3. REPORT FROM CHRISTCHURCH CITY HOLDINGS LIMITED

Officer responsible	**Authors**
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The purpose of this report is to provide information to the Council on recent activities of the Christchurch City Holdings Limited ('CCHL') group.

1. PRATT & WHITNEY INVESTMENT

In February the Council resolved to approve an investment by a subsidiary (either CCFL or CCHL) in the building of a test cell facility at Christchurch International Airport which could be leased on commercial terms to the Christchurch Engine Centre. CCHL was tasked with reporting back to the Council in the appropriate way of achieving this proposal.

It is intended that CCHL will establish a subsidiary company to undertake this investment and the subsidiary will be funded by CCHL.

Subject to satisfactory consultation through the Annual Plan process for 2003/04, CCFL will acquire the subsidiary from CCHL so that it can be managed in the long term under the CCFL umbrella because it is highly compatible with CCFL's existing property portfolio.

The Statement of Corporate Intent for CCHL has an objective of taking initiatives of this nature at the request of the Council and authorises CCHL to acquire shares in a company provided there is prior approval of the Council.

Recommendation:

1. That the Council approve the establishment of a subsidiary by CCHL to undertake the building of a test cell facility to be leased to the Christchurch Engine Centre.
2. That the directors of the subsidiary be the same as the directors of CCFL.

2. CHRISTCHURCH CITY HOLDINGS LTD HALF YEAR REPORT

The half year report of CCHL for the period ended 31 December 2002 has been separately circulated to Councillors.

The consolidated net surplus for the period was $33.4 million, compared with $42.5 million in the previous equivalent period. The main factor behind the lower surplus is that a significant repatriation of capital from Orion to the Council took place last year, and hence this year there are no earnings on surplus cash in Orion. Another contributing factor was a one-off cost of nearly $3 million incurred by Lyttelton Port Company Ltd in respect of a negotiated settlement with employees.

In general, results of the parent and subsidiary companies for the year to date are in line with expectations.

Orion's half year surplus is a little down on the previous year, mainly as a result of additional borrowing costs in respect of its acquisition of shares in Energy Developments Ltd. The company is currently actively involved in discussions regarding the planned introduction of a new form of regulation (yet to be finalised) for electricity distribution companies.

Christchurch International Airport Ltd's result was ahead of the previous equivalent period, and reflects a recovery in international passenger numbers, particularly in the latter part of the period. Domestic passenger growth has been particularly strong following the introduction of Air New Zealand's new pricing and service levels.

Lyttelton Port Company's result was affected by the employee settlement provision referred to above but, looking forward, the improved flexibility as a result of the settlement, the new Mediterranean Shipping Company service, and the recently-signed long term agreement with Solid Energy should have a positive impact on the company and the region.

Red Bus Ltd reported an improved result for the half year, boosted by continuing improvements in revenues and patronage. In December, the company was successful in an unscheduled tender of a number of routes handed back by Leopard Coachlines. While this will further increase revenues, it also requires significant capital expenditure for new buses, which will impact on cash flows and dividends in the short term.

City Care Ltd's net result was consistent with last year's. Revenues were up, mainly as a result of new contracts in Ashburton, Banks Peninsula and Auckland. Profitability has been affected in the short term by establishment costs in respect of the Auckland operation, but the latter is expected to be contributing financially by the end of the year as new contracts come on stream.

Selwyn Plantation Board Ltd recorded a surplus for the half year significantly in excess of the previous year. It experienced buoyant demand and firm pricing, and took the opportunity to maximise harvesting to take advantage of these conditions.

CCHL has paid two fully-imputed interim dividends totalling $23 million for the year to date, with a final dividend of $8.9 million scheduled for June (subject to the normal approvals at that time).

Recommendation: That the six monthly report of Christchurch City Holdings Ltd for the period ended 31 December 2002 be received.