

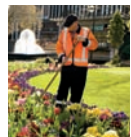


Christchurch City Holdings



# statement of intent

for the  
year ending  
30 June 2011



**Statement of Intent (Sol)**  
for the year ending 30 June 2010

Table of Contents		Page
1.	Introduction	3
2.	Mission statement and objectives	3
3.	Nature and scope of activities	4
4.	Corporate governance	6
5.	Ratio of shareholders' funds to total assets	8
6.	Accounting policies	8
7.	Performance targets and measures	8
8.	Distributions to shareholder	12
9.	Information to be provided	12
10.	Acquisition/divestment policy	13
11.	Activities for which compensation is sought	14
12.	Commercial value of shareholder's investment	14
13.	Role in the Christchurch City Council group and regional economy	14

Attachment – statement of accounting policies

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## Introduction

This Statement of Intent ("Sol") is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The Sol specifies for Christchurch City Holdings Limited ("CCHL") and its subsidiaries the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the group may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable Sol is a public and legally-required expression of the accountability relationship between the company and its shareholder, the Christchurch City Council.

The Sol is reviewed annually with the Council and covers a three year period.

CCHL is a council-controlled trading organisation ('CCTO') for the purposes of the Local Government Act 2002.

## Mission Statement

CCHL's mission is to support the Council's vision for the city by:

**"investing in, and promoting the establishment of, key infrastructure assets in a commercially viable manner to assist the development of Christchurch as a world class boutique city".**

## Objectives

A core role of CCHL is to monitor the Council's existing investments, which largely service the region's existing infrastructure needs.

CCHL will also review, and where appropriate invest in, the infrastructure required to support the regional economic direction envisaged in the Urban Development Strategy,. Such infrastructure includes, but is not restricted to, high speed telecommunications, integrated transport systems, water and security of energy supply. It will continue to develop a closer working relationship with Canterbury Development Corporation.

CCHL is mindful of the significant investment by the Council in its operations, and of the need to preserve and grow shareholder value and the level of dividends to the Council.

In light of the above, CCHL's objectives are as follows:

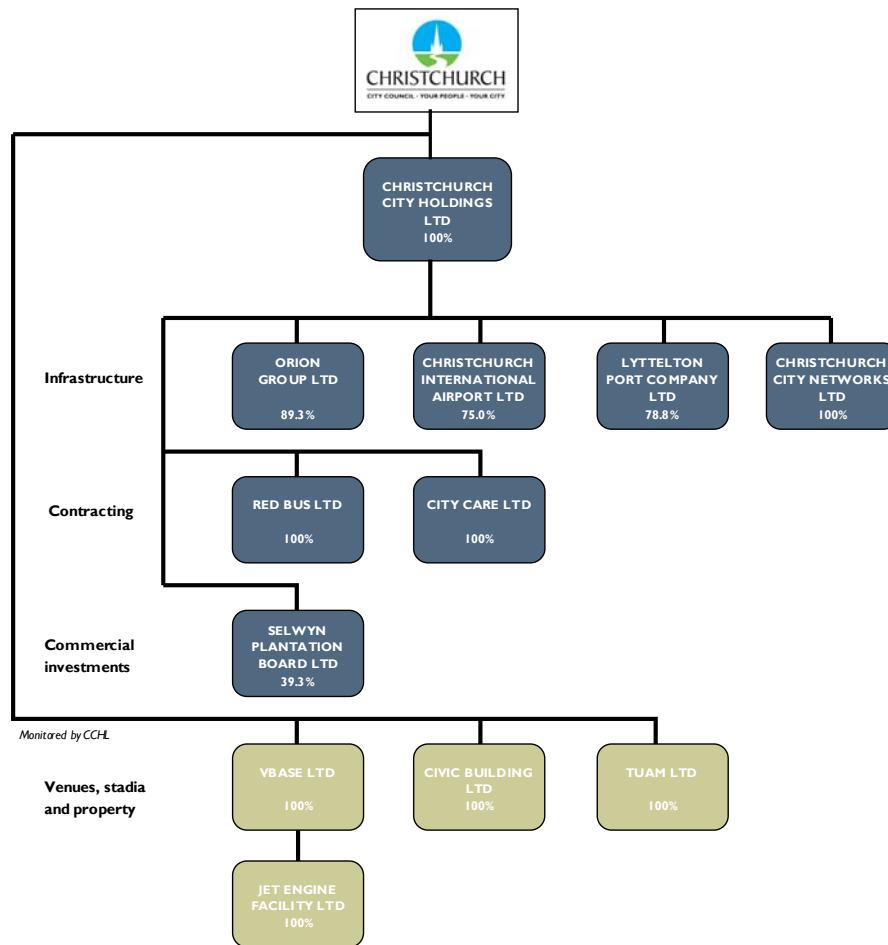
- To identify, in conjunction with relevant parties, present and future regional infrastructural needs.
- To seek, on behalf of the Council, and if material report at the appropriate time on, investment opportunities that have the potential to enhance the economic well-being of the region, and provide an adequate return. In order to balance these objectives, CCHL may in appropriate circumstances accept a lower return or slower route to profitability.

- To build the financial strength of CCHL through appropriately directed commercial investment, in a manner consistent with the approach set out in the acquisition/divestment policy on pages 12-13, and through efficient financial practices.
- To encourage and facilitate the subsidiary and associated companies to increase shareholder value and regional prosperity through growth and investment.
- To ensure that best practice governance procedures are applied to the city's key regional infrastructure and financial investments that are under CCHL's ownership or review.
- To advise the Council on strategic issues relating to its trading investments including, but not limited to, ownership structures, capital structures and rates of return.
- To encourage intra-group cooperation.
- To monitor the performance of each subsidiary and associated company against their stated economic, environmental and social performance objectives and against relevant benchmarks, and ensure that they have proper governance procedures in place.
- To perform financial, custodial and other functions required by the Council which include:
  - Grouping together the Council's ownership of its subsidiary companies;
  - Separation of the subsidiary companies from the ordinary operations of the Council;
  - Smoothing the cash flows to the Council from its subsidiary companies;
  - Enabling diversification of the City's income streams for the benefit of ratepayers;
  - Monitoring of other subsidiary companies owned directly by the Council.
- To promote sustainable business practices.
- Taking other initiatives at the request of the Council.

### **Nature and scope of activities**

The company was established in May 1993 to act as the holding company for the Council's commercial investments.

The CCHL group structure is summarised as follows:



CCHL also holds 100% of the shares in five shelf companies. These companies have no assets or liabilities and are non-trading, but may be activated in the future. There is no intention to utilise a shelf company for a project without the Council being consulted.

CCHL performs a monitoring role in respect of the Council's 100% shareholding in VBase Ltd, Civic Building Ltd and Tuam Ltd.

CCHL exercises its role in relation to the objectives outlined on page 3 through a variety of means, including reviewing Statements of Intent provided by the subsidiary companies, reviewing periodic financial reporting by the subsidiaries and reporting to the Council, capital structure reviews, developing new investments, monitoring business developments, liaising with subsidiary boards as necessary, recommending director appointments and dealing with other issues as they arise.

CCHL will work in conjunction with the Council and, where appropriate, invest on a commercial basis to assist the Council in meeting its wider objectives.

*Enable Networks and the Government's Ultra Fast Broadband Initiative*

An important issue for 2010 will be Enable Networks' proposal to participate in the Government's Ultra Fast Broadband initiative. The CCHL Board considers that the long-term benefits for Christchurch of the proposed investment more than justify the proposed participation of Enable Networks, and has recommended that the Council provide preliminary approval for this project.

If the project is approved by the Council, and Enable Networks is successful in its bid, the company, in partnership with Crown Fibre Holdings Ltd and CCHL, would be responsible for constructing a comprehensive broadband network in Christchurch and certain surrounding areas over a number of years.

The Government's participation in this project means that Enable Networks is able to undertake it on a commercial basis. However, the project is a large and long term one, and most of the financial return will be in the later years. CCHL and Crown Fibre Holdings Ltd will provide equity and debt funding to Enable Networks to fund the capital expenditure programme over the first few years. CCHL will fund its investment in Enable through increased borrowing, and CCHL may seek to increase the limit of its uncalled share capital with the Council to support its increased debt levels. There will be some pressure on CCHL profits and dividends in the short to medium term but it is considered that, on the basis of the bid submitted, that CCHL's forecast financial results and position are both appropriate and manageable.

## **Corporate Governance**

This statement gives readers an overview of the company's main corporate governance policies, practices and processes adopted or followed by the CCHL Board.

### ***Role of the Board of Directors***

The Board is responsible for the proper direction and control of the company's activities. The Board guides and monitors the business and affairs of CCHL on behalf of the shareholder, Christchurch City Council ('the Council'), to whom it is accountable, within the framework of the mission and objectives that are set out in this Statement of Intent.

The Chief Executive has been delegated responsibility for the day to day management of the company. He is assisted by staff as required. The company may make use of external advisers from time to time.

All directors are required to comply with a formal Code of Conduct, which is based on the New Zealand Institute of Directors' Code of Proper Practice for Directors.

The Chairperson conducts a formal performance review for each director biennially.

### ***Responsibility to shareholder***

#### ***Statement of Intent***

In accordance with the Local Government Act 2002, the company submits a draft Statement of Intent (Sol) for the coming financial year for consideration by CCHL's shareholder, the Council. The Sol sets out the company's overall objectives, intentions and financial and performance targets. Having considered any comments on the Sol by the Council, the company issues its Sol in final form.

#### ***Information flows***

The Board aims to ensure that the Council is informed of all major developments affecting the company's and group's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. Within this constraint, information is communicated to the Council through periodic reports to the Council, occasional seminars and through both the annual report and the half-yearly report.

The Board recommends to the Council the appointment of directors to subsidiary companies and the adoption of subsidiary Sols.

### ***Board composition and fees***

The Board comprises eight directors, four of whom are Councillors and four, external directors.

All Councillor directors are required to retire by rotation within three months following the triennial local government elections, but are eligible to be re-appointed. Where there are four or more non-Councillor directors, two of those directors must retire by rotation annually, but may offer themselves for re-appointment. Appointments to CCHL are made directly by the Council.

Fees for the CCHL Board are set triennially. The CCHL Board recommends fee levels to the Council, based on commercial norms. Where a director provides professional services over and above the normal role of a director, he or she is entitled to charge for those services at commercial rates provided the conditions of the Board's Conflict of Interest policy are met.

The Board generally meets at monthly intervals, and more often when required.

### ***Board Committees***

#### ***Audit and Risk Management Committee***

The responsibilities of the audit and risk management committee include reviewing the company's accounting policies, reporting practices and resultant financial statements. The committee will also consider external audit reports, external audit appointments, audit relationship matters and fees, and risk management issues. The CCHL Chairperson cannot be the chair of the Audit and Risk Committee.

#### ***Governance and Appointments committee***

A key objective of this committee, which is led by the CCHL Chairperson, is to assist in developing, reviewing and formalising the company's governance procedures.

Additionally the committee is responsible for recommending director appointments to CCTOs and other subsidiaries.

#### ***Other committees***

The board establishes other committees on an as needed basis to deal effectively with issues as they arise.

### ***Subsidiary and monitored companies***

#### ***Monitoring***

Each subsidiary and monitored company submits annually a draft Statement of Intent, which is evaluated initially by CCHL. CCHL reviews the Sol, suggests any changes that may be considered necessary, and then forwards the Sol to the Council for consideration. The Council may also request changes.

It is established practice for representatives of the subsidiary board and management to meet with CCHL at this time, and on at least one other occasion each year, to discuss the company's strategic direction and any significant issues that arise. The Board also receives such other reports as are necessary to perform its monitoring function. However, CCHL does not involve itself in the management of the subsidiary companies.

### *Board appointments*

All directors of subsidiary companies are selected for their commercial expertise and aptitude in accordance with the Council's appointments policy.

### *Financial results*

Directors receive and review parent company financial and other reports monthly, and provide formal consolidated and parent company financial statements to the shareholder twice annually – for the half year to 31 December and for the year ended 30 June.

### **Ratio of shareholder's funds to total assets<sup>1</sup>**

The forecast ratio of shareholder's funds to total assets and capital structure for the next three years is:

	2010/11	2011/12	2012/13
Shareholder's funds/total assets	84%	83%	82%
Net debt (\$m)	226	244	264
Equity \$m)	1,247	1,237	1,221

### **Accounting policies**

CCHL has adopted accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Christchurch City Council group. The policies set out in the 2009 annual report are attached as an Appendix to this Sol.

### **Performance targets and measures**

#### *Financial*

The key performance targets of CCHL (parent and group) are to achieve or better the financial results set out in the table below:

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<sup>1</sup> "Shareholders' funds" are defined as the sum of paid up capital, capital reserves and revenue reserves of the parent company. "Total assets" are defined as the total book value of all assets of the parent company as disclosed in the statement of financial position.

	2010/11	2011/12	2012/13
<b>CCHL parent</b>			
Net profit after tax (\$m)	40.6	35.7	33.3
Net debt/net debt plus equity	15.4%	16.5%	17.8%
Interest cover (EBIT/interest)	3.7	3.1	2.7
Ordinary dividend (\$m)	38.0	38.0	39.0
Special dividend (\$m)	8.0	8.0	10.3
<b>Consolidated</b>			
Net profit after tax (\$m)	65.8	55.1	50.2
Net debt/net debt plus equity	32.8%	35.5%	36.5%
Interest cover (EBIT/interest)	5.2	2.9	2.4
Return on average equity	4.8%	4.0%	3.6%

### *Other performance measures*

In addition to the above financial performance measures, the CCHL Board will use the following measures to assess its performance over the 2010/11 financial year:

### Governance

Objective	Performance target
1. CCHL maintains a strategic direction that is consistent with that of 100% shareholder Christchurch City Council (CCC).	CCHL develops and maintains appropriate communication lines with the Council to ensure CCHL remains aware of CCC's strategic priorities.  CCHL will submit a draft Sol for approval to CCC by 1 March 2011.
2. CCHL keeps CCC informed of all significant matters relating to CCHL and its subsidiaries, within the constraints of commercial sensitivity.	CCHL submits at least four written reports to CCC in the financial year, and presents at least three seminars to Councillors.  Major matters of urgency are reported to CCC at the earliest opportunity.
3. Corporate governance procedures are appropriate, documented and reflect best practice.	The company's policies will be reviewed in accordance with a timetable approved by the Board in 2009. Policies due for review in the 2010 and 2011 calendar years include the treasury policy, fraud policy and various staff policies.
4. Directors make an effective contribution to the CCHL board,	The Chair conducts a formal biennial performance evaluation for each CCHL director with the next one

and their conduct is in accordance with generally accepted standards.	<p>being due in the 2011 calendar year.</p> <p>The Governance committee will review the training needs of individual CCHL directors, and ensure training is provided where required.</p>
5. CCHL's process for the selection and appointment of directors to the boards of subsidiary and monitored companies is rigorous and impartial.	<p>The process followed for each appointment to a subsidiary or monitored company board is transparent, fully documented and in line with approved policies and procedures.</p>
6. Subsidiary and monitored companies complete, on a timely basis, Statements of Intent that meet best practice standards.	<p>CCHL will engage with subsidiary and monitored companies prior to the 2011 Sol round regarding the structure and content of the group Sols.</p> <p>Subsidiary companies submit draft Statements of Intent to CCHL by 1 March 2011.</p> <p>CCHL will review Statements of Intent and respond to the subsidiaries and make recommendations to CCC within six weeks of receipt.</p>
7. Subsidiary and monitored companies that are CCTOs comply with the Local Government Act's requirements that their principal objectives be: <ul style="list-style-type: none"> <li>• achieving the objectives of its shareholders as set out in the Sol;</li> <li>• being a good employer;</li> <li>• exhibiting a sense of social and environmental responsibility; and</li> <li>• conducting their affairs in accordance with sound business practice.</li> </ul>	<p>CCHL will review the companies' performance in the context of these statutorily required objectives.</p>
8. CCHL maintains contact with subsidiary and monitored company boards, and remains aware of their strategic and business issues.	<p>CCHL will endeavour to strengthen ties throughout the wider Council group, so that there is improved understanding of each other's key priorities and issues.</p> <p>CCHL meets subsidiary and monitored company boards, or representatives thereof, on a formal basis at least two times in the 2011 financial year.</p> <p>CCHL receives an appropriate level of reporting from subsidiary and monitored company boards.</p>

## Group strategic, financial and sustainability objectives

Objective	Performance target
<p>1. Subsidiary companies have sufficient (but not excessive) financial flexibility, whether through their own capital structures or through the availability of capital from CCHL, to undertake growth and investment initiatives.</p>	<p>CCHL will review the capital structure of each subsidiary company against external benchmarks on a rolling triennial basis.</p>
<p>2. Subsidiary and monitored companies adopt strategies that are compatible with the strategic direction of CCHL and CCC, including the Urban Development Strategy.</p>	<p>CCHL will engage with subsidiary and monitored companies prior to the 2011 Sol round regarding key shareholder strategies and, subsequently, review their Sols for compatibility with those strategies.</p>
<p>3. Subsidiary and monitored companies adopt strategies that contribute to regional growth.</p>	<p>CCHL will encourage subsidiary and monitored companies to seek opportunities that are both commercially sound and are capable of enhancing regional growth, and actively engage them with regard to specific opportunities that may arise.</p> <p>CCHL will work closely with Enable Networks in determining the business case for investing in the Government's Ultra Fast Broadband initiative.</p> <p>CCHL will evaluate any merger or restructuring proposal in relation to Lyttelton Port Company and Port Otago that emerges, and make recommendations to the Council as required.</p>
<p>4. Subsidiary and monitored companies set and attain environmental and social performance objectives that are compatible with their activities, commercial nature and other objectives.</p>	<p>CCHL will engage with subsidiaries and monitored companies regarding the progressive development and inclusion of relevant and appropriate social and environmental objectives and performance targets in their respective Sols.</p> <p>CCHL will perform an annual review of the performance of the subsidiaries and monitored companies against their stated objectives and assess and report on the success of group sustainability initiatives.</p>

## Parent company financial objectives

Objective	Performance target
1. CCHL financial and distribution performance meets the shareholder's expectations.	CCHL pays a dividend for the 2011 financial year that meets or exceeds budget, and achieves the other budgeted key performance measures set out on page 8.
2. CCHL's capital structure is appropriate for the nature of its business.	CCHL is currently undertaking a formal review of its capital structure, and will implement any required changes in the 2010 calendar year in consultation with its shareholder, ,
3. CCHL's investments provide an appropriate return in relation to their business risk, and against external benchmarks.	CCHL will periodically review the performance of subsidiary companies and other investments against external benchmarks, and assess the value of the investment in the individual company in relation to its inherent business risk and community benefits.
4. CCHL's treasury management policies and practices are consistent with best practice.	CCHL will review the business case for establishing a cost-effective treasury operation to provide borrowing facilities for the group.  CCHL 's treasury management policy is next due for review in the 2011 calendar year.

## Distributions to shareholder

CCHL will pay dividends to the shareholder after taking into account its profitability and future investment requirements. The dividends payable to the shareholder will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993.

The dividends are forecast to be paid in three instalments in June, October and December of each financial year, and are also forecast to be fully imputed for tax purposes.

To assist the shareholder with budgeting, dividend payments (excluding any adjustments relating to subvention payments) are forecast on page 8.

## Information to be provided

### *Statutory information requirements*

The company will provide an annual Statement of Intent in accordance with Section 64(1) of the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholder.

CCHL will submit an annual report to the shareholder. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period, and to comply with the requirements of the Companies Act and Financial Reporting Act.

The company will also prepare interim consolidated and parent company financial statements to 31 December, and a review of the period, that comply with NZ IAS 34 "Interim Financial Reporting" by 28 February.

#### *Other information to meet the needs of the Council*

The company will provide regular reports to the Council on its activities and the results of its subsidiary companies. It will operate on a "no surprises" basis in respect of significant shareholder-related matters, to the fullest extent possible in the context of commercial sensitivity and confidentiality agreements.

#### **Acquisition/divestment policy**

CCHL will adhere to the following shareholder protocol in respect of new equity investments:

1. CCHL may acquire additional equity in an existing Council group subsidiary or associated company without the prior approval of the Council, provided such investments do not exceed 2% in any one financial year of CCHL's total assets at the start of that financial year;
2. CCHL may acquire new equity investments in entities outside the Council group, or physical assets, without the prior approval of the Council, provided such investments do not exceed 1% of CCHL's total assets at the start of that financial year. In evaluating such opportunities, the CCHL Board will avoid any potential conflicts with the aims and activities of the Council, and will not make investments that the Board considers to be unethical or which may reflect adversely on the Council. Such investments will be expected to add commercial value to CCHL. CCHL may also dispose of assets acquired under this clause (which, for the avoidance of doubt, do not include assets that appear on the Council's list of strategic assets) without the prior approval of the Council, provided the sale value does not exceed the 1% limit referred to in the first sentence.;
3. Any acquisitions or disposals made under 1. and 2. will be reported to the Council subsequently, and CCHL will keep the Council informed under its "no surprises" policy, as far as is commercially practicable.;
4. Equity investments falling outside the parameters of 1. and 2. will not be made without the prior consent of the Council.

CCHL will periodically review its investments to ensure that continued ownership represents the best option for CCHL and the Council. It will consult with the Council prior to any divestment or major restructuring of a subsidiary company.

As previously advised, CCHL intends to exit from its minority stake in Selwyn Plantation Board Ltd, and will consult with the Council when an appropriate opportunity is identified.

### **Activities for which compensation is sought from any local authority**

Currently there are no activities for which compensation will be sought from any local authority.

It is noted that the Council has a contingent liability to the extent of \$350 million in respect of unpaid issued capital in CCHL. There is no current intention to make a call on this capital. It is possible that CCHL will request the Council to consider an increase in the level of uncalled capital.

### **Commercial value of shareholder's investment**

CCHL's closing shareholder's equity of \$1.4 billion as at 30 June 2009 is considered to be a conservative estimate of the commercial value of the Council's investment in CCHL, based on independent valuations of CCHL and its subsidiaries.

### **Role in the Christchurch City Council group and regional economy**

CCHL's objectives with regard to commercial relationships within the Christchurch City Council group, and its role in the growth of the regional economy, are set out in the "performance measures and targets" section on pages 8 to 11.

The following accounting policies were included in the 2009 annual report of CCHL.

## 1. STATEMENT OF ACCOUNTING POLICIES

### Reporting entity

Christchurch City Holdings Limited ('CCHL') is a wholly owned subsidiary of Christchurch City Council formed for the purpose of holding investments in subsidiary organisations. The company was incorporated on 12 May 1993 and commenced trading operations on 14 May 1993.

The financial statements of CCHL are for the year ended 30 June 2009. The financial statements were authorised for issue by the CCHL board of directors on 16 September 2009.

### Basis of preparation

The financial statements of CCHL have been prepared in accordance with generally accepted accounting practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments.

The reporting currency used in the preparation of these financial statements is New Zealand dollars, rounded to the nearest thousand.

### *New standards and interpretations issued and not yet adopted*

The following new standards, interpretations and amendments may have an impact on CCHL's future financial statements, but are not yet effective for the year ended 30 June 2009, and have not been applied in preparing these consolidated financial statements:

Reference	Title	Summary	Application date of standard*	Application date for Group*
NZ IFRIC 18	Transfers of Assets from Customers	This Interpretation provides guidance on the transfer of assets such as items of property, plant and equipment or transfers of cash received from customers. It requires a transferred asset (which is controlled by the entity) to be recognised at fair value. It also requires revenue from ongoing access to goods/services to be recognised over the period that access is provided and revenue from connection to a network to be recognised when the connection to the network is completed.	Applies prospectively to transfer of assets from customers received on or after 1 July 2009	1 July 2009
NZ IAS 23 (Revised)	Borrowing Costs and consequential amendments to other New Zealand Accounting Standards	The amendments to NZ IAS 23 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	1 July 2009
NZ IAS 1 (Revised)	Presentation of Financial Statements and consequential amendments to other New Zealand Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	1 July 2009

Reference	Title	Summary	Application date of standard*	Application date for Group*
NZ IFRS 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into, to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	1 July 2009
NZ IFRS 8	Operating Segments and consequential amendments to other New Zealand Accounting Standards	New standard replacing NZ IAS 14 Segment Reporting, which adopts a management reporting approach to segment reporting. The group is awaiting the outcome of a proposed change in the standard by the Financial Reporting Standards Review Board that may result in the group being outside its scope before assessing the impact.	1 January 2009	1 July 2009
NZ IAS 27 (Revised)	Consolidated and Separate Financial Statements (Revised)	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	1 July 2009
Amendments to NZ IFRS	Amendments to NZ IFRS arising from the Annual Improvements Project	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance to New Zealand entities is that made to NZ IAS 17 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined.	1 January 2010 except for the amendments to NZ IFRS 3, NZ IFRIC 9, NZ IFRIC 16 and NZ IAS 38 which are effective from 1 July 2009	1 July 2010
NZ IAS 27 and NZ IFRS 1	Amendments to NZ IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to New Zealand entities are those made to NZ IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required.  NZ IAS 27 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	1 July 2009
Amendments to International Financial Reporting Standards**	Amendments to IFRS 7	The amended IFRS 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: <ul style="list-style-type: none"> <li>▶ Quoted prices in active markets for identical assets or liabilities (Level 1);</li> <li>▶ Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and</li> <li>▶ Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).</li> </ul>	1 January 2009	1 July 2009

- \* designates the beginning of the applicable annual reporting period unless otherwise stated  
\*\* pronouncements that have been issued by the IASB and IFRIC but have not yet been issued by the FRSB.

Other than for the general descriptions provided above, the group has not yet determined the potential impact of the new standards, interpretations and amendments.

## Principles of consolidation

### (i) Subsidiaries

Subsidiaries are those over which CCHL has the power to govern financial and operating policies, generally accompanying a shareholding of at least half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to CCHL and de-consolidated from the date control ceases.

The purchase method of accounting is used to account for the consolidation of subsidiaries.

Intra-group transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by CCHL.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet.

### (ii) Associates

Associates are entities over which CCHL has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the parent's financial statements at fair value in accordance with NZ IAS 39 and in the consolidated financial statements using the equity method, after initially being recognised at cost.

CCHL's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When CCHL's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, CCHL does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between CCHL and its associates are eliminated to the extent of CCHL's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are either changed where necessary to ensure consistency with the policies adopted by CCHL, or appropriate adjustments made in the consolidation.

### (iii) Joint ventures

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The group's share of the assets, liabilities, revenues and expenses of any joint venture is incorporated into the group's financial statements on a line by line basis using the proportionate method.

## Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction.

Foreign currency monetary assets and liabilities at the balance date are translated to NZ dollars at the rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to NZ dollars at rates ruling at the dates the fair value was determined.

## Derivative financial instruments

CCHL uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from operational, financing and investment activities. In accordance with the treasury policies of the respective group entities, the CCHL group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially and carried at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see Hedging policy).

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

## Hedging

Derivatives are first recognised at fair value on the date a contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. CCHL designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

CCHL documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. CCHL also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or cancelled, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### (iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

## Property, plant and equipment

The following assets (except for investment properties – refer to note 22) are shown at fair value by all group companies other than Lyttelton Port Company Ltd, based on valuations by external independent valuers, less subsequent depreciation:

- Land
- Buildings
- Electricity distribution network
- Airport sealed surfaces
- Car parking building
- Infrastructure assets

Airport sealed surfaces, car parking building, car parks, harbour structures, telecommunications infrastructure and other infrastructure assets are aggregated and disclosed as specialised assets in Note 21.

Valuations are performed with sufficient regularity to ensure that the fair value of the assets does not vary materially from their carrying value.

Any revaluation increase arising on the revaluation of these assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of these assets is charged as an expense in the income statement to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Additions are recorded at historical cost less depreciation until the next revaluation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

All other property, plant and equipment is stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the CCHL group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives.

Assets to be depreciated include:

Buildings	1-100 yrs
Car park	50 yrs
Office and computer equipment	1-10 yrs
Mobile plant including vehicles	2-30 yrs
Buses	17-26 yrs
Sealed surfaces (other than roads)	9-100 yrs
Container cranes	30 yrs
Harbour structures	3-50 yrs
Electricity distribution system	60 yrs
Telecommunications infrastructure	12-50 yrs
Leasehold land improvements	5-100 yrs
Vessels	5-25 yrs
Seawalls	100 yrs

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Capital work in progress is not depreciated until commissioned.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves in respect of those assets are transferred to retained earnings.

## Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the group.

## Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. Further, the liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

## Intangible assets

### (i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures.

In respect of acquisitions prior to the transition to NZ IFRS on 1 July 2005, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see Impairment policy). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

### (ii) Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by CCHL, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (see (v) below).

### (iii) Other intangible assets

Other intangible assets that are acquired by CCHL are stated at cost less accumulated amortisation (see below) and impairment losses (see Impairment policy).

### (iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, and it meets the definition of, and recognition criteria for, an intangible asset. All other expenditure is expensed as incurred.

### (v) Amortisation

An intangible asset with a finite useful life is amortised over the period of that life. The asset is reviewed annually for indicators of impairment, and tested for impairment if these indicators exist. The asset is carried at cost less accumulated amortisation and accumulated impairment losses. Estimated useful lives are:

Software	1-10 years
Resource consents	5-10 years
Patents, trademarks and licences	10-20 years

An intangible asset with an indefinite useful life is not amortised, but is tested for impairment annually, and is carried at cost less accumulated impairment losses.

## Investments

CCHL classifies its investments in the following categories:

(a) *Financial assets at fair value through income statement*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through income statement at inception. A financial asset is classified at fair value through income statement if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

(d) *Fair value assets through equity*

Fair value assets through equity are non-derivatives that are either designated in this category or not classified in any of the other categories. This category also includes available-for-sale assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) **Investments in debt and equity securities**

For the purposes of the parent company financial statements, CCHL's equity investments in its subsidiaries are classified as fair value assets through equity. They are measured at fair value, with valuations performed by an independent, external valuer with sufficient regularity to ensure no investments are included at a valuation that is materially different from fair value. The valuation changes are held in a revaluation reserve until the subsidiary is sold.

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Financial instruments classified as held-for-trading or available-for-sale investments are recognised / derecognised by CCHL on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognised / derecognised on the day they are transferred to / by CCHL.

(ii) **Investment property**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties generate cashflow largely independent of other assets held by the group.

Properties leased to third parties under operating leases are generally classified as investment property unless:

- The occupants provide services that are integral to the operation of the group's business and/or these services could not be provided efficiently and effectively by the lessee in another location;
- The property is being held for future delivery of services;
- The lessee uses services of the group and those services are integral to the reasons for the lessee's occupancy of the property.

Properties that are held for a currently undetermined future use, or that are vacant but held to be leased out under one or more operating leases, are classified as investment properties.

The classification of properties is done at the lowest possible level. Thus, where part of a property is occupied by a party other than the group, consideration is given to whether that portion of the building could be classified as an investment property. Classification as an investment property will be indicated if the section of the building could be separately sold or leased under a finance lease. If the section of the property occupied by a party other than the group is unable to be sold or leased separately from the rest of the building, the building is assessed as a whole and will usually only be classified as investment property if the group occupies an insignificant portion of the total building.

Investment properties are stated at fair value. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

Any gain or loss arising from a change in fair value is recognised in the income statement.

Rental income from investment property is accounted for as described in the Revenue policy below.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the income statement.

## Trade and other receivables

### (i) Construction work in progress

Construction work in progress is stated at cost plus profit recognised to date (see Revenue policy) less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in CCHL's contract activities based on normal operating capacity.

### (ii) Other trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment (see Impairment policy).

## Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

## Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short-term highly liquid investments with maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of CCHL's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows, and in current liabilities on the balance sheet.

## Impairment

The carrying amounts of CCHL's assets, other than investment property (see Investments policy), inventories (see Inventories policy) and deferred tax assets (see Income Tax policy), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, other intangible assets that have an indefinite useful life and assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses on revalued assets offset any balance in the asset revaluation reserve, with any remaining impairment loss being posted to the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

### (i) Calculation of recoverable amount

The recoverable amount of CCHL's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their market value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### (ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Share capital

#### (i) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

#### (ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it provides for mandatory redemption by the issuer for a specific amount at a specific date (or gives the holder the right to requires such redemption from the issuer), or if it gives the holder the right to put it back to the issuer for cash or another financial asset. Dividends thereon are recognised in the income statement as interest expense.

#### (iii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

#### (iv) Dividends

Dividends are recognised as a liability in the period in which they are declared.

### Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

### Trade and other payables

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

### Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, the amount of which can be reliably estimated, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## Employee entitlements

The group's employee compensation policy is generally based on Total Cash Remuneration: a single cash payment in compensation for work, where the employee is responsible for and able to individually decide how best to use their remuneration to meet their needs over time in the mix and type of benefits purchased.

Provision is made in respect of CCHL's liability for the following short and long-term employee entitlements.

### (i) Short-term entitlements

Liabilities for annual leave and time off in lieu are accrued at the full amount owing at the pay period ending immediately prior to the balance sheet date.

Liabilities for accumulating short-term compensated absences (e.g., sick leave) are measured as the amount of unused entitlement accumulated at the pay period ending immediately prior to the balance sheet date, that the entity anticipates employees will use in future periods, in excess of the days that they will be entitled to in each of those periods.

### (ii) Long-term entitlements

Provisions made in respect of employee benefits that are not expected to be settled within 12 months, such as long service leave, are measured as the present value of the estimated future cash flows to be made by the group in respect of services provided by employees up to reporting date taking into account years of service, years to entitlement and the likelihood of staff reaching the point of entitlement.

## Leases

### (i) As lessee

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. At inception, finance leases are recognised as assets and liabilities on the balance sheet at the lower of the fair value of the leased property and the present value of the minimum lease payments. Any additional direct costs of the lessee are added to the amount recognised as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned.

### (ii) As lessor

Leases in which substantially all of the risks and rewards of ownership transfer to the lessor are classified as finance leases. Amounts due from lessees under finance leases are recorded as receivables. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

## Revenue

### (i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods or continuing management involvement with the goods.

### (ii) Construction contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed.

An expected loss on a contract is recognised immediately in the income statement.

### (iii) Finance income

Finance income comprises interest receivable on funds invested and on loans advanced. Finance income is recognised in the income statement as it accrues, using the effective interest method.

(iv) **Rental income**

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(v) **Government grants**

Grants from the government are recognised as income at their fair value where there is a reasonable assurance that the grant will be received and CCHL will comply with all attached conditions.

(vi) **Dividend income**

Dividend income is recognised when the shareholder's right to receive payment is established.

(vii) **Finance lease income**

Finance lease income is allocated over the lease term on a systematic basis. This income allocation is based on a pattern reflecting a constant periodic return on CCHL's net investment in the finance lease.

(viii) **Other gains**

Other gains include revaluations of investment properties (see Investment Property policy), gains from the sale of property, plant and equipment and investments and gains arising from derivative financial instruments (see Hedging policy).

## Expenses

(i) **Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) **Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) **Finance costs**

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method. Interest payable on borrowings is recognised as an expense in the income statement as it accrues or, provided specific criteria relating to the size and duration of the project are met, capitalised to property, plant and equipment.

(iv) **Other losses**

Other losses include revaluation decrements relating to investment properties (see Investment Property policy), losses on the sale of property, plant and equipment and investments and losses arising from derivative financial instruments (see Hedging policy).

## Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

## Goods and Services Tax

The financial statements are prepared exclusive of GST with the exception of receivables and payables that are shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

## Critical judgements, estimates and assumptions in applying CCHL's accounting policies

Preparing financial statements to conform with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

In the process of applying the group's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements:

- Management of the subsidiary companies determine useful lives for particular assets. In making this assessment, they make judgements about the expected length of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances and the likelihood of the company ceasing to use the asset in its business operations.
- Management of the subsidiary companies assess whether individual assets or groupings of related assets (which generate cash flows co-dependently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flows are required.

In addition to the above factors, the following areas requiring critical judgements, estimates and assumptions that are specific to individual companies within the group are as follows:

- Orion New Zealand Ltd's electricity distribution network comprises large numbers of relatively minor individual network asset components, which are replaced on a regular basis. The costs of recording and tracking such components substantially outweigh the benefits of doing so. Management use estimates of the quantities and carrying values of these components. Any errors in the estimates of such removals are corrected at the next asset revaluation and are not considered to be material.
- Orion New Zealand Ltd invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for later, more accurate, data available from the electricity wholesale market and certain metering data from electricity retailers. Management makes an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of twelve months, it is possible that the final amounts payable or receivable may vary from that calculated.
- Orion New Zealand Ltd enters into arrangements with customers to purchase new network assets at below current replacement costs. Management estimate the difference between the cash costs and the replacement costs of these assets, and the differences are reported within revenue. Any errors in estimating the carrying values of these assets are corrected at the next asset valuation date.
- The identification by Christchurch International Airport Ltd of which components of property, plant & equipment are to be reclassified to investment property involves the use of judgement. The main deciding factor for this classification is that the property is not used for aircraft-related activities.
- Christchurch International Airport Ltd has had to estimate an impairment charge in respect of the ongoing value of capitalised expenditure on the integrated terminal project, due to the evolving nature of the design. Reviews by quantity surveyors and project managers were used in making the impairment assessment.

- Lyttelton Port Company Ltd has identified areas of estimation uncertainty in relation to the carrying value of land, building and harbour structures, amortisation of intangible assets such as resource consents, easement and software, and the quantification of contingent liabilities.
- Christchurch City Holdings Ltd values its investments in subsidiary and associated companies at fair value. This has a material impact on the amounts recognised in these financial statements and involves a significant amount of judgement. Independent valuers are commissioned to perform these valuations on a periodic basis, at intervals sufficient to ensure that the fair value of these investments does not differ materially from their carrying value. In intervening years, valuations are reviewed to determine whether there are any factors present that would indicate the possibility of a significant value change. If such factors are present, a full valuation is performed and reflected in the financial statements.
- Other areas where judgement has been exercised in preparing these financial statements are in relation to calculating provisions for doubtful debts, assessing the level of any unrecoverable work in progress and calculating provisions for employee benefits.