

7. CHRISTCHURCH CITY HOLDINGS LIMITED

General Manager responsible:	Bob Lineham, CEO, CCHL, DDI 941 8411
Officer responsible:	Bob Lineham, CEO, CCHL
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PURPOSE OF REPORT

1. The purpose of this report is to advise the Council on matters discussed by the CCHL Board.

ORION GROUP LIMITED - ANNUAL REPORT AS AT 31 MARCH 2006

Financial Performance

2. Orion achieved a net profit after tax for the year of \$34.1 million, compared with \$52.3 million in the previous year. Last year's result included a \$29.3 million gain on sale of the majority of Orion's investment in Energy Developments Ltd ('EDL'), with the balance of the shares being sold in the 2006 financial year.
3. Orion's debt levels are low, and net equity is \$621 million.

Network

4. Network reliability is a crucial aspect of Orion's performance. Orion "kept the lights on" for 99.99% of the time over the last five years - the third best result in New Zealand (the two companies ahead of Orion have solely urban networks which are less vulnerable to disruption). In terms of the number of interruptions per consumer per annum, Orion was the most reliable in the country.
5. Forecast capital expenditure over the next ten years is over \$30 million per annum, with approximately a further \$18 million per annum to be spent on maintenance.

Regulation

6. Orion continues to commit significant time and resource into regulatory issues, as it is critical that regulation does not reduce incentives for lines companies to innovate and invest in their networks. Orion has worked closely with the Commerce Commission, the Electricity Commission and the Ministry of Economic Development as the regulatory framework is developed. It has also worked with the Electricity Networks Association to seek more flexibility around electricity distributors' ability to own generation and buy financial hedges to manage revenue and operating risks.

Investments

7. In 2003, Orion decided to reduce its level of investment in technology companies and return to "core business". Since that time it has withdrawn from several investments - notably EDL - and continues to seek appropriate divestment opportunities. In July 2006 Orion sold the majority of its stake in Whisper Tech, a company that develops and manufactures small scale co-generation units, to Meridian Energy. Also subsequent to balance date, in August 2006 Orion sold its shares in Energetics Pty Ltd as part of a competitive trade sale process.
8. Current investments include holdings in HumanWare Group and 4RF Communications.

SELWYN PLANTATION BOARD LIMITED - ANNUAL REPORT AS AT 31 MARCH 2006

Financial Performance

9. The net result for the year was a net profit after tax of \$3.7 million, compared with a \$1.8 million deficit in the previous year. The result for the year included a gain on sale of land of \$8.4 million, but also a downward revaluation of the company's forests of \$6.4 million. Last year's result also included a forest revaluation decrement of \$4.6 million.

10. Ignoring the impact of asset sales and revaluation adjustments, the net operating surplus before tax was \$1.8 million, compared with \$2.4 million in the previous year. Given the difficult trading conditions facing the company, and its strategy of harvesting only plains timber, this is considered to be an acceptable result.
11. Domestic sawmill demand remained steady, but export log sale prices remained at historical lows for most of the year as a result of the high NZ\$ v US\$ exchange rate and record high ocean freight rates. New building regulations and quality standards have created a marketing challenge and a negative effect on average sale price per tonne.
12. An external valuation of the forest estate resulted in a 41% decrease in value to \$9.2 million. This reduction primarily reflected weakened future log sale prices following the introduction of new building industry quality standards, but also the lower area of forested land and a higher discount rate.
13. The total of land and buildings, land conversion costs and properties intended for sale (which have not been revalued) is \$43.9 million, a decrease of 7% over the previous year, reflecting the sale of the south plains land.

Land Strategy

14. In accordance with the company's previously signalled strategy to convert its plains forest land to an alternative land use, it has embarked on a process to clear the majority of the plains land, while at the same time ensuring that its soil structure and productive capability is retained. Several hundred hectares had been converted by balance date, with several hundred more in various stages of conversion. The company is ensuring that reasonable shelter belts are retained as the forests are converted to other uses.
15. Earlier in the year, the company sold 3,386 hectares of plains land situated between the Selwyn and Rakaia rivers.

TRANSFER OF SHAREHOLDING IN CCHL FROM MESSRS LINEHAM AND STOCK TO CCC

16. When CCHL was incorporated in 1993 it was a requirement of the Companies Act 1955 that every company had at least two shareholders. As a result one share in CCHL was held in trust for the Council jointly by David Stock and Bob Lineham.
17. CCHL has recently undertaken a review of its constitution and now that the Companies Act no longer requires that there be more than one shareholder CCHL requested the trustees to transfer the share held in trust directly into Council ownership. The trustees have agreed to this and the transfer took place in mid July. The beneficial 100% ownership of CCHL by CCC has not changed as a result of this transfer.

TRANSFER OF SHAREHOLDING IN CCHL FROM MESSRS LINEHAM AND STOCK TO CCC - RECOMMENDATION

It is recommended that the information be received.

PETITION FROM KEEP OUR PORT PUBLIC (KOPP)

18. At the Council meeting on 20 July 2006 the Council received a petition promulgated by Keep Our Port Public which contained 2,888 signatures. The Council referred the petition to CCHL. The prayer of the petition reads:

"The Christchurch City Council DOES NOT allow any sale of any shares it owns directly or indirectly in Lyttelton Port Company to Hutchison Port Holdings of Hong Kong or any other overseas or New Zealand company; and that the Christchurch City Council commits to keeping Lyttelton Port Company in 100% PUBLIC ownership."

19. The Board of CCHL has given consideration to the petition and wishes to advise the Council as follows:
- The Council has never owned 100% of Lyttelton Port Company so it cannot commit to keep something it does not have.
 - The Council should not commit itself to a course of action that could work against the public good in the long run.
 - Future circumstances might make a change of ownership for Lyttelton Port Company an imperative to ensuring that Lyttelton can continue to be an active port serving the local economy.
 - It is difficult to anticipate what the future might bring in a rapidly changing port and shipping industry and it would be unwise to make a philosophical commitment to an ownership regime which could work against the main reason that the Council is involved with the port ownership - to ensure that there is a viable and effective port facility for the region.
 - There are safeguards in the Council's list of strategic assets which prevent loss of control of Lyttelton Port Company without public consultation.
 - Any future proposals for changed ownership of Lyttelton Port Company should be judged on their merits.

PETITION FROM KEEP OUR PORT PUBLIC (KOPP) - RECOMMENDATION

It is recommended that no further action be taken on the petition.

CCHL CHAIR - POLICY

20. The term of appointment for the current chair of CCHL is due to expire in late 2007 and the Board has discussed and drafted a policy for succession planning for the Chairmanship of the company. This policy would be a Council policy which in due course could be incorporated into the Council's already existing policy on the appointment and remuneration of directors. What is proposed is in line with the CCHL policy for the appointment of chairs of the subsidiary boards and is in line with best practice governance. It is proposed to ensure a smooth transition through a planned approach. A copy of the proposed policy is attached.

CCHL CHAIR - POLICY - RECOMMENDATION

It is recommended that the "CCHL Chairperson Succession Planning Policy" specifically for the CCHL Board Chair appointment be adopted by the Council.