7. REPORT FROM CHRISTCHURCH CITY HOLDINGS LIMITED - JADE STADIUM LIMITED CAPITAL STRUCTURE

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The purpose of this report is to recommend a revision of Jade Stadium Limited's (JSL's) capital structure.

BACKGROUND

JSL was established by the Council to redevelop and manage Jade Stadium Ltd. The stadium was previously managed as Lancaster Park by the Victory Park Board (VPB). VPB is still in legal existence and has title to various stadium assets (excluding the new Paul Kelly stand).

In May 2002 the Council advanced the final instalment of its $41.2 million loan to JSL to fund the construction of the new Paul Kelly Stand. A loan agreement between JSL and the Council sets out a repayment schedule, and JSL is on track to meet this. The first scheduled repayment of principal ($1.5 million) was made in March/April 2003.

It is intended, once legal issues have been resolved, that VPB will be wound up and certain of its assets transferred to JSL. This amalgamation had originally been planned to have taken place some time ago, but legal technicalities have delayed the process.

In the meantime, the equity position of JSL as a separate legal entity is affected by this delay in amalgamation. The financial statements of the stand-alone entity currently show a net deficit in shareholder's funds of some $0.6 million, whereas on a consolidated basis (ie after amalgamation), they would show a positive equity balance of some $3.3 million as at 30 June 2003. The difference results from the net assets belonging to VPB that would be transferred to JSL on amalgamation.

There is no question of JSL having any trading difficulties as a result of this $0.6 million deficit in shareholder's funds. Its forecasts indicate that it is on target to meet all of its obligations as they fall due. However, it is preferable from the perspective of JSL's directors that the company operates with positive shareholder's funds.

RECOMMENDED CHANGE TO CAPITAL STRUCTURE

To achieve an improved equity position for JSL, it is proposed that the Director of Finance be authorised to put in place a restructuring of JSL's equity. This restructuring is intended to improve JSL's equity position, but without altering in any significant manner the cash flows scheduled to be paid by JSL to the Council, or the Council's security. In other words, any restructure must have a neutral impact on the Council.

The restructuring will most likely be achieved through the substitution of part of the debt owing to the Council with new shares, and an increase in the interest rate on the residual loan to ensure that budgeted cash flows to the Council are maintained. It is anticipated that the equity substitution will be in the order of $3 million to $4 million.

It is noted that in December 2000, the Council resolved to approve additional funding of up to a total limit of $44 million, by subscription for redeemable preference shares in JSL. This additional funding has not been called upon, and is still not considered necessary. The proposal in this report essentially involves a re-classification of the amounts already advanced to JSL rather than the provision of new funds.

Given the tight time frame for implementation by 30 June 2003, and the fact that this can be done in such a way as to protect the Council's security and cash flow, a delegated authority for the Director of Finance to approve the details of this restructure is being sought.

Recommendation: That the Council authorise the Director of Finance to effect a capital restructure of JSL (to a maximum of $4 million) that enables JSL's equity position to be improved but without significantly altering the expected cash flows from JSL to the Council, or the Council's security.