7. REPORT FROM CHRISTCHURCH CITY HOLDINGS LTD

Officer responsible	**Authors**
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The purpose of this report is to provide an update with regard to the CCHL group companies, most of whom have recently issued their annual reports.

CHRISTCHURCH CITY HOLDINGS LTD ANNUAL REPORT

The annual report of CCHL for the year ended 30 June 2003 has been separately circulated to Councillors.

The consolidated net profit after tax for the year was $40.2 million, compared with $49.2 million in the preceding year. The three largest companies in the group, Orion New Zealand Ltd, Christchurch International Airport Ltd and Lyttelton Port Company Ltd all recorded lower surpluses than in the preceding year. Further detail regarding the subsidiary companies is provided below.

The parent company's net profit after tax was $34.2 million (2002: $48.8 million), slightly exceeding budget. The principal reason for the lower profit in the year under review is that CCHL received a special dividend of $17.5 million from Orion, part of a $175 million capital repatriation, in the 2001/02 financial year.

The company paid a total dividend to the Council of $32.3 million, in line with last year's Statement of Corporate Intent target.

CCHL's trading investments were independently revalued as at 30 June by KPMG. There was a net uplift in value of $126 million compared with the previous values established in 2001, with Orion increasing substantially in value (mainly as a result of changes in growth assumptions and WACC estimates) and only minor changes in the other companies. This increase in value was achieved despite substantial returns of capital to the Council in the intervening period.

It should be noted, however, that valuations of electricity distribution companies are potentially volatile, and will be heavily influenced by the outcome of the Commerce Commission's review of the regulatory environment. There is the potential for a future downward movement in value.

The group remains conservatively geared, with a net debt to net debt plus equity ratio of 29.7%.

STANDARD & POOR'S CREDIT RATING

As has been recently publicised, both the Council and CCHL have had their long term credit rating of AA+ re-affirmed by Standard & Poor's. In respect of the Council group as a whole, Standard & Poor's noted the extremely strong balance sheet position, a high degree of fiscal flexibility, a strong management capacity underpinned by a culture of planning, consultation and transparency, and an adequate budgetary performance.

The Council is only one of three New Zealand councils with AA+ ratings, and indeed it and CCHL are among the most highly-rated entities in New Zealand.

The review by Standard & Poor's enables the Council's and CCHL's finances to be independently scrutinised by a global firm, and considerably enhances CCHL's ability to borrow cost-effectively in the capital markets.

DIRECTORS' FEES

CCHL has performed a review of the fees paid to the boards of the various subsidiary companies and, based on market benchmarks, approved increases in some cases. It is intended to review fees on a triennial basis.

ORION NEW ZEALAND LIMITED ('ORION') ANNUAL REPORT

Orion have released their annual report (separately circulated) for the year ended 31 March. The net surplus for the year was $29.9 million, well above its Statement of Corporate Intent target of $23.3 million, but a little lower than the $31.5 million net surplus recorded in the previous year.

Factors contributing to the higher than budgeted surplus include:

- An above budget performance from contracting company, Connetics Ltd;
- Higher than budgeted electricity volumes;
- Below budget expenses; and
- Increased capital contributions from new connections to the network.

The previous year's result was boosted by an exceptional performance by Connetics, below budget expenses and capital contributions from TelstraClear for pole replacement capital expenditure.

The triennial independent revaluation of the network resulted in an uplift in value, on a depreciated replacement cost basis, of some $150 million.

Network reliability is a crucial aspect of Orion's performance, and its asset management plan aims to ensure that that the network remains of a high standard in the short, medium and long term. Forecast capital expenditure over the next five years is some $135 million, with priorities on meeting forecast growth in demand, replacing ageing equipment and enhancing system security and reliability.

Following a central government review of the electricity industry in 2000, the Commerce Act was amended, giving the Commerce Commission new roles in overseeing information disclosure, new price controls and valuation methodologies. The Commission is presently reviewing methods to control electricity distribution companies, and Orion is actively participating in this review process.

The government has also recently announced the imminent establishment of an Electricity Commission which will also have certain oversight and control responsibilities over the industry.

Looking forward, Orion's core focus is, and will continue to be, the network. Additionally, there will be significant ongoing regulatory work in relation to Commerce Commission and Electricity Commission developments. Orion will also pursue opportunities in the local electricity reserve/renewable generation market, and seek to maximise value from its investments.

CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED ('CIAL') ANNUAL REPORT

CIAL, in which CCHL holds a 75% share, have released their annual report (separately circulated) for the year ended 30 June. The company recorded a net profit after tax of $13.0 million, down 8.5% from the previous year. While domestic passenger numbers grew strongly, international passenger numbers grew by only 1%, aeronautical revenues were down, and there were increases in operating costs, particularly in respect of security and insurance.

Following the previous year, which was affected by the terrorist attacks of September 11, the collapse of Ansett Australia, and Air New Zealand's financial strife, the company was cautiously optimistic that passenger numbers, particularly international, would recover.

However, the SARS epidemic, the Iraq war, a slow-down in many key economies and increased operating costs resulted in another challenging year for the airport. While international passenger numbers grew by 1%, this was off a low base – they fell 8.6% in the previous year – and the growth rate was well below the long-run average.

On the positive side, New Zealand is increasingly being seen as a safe haven for travellers and the domestic market has performed strongly following the introduction of Air New Zealand's revamped value-based product.

Growth in domestic passenger numbers and the introduction of domestic security screening has resulted in congestion in the domestic terminal. The company is in the process of conducting a comprehensive review of the airport master plan. Due for completion in late 2003, the study will provide the basis for a planned major upgrade to the 40 year old domestic terminal building.

The company continues to develop its land resources, working actively with its customers and developing new relationships. Key companies have extended their operations and the airport's own property developments, such as Aviation House, have quickly attracted tenants.

The company continues to vigorously defend the airport from inappropriate adjacent land uses, and invested huge effort to ensure that its needs were fully recognised in district and regional planning documents.

Despite the difficulties experienced in the past year, the outlook is more positive. Air travel to, from and within New Zealand has shown a resilience compared with other countries, and a significant recovery in international passenger numbers is anticipated.

LYTTELTON PORT COMPANY LIMITED ('LPC') ANNUAL REPORT

LPC, in which CCHL holds a 65.3% share, have released their annual report (separately circulated) for the year ended 30 June. Despite an increase in the port's main trades – containers through the terminal were up 2%, and coal exports up some 11% - the company's net profit after tax declined from $16.3 million to $11.6 million – a decrease of 29%.

The main factors behind this significant reduction in profit were:

- Costs associated with the settlement of the collective employment agreement - $2.9 million;
- Enhanced dredging programme - $0.6 million;
- Higher depreciation charges - $0.5 million;
- Rising insurance, electricity and fuel costs - $0.3 million
- Diminution in value of fixed assets - $0.2 million
- Reduction in revenue from $62.0 million to $60.9 million.

Despite the loss of some services, the company has also won new customers and increased existing business, and twenty foot equivalent units ('TEUs') grew from 130,800 to 134,000. Volumes are expected to remain stable over the next 12 months.

Following the signing of a long-term coal handling agreement with Solid Energy in September 2002, coal volumes reached a record 2 million tonnes, up from 1.8 million in the previous year.

The agreement involves a multi-million dollar upgrade of the coal handling facilities. Some technical issues have caused delays, but the upgrade is now expected to be completed around November 2003.

Bulk fuel volumes were down 5% for the year, largely as a result of reduced bunkering demand by vessels calling at Lyttelton. Vehicle volumes continued to increase, up 10% to 52,300 units Log volumes were down 7%, off a record volume in the preceding year.

Despite the reduced profitability in the 2002/03 year, the company sees a number of opportunities to grow the port's trade, assisted in particular by the global shift in recent years towards containerisation.

Industry issues that will potentially impact on the port include the government revisiting the issue of coastal cabotage, government transport policy, ownership and strategic direction for rail, and increased security requirements.

RED BUS LIMITED ('RBL') ANNUAL REPORT

RBL have released their annual report (separately circulated) for the year ended 30 June. The company earned a net profit after tax of $1.38 million, compared with $1.29 million in the previous year. This was a satisfactory result, reflecting continued growth in patronage and expansion of the business during the year, and was achieved despite additional debt and depreciation costs arising from the acquisition of new buses.

The company invested a further $3.4 million in new vehicles required as a result of winning tenders for routes relinquished by Leopard Coachlines and to meet requirements for additional services as the result of patronage growth.

Despite the significant capital expenditure, Red Bus Ltd's strong operating cash flows meant that debt only increased by $0.5 million over the year.

The company has been working with Environment Canterbury and other bus operators on the implementation of an electronic "smart card" ticketing system, which will be implemented in the next few months.

A new fare structure will be implemented at the same time as the "smart card" ticketing system. While Red Bus Ltd is supportive of changes to the fare structure, implementation of the new fares regime will bring some risk to the company, the degree of which is unquantifiable at this time.

In addition to economic performance, the company is committed to environmental and social aspects of corporate sustainability. It has switched to low sulphur diesel a part of its commitment to the environment, and is continuing with its programme of active community support and ensuring it meets its own high standards of being a good employer.

Patronage growth is a primary objective of the company. This continued to grow during the year, albeit at a slower rate than the previous year.

The 2003/04 year will be a challenging one for the company, with a significant portion of its contracted urban passenger transport business up for tender. The impact of the new fare structure is also another variable to be taken into account. However, underlying patronage trends have been encouraging, and it is anticipated that these will continue.

CITY CARE LIMITED ('CCL') ANNUAL REPORT

CCL have released their annual report (separately circulated) for the year ended 30 June. The 2002/03 financial year was the third full year of trading since the major acquisition of the Works Operations business from Christchurch City Council in December 1999. The company recorded a net surplus of $2.2 million, down from the $2.9 million recorded in the previous year.

A number of factors contributed to the reduced profitability, including the cessation of the TelstraClear trenching contracts of the previous year, establishment costs of the Auckland and Tauranga businesses, the effect of the repayment of $2.9 million of preference share capital and infrastructure costs required to support employment and technology initiatives.

Notwithstanding the reduced profitability, return on average equity was 19.9% and the company's financial position is strong.

The company has made a commitment to sustainable development reporting, and its annual report provides some interesting material on the social and environmental aspects of its business, as well as the financial.

In May 2003, after a long evaluation process, City Care was awarded a $7.3 million contract to maintain the Tauranga District Council water and wastewater network. This successful outcome was enabled to a large extent by City Care's technological capability.

The company commenced business in Auckland in April 2002 through the acquisition of an existing business, Stargate Services. There has been significant expenditure in Auckland, but the company has recently secured two long term asset infrastructure maintenance contracts which will provide the base work to build a profitable business.

In May 2003, the Council accepted an offer by City Care to reduce contract prices on a number of long term maintenance contracts by a total of $1.5 million per annum in return for a three year extension of the term of these contracts.

The company continues to make significant investments in technology to improve the way it does business. It is continuing to invest in electronic links with its customers' information systems to provide customers and call centres with asset management information in real time.

Looking forward, there will be reduced profitability as a result of the reduced prices contracted with the Council, but the company anticipates the benefits of further productivity improvements across the company as the Auckland and Tauranga businesses move through their establishment phase.

SELWYN PLANTATION BOARD LIMITED ('SPBL') ANNUAL REPORT

SPBL, in which CCHL holds a 39.3% share, have released their annual report (separately circulated) for the year ended 30 June. The net surplus for the year was $2.9 million, compared with $2.6 million in the previous year. The improved result was principally driven by increased harvest volumes, improved marketing initiatives and consolidated forest management processes, and was aided by solid demand in the 2002 calendar year. Export log demand declined in the last quarter as a result of a stronger New Zealand dollar and international uncertainty.

The company harvested a total of 187,166 tonnes, including third party contract harvesting, up 18% on the previous year.

Jaakko Poyry, international forestry consultants, undertook a comprehensive valuation of the forest estate as at 31 March 2003. The resulting valuation of $25.8 million represented a 49% decrease from the previous value, and was significantly impacted by a different valuation methodology that brings it into line with industry best practice.

The company's plains forestry blocks are adversely affected by lower growth rates and log grade yields, their 'shelterbelt' configuration, their susceptibility to wind damage, and restrictive land covenants. Consequently their potential financial yield is lower than that of the company's hill country blocks (although the latter's yields will also be adversely affected by a lack of pruning and thinning in the early years).

The company continues to pursue its strategy of disposing of non-productive leased land, and sold 109 hectares during the year for a gross return of some $$770,000.

The company planted 556 hectares during the year, comprising 77 hectares of new planting, and the balance in replanting of harvested areas.

The company has identified an opportunity to capitalise on growing international demand for wood from environmentally friendly sources. Following an extensive process, the company received accreditation from the Forest Stewardship Council, a world body promoting sustainable forest practices, in the first quarter of the 2003/04 financial year.

Despite the well-publicised uncertainties facing New Zealand's forest industry, the company's sound resources, now at a sustainable harvest level of 151,000 tonnes, provide a solid base from which to continue to develop the business. The company will continue to address the challenges of the current difficult market situation and in particular seek to maximise value from its less productive plains resource.

JADE STADIUM LIMITED ('JSL') ANNUAL REPORT

JSL have released their annual report for the year ended 30 June 2003 (separately circulated). The company recorded a net deficit for the year of $1.3 million, compared with a deficit of $1.5 million in the preceding year.

The deficit is broadly in line with budget expectations, and reflects in part a high depreciation charge arising from the asset-intensive nature of the business, and high financial gearing of the business. The company is generating positive operating cash flows, and repaying debt to the Council as planned.

While this is positive, it must be emphasised that the company is operating under tight margins. Contrary to popular perception, good crowds do not necessarily result in the stadium is making "super" profits, as JSL is only entitled to a small portion of the gate takings. The recent signalling by the Westpac Stadium in Wellington (which has the benefit of $40 million of interest-free loans from the Wellington Regional and City councils and has enjoyed high regular attendances) that it will have difficulty in making scheduled loan repayments over the next year or two, is evidence of this.

It is, however, worth noting that, in contrast with Wellington, JSL is meeting the full costs of its loans from the Council at this time, despite the fact that the business is heavily debt-financed. This is a credit to the board and management of JSL, who have managed the company and redevelopment project in a very disciplined way.

The company is active in seeking new sources of income, and during the year was successful in entering into a long term naming rights agreement with Paul Kelly Motors to re-name what was previously termed the West Stand. The company has also recently announced that it has secured a three year deal with the Australian NRL team, Wests Tigers, to play its "home" games against the New Zealand Warriors at Jade Stadium.

During the year, as previously reported to the Council, an adjustment was made to the company's capital structure to preserve suitable equity ratios. This does not affect the cash flows payable to the Council to service the loan advances in place. Work on implementing a succession agreement between Victory Park Board, JSL and the Council continues, although progress is slower than anticipated. Special legislation will be required to complete the transfer.

CHRISTCHURCH CITY FACILITIES LIMITED ('CCFL') ANNUAL REPORT

CCFL have released their annual report for the year ended 30 June 2003 (separately circulated). The company recorded a net deficit of $2.6 million, compared with a net deficit of $2.8 million in the preceding year.

Again, CCFL is a very asset intensive business, with an annual depreciation charge of around $3.5 million. The company is therefore cash flow positive from an operational perspective. The recorded result is well ahead of the deficit of $3.2 million budgeted in last year's Statement of Corporate Intent, and largely reflects a particularly successful year for the Convention Centre, where revenues were significantly in excess of budget.

As previously reported to the Council, subsequent to balance date, CCFL has acquired a new subsidiary, Jet Engine Facility Ltd ('JEFL'). JEFL will build and own the V2500 engine test facility and lease it to a Pratt & Whitney/Air New Zealand joint venture ('PWANZ') based at Christchurch International Airport. The lease payments over the term of the lease will more than cover all of JEFL's costs, and the company has a clear exit strategy that protects its commercial position.

The agreement with PWANZ will create a substantial number of new jobs, both during the construction period and on an ongoing basis, help preserve the existing JT8D engine test facilities and related jobs at the Christchurch Engine Centre, provide substantial spin-off benefits for local engineering firms, further develop the infrastructure and rental streams at Christchurch International Airport Ltd, and enhance Christchurch's standing as a centre for high technology.

MINUTES IN LIEU OF ANNUAL GENERAL MEETINGS

It is normal practice for the statutorily-required Annual General Meetings for those council-controlled trading organisations ('CCTOs') that either are non-operating, or are one step removed from the core operations of its subsidiaries or contractors, to be recorded by an entry in the Minute Book of the company. These CCTOs are:

Travis Finance Ltd
Christchurch City Facilities Ltd

In order for this process to be completed, it is necessary for the Council, as shareholder of these CCTOs, to attach the Council Seal to the relevant minute book entry of each company.

Staff Recommendation:

1. That the 2003 annual reports of Christchurch City Holdings Ltd, Orion New Zealand Ltd, Christchurch International Airport Ltd, Lyttelton Port Company Ltd, Red Bus Ltd, City Care Ltd, Selwyn Plantation Board Ltd, Jade Stadium Ltd and Christchurch City Facilities Ltd be received.

2. That the Council's seal be attached to a minute book entry of Travis Finance Ltd and Christchurch City Facilities Ltd, in lieu of the holding of Annual General Meetings for these companies.

Chair's Recommendation: That the above recommendation be adopted.