** | (34,495) | **(29,347)** | (14,068) | **(81,035)** | (48,563) |
| Non-recurring item | **–** | – | **–** | (20,904) | **–** | (20,904) |
| **Net segment result** | **136,958** | 159,487 | **5,128** | (16,966) | **142,086** | 142,521 |

The result is that of the Group before income tax and minority interest. The 2004 non-recurring item related to the write-off of the Canbet Limited investment.

The Group currently operates in the entertainment, leisure and recreation, and tourism sectors.

## 2. REVENUE

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| Sales revenue | **671,941** | 590,479 | – | – |
| **Investment revenue** | | | | |
| Share of associated company profit after tax | **26** | 117 | – | – |
| Dividends from associated companies | **225** | 163 | – | – |
| Dividends from wholly-owned entities | **–** | – | 133,467 | 130,000 |
| Dividends from related entities | **5,399** | – | – | – |
| Interest received | **4,846** | 1,898 | 2,505 | 598 |
| Inter-company interest received | **–** | – | – | 1,231 |
| **Other revenue** | | | | |
| Foreign currency gains | **1,794** | 1,500 | – | – |
| Other revenue | **–** | – | 2,653 | 7,163 |
| **Total revenue** | **684,231** | 594,157 | 138,625 | 138,992 |

## 3. EXPENSES

| FOR THE YEAR ENDED 30 JUNE 2005 | CONSOLIDATED 2005 $000 | CONSOLIDATED 2004 $000 | PARENT COMPANY 2005 $000 | PARENT COMPANY 2004 $000 |
|---|---|---|---|---|
| Included within expenses are the following items: | | | | |
| Depreciation – buildings | **15,504** | 10,190 | – | – |
| Depreciation – plant and equipment | **33,833** | 29,186 | 13 | 5 |
| Depreciation – motor vehicles | **175** | 48 | – | – |
| Depreciation – furniture and fittings | **6,171** | 5,244 | 1 | 8 |
| Depreciation – other | **67** | – | – | – |
| Total depreciation | **55,750** | 44,668 | 14 | 13 |
| Loss on sale of property, plant and equipment | **632** | – | – | – |
| Rental expense on operating leases | **7,768** | 7,674 | 55 | 56 |
| Employee remuneration | **185,790** | 160,675 | 10,985 | 10,970 |
| Foreign currency translation losses | **–** | 92 | – | – |
| **Costs of offering credit** | | | | |
| Bad debts written-off | **–** | 1 | – | – |
| Increase in estimated doubtful debts | **444** | 363 | – | – |
| **Cost of borrowings** | | | | |
| Interest paid | **79,367** | 46,656 | 13,158 | 14,050 |
| Other funding expenses | **1,668** | 1,907 | 286 | – |
| **Governance expenses** | | | | |
| Directors' fees* | **978** | 392 | 966 | 362 |
| **Fees paid to principal auditors** | | | | |
| Audit: | | | | |
| Compliance audit fees | **15** | 360 | 15 | – |
| Statutory audit fees | **560** | 315 | 88 | 36 |
| | **575** | 675 | 103 | 36 |
| Audit-related services: | | | | |
| Accounting advice and assistance | **96** | 131 | 96 | 87 |
| Financial due diligence | **333** | 555 | – | – |
| IT project quality assurance | **–** | 71 | – | – |
| International Financial Reporting Standards accounting assistance | **130** | 156 | – | – |
| Tax compliance services | **305** | 205 | – | 182 |
| | **864** | 1,118 | 96 | 269 |
| Other services: | | | | |
| Taxation advisory services | **1,097** | 603 | – | 235 |
| | **1,097** | 603 | – | 235 |
| Audit fees paid to other auditors | **38** | 51 | – | – |
| Total amounts paid to auditors | **2,574** | 2,447 | 199 | 540 |
| **Sundry expenses** | | | | |
| Community trust and donations | **4,311** | 3,350 | – | – |
| **Unusual items** | | | | |
| Write-down of investment in subsidiary | **–** | – | – | 2,214 |
| Write-off of investment in associate | **–** | 20,904 | – | – |

** In July 2004 a retirement allowance was paid to Jon Hartley who retired as chairman on 31 March 2004. At July 2004 the retirement allowance provisions for directors were discontinued and the existing retirement entitlements were frozen and accrued. At the same time directors' fees were increased by an amount equal to the loss of the continuing retirement benefit accrual.*

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 4. SHARE CAPITAL

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **ISSUED AND PAID-UP CAPITAL** | | | | |
| **Ordinary shares** | | | | |
| Balance at the beginning of the year | **225,871** | 246,518 | 225,871 | 246,518 |
| Shares issued under dividend reinvestment plan | **6,106** | – | 6,106 | – |
| Exercise of share options | **4,685** | 4,193 | 4,685 | 4,193 |
| Shares issued under employee bonus scheme | **2,869** | 2,816 | 2,869 | 2,816 |
| Shares repurchased and cancelled | **(13,754)** | (27,656) | (13,754) | (27,656) |
| **Closing share capital** | **225,777** | 225,871 | 225,777 | 225,871 |

### ORDINARY SHARES

As at 30 June 2005 there were 417,613,974 shares issued and fully paid (2004: 416,401,490). All ordinary shares rank equally with one vote attached to each fully-paid ordinary share.

### DIVIDEND REINVESTMENT PLAN

Pursuant to the Dividend Reinvestment Plan approved by the board of directors on 17 February 2005 1,212,484 shares were issued in lieu of a cash dividend (2004: nil). The strike price was $5.0356 (2004: n/a).

### EXECUTIVE SHARE OPTION PLAN

**1999 Plan**

Options issued prior to 2002 are pursuant to the Executive Share Option Plan approved by shareholders at the annual meeting of the company held on 28 October 1999. Options issued under the 1999 Plan are not exercisable until one year after the date of issue provided the terms and conditions of the Plan are met and lapse if not exercised within five years of issue.

**2002 Plan**

Options have also been issued pursuant to the Executive Share Option Plan approved by the board in August 2002. Options issued to executives under the 2002 Plan are exercisable after the third anniversary of the date of issue provided the terms and conditions of the Plan are met and lapse if not exercised within five years of issue.

The exercise price of options issued under both the 1999 and 2002 Plans is the relevant base exercise price of the option (as defined in the plans), adjusted for the company's estimated cost of equity and dividends between the issue date and the exercise date of the options.

Movements in the number of share options outstanding under the 1999 and 2002 Executive Share Option Plans are as below.

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | 2005 | 2004 |
| Balance at the beginning of the year | **5,288,459** | 4,798,140 | 5,288,459 | 4,798,140 |
| Granted | **2,475,500** | 1,062,000 | 2,475,500 | 1,062,000 |
| Exercised | **(526,595)** | (435,348) | (526,595) | (435,348) |
| Lapsed | **(399,334)** | (136,333) | (399,334) | (136,333) |
| **Balance at the end of the year (number of options)** | **6,838,030** | 5,288,459 | 6,838,030 | 5,288,459 |

## 4. SHARE CAPITAL (CONTINUED)

Executive share options outstanding at the end of the year have the following terms:

| ISSUE DATE | EXPIRY DATE | BASE EXERCISE PRICE AT DATE OF ISSUE | OPTION VALUE AT DATE OF ISSUE | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|---|---|---|
| | | | | **2005** | 2004 | 2005 | 2004 |
| 30/08/00 | 30/08/05 | $7.68 | $0.37 | **–** | 348,429 | – | 348,429 |
| 04/09/01 | 04/09/06 | $11.61 | $0.82 | **459,000** | 539,500 | 459,000 | 539,500 |
| 10/09/02 | 10/09/07 | $7.05 | $0.46 | **3,238,863** | 3,395,530 | 3,238,863 | 3,395,530 |
| 09/09/03 | 09/09/08 | $8.83 | $0.58 | **865,667** | 1,005,000 | 865,667 | 1,005,000 |
| 09/09/03 | 09/09/08 | $4.42 | $0.29 | **450,000** | – | 450,000 | – |
| 08/09/04 | 08/09/09 | $4.44 | $0.31 | **1,824,500** | – | 1,824,500 | – |
| | | | | **6,838,030** | 5,288,459 | 6,838,030 | 5,288,459 |

As a result of one-for-one share splits on 16 November 2001 and 14 November 2003, the 2000 and 2001 options all convert to four shares upon exercise, and the 2002 and 2003 options, with the exception of a 450,000 tranche issued on 9 September 2003, convert to two shares upon exercise.

The 450,000 options issued on 9 September 2003 and the 2004 options covert to one share upon exercise.

### NON-EXECUTIVE DIRECTOR SHARE OPTIONS

Pursuant to the Non-Executive Directors' Share Option Plan (2000), approved by shareholders at the annual meeting of the company on 26 October 2000, 62,892 options remain on issue to non-executive directors as at 30 June 2005 (2004: 129,211).

Options lapse if not exercised within five years of issue. The exercise price of the options issued under the Plan is the relevant base exercise price of the option (as defined in the Plan), adjusted for the company's estimated cost of equity and dividends between the issue date and the exercise date of the options.

The Non-Executive Directors' Share Option Plan (2000) expired in June 2003 and was not renewed.

Movements in the number of share options outstanding under the Non-Executive Directors' Share Option Plan are as below.

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005** | 2004 | 2005 | 2004 |
| Balance at the beginning of the year | **129,211** | 150,175 | 129,211 | 150,175 |
| Exercised | **(66,319)** | (20,964) | (66,319) | (20,964) |
| **Balance at the end of the year (number of options)** | **62,892** | 129,211 | 62,892 | 129,211 |

Non-executive share options outstanding at the end of the year have the following terms:

| ISSUE DATE | EXPIRY DATE | BASE EXERCISE PRICE AT DATE OF ISSUE | OPTION VALUE AT DATE OF ISSUE | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|---|---|---|
| | | | | **2005** | 2004 | 2005 | 2004 |
| 04/09/01 | 04/09/06 | $11.61 | $0.82 | **–** | 24,390 | – | 24,390 |
| 10/09/02 | 10/09/07 | $7.05 | $0.48 | **62,892** | 104,821 | 62,892 | 104,821 |
| | | | | **62,892** | 129,211 | 62,892 | 129,211 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 4. SHARE CAPITAL (CONTINUED)

As a result of one-for-one share splits on 16 November 2001 and 14 November 2003, the 2001 options converted to four shares and the 2002 options will convert to two shares, when exercised.

### OPTION VALUATION

The options are valued using the Black-Scholes model. The calculation is prepared by Deloitte Corporate Finance and reviewed by PricewaterhouseCoopers as auditors. Under this calculation the value of all options issued during the year was $627,905 (2004: $746,460).

### REPURCHASE AND CANCELLATION OF SHARES

On 2 September 2004, SKYCITY Entertainment Group Limited announced that it would commence a share buyback programme of the company's shares from 8 September 2004. The share buyback programme was completed on 29 April 2005. Summary details are set out below.

| DATE | SHARES REPURCHASED | AVERAGE PURCHASE PRICE |
|---|---|---|
| September 2004 | **818,535** | 4.46 |
| October 2004 | **593,010** | 4.43 |
| November 2004 | **9,614** | 4.65 |
| February 2005 | **20,000** | 4.89 |
| March 2005 | **160,000** | 4.94 |
| April 2005 | **1,398,841** | 4.58 |
| **Total shares repurchased** | **3,000,000** | 4.58 |

Of the three million shares bought back during the financial year, 2,788,163 shares have been cancelled to offset shares that have been issued to employees in relation to incentive and option share entitlements and 211,837 shares are held as treasury stock as at 30 June 2005.

## 5. RESERVES

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| Foreign currency translation reserve | **(22,601)** | (14,172) | – | – |
| Employee share entitlement reserve | **4,653** | 6,662 | 4,653 | 6,662 |
| **Total reserves** | **(17,948)** | (7,510) | 4,653 | 6,662 |
| **ANALYSIS** | | | | |
| **Foreign currency translation reserve** | | | | |
| Balance at the beginning of the year | **(14,172)** | (4,219) | – | – |
| Effect of hedging the net investment of overseas subsidiaries | **4,052** | (3,885) | – | – |
| Exchange difference on translation of overseas subsidiaries | **(12,481)** | (6,068) | – | – |
| **Balance at the end of the year** | **(22,601)** | (14,172) | – | – |
| **Employee share entitlement reserve** | | | | |
| Balance at the beginning of the year | **6,662** | 6,151 | 6,662 | 6,151 |
| Less value of shares issued during the year | **(2,869)** | (2,816) | (2,869) | (2,816) |
| Less cash issued in lieu of shares | **(9)** | (9) | (9) | (9) |
| Plus value of share entitlements for the current year | **869** | 3,336 | 869 | 3,336 |
| **Balance at the end of the year** | **4,653** | 6,662 | 4,653 | 6,662 |

## 5. RESERVES (CONTINUED)

Under the SKYCITY Performance Pay Incentive Plan (PPI), selected employees have been eligible for performance-related bonuses in respect of each of the financial years ending 30 June 2000 through 30 June 2005. The employee share entitlement reserve represents the value of ordinary shares to be issued in respect of the plan for the years ended 30 June 2003 through 30 June 2005.

Shares under PPI are issued in three equal instalments, being one third of the shares on the bonus declaration date, and provided eligibility criteria continue to be met, one-third on the next entitlement date (approximately 12 months later) and one-third on the final entitlement date (approximately 24 months later).

Shares are issued at the average closing price of SKYCITY Entertainment Group Limited's shares on the New Zealand Exchange for the ten business days following the release to the New Zealand Exchange of the SKYCITY Entertainment Group Limited's annual result for the relevant year of the Plan.

Shares issued have the same rights as existing ordinary shares and are issued as soon as possible after the tenth business day following the release of the SKYCITY Entertainment Group Limited annual result.

## 6. RETAINED EARNINGS

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| Balance at the beginning of the year | **(7,274)** | (7,492) | (30,174) | (35,001) |
| Net surplus for the year | **104,007** | 100,222 | 107,802 | 104,831 |
| Dividends paid | **(114,658)** | (100,004) | (114,658) | (100,004) |
| **Balance at the end of the year** | **(17,925)** | (7,274) | (37,030) | (30,174) |
| **Composition** | | | | |
| Parent and subsidiaries | **(18,658)** | (7,981) | | |
| Associates | **733** | 707 | | |
| | **(17,925)** | (7,274) | | |

## 7. DIVIDENDS

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **Ordinary dividends** | | | | |
| Interim dividend paid in cash or reinvested (refer note 4) | **50,130** | 45,691 | 50,130 | 45,691 |
| Prior year final dividend paid in cash | **64,528** | 54,313 | 64,528 | 54,313 |
| **Total dividends** | **114,658** | 100,004 | 114,658 | 100,004 |

The dividends are fully imputed.

Subsequent to year end the board of directors resolved to pay a final dividend of 12.0 cents per ordinary share, a total of $50,113,677. The dividend will be paid on 7 October 2005 to all shareholders on the company's register at the close of business on Friday, 23 September 2005.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 8. IMPUTATION CREDITS

| | CONSOLIDATED | |
|---|---|---|
| | **2005 $000** | 2004 $000 |
| **Imputation credit account** | | |
| Balance at the beginning of the year | **9,636** | 7,435 |
| Tax payments, net of refunds | **18,716** | 45,398 |
| Credits attached to dividends paid | **(54,232)** | (49,255) |
| Supplementary tax credits | **8,555** | 6,058 |
| **Balance at the end of the year** | **(17,325)** | 9,636 |

As required by relevant tax legislation, the imputation credit account had a credit balance as at 31 March 2005. The current debit balance is a result of imputation credits attached to the interim dividend paid in April 2005.

## 9. MINORITY INTERESTS

| | CONSOLIDATED | |
|---|---|---|
| | **2005 $000** | 2004 $000 |
| Balance at the beginning of the year | **3,516** | 5,607 |
| Share of surpluses in subsidiaries | **1,111** | 1,899 |
| Increased shareholding in SKYCITY Hamilton Limited and SKYCITY Leisure Limited | **(1,783)** | (5,190) |
| Minority interest in contributions from owners | **–** | 1,200 |
| **Balance at the end of the year** | **2,844** | 3,516 |

### SKYCITY HAMILTON LIMITED (formerly Riverside Casino Limited)

On 30 June 2004, SKYCITY Entertainment Group Limited purchased the 15% of SKYCITY Hamilton Limited owned by Tainui Developments Limited.

With effect from 30 June 2005, SKYCITY Entertainment Group Limited purchased the remaining 30% of SKYCITY Hamilton Limited. All prior period minority interest relating to this 30% shareholding in SKYCITY Hamilton Limited is now reflected in the fair value and goodwill relating to the SKYCITY Hamilton Limited investment.

### SKYCITY LEISURE LIMITED

From 30 June 2004, SKYCITY Leisure Limited was treated as a wholly-owned subsidiary of SKYCITY Entertainment Group Limited following the issuance of compulsory acquisition notices to outstanding ordinary share and mandatory convertible note holders on 15 June 2004.

## 10. BORROWINGS

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **CURRENT** | | | | |
| **Secured** | | | | |
| Bank loans | **758** | 1,000 | – | – |
| **Unsecured** | | | | |
| Bank loans | **–** | 100,000 | – | – |
| **Total current borrowings** | **758** | 101,000 | – | – |
| **NON-CURRENT** | | | | |
| **Secured** | | | | |
| Bank loans | **52** | 66,827 | – | – |
| | **52** | 66,827 | – | – |
| **Unsecured** | | | | |
| Unsecured loans | **961,671** | 517,000 | – | – |
| Less deferred funding expenses | **(4,928)** | (3,860) | – | – |
| **Total non-current borrowings** | **956,795** | 579,967 | – | – |

### SYNDICATED BANK FACILITY

At 30 June 2005, SKYCITY Entertainment Group Limited had in place a $650,000,000 (2004: $1,000,000,000) facility on an unsecured, negative pledge basis. The funding syndicate is comprised of ANZ National Bank Limited, Bank of New Zealand Limited and Commonwealth Bank of Australia, New Zealand Branch. During the year the $350,000,000 bridging tranche of the facility was repaid and cancelled. As at 30 June 2005 the undrawn amount is $260,000,000 (2004: $387,000,000).

### UNITED STATES PRIVATE PLACEMENT

During the year, SKYCITY Entertainment Group Limited approached investors in the US private placement market with the intention of diversifying funding sources and lengthening the borrowing term. As a result of this, on 15 March 2005, SKYCITY Entertainment Group Limited borrowed a combination of New Zealand dollars, Australian dollars and US dollars from private investors (primarily US based) on an unsecured basis (as at 30 June 2005, NZ$565,670,000 equivalent in total). The funds were comprised as below.

| MATURING | NEW ZEALAND DOLLARS $000 | UNITED STATES DOLLARS $000 | AUSTRALIAN DOLLARS $000 |
|---|---|---|---|
| March 2012 | 47,275 | 200,500 | 74,900 |
| March 2017 | – | 27,000 | – |
| March 2020 | 21,127 | – | – |
| **Total** | 68,402 | 227,500 | 74,900 |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 10. BORROWINGS (CONTINUED)

All US dollar borrowing has been converted to New Zealand dollars by way of cross-currency interest rate swaps.

### SKYCITY HAMILTON LIMITED

At balance date, SKYCITY Hamilton Limited had an unsecured bank facility of $18,000,000 (2004: $19,000,000) of which $6,000,000 was drawn down (2004: $9,000,000). Since balance date, this facility has been repaid and cancelled.

### SKYCITY LEISURE GROUP

At balance date, SKYCITY Cinemas Fiji Limited had a bank term loan facility of F$908,432 (NZ$758,000) (2004: F$869,899 (NZ$760,202) secured by first mortgage over the Fiji multiplex. Since balance date, this facility has been repaid and cancelled.

During the year, a bank term loan facility (2004: $37,405,000) in the name of SKYCITY Leisure Limited and a bank cash advance facility (2004: $20,500,000) in the name of SKYCITY Metro Limited were both repaid and cancelled.

At balance date, Village Rialto Cinemas Limited had a drawn-down bank term loan facility of $210,000. SKYCITY Entertainment Group Limited's share is $52,500 (2004: $210,000) and is secured by registered mortgage debenture over Village Rialto Cinemas Limited (SKYCITY Entertainment Group Limited has a 25% interest in Village Rialto Cinemas Limited). Village SKYCITY Cinemas Limited provides a guarantee for 50% of the outstanding facility.

### WEIGHTED AVERAGE INTEREST RATE

The weighted average interest rate on the Group's funding facilities (inclusive of margin and hedging derivatives) incurred during the year ended 30 June 2005 was 7.62% (2004: 7.13%).

## 11. DEFERRED TAX LIABILITY

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **Non-current** | | | | |
| Balance at the beginning of the year | **27,216** | 24,683 | – | – |
| Prior year timing differences | **1,100** | 770 | – | – |
| Current year movements | **4,759** | 2,722 | – | – |
| Foreign currency adjustment | **24** | (959) | – | – |
| Impact of purchase, disposal and amalgamation of subsidiaries | **2,351** | – | – | – |
| **Balance at the end of the year** | **35,450** | 27,216 | – | – |

## 12. INCOME TAX

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| Surplus before tax | **142,086** | 142,521 | 107,802 | 104,831 |
| **Permanent differences** | | | | |
| Acquisition of SKYCITY Darwin Holdings Pty Limited | **(4,472)** | – | – | – |
| Dividends received | **–** | – | (133,467) | (130,000) |
| Capitalised interest | **(4,716)** | (4,160) | – | – |
| Previously unrecognised tax losses and timing differences | **–** | (28,198) | – | – |
| Non-deductible write-off of associate | **–** | 20,904 | – | – |
| Inter-company eliminations | **–** | – | 25,248 | 24,609 |
| Share of associates' tax-paid earnings | **(26)** | – | – | – |
| Non-taxable income | **(3,417)** | – | – | – |
| Expenditure not deductible for tax | **9,229** | 3,172 | 417 | 560 |
| Additional depreciable value | **(616)** | (588) | – | – |
| Future income tax benefits not recognised | **–** | 148 | – | – |
| Adjustment for other tax rates | **(10,535)** | (9,886) | – | – |
| Foreign exchange rate differences | **(180)** | 382 | – | – |
| Tax effect of imputation credits on taxable dividends | **(4,556)** | – | – | – |
| Share of partnership expenditure | **(10,893)** | – | – | – |
| Foreign exchange variations | **(1,153)** | – | – | – |
| Over-provision in prior years | **1,273** | (1,870) | – | – |
| Surplus subject to tax | **112,024** | 122,425 | – | – |
| Tax at 33% | **36,968** | 40,400 | – | – |
| **Income tax recognised in the Statements of Financial Performance** | **36,968** | 40,400 | – | – |
| **Comprising:** | | | | |
| Current taxation | **31,702** | 46,204 | – | – |
| Future income tax benefit | **87** | (8,017) | – | – |
| Overestimation in prior years | **420** | (509) | – | – |
| Deferred income tax liability | **4,759** | 2,722 | – | – |
| | **36,968** | 40,400 | – | – |

The parent company, together with its New Zealand-based wholly-owned subsidiary companies, excluding SKYCITY Management Limited, SKYCITY Wellington Limited, SKYCITY Hamilton Limited, SKYCITY Investments Christchurch Limited and SKYCITY Leisure group companies form a consolidated group for income tax purposes. SKYCITY Leisure group companies form a consolidated group for income tax purposes. Accordingly, income tax payments and imputation credit movements are generally reported on a consolidated basis and are available to shareholders through their shareholding in the parent company.

At 30 June 2005 the Group has income tax receivable of $12,905,000 (2004: $9,998,860).

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 13. PAYABLES AND ACCRUALS

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **Current** | | | | |
| Trade creditors | **24,802** | 12,439 | 105 | – |
| Accrued expenses | **49,366** | 53,782 | 1,679 | 1,891 |
| Amounts due to subsidiaries | **–** | – | 285,971 | – |
| Employee entitlements | **23,129** | 16,296 | – | – |
| Purchase of minority interest in subsidiary | **–** | 11,102 | – | – |
| | **97,297** | 93,619 | 287,755 | 1,891 |

## 14. SUBORDINATED DEBT – CAPITAL NOTES

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| Balance at the beginning of the year | **150,000** | 150,000 | 150,000 | 150,000 |
| Matured during the year | **(150,000)** | – | (150,000) | – |
| Reissued during the year | **121,687** | – | 121,687 | – |
| Balance at the end of the year | **121,687** | 150,000 | 121,687 | 150,000 |
| Deferred expenses at cost | **356** | 1,875 | 356 | 1,875 |
| Accumulated amortisation | **(179)** | (1,519) | (179) | (1,519) |
| Balance at the end of the year | **177** | 356 | 177 | 356 |
| **Net capital notes at the end of the year** | **121,510** | 149,644 | 121,510 | 149,644 |

In May 2000, SKYCITY Entertainment Group Limited issued 150 million unsecured subordinated capital notes at an issue price of $1.00 per note. The capital notes offered holders a fixed interest rate until the first election date, being 15 May 2005. Election dates will occur every five years after the first election date.

Prior to the election date, the company must notify holders of the proportion of their capital notes it will redeem (if any) and, if applicable, the new conditions (including as to interest rate, interest dates, new election date, and other modifications to the existing conditions) that will apply to the capital notes from the election date. Holders may then choose either to retain some or all of their capital notes on the new terms, and/or to convert some or all of their capital notes into SKYCITY Entertainment Group Limited ordinary shares. SKYCITY Entertainment Group Limited may elect to redeem or purchase some or all of the capital notes that holders have elected to convert, at an amount equal to the principal amount plus any accrued but unpaid interest.

If capital notes are converted, holders will receive ordinary shares equal in value to the aggregate of the principal amount of the notes plus any accrued but unpaid interest. The value of the shares is determined on the basis of 95% of the weighted average sale price of an ordinary share on the New Zealand Exchange during the 15 days prior to the election dates.

## 14. SUBORDINATED DEBT – CAPITAL NOTES (CONTINUED)

The capital notes do not carry voting rights. Capital note holders are not entitled to any distributions made by SKYCITY Entertainment Group Limited in respect of its ordinary shares prior to the conversion date of the capital notes, and do not participate in any change in value of the issued shares of SKYCITY Entertainment Group Limited.

On 16 May 2005 the capital notes were reissued for a new term of five years to 15 May 2010. The notes were reissued on the same terms and conditions as the existing capital notes except for the new coupon interest rate of 8.0% (previously 9.25%).

Of the 150,000,000 capital notes, the holders of 103,859,750 notes elected to retain capital notes for a further five-year term. The remaining 46,140,250 notes were repurchased by SKYCITY Entertainment Group Limited to be held as treasury stock. On 27 June 2005, 20,000,000 of the notes held as treasury stock were sold into the market. As at 30 June 2005, there were 150,000,000 capital notes on issue of which 121,687,750 are issued with 28,312,250 held as treasury stock by SKYCITY Entertainment Group Limited.

The capital notes have been classified as non-current liabilities based on the 15 May 2010 election date. The 2004 comparative figures were classified as current based on the 15 May 2005 election date.

## 15. SUBORDINATED DEBT – OTHER

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| ANZ National Bank Limited | **100,000** | – | – | – |
| **Total** | **100,000** | **–** | – | – |

In June 2005, SKYCITY Entertainment Group Limited arranged a six month fully subordinated facility with ANZ National Bank Limited for $100,000,000. The facility is fully utilised as at 30 June 2005. This facility matures on 27 December 2005.

## 16. CONVERTIBLE NOTES

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| Balance at the beginning of the year | **8,910** | 13,365 | – | – |
| Conversion to ordinary shares | **(8,910)** | – | – | – |
| Minority interest in convertible notes purchased during the year | **–** | (4,455) | – | – |
| **Balance at the end of the year** | **–** | **8,910** | – | – |

On 30 June 2005, all convertible notes issued by SKYCITY Hamilton Limited were converted to ordinary shares and SKYCITY Entertainment Group Limited acquired the Riverside Trust's 30% interest in SKYCITY Hamilton Limited, to bring its interest to 100%.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 17. PROPERTY, PLANT AND EQUIPMENT

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | COST OR VALUATION $000 | ACCUM DEPN $000 | BOOK VALUE $000 | COST OR VALUATION $000 | ACCUM DEPN $000 | BOOK VALUE $000 |
| **GROUP** | | | | | | |
| **Buildings** | | | | | | |
| Buildings at cost | **707,505** | **(95,030)** | **612,475** | 492,623 | (66,945) | 425,678 |
| **Land** | | | | | | |
| Land at cost | **95,180** | **–** | **95,180** | 84,224 | – | 84,224 |
| **Plant and equipment** | | | | | | |
| Plant and equipment at cost | **246,989** | **(159,897)** | **87,092** | 218,692 | (128,197) | 90,495 |
| **Motor vehicles** | | | | | | |
| Motor vehicles at cost | **811** | **(449)** | **362** | 358 | (304) | 54 |
| **Fixtures and fittings** | | | | | | |
| Fixtures and fittings at cost | **82,044** | **(42,989)** | **39,055** | 58,936 | (37,800) | 21,136 |
| **Other capital assets** | | | | | | |
| Capital work in progress | **98,494** | **–** | **98,494** | 128,680 | – | 128,680 |
| | **1,231,023** | **(298,365)** | **932,658** | 983,513 | (233,246) | 750,267 |
| **PARENT** | | | | | | |
| **Plant and equipment** | | | | | | |
| Plant and equipment at cost | **432** | **(196)** | **236** | 232 | (107) | 125 |
| **Furniture, fixtures and fittings** | | | | | | |
| Furniture, fixtures and fittings at cost | **88** | **(48)** | **40** | 243 | (123) | 120 |
| **Other capital assets** | | | | | | |
| Capital work in progress | **512** | **–** | **512** | – | – | – |
| | **1,032** | **(244)** | **788** | 475 | (230) | 245 |

Borrowing costs in relation to the funding of the SKYCITY Grand Hotel, SKYCITY Auckland Convention Centre, the gaming expansion and car park building purchases have been capitalised to these projects: $5,780,011 (2004: $5,610,912). Total capitalised interest and facility fees included in the cost of land and buildings at 30 June 2005 is $45,538,629 (2004: $39,758,618).

A memorandum of encumbrance is registered against the title of land for the Auckland casino in favour of Auckland City Council. Auckland City Council requires prior written consent before any transfer, assignment or disposition of the land. The intent of the covenant is to protect the Council's rights under the resource consent, relating to the provision of the bus terminus, public car park and the provision of public footpaths around the complex.

## 17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

A further encumbrance records the Council's interest in relation to the sub-soil areas under Federal and Hobson Streets used by SKYCITY as carparking and a vehicle tunnel. The encumbrance is to notify any transferee of Council's interest as lessor of the sub-soil areas.

Part of the SKYCITY Hamilton Limited property was held on trust for Perry Developments Limited. This area comprised the parts of the property not comprising the casino premises and the car park. These areas were to have been transferred to Perry Developments Limited when strata titles were issued for the complex. This interest was purchased by SKYCITY Entertainment Group Limited as part of the acquisition of the remaining minority interest in SKYCITY Hamilton Limited. Drainage rights have been granted over parts of the land appurtenant to Lot 2 Plan 5.23789 (CT22C/1428). There is also a right of way granted over part of Lot 1 and part of Lot 2 DP580554.

The Hamilton site is also subject to the normal rights that the Crown reserves in respect of minerals and mining in relation to the sub-soil areas. Furthermore, the land title is subject to Section 27B of the State-Owned Enterprises Act 1986 which does not provide for the owner of the land to be heard in relation to any recommendations of the Waitangi Tribunal for the resumption of the land. At balance date the company was not aware of any matters pertaining to the land under the State-Owned Enterprises Act 1986.

## 18. COMMITMENTS

The following amounts have been committed to by the Group or parent, but not recognised in the financial statements.

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **OPERATING LEASES** | | | | |
| Non-cancellable operating lease commitments: | | | | |
| Payable not later than one year | **11,794** | 5,710 | 2 | 7 |
| Payable later than one, but not later than two years | **11,651** | 6,625 | – | 2 |
| Payable later than two, but not later than five years | **29,779** | 14,967 | – | – |
| Payable later than five years | **261,849** | 241,405 | – | – |
| | **315,073** | 268,707 | 2 | 9 |
| **CAPITAL EXPENDITURE** | | | | |
| Amounts committed to capital expenditure | **23,563** | 63,809 | – | – |

The above capital expenditure relates to purchases of plant and equipment.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 19. INVESTMENTS IN SUBSIDIARIES

The parent's investment in subsidiaries comprises shares at cost. Significant subsidiaries (including subsidiaries of subsidiaries) are listed.

| | | INTEREST HELD BY THE GROUP | |
|---|---|---|---|
| NAME OF ENTITY | PRINCIPAL ACTIVITIES | **2005** | 2004 |
| Abdiel Investments Limited | Property | **100%** | 100% |
| Queenstown Casinos Limited | Casino premises licence holder | **60%** | 60% |
| Riverside Fund Limited | Holding company | **100%** | 100% |
| SKYCITY Action Management Limited | Loyalty programme | **100%** | 100% |
| SKYCITY Auckland Holdings Limited | Group funding | **100%** | 100% |
| SKYCITY Auckland Limited | Casino premises licence holder | **100%** | 100% |
| SKYCITY Casino Management Limited | Casino operator's licence holder | **100%** | 100% |
| SKYCITY Cinemas (Fiji) Limited | Cinema exhibition | **100%** | 100% |
| SKYCITY Cinemas Limited | Cinema exhibition | **100%** | 100% |
| SKYCITY Cinemas (Whangarei) Limited | Cinema exhibition | **100%** | 100% |
| SKYCITY Construction Limited | Non-trading | **100%** | 100% |
| SKYCITY Hamilton Construction Limited | Property owner | **100%** | 70% |
| SKYCITY Hamilton Limited | Casino premises licence holder | **100%** | 70% |
| SKYCITY International Holdings Limited | Holding company | **100%** | 100% |
| SKYCITY Investments Auckland Limited | Holding company | **100%** | 100% |
| SKYCITY Investments Limited | Holding company | **100%** | 100% |
| SKYCITY Leisure Holdings Limited | Property and administration | **100%** | 100% |
| SKYCITY Leisure Limited | Holding company | **100%** | 100% |
| SKYCITY Management (Auckland) Limited | Employment of staff | **100%** | 100% |
| SKYCITY Metro Limited | Property | **100%** | 100% |
| SKYCITY Queenstown Investments Limited | Joint venture partner | **100%** | 100% |
| SKYCITY Wellington Limited | Promotion company | **100%** | 100% |
| Sky Tower Limited | Non-trading | **100%** | 100% |
| SKYCITY International ApS | Danish holding company, incorporated in Denmark | **100%** | 100% |
| SKYCITY Adelaide Pty Limited | Adelaide Casino licence holder and operator, incorporated in Australia | **100%** | 100% |
| SKYCITY Australia Finance Pty Limited | Group funding, incorporated in Australia | **100%** | – |
| SKYCITY Australia Limited Partnership | Group funding, incorporated in Australia | **100%** | – |
| SKYCITY Australia Pty Limited | Australian holding company, incorporated in Australia | **100%** | 100% |
| SKYCITY Darwin Holdings Pty Limited | Darwin holding company, incorporated in Australia | **100%** | – |
| SKYCITY Darwin Pty Limited | Darwin Casino licence holder and operator, incorporated in Australia | **100%** | – |
| Territory Property Trust | Darwin land holder | **100%** | – |

## 19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

All wholly-owned subsidiary companies and significant partly-owned subsidiaries have balance dates of 30 June.

SKYCITY Darwin Pty Limited and Territory Property Trust were acquired as part of the 100% acquisition of SKYCITY Darwin Holdings Pty Limited on 22 July 2004.

### ACQUISITION OF SUBSIDIARY

**SKYCITY Darwin Holdings Pty Limited**

On 22 July 2004, SKYCITY Australia Pty Limited, a wholly-owned subsidiary of SKYCITY Entertainment Group Limited, acquired 100% of the share capital of SKYCITY Darwin Holdings Pty Limited.

### SUMMARY OF THE EFFECT OF ACQUISITION OF SUBSIDIARIES

| | CONSOLIDATED | |
|---|---|---|
| | **2005 $000** | 2004 $000 |
| **Net assets acquired – SKYCITY Darwin** | | |
| Working capital balances | **(3,167)** | – |
| Property, plant and equipment | **94,050** | – |
| Casino licence | **38,580** | – |
| Goodwill | **92,051** | – |
| Consideration paid (including costs and taxes) | **221,514** | – |
| **Net cash impact of acquisition of subsidiaries** | | |
| SKYCITY Darwin | **221,514** | – |
| Less deposit paid in 2004 for SKYCITY Darwin | **(25,377)** | – |
| SKYCITY Leisure final stepped acquisition | **7,388** | – |
| SKYCITY Hamilton Tainui stepped acquisition | **11,102** | – |
| SKYCITY Hamilton Perry stepped acquisition | **33,283** | – |
| **Net cash impact of acquisitions** | **247,910** | **–** |

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 20. INVESTMENTS IN ASSOCIATES

### DETAILS OF ASSOCIATES

The parent's investment in associates comprises shares at cost. Significant associates (including associates of subsidiaries) are as below.

| | | INTEREST HELD BY THE GROUP | |
|---|---|---|---|
| NAME OF ENTITY | PRINCIPAL ACTIVITIES | **2005** | 2004 |
| Canbet Limited | Online wagering | **–** | 33% |
| Village Cinemas SA (Argentina) | Movie exhibition | **25%** | 25% |
| Vista Entertainment Solutions Limited | Ticket software systems | **25%** | 25% |

Village Cinemas SA is incorporated in Argentina and Vista Entertainment Solutions Limited is incorporated in New Zealand.

Village Roadshow Limited holds an option in respect of 40% of SKYCITY's shareholding in Village Cinemas SA (10% of total shares). Refer note 27.

All entities have balance dates of 30 June with the exception of Vista Entertainment Solutions Limited, which has a 31 December balance date. The directors are not aware of any significant events or transactions since Vista Entertainment Solutions Limited's balance date.

The investment in Canbet Limited was disposed of during the year. In exchange for SKYCITY Entertainment Group Limited's share in Canbet Limited the group received a 6.8% interest in International All Sports Limited, a publicly-listed Australian entity.

### RESULTS OF ASSOCIATES

| | CONSOLIDATED | |
|---|---|---|
| | **2005 $000** | 2004 $000 |
| Share of surplus (less deficits) before income tax | **39** | 175 |
| Income tax | **(13)** | (58) |
| **Total recognised revenues and expenses** | **26** | 117 |

### INTERESTS IN ASSOCIATES

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **Carrying value** | | | | |
| Balance at the beginning of the year | **255** | 21,586 | – | – |
| Share of total recognised revenues and expenses | **26** | 117 | – | – |
| Associate disposed of during the year | **–** | (100) | – | – |
| Write-off of associate during the year | **–** | (20,904) | – | – |
| Foreign currency translation impact | **–** | (444) | – | – |
| **Total investments in associates** | **281** | 255 | – | – |

## 21. JOINT VENTURES

### HARD ROCK JOINT VENTURE

The Group's interest in the Hard Rock joint venture was dissolved during the year. There was no significant impact on the Group.

### SKYCITY LEISURE JOINT VENTURES

| | | INTEREST HELD BY THE GROUP | |
|---|---|---|---|
| NAME OF ENTITY | PRINCIPAL ACTIVITIES | **2005** | 2004 |
| Village SKYCITY Cinemas JV | Cinema owner/operator | **50%** | 50% |
| Village SKYCITY Hoyts Queen St Cinema JV | Cinema owner/operator | **33%** | 33% |
| Village Rialto Cinemas JV | Cinema owner/operator | **25%** | 25% |
| Damodar Village SKYCITY Fiji Cinemas JV | Cinema owner/operator | **33%** | 33% |

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **FINANCIAL PERFORMANCE** | | | | |
| The Group's share of operating revenues and expenses of joint ventures, proportionately consolidated, was: | | | | |
| Revenue | **29,615** | 34,529 | – | – |
| Expenses | **(25,444)** | (28,367) | – | – |
| **Net contribution to Group operating surplus** | **4,171** | 6,162 | – | – |
| **FINANCIAL POSITION** | | | | |
| The Group's share of assets and liabilities of joint ventures, proportionately consolidated, was: | | | | |
| **Current assets** | | | | |
| Cash and bank balances | **2,568** | 2,769 | – | – |
| Receivables and prepayments | **801** | 552 | – | – |
| Other | **103** | 205 | – | – |
| | **3,472** | 3,526 | – | – |
| **Non-current assets** | | | | |
| Property, plant and equipment | **12,117** | 14,752 | – | – |
| Other | **254** | 288 | – | – |
| | **12,371** | 15,040 | – | – |
| Share of total assets included in the Group | **15,843** | 18,566 | – | – |
| **Liabilities** | | | | |
| Payables and accruals | **2,289** | 2,306 | – | – |
| Other | **697** | 1,264 | – | – |
| Borrowings | **810** | 922 | – | – |
| Share of total liabilities included in the Group | **3,796** | 4,492 | – | – |
| **Net assets employed in the joint ventures** | **12,047** | 14,074 | – | – |

All the above joint ventures have been audited.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 22. OTHER INVESTMENTS

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| Christchurch Casinos Limited | **77,983** | 78,025 | – | – |
| International All Sports Limited | **1,556** | – | – | – |
| | **79,539** | 78,025 | – | – |

The purchase of a 40.5% interest in Christchurch Casinos Limited was completed on 28 June 2004 and has been accounted for as an investment. Christchurch Casinos Limited has a 31 March financial year end.

## 23. FUTURE INCOME TAX BENEFIT

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **Non-current** | | | | |
| Balance at the beginning of the year | **14,645** | 3,151 | – | – |
| Prior year timing differences | **392** | 933 | – | – |
| Current year movements | **(87)** | (1,289) | – | – |
| Previously unrecognised losses and timing differences | **–** | 9,305 | – | – |
| Foreign exchange adjustment | **(17)** | (262) | – | – |
| Impact of purchase, disposal and amalgamations of subsidiaries | **1,451** | 2,807 | – | – |
| | **16,384** | 14,645 | – | – |

Realisation of future income tax benefits recognised is subject to the requirements of the income tax legislation being met.

## 24. INTANGIBLE ASSETS

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **Casino licences** | | | | |
| Casino licences at the beginning of the year | **195,519** | 203,029 | – | – |
| Accumulated amortisation at the beginning of the year | **(9,514)** | (7,149) | – | – |
| Unamortised balance at the beginning of the year | **186,005** | 195,880 | – | – |
| Foreign currency translation | **(1,245)** | (7,510) | – | – |
| Purchase of Darwin licence | **38,580** | – | – | – |
| Current year amortisation | **(5,467)** | (2,365) | – | – |
| Unamortised balance at the end of the year | **217,873** | 186,005 | – | – |
| **Rights and concessions** | | | | |
| Rights and concessions at the beginning of the year | **2,250** | 2,250 | – | – |
| Accumulated amortisation at the beginning of the year | **(437)** | (337) | – | – |
| Unamortised balance at the beginning of the year | **1,813** | 1,913 | – | – |
| Transfer following 100% purchase of SKYCITY Hamilton Limited | **(1,713)** | – | – | – |
| Current year amortisation | **(100)** | (100) | – | – |
| Unamortised balance at the end of the year | **–** | 1,813 | – | – |
| **Goodwill on consolidation** | | | | |
| Goodwill on consolidation at the beginning of the year | **29,408** | 14,071 | – | – |
| Accumulated amortisation at the beginning of the year | **(4,853)** | (4,308) | – | – |
| Unamortised balance at the beginning of the year | **24,555** | 9,763 | – | – |
| Goodwill arising on the acquisition of subsidiaries | **116,348** | 15,337 | – | – |
| Current year amortisation | **(1,374)** | (545) | – | – |
| Unamortised balance at the end of the year | **139,529** | 24,555 | – | – |
| **Total intangible assets** | **357,402** | 212,373 | – | – |

### CASINO LICENCES

SKYCITY Entertainment Group Limited acquired the Darwin casino licence on 22 July 2004 as a result of the acquisition of 100% of the shares in SKYCITY Darwin Holdings Pty Limited, through its wholly-owned subsidiary SKYCITY Australia Pty Limited on that date. The cost of the casino licence and other assets and liabilities of SKYCITY Darwin Holdings Pty Limited has been determined by the directors applying fair value assessments to all assets (including the casino licence) and liabilities acquired as part of the acquisition of SKYCITY Darwin Holdings Pty Limited. The casino licence is being amortised over 11 years, at approximately $3.5 million per annum, being the remaining period of the licence.

SKYCITY Entertainment Group Limited acquired the Adelaide casino licence on 30 June 2000 as a result of the acquisition of 100% of the shares in SKYCITY Adelaide Pty Limited, through its wholly-owned subsidiary SKYCITY Australia Pty Limited on that date. The cost of the casino licence and other assets and liabilities of SKYCITY Adelaide Pty Limited have been determined by the directors applying fair value assessments to all assets (including the casino licence) and liabilities acquired as part of the acquisition of SKYCITY Adelaide Pty Limited. The casino licence is being amortised over 85 years, being the remaining period of the licence from date of acquisition.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 24. INTANGIBLE ASSETS (CONTINUED)

### RIGHTS AND CONCESSIONS

Rights and concessions relate to a management contract associated with the Hamilton casino. These rights and concessions have been included within the acquisition adjustments following SKYCITY Entertainment Group Limited's purchase of the remaining shares in SKYCITY Hamilton Limited.

### GOODWILL

The goodwill arising on the acquisition of subsidiaries relates to the acquisition of the outstanding minority interest in SKYCITY Leisure Limited, the increased interest in SKYCITY Hamilton Limited and the acquisition of SKYCITY Darwin Holdings Pty Limited.

The goodwill balance associated with Darwin has not been amortised in the current year. Under current accounting standards goodwill amortisation of $4,152,000 would have been recorded in the Statement of Financial Performance. However, as SKYCITY Entertainment Group Limited has decided to adopt International Financial Reporting Standards (under which goodwill is not amortised) from 1 July 2005 (refer note 31), the directors have not recorded any goodwill amortisation in the current year on the grounds that, on adoption of IFRS, any goodwill amortisation that had been recorded in the 2004/05 financial year would be reversed.

The directors are of the opinion that there has been no deterioration in the value of Darwin goodwill.

In future years, goodwill will be tested for impairment.

## 25. RECEIVABLES AND PREPAYMENTS

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| **Current** | | | | |
| Trade receivables | **5,801** | 3,903 | – | – |
| Sundry receivables | **9,613** | 5,438 | 2,662 | 3,202 |
| MGM Darwin deposit and capitalised costs | **–** | 25,377 | – | 25,377 |
| Amounts due from subsidiaries | **–** | – | – | 113,342 |
| Christchurch Hotels Limited | **16,584** | 16,584 | – | – |
| Other receivables | **1,276** | – | – | – |
| Interest receivable | **1,275** | – | 106 | – |
| Prepayments | **2,609** | 1,804 | 156 | 66 |
| | **37,158** | 53,106 | 2,924 | 141,987 |

As part of the acquisition of Christchurch Casinos Limited, SKYCITY Entertainment Group Limited acquired an interest-bearing advance to Christchurch Hotels Limited.

## 26. FINANCIAL INSTRUMENTS

The Group is subject to currency risk, interest rate risk and credit risk as a result of its operations.

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

### CURRENCY RISK

Currency risk arises from movements in foreign exchange rates and can impact cash flows.

Payments to overseas suppliers are made using the currency conversion rate at the date of payment. The value of such transactions has been and will continue to be at a relatively low level.

For certain more significant committed expenditure it is the Group's policy to enter into forward foreign exchange contracts to manage the exposure to fluctuations in currency rates. There were no forward foreign exchange contracts hedging expenditure commitments as at 30 June 2005 (2004: nil).

The currency risk and interest rate risk in foreign currencies relate to funding facilities and Australian investments. To manage these, the Group utilises cross-currency interest rate swaps, forward foreign exchange contracts and interest rate swap contracts, within parameters as set out in the Group treasury policy. As at 30 June 2005 there were A$75,000,000 (2004: A$75,000,000) and US$274,500,000 (2004: $nil) of cross-currency interest rate swaps and A$74,900,000 (2004: A$187,500,000) of forward foreign exchange contracts and A$80,000,000 (2004: A$65,000,000) of Australian dollar interest rate swaps.

### INTEREST RATE RISK

To ensure that the Group's cost of funds is reasonably predictable from year to year, it is the Group's policy that floating rate debt does not exceed 50% of total debt. Furthermore, of fixed rate debt, 30% to 70% must re-price within one to five years, 30% to 70% in five to ten years and 0% to 20% in ten to fifteen years. The Group uses interest rate and cross-currency interest rate swaps to manage its interest rate risk. The interest on debt is either converted from fixed to floating or floating to fixed through entering into interest rate swaps or cross-currency interest rate swaps. At 30 June 2005 the maximum term of an interest rate swap is until March 2017 (2004: June 2013) and the maximum term of a cross-currency interest rate swap is until March 2017 (2004: June 2012).

### UNRECOGNISED BALANCES

The notional or principal contract amounts of interest rate swaps outstanding at balance date were as below.

| | CONSOLIDATED | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | 2005 $000 | 2004 $000 |
| Interest rate swaps (fixed to floating) | **–** | 120,000 | – | – |
| Interest rate swaps (floating to fixed) | **887,451** | 708,929 | – | – |
| Cross-currency interest rate swaps | **468,176** | 86,167 | – | – |
| | **1,355,627** | 915,096 | – | – |

### RE-PRICING ANALYSIS

The following tables identify the periods in which interest rates are subject to review on interest-bearing financial assets and liabilities and provide the current weighted average interest rate of each item.

Trade receivables, trade creditors and sundry receivables and creditors have not been included in the tables as they are not interest rate sensitive.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 26. FINANCIAL INSTRUMENTS (CONTINUED)

| GROUP 2005 | EFFECTIVE INTEREST RATES | CURRENT $000 | 1-2 YEARS $000 | 2-5 YEARS $000 | > 5 YEARS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Bank | 6.75% | 35,458 | – | – | – | 35,458 |
| Total assets | | 35,458 | – | – | – | 35,458 |
| **Liabilities** | | | | | | |
| Borrowings* | 7.76% | (396,810) | – | – | (565,670) | (962,480) |
| Capital notes | 8.00% | – | – | (121,687) | – | (121,687) |
| ANZ subordinated loan | 8.24% | (100,000) | – | – | – | (100,000) |
| Total liabilities | | (496,810) | – | (121,687) | (565,670) | (1,184,167) |
| **Unrecognised** | | | | | | |
| Interest rate swaps/cross-currency interest rate swaps* | | 370,832 | (136,397) | (219,657) | (14,778) | – |
| **Re-pricing gap** | | (90,520) | (136,397) | (341,344) | (580,448) | (1,148,709) |

** The average interest rate of debt at 30 June 2005 includes hedging instruments.*

| GROUP 2004 | EFFECTIVE INTEREST RATES | CURRENT $000 | 1-2 YEARS $000 | 2-5 YEARS $000 | > 5 YEARS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Bank | 5.75% | 24,728 | – | – | – | 24,728 |
| Total assets | | 24,728 | – | – | – | 24,728 |
| **Liabilities** | | | | | | |
| Borrowings* | 6.91% | (684,827) | – | – | – | (684,827) |
| Capital notes | 9.25% | (150,000) | – | – | – | (150,000) |
| Convertible notes | 13.38% | – | – | – | (8,910) | (8,910) |
| Total liabilities | | (834,827) | – | – | (8,910) | (843,737) |
| **Unrecognised** | | | | | | |
| Interest rate swaps* | | 620,429 | (70,000) | (207,451) | (342,978) | – |
| **Re-pricing gap** | | (189,670) | (70,000) | (207,451) | (351,888) | (819,009) |

** The average interest rate of debt at 30 June 2004 includes hedging instruments.*

## 26. FINANCIAL INSTRUMENTS (CONTINUED)

| PARENT 2005 | EFFECTIVE INTEREST RATES | CURRENT $000 | 1-2 YEARS $000 | 2-5 YEARS $000 | > 5 YEARS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Bank | | 3 | – | – | – | 3 |
| Total assets | | 3 | – | – | – | 3 |
| **Liabilities** | | | | | | |
| Capital notes | 8.00% | – | – | (121,687) | – | (121,687) |
| Total liabilities | | – | – | (121,687) | – | (121,687) |
| **Re-pricing gap** | | 3 | – | (121,687) | – | (121,684) |

| PARENT 2004 | EFFECTIVE INTEREST RATES | CURRENT $000 | 1-2 YEARS $000 | 2-5 YEARS $000 | > 5 YEARS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Bank | | 2 | – | – | – | 2 |
| **Liabilities** | | | | | | |
| Capital notes | 9.25% | (150,000) | – | – | – | (150,000) |
| **Re-pricing gap** | | (149,998) | – | – | – | (149,998) |

### CREDIT RISK

Credit risk is the risk of the failure of a debtor or counterparty to honour its contractual obligation.

Financial assets, which potentially subject the group and parent company to concentrations of credit risk, consist principally of cash, short-term deposits, trade receivables, interest rate swaps, cross-currency interest rate swaps and forward foreign exchange contracts. The maximum credit risk at 30 June 2005 is the fair value of the financial asset. The parent company and Group's cash equivalents and short-term deposits are placed with high credit quality financial institutions. Trade receivables are presented net of the allowance for estimated doubtful receivables. Credit risk with respect to trade receivables is limited due to the relatively low value of receivables at any given time as the nature of the business is cash-oriented. Accordingly, the directors believe the Group has no significant concentration of credit risk.

### FAIR VALUES

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

**Cash at bank, bank overdraft, term deposits, loans issued, receivables and trade creditors**

The carrying values of these items are equivalent to their fair value.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 26. FINANCIAL INSTRUMENTS (CONTINUED)

**Borrowings and subordinated debt**

All borrowings and subordinated debt except capital notes and US private placement US dollar borrowings are at floating interest rates so the fair value is equal to the carrying value.

The US private placement fixed rate US dollar borrowings have been converted to New Zealand dollar floating rate borrowings by use of cross-currency interest rate swaps. The fair value of the converted debt (inclusive of the fair value of the cross-currency interest rate swaps) is equal to the carrying value. The fair value of the cross-currency interest rate swaps hedging the US private placement fixed rate US dollar borrowings is positive $9,625,313 at 30 June 2005 (2004: $nil).

The carrying value of capital notes is equivalent to their fair value.

**Interest rates swaps and cross-currency interest rate swaps**

The fair value of interest rate swaps is negative $8,764,032 (2004: positive $3,889,481), cross-currency interest rate swaps is positive $9,087,056 (2004: positive $3,637,840) and forward foreign exchange contracts is positive $1,614,355 (2004: negative $8,622,245).

The Group was party to a financial instrument in respect of a guarantee not recognised above and this is disclosed in note 27.

## 27. CONTINGENT GAINS AND LOSSES

SKYCITY Leisure Limited is one of the guarantors for a loan facility utilised by Village Cinemas SA Argentina, an associate company. The maximum liability and exposure at 30 June 2005 under this guarantee is US$4,000,000 (2004: US$4,000,000).

As part of the negotiations for recapitalisation of Village Cinemas SA, SKYCITY Leisure Limited has granted an option to Village Roadshow Limited for it to acquire 40% of its shareholding in Village Cinemas SA (10% of total shares) for US$1.00. The option can be exercised at any time prior to the repayment of the Village Cinemas SA funding facility.

## 28. RELATED PARTY INFORMATION

### SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

All members of the group as listed in notes 19, 20 and 21 are considered to be related parties of the parent company SKYCITY Entertainment Group Limited.

During the year, the company advanced and repaid loans and provided accounting and administrative services to its subsidiaries, associates and joint ventures. In presenting the financial statements of the Group, the effect of transactions and balances between subsidiaries and those with the parent company have been eliminated. All transactions with related parties are in the normal course of business and provided on commercial terms.

### INTEREST OF DIRECTORS IN CERTAIN TRANSACTIONS

Each company within the Group maintains an interests register in which members of its board record all parties and transactions in which they may have a potential or actual self-interest. Fees in the amount of $2,120,701 for the year ended 30 June 2005 (2004: $146,967) were paid to First NZ Capital Group Limited (FNZC) on normal commercial terms for advisory, consulting and other work. Mr W R Trotter, who is a director of SKYCITY Entertainment Group Limited, is executive chairman of FNZC. Mr Trotter declared an interest with respect to FNZC on each occasion when the board considered the engagement of advisory and consulting services with FNZC.

The Group has borrowed $100 million from the ANZ National Bank Limited as disclosed in note 15. Sir Dryden Spring and Rob McLeod are directors of both SKYCITY Entertainment Group Limited and ANZ National Bank Limited. The facility was established on an arms-length, commercial basis. Neither Sir Dryden nor Rob McLeod participated in the decision to enter into the facility.

## 29. EVENTS OCCURRING AFTER BALANCE DATE

### PROVISION FOR DIVIDEND

As disclosed in note 7, the directors have resolved to provide for a final dividend to be paid in respect of the year ended 30 June 2005. The fully imputed dividend of 12.0 cents per share will be paid on 7 October 2005 to all shareholders on the company's register at the close of business on Friday, 23 September 2005.

## 30. EARNINGS PER SHARE

| | CONSOLIDATED | |
|---|---|---|
| | **2005** | 2004 |
| Number of ordinary shares on issue. Weighted average (000's) | **417,436** | 417,828 |
| Group surplus from operations per share (cents) | **24.9** | 24.0 |

Earnings per share is calculated by dividing the Group operating surplus after income tax and minority interests by the weighted average number of ordinary shares on issue during the year.

## 31. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In December 2002 the Accounting Standards Review Board announced that New Zealand reporting entities are required to comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for reporting periods commencing on or after 1 January 2007 with optional adoption for reporting periods commencing on or after 1 January 2005.

SKYCITY Entertainment Group Limited has adopted NZ IFRS with effect from 1 July 2005. To comply with NZ IFRS on initial adoption, SKYCITY Entertainment Group Limited will need to restate its Statement of Financial Position as at 30 June 2004 and as at 30 June 2005 and restate its Statement of Financial Performance, Statement of Movements in Equity and the Statement of Cash Flows for the year ended 30 June 2005. Adjustments required to restate the Statement of Financial Position as at 30 June 2004 are made by adjusting equity. The first set of financial statements that SKYCITY Entertainment Group Limited will publish under NZ IFRS will be the interim financial statements for the six months ended 31 December 2005. These current financial statements for the year ended 30 June 2005 will be the last set published under current New Zealand accounting standards.

To date, SKYCITY Entertainment Group Limited has identified the following key differences between current accounting treatments and NZ IFRS.

### Foreign currency translation reserve

As a one-off adjustment on adoption of NZ IFRS, the 30 June 2004 balance in the foreign currency translation reserve of $14.2 million (debit) will be set to zero.

### Off balance sheet financial instruments

Derivative financial instruments with a fair value totalling $7.5 million will be recognised as assets and derivative financial instruments with a fair value totalling $8.6 million will be recognised as liabilities as at 30 June 2004 in the Statement of Financial Position. Each reporting period thereafter, derivative financial instruments will be adjusted to their then fair value. It is SKYCITY Entertainment Group Limited's expectation that the Group will obtain the benefit of hedge accounting with effect from 1 July 2004.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2005

## 31. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

**Performance Pay Incentive Plan**

The expense associated with the Performance Pay Incentive Plan will be recognised over the relevant vesting period of up to three years. At present the expense is recognised within one financial year.

**Executive Share Option Plan**

An expense, based on the fair value at issue date, will be recognised for any options issued subsequent to 9 November 2002. At present no expense is recognised on these options although the fair value amount is disclosed in the notes to the financial statements.

**Carrying value of land and other fixed assets**

On first time adoption of NZ IFRS, entities are permitted to adjust the carrying value of selected fixed assets to their current fair value without creating a need for ongoing revaluations. SKYCITY Entertainment Group Limited is currently reviewing its assets to determine which, if any, should be revalued in the opening IFRS-compliant balance sheet, as a one-off adjustment.

**Amortisation of goodwill**

Under NZ IFRS, goodwill is no longer amortised but is subject to an annual impairment test. SKYCITY Entertainment Group Limited does not expect its goodwill balances to be impaired on adoption of NZ IFRS.

**Christchurch investment**

The investment in Christchurch Casinos Limited will need to be revalued to fair value each reporting period with changes in fair value recorded in equity unless they relate to impairment. No change in carrying value is expected as at 30 June 2004.

**Deferred tax**

Deferred tax will be recognised on the above adjustments and on interest capitalised within fixed assets.

**Segment reporting**

IFRS requires the Group to identify its primary and secondary segments and make certain disclosures. SKYCITY Entertainment Group Limited has identified the following segments:

*Primary – Geographical*

- Auckland complex
- Rest of New Zealand
- Adelaide, Australia
- Darwin, Australia

*Secondary – Business*

- Gaming – tables
- Gaming – machines
- Other

Note: the actual impact of adopting NZ IFRS may vary from the information presented above. While not expected to be so, any variation may be material.

# Corporate Governance

The SKYCITY board and management confirm that the company is committed to maintaining best practice governance structures throughout its operations in New Zealand and Australia.

SKYCITY is a leading New Zealand-based entertainment company listed on the New Zealand and Australian stock exchanges (NZX and ASX respectively). It is a requirement of these exchanges that the board of directors formally adopts approved corporate governance practices. The governance structures and processes adhered to by SKYCITY are regularly reviewed to ensure that the highest levels of behaviour and accountability are achieved and to ensure that SKYCITY's governance continues to be consistent with international best practice both in compliance format and in substance.

## SKYCITY'S APPROACH TO CORPORATE GOVERNANCE

### Framework

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.

The board has adopted the 10 governance principles, as set out below. These principles reflect the ASX, NZX and New Zealand Securities Commission's 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
- recognises its obligations to all stakeholders.

The governance framework at SKYCITY is defined by the company's board charter which includes a number of supporting charters and policies and expands on the governance principles as defined by the NZX and the ASX. The 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.

# Corporate Governance (continued)

## 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(i), SKYCITY confirms that it has complied with the NZX Corporate Governance Best Practice Code during the 2004/05 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 Council's 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 is 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.

The Managing Director Share Option Plan 2002 was approved by shareholders at the 2002 annual meeting of the company. A replacement share rights plan is proposed for the Managing Director to cover the period 2005-08 and this plan will be included as an agenda item for the company's annual meeting to be held on 28 October 2005. The Notice of Annual Meeting, to be circulated to shareholders on 12 October 2005, will include details of the proposed Managing Director Share Rights Plan.

The Executive Share Rights Plan 2005 was approved by the board in December 2004. The Share Rights Plan is essentially a renewal of the company's longer-term incentive remuneration structure for senior executives but, due to changes in the mechanism within the plan, the number of new shares which will be issued will be significantly reduced. The original executive share option plan was approved by shareholders at the 1999 annual meeting of the company and was then subsequently extended and approved by directors in August 2002. The major difference in the 2002 renewal was that the period prior to exercise of options was (except in special circumstances) extended from one year to three years. The Executive Share Rights Plan (which replaces the Executive Share Options Plan 2002) continues to impose a three-year restriction before benefits under the Plan can be realised by participants.

## BOARD OF DIRECTORS

- **Role of the Board and Responsibilities**

SKYCITY's board of directors is elected by shareholders to govern the business in the shareholders' best 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, and 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 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
– 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 but not less than once per annum.

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 Schedule 2 of the board charter.

# Corporate Governance (continued)

- **Board Charter**

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, which describes the board's role and responsibilities and regulates board procedures. It incorporates the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, the NZX governance and the NZX Corporate Governance Best Practice Code recommendations, and the New Zealand Securities Commission's 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' subsection.

- **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 in the ASX 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 August 2005 meeting, the board reviewed the status of each director in accordance with the independence specification (as set out in Schedule 2 of its 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 non-executive directors except Bill Trotter would be considered independent. Mr 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.

- **Board Structure and Membership**

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 reappointment 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 seven directors, six of whom are non-executive. Evan Davies, Managing Director of the company, is the only executive director.

Rob McLeod was appointed to the board on 8 October 2004. Mr McLeod's appointment was confirmed by shareholders at the 2004 annual meeting.

Patsy Reddy and Bill Trotter, current directors of the company, will retire by rotation at the 2005 annual meeting of the company and, being eligible, offer themselves for re-election. The board charter requires that any director who has served for two terms since their first appointment by shareholders must be formally requested by the board to stand for re-election. At its August 2005 meeting, the board considered its composition, the mix of skills and experience on the board, the term of directors on the board, and a range of other matters relating to the continuance of Ms Reddy and Mr Trotter. The board noted that Ms Reddy and Mr Trotter had indicated that they would be pleased to continue to contribute to the company's affairs for a further term and it requested both directors to stand for re-election at the 2005 annual meeting.

## BOARD AND COMMITTEE MEETING ATTENDANCE

The board meets at least six times per annum (over one and a half days) on a formal, scheduled basis and on other occasions as required.

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

During the 2004/05 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 table below shows attendances at board and committee meetings by directors during the year ended 30 June 2005.

| | BOARD | AUDIT AND RISK COMMITTEE | GOVERNANCE AND REMUNERATION COMMITTEE | NOMINATION COMMITTEE |
|---|---|---|---|---|
| **Number of meetings held** | 7 | 4 | 4 | 1 |
| R H McGeoch | 7 | 1* | 4 | 1 |
| E W Davies | 7 | 4** | 4** | 1 |
| R A McLeod | 7 | 3* | | 1 |
| P L Reddy | 7 | | 4 | 1 |
| Sir Dryden Spring | 7 | 4 | | 1 |
| E Toime | 7 | 4 | | 1 |
| W R Trotter | 6 | | 3 | 1 |

* Rob McLeod joined the Audit and Risk Committee in October 2004 replacing Rod McGeoch.

** Evan Davies attends meetings of the Audit and Risk Committee and Governance and Remuneration Committee in an ex-officio capacity but is not a member of either committee.

# Corporate Governance (continued)

## BOARD COMMITTEES

- **Committee Roles and Composition**

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 subcommittees 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 subcommittee. The minutes of any such subcommittee meetings are circulated to all directors.

- **Audit and Risk Committee**

Current members of the Audit and Risk Committee are Sir Dryden Spring (chairman), Rob McLeod and Elmar Toime.

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 four times per annum on a formal scheduled basis and on other occasions as required.

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 (i.e. has knowledge and experience of accounting, and of financial matters and regulations).

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 by, and fees paid to, the auditor for other than audit work.

This annual report, in Note 3 to the financial statements, identifies the level of audit and other services provided by PricewaterhouseCoopers, the company's auditor, during the 2004/05 financial year. In the year ended 30 June 2005, assurance services provided by PricewaterhouseCoopers totalled $1.439 million and tax advisory services totalled $1.097 million.

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 as audit partner in February 2003.

Until 30 September 2004, PricewaterhouseCoopers provided external audit and internal audit services to SKYCITY. In mid-2004 the board resolved to separate the provision of internal and external audit services. After a formal tender process during September, Ernst & Young was appointed as SKYCITY's internal audit service provider, with effect from 1 October 2004.

- **Governance and Remuneration Committee**

The current members of the Governance and Remuneration Committee are Patsy Reddy (chairperson), Rod McGeoch and Bill Trotter.

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 three times per annum on a formal scheduled basis and on other occasions as required. During the 2004/05 year, the Governance and Remuneration Committee met on four separate occasions.

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 Governance and Remuneration Committee's responsibilities include:

– 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 relationships with shareholders and ensuring the intent of the board charter as to communications with shareholders is achieved
– 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 internal authorities relating to the communication of company information to external parties including shareholders, financial analysts and commentators, and the media.

# Corporate Governance (continued)

- **Nomination Committee**

All directors are members of the Nomination Committee and Rod McGeoch is chair of this committee.

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.

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.

One of the primary roles of the Nomination Committee is 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'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.

## GENERAL MATTERS RELATING TO DIRECTORS

- **Knowledge and Expertise**

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.

- **Indemnity and Insurance**

The company has signed a deed of indemnity, access and insurance 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.

The company has effected directors' and officers' liability insurance cover for the 12-month period 30 September 2004 to 30 September 2005 at a premium cost of $108,400 (plus GST) and statutory and employer's liability insurance for the 12-month period at a premium cost of $26,785 (plus GST).

- **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.

- **Other**

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 notifications or requests were received from directors during the 2004/05 year.

## 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 wrongdoing 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.

# Corporate Governance (continued)

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

- **Framework**

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 to the board in writing 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 to the board 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.

## 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.

## 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. Directors' fees for the 2004/05 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 2004/05 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.

Retirement allowances for SKYCITY directors were discontinued at 30 June 2004 with retirement allowances accrued to that date 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.

In order to reflect the remuneration value foregone as a result of the discontinuation of retirement allowances, directors' fees were increased with effect from 1 July 2004. The 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. Total directors' fees under this structure have remained within the $600,000 total limit approved by shareholders at the 2003 annual meeting.

Prior to the new fees being approved, the board obtained independent confirmations from John Egan Associates of Sydney that the fees were fair and reasonable, having regard to market practice for companies of similar size and complexity in Australasia at that time and from Deloitte Corporate Finance Auckland that the 23% adjustment to fees was 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.

# Corporate Governance (continued)

- **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, 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 vested on 10 September 2005 and must be exercised by 10 September 2007. Any options not exercised at that time will lapse. At the date of this report Mr Davies has not exercised any of the 2,338,530 options.

The exercise price escalates from the date of issue 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 to 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 that 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-oriented 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
– 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 engages an international remuneration consultancy to undertake a survey, with other companies considered appropriate as comparatives, to test senior executive remuneration levels specific to roles 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 and risk management plans 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 team are approved by the Governance and Remuneration Committee.

- **Performance Pay Incentive Plan (PPI)**

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% of their at-risk remuneration.

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 performs relative to 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% in cash and 60% in SKYCITY shares. The value of shares is determined by the closing price of SKYCITY shares on the NZSX for the 10 trading 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.

PPI is only paid when the company's (or business unit's) Return on Investment Capital has exceeded (or is close to) the predetermined target(s) as set by the board (on the recommendation of the Governance and Remuneration Committee) at the start of the financial year.

Under the PPI, salaried personnel's base bonuses range from 6.5% to 30.0% of annual salary. The actual bonus amount can be zero or between 0.15 times and 1.5 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.

During the 2004/05 year, a total of 670 SKYCITY salaried personnel received total PPI bonuses of $969,000 (an average bonus payment of $1,446 per participant).

- **Customer Experience Incentive (CEI)**

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.

CEI is only paid when the company's (or business unit's) predetermined financial and customer service targets have been met.

Bonuses under the CEI range from $60 to $450 ($60 to $550 from 2005/06) 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.

During the 2004/05 year 1,773 waged employees received total CEI bonuses of $164,000 (an average bonus payment of $92.50 per participant).

Both the PPI and CEI 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 predetermined financial and other thresholds.

# Corporate Governance (continued)

- **Senior Executive Share Option Plan**

In addition to the Managing Director Share Option Plan referred to earlier in this section, share options are issued to a group of approximately 50 senior executives under the Executive Share Options Plan (expires 2005 – refer below). Options are issued as a long-term incentive to encourage retention and value creation. The Governance and Remuneration Committee recommends to the board for approval the number of options to be granted to each executive. 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 NZSX over the 10 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, cannot be exercised until three years from the date of issue. Options issued under the Plan lapse if not exercised on or before the fifth anniversary of their date of issue.

- **Senior Executive Share Rights Plan**

The Executive Share Option Plan 2002 expired on 30 June 2005 and has been replaced from 1 July 2005 by the Executive Share Rights Plan (Rights Plan). The Rights Plan operates in much the same way as the Options Plan, using the same cost of equity less dividends structure for determining the base price multiplier, except that the net benefit is calculated and then the required number of shares are issued at the date of exercise. This will result in significantly fewer new shares being issued than was the case under the previous plan. The terms of the Rights Plan, which was approved by the board in December 2004, is for a three-year period ending 30 June 2008.

The board undertook extensive research and obtained independent expert advice on longer-term incentive remuneration structures before finalising the terms of the Executive Share Rights Plan. It is satisfied that the Plan will continue to provide senior executives with an effective longer-term value incentive based on the company's equity market performance.

# Disclosures

## STOCK EXCHANGE LISTINGS

SKYCITY Entertainment Group Limited is listed on both the New Zealand and Australian stock exchanges.

## SUBSIDIARY COMPANIES

The changes to subsidiary company directorships during the 12-month period ended 30 June 2005 were as set out below.

On 15 July 2004, J F Hansen resigned as a director of SKYCITY International ApS and T F Nielson was appointed as a director of SKYCITY International ApS.

On 19 July 2004, G F Hawkins resigned as a director and secretary and R H McGeoch was appointed as a director and secretary of SKYCITY Australia Pty Limited and SKYCITY Adelaide Pty Limited.

On 22 July 2004, J J Murren, G N Jacobs and B L Wright resigned as directors and E W Davies and A B Ryan were appointed as directors of SKYCITY Darwin Pty Limited (formerly Diamond Leisure Pty Limited), SKYCITY Darwin Holdings Pty Limited (formerly Diamond Darwin Pty Limited) and Fernbank Pty Limited.

On 28 July 2004, B S Nabbs resigned as a director of SKYCITY Hamilton Limited (formerly Riverside Casino Limited) and SKYCITY Hamilton Construction Limited (formerly Riverside Casino Construction Limited).

On 13 August 2004, M W Daniel and D B Henry resigned as directors of SKYCITY Leisure Limited.

On 20 August 2004, D R K Gascoigne resigned as a director of SKYCITY Leisure Limited.

On 27 October 2004, R H McGeoch resigned as a director and secretary and M J Silberling was appointed as a director and secretary of SKYCITY Adelaide Pty Limited.

On 13 December 2004, A B Ryan was appointed as a director of SKYCITY Cinemas Limited, SKYCITY Leisure Holdings Limited, SKYCITY Metro Limited, Ab Initio Holdings No. 13 Limited, Cine-Force Limited, Planet Hollywood (Civic Centre) Limited, and SKYCITY Cinemas (Whangarei) Limited.

On 14 April 2005, T F Nielson resigned as a director and B Kreiborg was appointed as a director of SKYCITY International ApS.

On 30 June 2005, S Perry resigned as a director and M R Gutry resigned as an alternate director for S Perry for each of SKYCITY Hamilton Limited and SKYCITY Hamilton Construction Limited.

The following people held office as directors of subsidiaries of SKYCITY Entertainment Group Limited as at the end of the 2005 financial year, being 30 June 2005. (A) denotes alternate director.

**SKYCITY Auckland Holdings Limited, SKYCITY Auckland Limited, SKYCITY Casino Management Limited, SKYCITY Management Limited (formerly SKYCITY Management (Auckland) Limited), SKYCITY Construction Limited, Sky Tower Limited, SKYCITY Wellington Limited, SKYCITY International Holdings Limited, SKYCITY Investments Limited, SKYCITY Investments Auckland Limited, SKYCITY Investments Christchurch Limited, SKYCITY Action Management Limited, Riverside Fund Limited and SKYCITY Investments Queenstown Limited (formerly Queenstown (Hard Rock) Investments Limited)**
Directors: E W Davies, A B Ryan

**SKYCITY Australia Pty Limited,**
Directors: E W Davies, R H McGeoch, A B Ryan

**SKYCITY Australia Finance Pty Limited, SKYCITY Adelaide Pty Limited**
Directors: E W Davies, A B Ryan, M J Silberling

**SKYCITY Darwin Pty Limited, SKYCITY Darwin Holdings Pty Limited, Fernbank Pty Limited**
Directors: E W Davies, A B Ryan, T A K Wilson

**SKYCITY International ApS**
Directors: E W Davies, B Kreiborg, J van Rijn, A B Ryan (A)
A B Ryan is alternate director for E W Davies

**Queenstown Casinos Limited**
Directors: E W Davies, P J Hensman, A B Ryan, B C Thomas

# Disclosures (continued)

**SKYCITY Hamilton Limited, SKYCITY Hamilton Construction Limited**
Directors: E W Davies, A B Ryan

**SKYCITY Leisure Limited**
Directors: E W Davies, D I Kennedy, A B Ryan

**SKYCITY Leisure Holdings Limited, SKYCITY Cinemas Limited, SKYCITY Cinemas (Whangarei) Limited, SKYCITY Metro Limited, Ab Initio Holdings No.13 Limited, Planet Hollywood (Civic Centre) Limited, Cine-Force Limited**
Directors: P J Holdaway, A B Ryan

**SKYCITY Cinemas (Fiji) Limited**
Directors: D Damodar, P J Holdaway

Subsequent to balance date, the changes as set out below have occurred in the directorships of the Group companies.

On 1 July 2005, R H McGeoch resigned as a director and M J Silberling was appointed as a director of SKYCITY Australia Pty Limited.

Certain amalgamations were effected, with the amalgamated companies and resulting changes in directorships taking effect on 1 July 2005.

Abdiel Investments Limited was amalgamated with SKYCITY Auckland Limited. E W Davies and A B Ryan were directors of both companies prior to the amalgamation and were appointed as directors of the amalgamated company, SKYCITY Auckland Limited.

Cine-Force Limited and SKYCITY Cinemas (Whangarei) Limited amalgamated with SKYCITY Cinemas Limited. A B Ryan and P J Holdaway were directors of each company prior to the amalgamation. E W Davies and A B Ryan were appointed as directors of the amalgamated company, SKYCITY Cinemas Limited. P J Holdaway was appointed as an alternate director for each director.

SKYCITY Leisure Limited amalgamated with SKYCITY Leisure Holdings Limited. Prior to the amalgamation, E W Davies, D I Kennedy and A B Ryan were directors of SKYCITY Leisure Limited and A B Ryan and P J Holdaway were directors of SKYCITY Leisure Holdings Limited. E W Davies and A B Ryan were appointed as directors of the amalgamated company, SKYCITY Leisure Holdings Limited. P J Holdaway was appointed as an alternate director for each director.

Riverside Fund Limited, SKYCITY Investments Limited and SKYCITY Investments Auckland Limited amalgamated with SKYCITY Entertainment Group Limited. Prior to the amalgamation, E W Davies and A B Ryan were directors of SKYCITY Investments Limited, SKYCITY Investments Auckland Limited and Riverside Fund Limited. E W Davies, D T Spring, R H McGeoch, E Toime, R A McLeod, W R Trotter and P L Reddy were directors of SKYCITY Entertainment Group Limited prior to the amalgamation and were appointed as directors of the amalgamated company, SKYCITY Entertainment Group Limited.

SKYCITY Entertainment Group Limited holds a 40.5% shareholding in Christchurch Casinos Limited. During the 2004/05 year, E W Davies and A B Ryan were appointed directors of Christchurch Casinos Limited.

## REMUNERATION OF DIRECTORS

Remuneration paid to directors or former directors for services in their capacity as directors of SKYCITY Entertainment Group Limited during the year ended 30 June 2005 was as listed below.

| | |
|---|---|
| E W Davies | $1,438,992 |
| R H McGeoch | $160,000 |
| R A McLeod | $73,333 |
| P L Reddy | $92,500 |
| Sir Dryden Spring | $92,500 |
| E Toime | $80,000 |
| W R Trotter | $80,000 |
| J P Hartley (retired) | $284,375 |

The Managing Director, E W Davies, is not paid director's fees. The amount shown next to his name represents the salary and performance bonus paid to him as an employee of the company. The remuneration paid to Mr Davies comprised a base salary of $900,000 plus a performance-related incentive payment of $538,992 relating to the 2003/04 financial year.

Mr J P Hartley, former director and chairman of SKYCITY Entertainment Group Limited was paid a retirement amount of $284,375 in July 2004. No other non-executive director of the Group or parent company has, since the end of the financial year, received or become entitled to receive a benefit other than director's fees for the 2004/05 financial year or reimbursement of expenses incurred in relation to company matters, or as is disclosed elsewhere in this annual report.

The SKYCITY board resolved to freeze and accrue non-executive director retirement allowances as at 30 June 2004. An adjustment was made at the time to directors' fees to compensate non-executive directors for discontinuance of retirement entitlements. Director retirement allowances as at 30 June 2004 have been accrued in the financial statements for the 2004/05 year and will be paid to each entitled director at their date of retirement.

Remuneration paid to former directors of SKYCITY Leisure Limited during the year ended 30 June 2005 was:

| | |
|---|---|
| M W Daniel | $3,014 |
| D R K Gascoigne | $5,425 |
| D B Henry | $3,014 |

Remuneration paid to directors of Queenstown Casinos Limited (QCL) during the year ended 30 June 2005 was:

| | |
|---|---|
| E W Davies | $7,500 |
| P J Hensman | $7,500 |
| A B Ryan | $7,500 |
| B C Thomas | $7,500 |

QCL directors' fees for E W Davies and A B Ryan were paid to SKYCITY Entertainment Group Limited and were not received personally by Messrs Davies or Ryan. Apart from the amounts listed above, no remuneration is received by the directors of the SKYCITY subsidiary companies in their capacity as directors of those companies.

## DIRECTORS' AND OFFICERS' INDEMNITIES

Indemnities have been given to directors and senior managers of the SKYCITY Group to cover acts or omissions of those persons in carrying out their duties and responsibilities as directors and senior managers of the company and its subsidiaries.

## INTERESTS REGISTER

### Disclosure of directors' interests

Section 140(1) of the Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. The following are particulars as entered in the company's Interests Register as at 30 June 2005 with the notices given by directors during the year ended 30 June 2005 marked with an asterisk:

| | | |
|---|---|---|
| **E W Davies** | Anglican Trust for Women and Children* | Trustee |
| | Melanesian Mission Trust | Trustee |
| **R H McGeoch** | Aon Risk Services Limited | Member NSW Board of Advice |
| | Frontiers Group (Australasia) Limited | Chairman |
| | Frontiers Group (UK) Limited | Director |
| | Gullivers Travel Group Limited* | Director |
| | LIPA Pharmaceuticals Limited* | Director |
| | McGeoch Holdings Limited | Chairman |
| | Pacific Healthcare Limited | Chairman |
| | Ramsay Health Care Limited | Director |
| | Saatchi & Saatchi Trans-Tasman Advisory Board | Chairman |
| | Sydney Cricket and Sports Ground Trust | Trustee |
| | Telecom Corporation of New Zealand Limited | Director |
| | Vantage Private Equity Growth Limited* | Chairman |

# Disclosures (continued)

| | | |
|---|---|---|
| **R A McLeod** | AFL Management Limited* | Director |
| | ANZ National Bank Limited* | Director |
| | Aotearoa Fisheries Limited* | Director |
| | Arthur Andersen (NZ) Limited* | Director |
| | Credit and Debit Limited* | Director and Shareholder |
| | Debit and Credit (Wellington) Limited* | Director and Shareholder |
| | Gullivers Travel Group Limited* | Director |
| | Hobson Downs Trust* | Trustee |
| | McLeod Custodian Limited (trustee of Scott Trust)* | Director and Shareholder |
| | New Zealand Business Roundtable Limited* | Director and Shareholder |
| | North East Limited and associated companies* | Director and Shareholder |
| | Raukura Moana Fisheries Limited* | Director |
| | Steward Limited* | Director and Shareholder |
| | Tainui Group Holdings Limited and certain subsidiaries* | Director |
| | Telecom Corporation of New Zealand Limited* | Director |
| | Te Ohu Kaimoana Limited* | Director |
| **P L Reddy** | Active Equities Limited | Director and Shareholder |
| | Infinity Group Limited | Associated Person of Shareholder |
| | INSiTE Management Services Pty Limited* | Alternate Director |
| | MobilefoneRepair.com Limited | Associated Person of Shareholder |
| | SKYCITY Community Trust | Trustee |
| | TeamTalk Limited | Associated Person of Shareholder |
| | Telecom Corporation of New Zealand Limited | Director |
| | The New Zealand Exchange Limited | Member NZX Discipline |
| | The New Zealand International Festival of the Arts | Trustee |
| **Sir Dryden Spring** | ANZ National Bank Limited and subsidiaries | Director |
| | Asia 2000 Foundation of New Zealand | Chairman |
| | Fletcher Building Limited | Director |
| | New Zealand APEC Business Advisory Council | Chairman |
| | New Zealand Business and Parliamentary Trust | Trustee |
| | Port of Tauranga Limited | Director |
| **W R Trotter** | First NZ Capital Group Limited and certain subsidiaries | Executive Chairman |

The following details included in the Interests Register as at 30 June 2004, or entered during the year ended 30 June 2005, have been removed during the year ended 30 June 2005.

E W Davies was appointed a director of ACB Group Holdings Limited on 8 February 2005 and resigned on 20 June 2005.

R H McGeoch is no longer a consultant to Corrs Chambers Westgarth, an Ambassador for CLEAN EVENT International Pty Limited, or chairman of Telecom Corporation of New Zealand Australia Pty Limited.

Sir Dryden Spring is no longer chairman or a director of WEL Networks Limited.

E Toime is no longer Executive Deputy Chairman of Royal Mail Holdings Plc, a director of Royal Mail Group Plc or Post Office Limited, Chairman of General Logistics Systems BV, or a board member of International Postal Corporation.

### DISCLOSURE OF DIRECTORS' INTERESTS IN SHARE TRANSACTIONS

Directors disclosed, pursuant to section 148 of the Companies Act 1993 and Rule 10.5.3 of the Listing Rules of the NZX, the following acquisitions and disposals of relevant interests in SKYCITY shares during the period to 30 June 2005, as set out below.

| | DATE OF ACQUISITION/ DISPOSAL DURING PERIOD | CONSIDERATION | SHARES ACQUIRED/ (DISPOSED OF) |
|---|---|---|---|
| E W Davies | 1 October 2004[1] | $1,960,897.23 | 1,141,716 |
| | 1 October 2004 | 5,263,310.76 | (1,141,716) |
| E Toime | 1 April 2005[2] | 12,612.72 | 2,510 |
| | 14 April 2005[3] | Nil | 41,928 |

(1) The transaction shown relates to the exercise of 285,429 options granted to Mr Davies pursuant to the Executive Share Option Plan approved by shareholders at the annual meeting of the company held on 28 October 1999.

(2) The transaction shown represents the issue of shares in lieu of dividends pursuant to the company's dividend reinvestment plan.

(3) The transaction represents a transfer by Mr Toime to a corporate trustee (in which Mr Toime is a shareholder) for a trust of which Mr Toime is a discretionary beneficiary.

### DISCLOSURE OF DIRECTORS' INTERESTS IN SHARES, OPTIONS AND CAPITAL NOTES

Directors disclosed, pursuant to Rule 10.5.3 of the Listing Rules of the NZX, the following relevant interests in SKYCITY shares, options and capital notes as at 30 June 2005, as set out below.

| | SHARES | | OPTIONS | |
|---|---|---|---|---|
| | BENEFICIALLY HELD | NON-BENEFICIALLY HELD | BENEFICIALLY HELD | NON-BENEFICIALLY HELD |
| E W Davies | 400,001 | – | 2,713,530 | – |
| R H McGeoch | – | – | 20,964 | – |
| R A McLeod | 16,000 | – | – | – |
| P L Reddy | 140,264 | 7,330 | 20,964 | – |
| Sir Dryden Spring | 10,000 | – | – | – |
| E Toime | 149,544 | – | – | – |
| W R Trotter | 656,668 | – | 20,964 | – |

# Disclosures (continued)

Mr Trotter is a trustee of a trust that held 200,000 capital notes as at 30 June 2004. The capital notes were sold for $1.00 each plus accrued interest at the expiry date of the capital notes being 15 May 2005.

No directors held any interest in the capital notes of the company as at 30 June 2005.

Options issued to Mr Davies are issued pursuant to the Executive Share Option Plan (1999 Executive Plan) approved by shareholders at the annual meeting of the company held on 28 October 1999, and the Managing Director Share Option Plan (Managing Director Plan) approved by shareholders at the annual meeting of the company held on 30 October 2002.

Options issued to the non-executive directors are issued pursuant to the Non-Executive Director Share Option Plan approved by shareholders at the annual meeting of the company held on 26 October 2000.

Options issued under the 1999 Executive Plan are exercisable one year after the date of issue, at the exercise price determined pursuant to the Plan, and lapse if they are not exercised within five years of the date of issue.

Options issued under the Managing Director Plan are exercisable three years after the date of issue, at the exercise price determined pursuant to the Plan, and lapse if they are not exercised within five years of the date of issue.

## EMPLOYEE REMUNERATION

The numbers of employees or former employees of the company and its subsidiaries, not being directors of the company, who received remuneration and other benefits in their capacity as employees, the value of which was in excess of $100,000 during the financial year ended 30 June 2005, are as listed below.

| Remuneration | Employees | Remuneration | Employees |
|---|---|---|---|
| $100,000 – $109,999 | 17 | $240,000 – $249,999 | 2 |
| $110,000 – $119,999 | 12 | $250,000 – $259,999 | 1 |
| $120,000 – $129,999 | 9 | $270,000 – $279,999 | 3 |
| $130,000 – $139,999 | 7 | $280,000 – $289,999 | 3 |
| $150,000 – $159,999 | 3 | $310,000 – $319,999 | 1 |
| $160,000 – $169,999 | 8 | $380,000 – $389,999 | 1 |
| $180,000 – $189,999 | 3 | $410,000 – $419,999 | 1 |
| $190,000 – $199,999 | 2 | $440,000 – $449,999 | 1 |
| $200,000 – $209,999 | 2 | $500,000 – $509,999 | 1 |
| $210,000 – $219,999 | 3 | $570,000 – $579,999 | 1 |
| $220,000 – $229,999 | 2 | $600,000 – $609,999 | 1 |
| $230,000 – $239,999 | 2 | | |

## DONATIONS

Donations are referred to in note 3 of the financial statements.

## TWENTY LARGEST SHAREHOLDERS AS AT 22 AUGUST 2005

| | | NUMBER OF SHARES | % OF SHARES |
|---|---|---|---|
| 1 | Investors Mutual Limited | 31,932,216 | 7.65% |
| 2 | UBS Global Asset Management Group | 25,750,873 | 6.17% |
| 3 | Commonwealth Bank Group/Colonial First State Global Asset Management | 22,026,703 | 5.27% |
| 4 | Maple Brown Abbott | 13,719,973 | 3.29% |
| 5 | Columbia Wanger Asset Management | 9,862,759 | 2.36% |
| 6 | State Street Global Advisors Group | 9,343,989 | 2.24% |
| 7 | Barclays Global Investors Group | 9,061,545 | 2.17% |
| 8 | Fidelity Group | 8,924,323 | 2.14% |
| 9 | Morgan Stanley Investment Management Group | 8,372,093 | 2.00% |
| 10 | Promina Group | 7,841,248 | 1.88% |
| 11 | AMP Capital Investors | 7,109,839 | 1.70% |
| 12 | Deutsche Asset Management Group | 6,167,822 | 1.48% |
| 13 | Tower Asset Management | 5,988,385 | 1.43% |
| 14 | First NZ Securities (Private Clients) | 4,479,950 | 1.07% |
| 15 | ING Investment Management Group | 4,255,421 | 1.02% |
| 16 | ABN AMRO Craigs Limited (Private Clients) | 4,236,864 | 1.01% |
| 17 | Bank of New Zealand Structured Finance | 4,200,000 | 1.01% |
| 18 | Accident Compensation Corporation | 3,593,540 | 0.86% |
| 19 | AXA Group | 2,710,993 | 0.65% |
| 20 | Union Investment Group | 2,689,859 | 0.64% |
| **Total** | | **192,268,395** | **46.04%** |

The analysis as set out above has been compiled based upon information provided by Computershare Analytics Pty Limited.

Total shares on issue as at 22 August 2005 were 417,613,974.

## DISTRIBUTION OF ORDINARY SHARES AND REGISTERED SHAREHOLDINGS AS AT 22 AUGUST 2005

| SIZE OF HOLDING | NUMBER OF SHAREHOLDERS | NUMBER OF SHARES |
|---|---|---|
| 1 – 1,000 | 3,871 | 2,298,505 |
| 1,001 – 5,000 | 13,458 | 35,958,581 |
| 5,001 – 10,000 | 4,049 | 29,907,559 |
| 10,001 – 100,000 | 3,369 | 77,169,079 |
| over 100,000 | 147 | 272,280,250 |
| **Total** | **24,894** | **417,613,974** |

As at 22 August 2005 there were 337 holdings of less than 113 shares, being the minimum marketable parcel of shares under ASX Listing Rules. The ASX Listing Rules define the minimum parcel as having a value of A$500. Calculation of the minimum parcel of 113 shares is based on an exchange rate of A$0.9221 and a SKYCITY share price of NZ$4.82.

# Disclosures (continued)

## SUBSTANTIAL SECURITY HOLDERS

As at 19 July 2005, Commonwealth Bank of Australia Group gave notice, in accordance with the New Zealand Securities Markets Act 1988, that it was a substantial security holder in the company and had a relevant interest in 21,118,018 (5.06%) ordinary shares in the company.

As at 1 June 2005, Investors Mutual Limited gave notice, in accordance with the New Zealand Securities Markets Act 1988, that it was a substantial security holder in the company and had a relevant interest in 30,337,928 (7.26%) ordinary shares in the company.

As at 3 May 2005, UBS Nominees Pty Limited gave notice, in accordance with the New Zealand Securities Markets Act 1988, that it was a substantial security holder in the company and had a relevant interest in 21,813,251 (5.22%) ordinary shares in the company.

## TWENTY LARGEST CAPITAL NOTE HOLDERS AS AT 22 AUGUST 2005

| | | NUMBER OF CAPITAL NOTES | % OF CAPITAL NOTES |
|---|---|---|---|
| 1 | Investment Custodial Services Limited | 5,023,000 | 3.35% |
| 2 | Private Nominees Limited | 4,435,000 | 2.96% |
| 3 | Forbar Custodians Limited – PPM Medium A/C | 3,906,000 | 2.60% |
| 4 | Forbar Custodians Limited – PPM Low A/C | 1,816,000 | 1.21% |
| 5 | Custodial Services Limited – A/C 3 | 1,453,000 | 0.97% |
| 6 | First NZ Capital Custodians Limited | 1,145,000 | 0.76% |
| 7 | Royal & SunAlliance Corporate Bond Premium Income Trust | 1,000,000 | 0.67% |
| 8 | Citibank Nominees (New Zealand) Limited | 857,000 | 0.57% |
| 9 | Forbar Custodians Limited – PPM High A/C | 656,000 | 0.44% |
| 10 | Guardian Trust Investment Nominees (RWT) Limited | 598,000 | 0.40% |
| 11 | Custodial Services Limited – A/C 2 | 511,000 | 0.34% |
| 12 | University of Otago | 500,000 | 0.33% |
| 13 | Public Trust | 500,000 | 0.33% |
| 14 | Waikimihia Farm Limited | 500,000 | 0.33% |
| 15 | Cogent Nominees Limited | 500,000 | 0.33% |
| 16 | Morrow Plastics Limited | 500,000 | 0.33% |
| 17 | John William Dudley Ryder | 500,000 | 0.33% |
| 18 | Forbar Custodians Limited – Residents 19.5% A/C | 490,000 | 0.33% |
| 19 | Forbar Custodians Limited – Residents 33.0% A/C | 411,000 | 0.28% |
| 20 | Knox Home Trust Board Inc | 400,000 | 0.27% |
| **Total** | | **25,701,000** | **17.13%** |

As at 22 August 2005, 150 million SKYCITY Capital Notes (each capital note having an issue value of $1.00) were on issue. As at 22 August 2005 SKYCITY is the holder of 26,140,250 capital notes, as treasury stock.

The capital notes have a maturity date of 15 May 2010.

## DISTRIBUTION OF CAPITAL NOTE HOLDINGS AS AT 22 AUGUST 2005

| SIZE OF HOLDING | NUMBER OF NOTE HOLDERS | NUMBER OF CAPITAL NOTES |
|---|---|---|
| 1 – 1,000 | – | – |
| 1,001 – 5,000 | 421 | 2,102,000 |
| 5,001 – 10,000 | 895 | 8,402,250 |
| 10,001 – 100,000 | 2,335 | 74,278,500 |
| over 100,000 | 92 | 65,217,250 |
| **Total** | **3,743** | **150,000,000** |

## WAIVERS FROM THE NEW ZEALAND EXCHANGE (NZX) LISTING RULES

The following waivers from the NZX Listing Rules were effective as at balance date.

On 5 September 2002, the NZX granted waivers from compliance with Listing Rule (LR) 7.3.6 in respect of the participation by Ms H R Shotter in the company's Performance Pay Incentive Plan (PPI) and the Executive Share Option Plan (2002). Under the PPI, salaried employees of the company and its subsidiaries are entitled to bonuses, payable in cash and shares, if relevant financial and personal performance targets are met. Under the Executive Share Option Plan, options cannot be exercised before three years after the date of issue except in special circumstances. Options lapse if not exercised five years after the date of issue. Ms Shotter is married to Mr Davies, the Managing Director of the company. Accordingly, in the absence of the waiver, issues of shares under the PPI and options under the Executive Share Option Plan would require shareholder approval. The NZX granted the waiver on the condition that Ms Shotter's participation in the PPI and the Executive Share Option Plan is determined by an independent committee of the board of directors of the company, and that Mr Davies does not participate in determining the benefits provided to Ms Shotter.

On 5 April 2005, the NZX granted a waiver from LR 7.6.1 in respect of the purchase of capital notes by the company on expiry of the initial term of the capital notes on 16 May 2005. The capital notes are equity securities for the purposes of the NZX Listing Rules. If the waiver had not been granted, the capital notes could only have been acquired in accordance with the requirements of the Companies Act 1993 applicable to the purchase of shares or by obtaining the approval of all holders of equity securities whose rights have been materially affected by the redemption. The NZX granted the waiver on condition that prior to the resale of any capital notes that had been repurchased, the directors sign a certificate with the content prescribed by section 49(2) of the Companies Act 1993, in respect of the transfer as if the transfer involved an issue of the repurchased capital notes, and to deliver that certificate to the NZX.

On 9 June 2005, the NZX granted a waiver from LR 9.2.1 in respect of a $100 million subordinated bridge facility with ANZ National Bank Limited. ANZ is a related party of the company under LR 9.2.3 by virtue of the fact that Sir Dryden Spring and Rob McLeod are directors of both companies. If the waiver had not been granted, the company would have been required to obtain the approval of shareholders for the facility. The NZX granted the waiver on the condition that directors of the company other than Sir Dryden Spring and Mr McLeod provide confirmation to NZX that the decision to enter into the facility was an arm's-length, commercial decision for SKYCITY, was not unduly influenced by Sir Dryden Spring or Mr McLeod, and was in the best interests of the company's shareholders.

On 24 June 2005, the NZX granted waivers from LRs 8.1.3, 8.1.4, 8.1.5, 8.1.8 and 8.1.9 in respect of the company's Executive Share Rights Plan 2005 (Rights Plan). The Rights Plan is substantially similar to the 2002 Option Plan referred to above. The material difference is that participants in the Rights Plan will be issued with rights that do not have a set conversion formula into ordinary shares. On exercise, a right holder will receive a number of shares calculated on the difference between the then prevailing market price of the shares and the exercise value of the rights under the Plan. The effect is that rights holders do not have to sell a large number of the shares received on exercise of their rights in order to pay the relevant exercise price. As a result the number of shares issued on exercise of the rights is less dilutionary for existing shareholders.

As for the 2002 Executive Share Option Plan, rights cannot be exercised before three years from their issue except in special circumstances. Rights lapse if not exercised within five years of their issue date. If the NZX had not granted the waivers the company would otherwise have had to adopt an option scheme to replace the 2002 Option Plan that was more dilutionary for existing shareholders than the Rights Plan. In addition, SKYCITY's directors would not have been able to make appropriate adjustments to the number of shares to be received on exercise in the event of a bonus issue of shares to shareholders. The NZX granted the waivers on condition that the company provide advance notice to NZX of any proposed adjustment to the terms of the rights to take into account any corporate action and provide a copy of the confirmation that the adjustment is fair from an independent party.

# Disclosures (continued)

In addition, on 24 June 2005, the NZX granted waivers from compliance with LR 7.3.6 in respect of the participation by Ms Shotter in the company's renewed Performance Pay Incentive Plan (2005 PPI) and the Executive Share Rights Plan 2005 (Rights Plan). As noted above under the Rights Plan, rights cannot be exercised before three years after the date of their issue, except in special circumstances. In the absence of the waivers, issues of shares under the 2005 PPI and rights under the Rights Plan to Ms Shotter would require shareholder approval. The NZX granted the waivers on the condition that an independent committee determines Ms Shotter's participation in the 2005 PPI and the Rights Plan, and that Mr Davies does not participate in determining the benefits provided to Ms Shotter.

The effect of all other waivers granted had ceased as at balance date.

### OPTION HOLDERS

As at 22 August 2005, options on issue were as detailed below.

- 459,000 options issued under the Executive Share Option Plan approved by shareholders at the annual meeting of the company on 28 October 1999, held by three holders. These options have no voting rights but entitle the holder to four shares on exercise of each option
- 62,892 options issued under the Non-Executive Director Share Option Plan approved by shareholders at the annual meeting of the company held on 26 October 2000, held by three holders. These options have no voting rights and entitle the holder to two shares on exercise of each option
- 2,338,530 options issued under the Managing Director Share Option Plan approved by shareholders at the annual meeting of the company on 30 October 2002, held by one holder. These options have no voting rights but entitle the holder to two shares on exercise of each option
- 4,040,500 options issued under the Executive Share Option Plan approved by directors of the company in August 2002, held by 28 holders. The options have no voting rights but 1,766,000 of the options entitle the holder to two shares on exercise of each option and the balance of 2,274,500 entitles the holder to one share on exercise of each option.

### LIMITATIONS ON ACQUISITION OF ORDINARY SHARES

The company's constitution contains various provisions which were included to take into account the application of:

- the Gambling Act 2003 (New Zealand)
- the Casino Act 1997 (South Australia)
- the Gaming Control Act 1993 (Northern Territory)
- the legislation providing for the establishment, operation and regulation of casinos in any other jurisdiction in which SKYCITY or any of its subsidiaries may hold a casino licence to SKYCITY Entertainment Group Limited and any of its subsidiaries.

SKYCITY needs to ensure, when it participates in gaming activities:

- that it has the power under its constitution to take such action as may be necessary to ensure that its suitability to do so in a particular jurisdiction is not affected by the identity or actions (including share dealings) of a shareholder
- that there are appropriate protections to ensure that persons do not gain positions of significant influence or control over SKYCITY or its business activities without obtaining any necessary statutory or regulatory approvals in those jurisdictions.

Accordingly, the constitution contains the following provisions restricting the acquisition of shares in the company to achieve this.

### TRANSFER OF SHARES

Clause 12.11 of the constitution provides that if a transfer of shares results in the transferee, and the persons associated with that transferee:

- holding more than 5% of the shares in SKYCITY; or
- increasing their combined holding further beyond 5% if:
  - they already hold more than 5% of the shares in SKYCITY; and
  - the transferee has not been approved by the relevant regulatory authority as an Associated Casino Person of any casino licence holder;

### TRANSFER OF SHARES – CONTINUED

then the votes attaching to all shares held by the transferee and the persons associated with that transferee are suspended unless and until either:

- each regulatory authority advises that approval is not needed
- any regulatory authority which determines that its approval is required approves the transferee, together with the persons associated with that transferee, as an Associated Casino Person of any applicable casino licence holder
- the board of the company is satisfied that registration of the proposed transfer will not prejudice any casino licence; or
- the transferee, and the persons associated with that transferee, disposes of such number of SKYCITY's shares as will result in their combined holding falling below 5% or, if the regulatory authorities approve in respect of the transferee, and the persons associated with that transferee, a higher percentage, the lowest such percentage approved by the regulatory authorities.

If a regulatory authority does not grant its approval to the proposed transfer, SKYCITY may sell such number of the shares held by the transferee and by any persons associated with that transferee, as may be necessary to reduce their combined shareholding to a level that will not result in the transferee and the persons associated with that transferee, being an Associated Casino Person of that casino licence holder.

The power of sale can only be exercised if SKYCITY has given one month's notice to the transferee of its intention to exercise that power and the transferee has not, during that one-month period, transferred the requisite number of shares in SKYCITY to a person who is not associated with the transferee.

### OTHER LEGISLATION/REQUIREMENTS

General limitations on the acquisition of the securities imposed by the jurisdiction in which SKYCITY is incorporated (i.e. New Zealand law) are referred to below.

Other than the provisions noted above, the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in SKYCITY, or the increase of an existing holding of 20% or more of the voting rights in SKYCITY, can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of the shares in the company.

The New Zealand Overseas Investment Act 1973 and the Overseas Investment Regulations 1995 regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Commission is likely to be required when an 'overseas person' acquires shares or an interest in shares in SKYCITY Entertainment Group Limited that amount to more than 25% of the shares issued by the company, or if the overseas person already holds 25% or more, the acquisition increases that holding.

The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in SKYCITY if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

### OTHER REQUIRED DISCLOSURES

SKYCITY Entertainment Group Limited has no securities subject to an escrow arrangement.

SKYCITY Entertainment Group Limited is incorporated in New Zealand and is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act (Australia).

SKYCITY Entertainment Group Limited currently has in place an on-market buyback programme (commenced 29 August 2005).

There are no material differences between the ASX Appendix 4E issued by SKYCITY Entertainment Group Limited for 30 June 2005 and this annual report.

# Glossary

| | |
|---|---|
| **2004/05** | Financial year ended 30 June 2005 |
| **ACC** | Accident Compensation Corporation |
| **Action** | SKYCITY loyalty card scheme |
| **ALAC** | New Zealand Alcohol and Liquor Advisory Council |
| **Amortisation** | Process of allocating acquisition cost or other value of intangible assets to periods as expenses |
| **ASX** | Australian Stock Exchange |
| **CEI** | Customer Experience Incentive scheme |
| **Consolidated financial statements** | Financialstatements for SKYCITY Entertainment Group Limited, its subsidiaries, associates and joint ventures |
| **cps** | Cents per share |
| **Depreciation** | Difference between the cost (or value) of an asset and its residual value, allocated over the series of accounting periods in the asset's useful life |
| **DIA** | New Zealand Department of Internal Affairs |
| **DRP** | Dividend Reinvestment Plan |
| **DPS** | Dividend per ordinary share |
| **EPS** | Earnings per ordinary share |
| **EBIT** | Earnings before interest and tax |
| **EBITDA** | Operating earnings before interest, tax, depreciation and amortisation |
| **Fully imputed dividend** | Dividend paid out of profits on which tax has already been paid |
| **GDP** | Gross domestic product |
| **Goodwill** | Future benefits from unidentifiable assets that are carried as intangible assets of an entity |

| | |
|---|---|
| **Group** | SKYCITY Entertainment Group Limited |
| **GST** | Goods and services tax |
| **IFRS** | International Financial Reporting Standards |
| **JV** | Joint venture |
| **NPC** | National Provincial Championship |
| **NZQA** | New Zealand Qualifications Authority |
| **NZSX** | Themain equities market operated by NZX |
| **NZX** | New Zealand Exchange |
| **NZX Discipline** | The NZX complaints disciplinary and market surveillance body |
| **OHS** | Occupational Health and Safety |
| **Operating earnings** | Operating earnings before interest, tax, depreciation and amortisation |
| **Ordinary share** | A fully paid share in SKYCITY Entertainment Group Limited |
| **Parent company** | SKYCITY Entertainment Group Limited |
| **PPI** | Performance Pay Incentive Plan |
| **SKYCITY Leisure** | SKYCITY's cinema exhibition company |
| **Ticket technology** | Ticket in/ticket out technology providing improved convenience for higher-end gaming machine players |

# Directory

## REGISTERED OFFICE

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## BANKERS

**ANZ National Bank**
**Commonwealth Bank of Australia**
**Bank of New Zealand**

## CAPITAL NOTES TRUSTEE

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