13. REPORT FROM CHRISTCHURCH CITY HOLDINGS LIMITED

RR 9242

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Corporate Plan Output: Trading Activities Monitoring	

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

1. CCHL PARENT COMPANY

1.1 Annual Report

CCHL's annual report for the year ended 30 June 1998 was published in December. Key features include:

- A consolidated net surplus after tax of $41.2 million (1997/98 $29.8 million);
- A parent company net surplus after tax of $45 million (including special dividends from subsidiary companies), compared with $17.9 million in the 1997/98 financial year;
- Dividends paid to the Council of $30.7 million (including special dividends), compared with $9.9 million in the 1997/98 financial year.

1.2 Banking arrangements

A review is currently being undertaken of CCHL's banking, financing and treasury arrangements. As part of this, invitations to tender for CCHL's debt management have been sent to five banks. In the meantime, the current underwriting facility has been extended for three months, now expiring on 28 February 2000.

1.3 Capital repatriation

Work is still under way on the tax, legal and accounting implications of returning the proceeds of the capital repatriations from CCHL's subsidiaries to the Council. Further details in respect of the Orion capital repatriation are set out below.

1.4 Annual General Meeting

Following the practice of previous years, an Annual General meeting has not been called. Instead of an AGM, this has been resolved by entry in the minute book, in accordance with Section 362(2) of the Companies Act 1995. The common seal of Christchurch City Council has been affixed to this minute book entry to meet statutory deadlines, and ratification of this action is required.

Recommendation: That the Council approve the affixing of the common seal to the attached shareholder's resolution.

2. ORION

2.1 Summary of changes

The restructuring of New Zealand's electricity industry and its impact on Southpower (now Orion) has been well publicised. The following is a brief summary of recent key events:

- July 1998 – the Government passed the Electricity Industry Reform Act, requiring the divestment by electricity companies of either their retailing business or their network business.
- October 1998 – a holding company structure was set up to comply with the terms of the settlement with the Commerce Commission earlier in the year.
- October 1998 – Southpower announced the sale its retailing business to TransAlta NZ Ltd (for a gross price of $171 million), effective from 1 December 1998. The sale included Southpower's name, which TransAlta will continue to use in the interim.
- October 1998 – Southpower announced the sale of Enerco's gas retail business to Contact Energy (gross price $100 million).
- October 1998 – Southpower launched a $150 million takeover offer for the remaining 31.1% of Enerco shares not already owned by Southpower. The takeover is expected to result in valuable synergies, benefiting the value of the Council's investment.
- November 1998 – Southpower changed its name to Orion New Zealand Limited (and its holding company is called Orion Group Limited).
- December 1998 – Enerco changed its name to Qest Limited.
- December 1998 – in addition to an interim dividend, Orion paid a fully imputed special dividend of $66 million (CCHL's share $57.8 million) as part of the previously announced $150 million capital repatriation. Half of the total repatriation has now been completed.

In addition to the above capital repatriation, a further $61.3 million arising from the sale of the Southpower retail business is expected to be returned to CCHL in the current financial year (the balance of the proceeds having been applied to the takeover offer for the minority shares in Qest).

2.2 Six-monthly financial statements

Financial statements for the six months to 30 September 1998 were presented to the CCHL Board. Points of note:

- The unaudited surplus after tax for the group was $16.7 million, $3.5 million above last year.

- Group operating revenues were 8% below last year's, reflecting a very mild winter, as well as the sale of the "Powerstore" appliance business in December 1997.

- The reduced revenues were offset by a favourable partial exposure to relatively low wholesale electricity spot prices, and a reduction in operating expenses.

The subsequent divestment of the electricity retailing business means that the interim results are of less relevance in determining the final result for the year.

3. CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

3.1 Crown shares

A CCHL Board committee, in conjunction with investment bankers ABN Amro and Cameron & Co, has continued to develop a strategy to address the prospect of the Crown deciding to sell its 25% shareholding in CIAL. CCHL holds pre-emptive rights over the minority shares, and therefore must be in a position to respond quickly to a sale offer by the Crown in order to maximise shareholder value.

Exploratory meetings have been held with Treasury representatives, and also with Ngai Tahu, who have a right of first refusal over the Crown's shares.

As emphasised in earlier reports to the Council, no binding commitments will be entered into without bringing the matter to the Council for discussion and approval.

3.2 Quarterly financial statements

Financial statements for the three months to 30 September 1998 were presented to the CCHL Board. Key factors:

- Revenue was up 3.8% compared with the previous equivalent period, reflecting in particular growth in lease, rentals and concessions income, increased international departures and increased regional airlines services.

- The net profit after tax was down 15% compared with the equivalent previous period, reflecting increased depreciation and financing costs from the new international terminal. However, costs were within 1.3% of budget.

- The CIAL board are pleased with the trading results to date, given the domestic and international uncertainties, and at this stage expect to meet or exceed budget for the current year. This is subject to continuing growth in passenger numbers.

4. LYTTELTON PORT COMPANY LIMITED

4.1 Confidentiality Agreement

As LPC is a listed company, it must comply with New Zealand Stock Exchange rules regarding the flow of price sensitive information. This, in the past, has prevented CCHL from receiving information that was not already available to the market.

A confidentiality agreement has now been signed and approved by the Stock Exchange which should help to overcome this difficulty by permitting the provision of certain financial information to the CCHL Board and nominated Council officers prior to release to the market.

4.2 Managing Director

Mr David Viles, the Chief Executive Officer of LPC, has been appointed as Managing Director.

5. CHRISTCHURCH TRANSPORT LIMITED

5.1 Directors

In November, the Council approved the appointment of Mr Evan Frew as a director of CTL, and resolved the following:

"That in principle CTL should have a Board of three or four experienced commercial directors and one or two Councillors.

That two new directors be appointed to replace Messrs Waterfield and Cox.

That the appointment of Mr Craig Boyce be extended for a further year."

A CCHL Board committee has continued to seek and interview appropriately qualified applicants for the available positions, and CCHL will put its recommendations to the Council once this process has been completed.

It is noted that Mr Spence will retire from the Board in February/March and Ms Urlwin will succeed him as Chairperson.

6. SELWYN PLANTATION BOARD LIMITED

6.1 Six-monthly Financial Statements

Financial statements for the six months to 30 September 1998 were presented to the CCHL Board. Key aspects:

- SPBL continues to be hit hard by the Asian economic crisis, with no log exports in the half year.

- The company is continuing its strategy of preserving shareholder value by leaving the forest asset standing to appreciate in value until log prices recover.

- The year end profit projection before tax has been revised downwards to $500,000.

- The company is actively pursuing opportunities for vertical integration and added value.

- The directors intend to pay the full budgeted dividend, notwithstanding the fact that a portion of this will be paid from reserves.

7. CANROAD CONSTRUCTION LIMITED

7.1 Statement of Corporate Intent

Following a meeting with the Chairman and Chief Executive of Canroad, and discussion of their business plan, the CCHL Board resolved that Canroad's draft Statement of Corporate Intent be recommended to the Council for adoption.

Recommendation: That the attached Statement of Corporate Intent be approved by the Council.

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