



Christchurch City Holdings Limited



Summary Financial Report

for the year ended

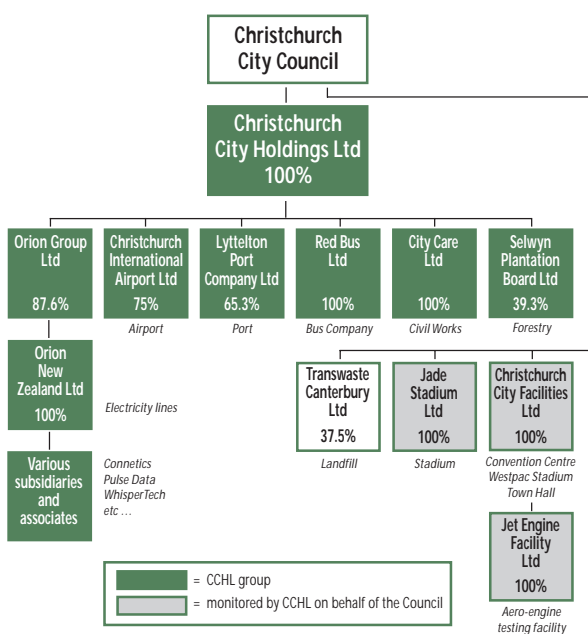
June 30, 2003

Introduction

Overview of CCHL

CCHL is the wholly-owned investment arm of Christchurch City Council, holding shares in six trading companies and monitoring three further companies.

The Council's group structure and percentage ownership (excluding non-trading companies) is as follows:



Most of these trading companies (known as "council-controlled trading organisations" or "CCTOs") form part of the key infrastructure of Christchurch – electricity delivery, the port, the airport, public transport and general city facilities – and are critical to the regional economy.

CCHL was set up 1993 in response to calls for a confidential independent non-political buffer between the Council and the companies it owned. CCHL therefore ensures that a commercial approach is taken to managing the interface with the Council's companies.

The Council's investment in CCHL and its subsidiary companies has recently been independently valued at \$934 million. Standard and Poor's, the international credit rating agency, recently affirmed CCHL's credit rating at AA+, making CCHL one of the highest-rated companies in New Zealand.

The trading companies pay regular dividends to CCHL. These dividends, averaging \$30m a year, are passed onto the Council. They have also provided significant capital for the Council to fund other projects.

What does CCHL actually do?

Tasks that CCHL undertakes include:

- reviewing Statements of Intent provided by the CCTOs;
- reviewing periodic financial reporting by the CCTOs and reporting to the Council;
- recommending director appointments to subsidiary companies;

- selecting, hiring, evaluating and mentoring chairpersons of subsidiary companies;
- performing capital structure reviews;
- monitoring business developments;
- assisting subsidiary boards with community issues;
- keeping well informed on strategic issues facing the sectors that the subsidiaries operate within;
- having strategic discussions with the chairs and boards of those subsidiaries, where appropriate;
- making opportunities for subsidiary boards to network and discuss developments in governance practice;
- dealing with other issues as they arise.

CCHL also undertakes borrowing in the capital markets to meet the Council's debt requirements, and is party to a \$100 million commercial paper programme and \$250 million medium term note programme. A separate Information Memorandum in respect of these programmes is available.

CCHL is accountable to the Council through a number of mechanisms, including:

- Negotiation of an annual Statement of Intent;
- Council appointment of directors (six councillors and three external);
- Regular reporting to the Council's Strategy & Finance Committee;
- Publication of six monthly and annual reports.

Neither CCHL nor the Council plays any part in the management of the CCTOs and other companies – this is solely the prerogative of their respective Boards and management, who are charged with running their businesses in a commercial manner, and on an arm's length basis from CCHL and the Council.

Why does the Council retain ownership?

The Council has an interest in ensuring that the region's strategic assets are operated in a commercial manner, but also in a way that is beneficial for the region as a whole. Through Statements of Intent, the Council is able to establish broad parameters reflecting the public nature of these assets, but without inhibiting proper commercial management.

CCHL endeavours to ensure that the city's commercial assets have best practice governance and commercial expertise at board level.

From a financial perspective, the income stream from the CCTOs enables CCHL to pay dividends to the Council averaging some \$30 million a year, hence diversifying the Council's income and helping reduce rates by up to 20% a year. Past capital returns through the trading companies have allowed the Council to make further major investments in community assets, such as the Art Gallery, without a significant impact on rates.

When CCHL was set up in 1993 to hold the Council's shares in Southpower (now Orion), the value of its assets was \$170 million. With the subsequent addition of the airport and port a couple of years later, asset values increased to some \$400 million. Today, with further growth and acquisitions, its assets are valued at over



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one billion dollars. Moreover, in that same period over \$550 million of capital and dividend payments have been made to the Council.

Overall, the CCHL group companies have generated shareholder returns, including capital growth, for the ratepayers of over 20% per annum since 1995. This combination of growth in value and cash returns have significantly contributed to the wealth of the City.

Who manages CCHL's operations?

The CCHL Board currently comprises six Councillors and three externally-appointed directors. As at 30 June 2003 the directors were:

Paddy Austin, PhD (Chairperson)

Oscar Alpers, LLB, Notary Public

Craig Boyce, BCom, ACA FNZIM

Pat Harrow, Dip Hort

Alister James, LLB

Garry Moore, CA

Barbara Stewart

David Stock, LLB

Peter Taylor, MCom (Hons), FCA, FNZIM

The Chief Executive officer of CCHL is Bob Lineham, who is also the Council's Director of Strategic Investments. He is assisted by the Board Secretary, Noeline Halstead, the Council's Director of Business Projects Ian Hay and Financial Analyst Richard Simmonds, with other treasury and accounting services also contracted from Council staff. CCHL also uses specialist external advice where required.

Summary Financial Report

This summary financial report and its specific disclosures are derived from the full financial report of Christchurch City Holdings Limited (CCHL) for the year ended 30 June 2003, and was authorised for issue by the Board of CCHL on 22 October 2003.

Readers should be aware that this summary financial report cannot be expected to provide as complete an understanding as is provided by CCHL's full financial and annual report. The full CCHL financial report is available on request (see contact details at back).

The full CCHL financial report for the year ended 30 June 2003 was audited by Audit New Zealand, on behalf of the Office of the Auditor-General, and received an unqualified audit report.

Audit New Zealand have reviewed this summary financial report, and have confirmed that the information provided is consistent with the full financial report.

Financial Summary

of the CCHL Parent Company

Statement of Financial Performance (what CCHL earned and where it went)	2003 \$m	2002 \$m
Operating revenue (what CCHL received):		
Dividends received from the group companies	41.9	52.8
Interest received and other income	5.7	11.6
= Total income to the company	47.6	64.4
Less: What CCHL paid:		
Interest on borrowings and other expenses	13.2	15.9
= Profit before income tax	34.4	48.5
Income tax	0.2	(0.3)
Leaving a net profit after income tax for the year of	34.2	48.8
Add: Revaluation of CCHL's investments in its trading companies	126.3	3.3
= total recognised revenues and expenses	160.5	52.1
Less: Dividends paid to the Council	(32.3)	(184.4)
= Net increase/(decrease) in CCHL's equity for the year	128.2	(132.3)
Add: CCHL's equity at the start of the year	720.3	852.6
= CCHL's equity at the end of the year	848.5	720.3

Statement of Financial Position (assets and liabilities of the company)	\$m	\$m
What CCHL owns		
Cash and other current assets	30.6	32.0
Loans to the Council	59.9	68.4
Investments in the trading companies	934.7	812.2
	1,025.2	912.6
Less: What CCHL owes		
Borrowings from banks and other lenders	163.4	164.8
Other liabilities	13.3	27.5
	176.7	192.3
= Net assets (what the company owns after deducting what it owes)	848.5	720.3

Statement of Cash Flows	\$m	\$m
Cash that CCHL received or paid:		
re its operating activities (dividends received less expenses)	34.5	48.1
re its investing activities (loans repaid etc)	12.6	89.6
re its financing activities (dividends paid, borrowing etc)	(48.0)	(123.9)
	(0.9)	13.8
Add: Cash at the start of the year	29.7	15.9
= Cash at the end of the year	28.8	29.7

CCHL's net assets have increased quite significantly from last year. This is principally because it has had its investments in its trading companies independently revalued to fair market value as at 30 June 2003.

Financial Summary

of the whole CCHL group

Consolidated Statement of Financial Performance

(what all the CCHL group companies earned and where it went)	2003 \$m	2002 \$m
What the group companies received:		
Operating revenues	351.0	323.0
Interest received and other income	15.6	24.5
	<u>366.6</u>	<u>347.5</u>
Less: What the group companies paid		
Operating costs	195.2	169.8
Interest, depreciation and other costs	83.2	71.1
= Net profit before income tax	<u>88.2</u>	<u>106.6</u>
Less: Income tax	37.0	44.3
= Net profit after income tax of the whole group	<u>51.2</u>	<u>62.3</u>
Less: attributable to the minority shareholders of subsidiary companies	(11.0)	(13.1)
= Net profit after income tax attributable to CCHL	<u>40.2</u>	<u>49.2</u>
Add: Revaluations of assets, minority interests and other movements	145.4	44.2
= total recognised revenues and expenses of the group	<u>185.6</u>	<u>93.4</u>
Less: Dividends paid to the Council and other shareholders	(43.3)	(195.9)
= Net increase/(decrease) in the group's equity for the year	<u>142.3</u>	<u>(102.5)</u>
Add: Group's equity at the start of the year	598.8	701.3
= Equity of the whole group at the end of the year	<u>741.1</u>	<u>598.8</u>

Consolidated Statement of Financial Position

(assets and liabilities of all the CCHL group companies) \$m \$m

What all the group companies own		
Cash and other current assets	70.4	76.7
Fixed assets	980.5	796.1
Investments, loans and other non-current assets	164.6	119.5
	<u>1,215.5</u>	<u>992.3</u>
Less: What all the group companies owe		
Creditors and other liabilities	132.4	122.8
Borrowings	342.0	270.7
	<u>474.4</u>	<u>393.5</u>
= Net assets	<u>741.1</u>	<u>598.8</u>
(what the company owns after deducting what it owes)		
The group equity belongs to:		
CCHL	613.4	488.5
Other minority shareholders in subsidiary companies	127.7	110.3
Total group equity as above	<u>741.1</u>	<u>598.8</u>

Consolidated Statement of Cash flows

	\$m	\$m
Cash that the companies received or paid:		
re operating activities	102.8	130.1
re investing activities		
(including fixed asset purchases)	(135.5)	(149.8)
re their financing activities	28.9	(127.3)
	<u>(3.8)</u>	<u>(147.0)</u>
Add: Cash at the start of the year	33.3	183.1
Other adjustments	0.0	(2.8)
= Cash at the end of the year	<u>29.5</u>	<u>33.3</u>

The group's net assets have increased substantially from the previous year. The main reason for this is the revaluation of Orion's electricity network, which resulted in a significant uplift.

Summarised notes to the Financial Statements

Commitments

The group has capital commitments of \$37.4 million (2002: \$23.5 million) and lease commitments of \$3.1 million (2002: \$3.4 million). The parent company has none.

Additionally, Lyttleton Port Company Ltd (LPC) has entered into a 15 year coal handling agreement with Solid Energy NZ Ltd, which involves certain commitments and obligations, details of which are provided in the full CCHL and LPC annual reports.

Contingent liabilities and assets

The group has contingent liabilities in respect of contract performance bonds of \$2.4 million (2002: \$1.3 million).

The CCHL parent company has an unquantified contingent asset in respect of the purchase of its shares in Selwyn Plantation Board Ltd from the Council in March 2002. Further information is available in the full CCHL and Orion annual reports.

Related party transactions

In the 2001/02 and 2002/03 financial years, related party transactions mainly related to dividends, subvention payments and loan principal and interest paid between group companies and the Council. Additionally, in 2001/02, CCHL acquired the Council's shares in City Care Ltd and Selwyn Plantation Board Ltd for a combined total of \$39.4 million.

Off balance sheet risk

The group companies have entered into various interest rate swaps and forward rate agreements to manage interest rate exposure.

Orion has an investment in Energy Developments Ltd (EDL). The net carrying value of this investment was greater than the Australian Stock Exchange market price at balance date. However, EDL's net tangible asset backing per share was broadly equivalent to Orion's carrying value, and Orion's board believe that there has been no permanent impairment in value. Further information is available in the full CCHL and Orion annual reports.

Performance Information

	2003 Actual	2003 Target
Returns to Christchurch City Council	\$m	\$m
Dividend - ordinary	28.9	28.9
Dividend - special	3.4	3.4
Total dividend to Council	32.3	32.3

Financial targets for the CCHL parent company

Net profit before tax	34.3	32.6
Net profit after tax	34.2	32.6
EBIT/closing assets	4.5%	4.9%
Net debt/net debt plus equity	13.7%	17.9%
Interest cover	3.9	3.9
Return on average equity	4.4%	4.6%

Financial targets for the whole CCHL group

Net profit before tax	88.2	83.1
Net profit after tax	40.2	32.3
EBIT/closing assets	8.9%	10.0%
Net debt/net debt plus equity	29.7%	31.9%
Interest cover	5.4	5.7
Return on average equity	6.0%	6.5%

Report of the Auditor-General

TO THE READERS OF THE SUMMARY FINANCIAL STATEMENTS OF CHRISTCHURCH CITY HOLDINGS LIMITED AND GROUP FOR THE YEAR ENDED 30 JUNE 2003



Audit New Zealand

We have audited the summary financial statements as set out on pages 5 to 7.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the summary financial statements and we are responsible for expressing an opinion on those statements.

Basis of Opinion

Our audit was conducted in accordance with the Auditor-General's Auditing Standards, which include New Zealand Auditing Standards. We have carried out audit related and assurance assignments for subsidiaries within the group. Other than these assignments and in our capacity as auditor acting on behalf of the Auditor-General, we have no other relationship with or interests in Christchurch City Holdings Limited and group.

Unqualified Opinion

In our opinion the information reported in the summary financial statements on pages 5 to 7 complies with FRS-39: Summary Financial Reports and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report dated 30 September 2003.

D Menon, Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand
30 October, 2003

How can I contact CCHL?

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Telephone	(03) 941 8475
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Email	noeline.halstead@ccc.govt.nz
Web	www.ccc.govt.nz/christchurchcityholdings

Further information about the other group companies can be found at:

Orion New Zealand Ltd
www.oriongroup.co.nz

Christchurch International Airport Ltd
www.christchurch-airport.co.nz

Lyttelton Port Company Ltd
www.lpc.co.nz

Red Bus Ltd
www.redbus.co.nz

City Care Ltd
www.citycare.co.nz

Selwyn Plantation Board Ltd
www.spbl.co.nz