19. REPORT FROM CHRISTCHURCH CITY HOLDINGS LIMITED

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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'), and to make recommendations on any matters arising.

1. CCHL

1.1 Capital Reinvestment Project

CCHL has continued to explore a number of scenarios with regard to the disposition of the Orion gas sale proceeds, and their financial impact on the Council, CCHL and the group as a whole.

The concept of vesting an investment trust with at least a part of the proceeds has received attention, and taxation and legal advice is being taken to ascertain its practicality.

In the meantime Orion is also exploring its strategic options, and is liaising periodically with CCHL.

It is intended to hold another seminar in the near future to apprise Councillors of the progress made to date and to clarify the scope of CCHL's role in this process.

1.2 Draft Parent Company Financial Statements – Year Ended 30 June 2000

A set of draft financial statements for the parent company was presented to the Board for consideration. These have not yet been audited. Points of note include:

- Net profit after tax of $149.6 million;
- Receipt of a special dividend from Christchurch International Airport of $22.5 million;
- Receipt of $66.6 million following repayment by Orion of its mandatory convertible notes;
- Receipt of a special dividend from Orion of $78.8 million;
- Receipt of a special dividend from Lyttelton Port Company of $6.7 million;
- A return of capital of $162 million to the Council, completing the capital repatriation budgeted by the Council last year.

2. ORION GROUP LIMITED

2.1 Annual Report for the Year Ended 31 March 2000

The annual report of Orion New Zealand Limited was received by CCHL. The company made a net surplus of $30.4 million, which was just ahead of its forecast in its SCI. There were a number of abnormal items contained within this result including a $5.7 million surplus on the sale of its interest in the Southdown co-generation joint venture, an $18.6 million write-down of gas exploration expenditure, and the expensing of $4.9 million of deferred tax.

A revaluation of Orion's network assets on the Optimised Deprival Value ('ODV') basis (required every three years) resulted in a decrease of $42 million, or about 10%, to a new value of $392 million.

Orion's return on its electricity network assets, after adjusting the effect of the revaluation, was 7.9%. This is less than the company's estimated cost of capital of 8.6% as assessed by independent advisers, although a little higher than its SCI target of 7.5%.

The sale of the North Island gas networks and related assets is not reflected in the annual report for the year ended 31 March 2000, as the settlement dates were after balance date. The surplus of some $187 million will be recognised in the 2001 financial year.

Orion Group Limited paid an ordinary dividend of $28 million (CCHL share $24.5 million) for the year. Additionally, after balance date it declared a special dividend of $90 million (CCHL share $78.8 million), representing a portion of the gas network sale proceeds that could be returned to shareholders using available imputation credits.

3. CHRISTCHURCH INTERNATIONAL AIRPORT LIMITED

3.1 Annual Report for the year ended 30 June 2000

The annual report of Christchurch International Airport Limited ('CIAL') was received by CCHL. The company recorded a net surplus of $19.9 million, up 12% over the previous year's result.

The improved result reflected a number of factors, in particular continued strong growth in international passenger numbers (a 9.8% increase over the previous year). Additionally, domestic passenger numbers grew 10.2%, a reversal of four years of negative growth.

There was strong growth in lease, rental and concession income, reflecting not only increased passenger numbers, but also increased spend per passenger, the re-tender of certain concessions and improved revenue streams from on-site advertising.

Landing charges actually decreased from the previous year, partly as a result of the Ansett pilots' strike but also an ongoing change in fleet mix to smaller aircraft.

The financial strength of the company is indicated by the fact that it was able to pay a special $30 million dividend to shareholders (CCHL share $22.5 million) during the year.

4. LYTTELTON PORT COMPANY LIMITED

4.1 Annual Report for the year ended 30 June 2000

The annual report of Lyttelton Port Company Limited ('LPC') was received by CCHL. The company made a net surplus of $14.9 million, up 13% over the previous year's result.

The improved result primarily arose from sustained volume growth in all of the port's key trades, and effective cost control. Further details were provided in an earlier report to the Council.

The company paid an increased ordinary dividend (CCHL's share $6.8 million) and a special dividend (CCHL's share $6.7 million).

4.2 Statement of Corporate Intent

The company has provided an amended Statement of Corporate Intent (attached) incorporating the amendments requested by the Council at the previous meeting.

5. SELWYN PLANTATION BOARD LIMITED

5.1 Annual Report for the year ended 31 March 2000

The annual report of Selwyn Plantation Board Limited ('SPBL') was received by CCHL. The company recorded a net surplus after tax of $1.45 million, a substantial increase over the previous year reflecting an increased level of production.

There appears to have been a reversal of the downward slide in log market and forestry sector confidence over the last few years, and recovering prices assisted the company's improved result.

To date, most of the increase in production and sales has been at the lower quality end, with the major volume market for SPBL being chip wood supply to the MDF mill at Rangiora. However, the premium quality hill forests will soon come on stream, which should enhance the company's sales mix.

The company continues to explore options for additional added value downstream processing, but to date conditions in the target markets of China and Japan have not proved conducive to reaching an agreement.

The company declared a total dividend for the year of $870,000 (Council's share $342,000).

6. CITY CARE LIMITED

6.1 Statement of Corporate Intent ('SCI')

City Care Limited has submitted a draft SCI (copy attached) for the forthcoming financial year. The company's confidential business plan was also discussed with City Care representatives at the same time. Some amendments to the SCI were requested by CCHL to clarify the objectives section, and the company is currently considering these. If any changes are made, the revised document will be tabled at the meeting.

The CCHL Board has recommended to City Care that it should further develop the SCI for next year, including the addition of a mission statement.

CCHL has resolved to submit the draft SCI to the Council for approval.

Recommendation: That the Council approve City Care Limited's draft Statement of Corporate Intent for the year ending 30 June 2001.

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