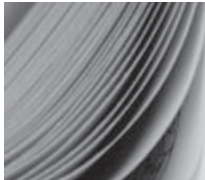




# Report05

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# Directory05

For the Year Ended 30 June 2005

## **Directors**

E M Frew (Chairperson)  
W J Bell  
S A Leck  
R B MacGeorge

## **Investment Manager**

A Bartlema

## **Company Secretary**

D F Emerson

## **Shareholder**

Selwyn District Council - 100% shareholder

## **Registered Office**

High Street  
Leeston

## **Postal Address**

PO Box 2935  
Christchurch  
Telephone: (03) 366 5601  
Facsimile: (03) 366 5608

## **Accounting Consultants**

Ernst & Young  
PO Box 2091  
Christchurch

## **Auditors**

Audit New Zealand  
On behalf of the Auditor-General  
PO Box 2  
Christchurch

## **Bankers**

ANZ Banking Group (New Zealand) Limited  
PO Box 220  
Christchurch

## **Solicitors**

Duncan Cotterill  
PO Box 5  
Christchurch



## Director & management profiles

*Front(left to right)  
Evan Frew, Stuart Leck, Arjan Bartlema*

*Behind(left to right)  
Warren Bell, David Emerson*



### Directors

#### Evan Frew

Director and Chairperson since November 1994. Evan is Managing Director of Frews Contracting Limited and associated companies.

#### Warren Bell

Director since October 2000. Warren was a partner in the Chartered Accountancy firm of Deloitte (resigned 31 May 2005). He is either a Chairman or Director on several companies throughout New Zealand.

#### Stuart Leck

Director since September 2002. Stuart is a businessman based in Christchurch and is also Chairman and Director of a number of companies throughout New Zealand.

#### Richard MacGeorge

Director since September 2002. Richard is a Director of Ridgway Limited and Ridgway Capital Projects Limited, which specialises in the provision of financial advice to businesses developing infrastructure assets.

### Investment Manager

#### Arjan Bartlema

Appointed as the Investment Manager on 1 June 2005. Arjan has a corporate finance background and has worked for Deloitte Corporate Finance and in a private capacity. His focus has been on mergers and acquisitions working both in New Zealand and Europe.

### Company Secretary

#### David Emerson

David has been Company Secretary since April 1997. David is a Business Consultant and Accountant in Christchurch.

### Retirements during 2004/2005

#### Bill Woods

Director from December 1998 to October 2004. Bill was a former Councillor and Mayor of the Selwyn District Council. He is a businessman based in Springfield.

# Directorsdisclosures

For the Year Ended 30 June 2005

The following Directors have made

General and Specific Disclosures:

<b>Director</b>	<b>General Interest</b>	<b>Specific</b>
<b>Warren Bell</b>	Consultant, Deloitte Chairman, Hallenstein Glasson Holdings Limited & Group Chairman, SICON Limited Director, Meadow Mushrooms Limited & Group Director, David Lyall Holdings Limited Director, ST George Hospital Director, Bildeford Holdings Limited Director, Sabina Limited Director, Golf Links Holdings Limited Director, Provincial Finance Limited Director, Timaru District Holdings Limited Director, St Andrews Capital Limited Director, Vertex Group Holdings Limited & Group Member, Selwyn Industrial Park Project Team	Nil
<b>Evan Frew</b>	Director, Frews Contracting Limited Director, Frews Hire Limited Director, Frews Properties Limited Director, Wakaepa Farm Limited Director, Red Bus Limited Director, CTL Properties Limited	Nil
<b>Stuart Leck</b>	Chairman, Canterbury Development Corporation Chairman, Victoria Square Limited Member, Canterbury Economic Development Fund Director, Lexson Investments Limited Director, Rosebank Residential Homes Limited Director, Brannigans Limited Director, Victoria Projects Limited Director, Microcomm Limited Director, Frontier Innovations Limited	Nil
<b>Richard MacGeorge</b>	Director, Ridgway Limited Director, Ridgway Capital Projects Limited	Nil



## Directors' report

The Directors of Selwyn Council Trading Enterprises Limited have pleasure in presenting the Annual Report together with the audited financial statements for the company's operations during the year ended 30 June 2005.

### Company ownership and objectives

Selwyn Council Trading Enterprises Limited is a wholly owned subsidiary of Selwyn District Council.

### The company has the following objectives:

- 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 monitor the performance of each investment/asset
- To encourage and facilitate the investment/asset to increase shareholder value through growth and investment
- To consider on behalf of the Council and report if material, and at the appropriate time, investment opportunities arising that have the potential to enhance the economic well being of the region and provide an appropriate return.

### Principal Activities

In line with the objectives the company's principal activities during the year were to operate as an investment holding company of the Selwyn District Council. The group consists of Selwyn Council Trading Enterprises Limited and its subsidiaries SICON Limited and Selwyn Plantation Ltd and its investment Orion Group Limited.

### Review of Operations

	Parent \$000	Group \$000
Net Surplus before Taxation	5,407	3,969
Income Taxation	(43)	(920)
Minority Interest in Surplus of Subsidiary	0	721
<b>Net Surplus after Taxation (for the year ended 30/06/05)</b>	<b>5,364</b>	<b>3,770</b>

### Movement in Equity

	Parent \$000	Group \$000
Net Equity (Opening Balance - 01/07/04)	83,719	129,458
Net Surplus After Taxation	5,364	3,770
Movement in Revaluation Reserve	0	4,751
Plus Minority Interest in Surplus of Subsidiary	0	(721)
Less Proposed Distribution or Paid to Shareholder	(4,827)	(4,827)
Less Minority Share in Revaluation Reserve Movement	0	3,078
Less Distribution to Minority Interests	0	(629)
<b>Equity (Closing Balance - 30/06/05)</b>	<b>84,256</b>	<b>134,880</b>

## Company's Affairs

The Directors consider the results for the year and state of the company's affairs to be highly satisfactory.

## Directors Interests

### Parent

Mr W J Bell has declared an interest in all transactions between the company and Deloitte during the year. The nature of that interest is that he was a Senior Partner in that organisation (resigned 31 May 2005). During the period nothing was paid or payable to Deloitte for professional services in addition to Director fees.

Mr E M Frew has declared an interest in all transactions between SICON Limited and Frews Contracting Limited during the period. The nature of that interest is that he is a

shareholder of Frews Contracting Limited. All transactions were completed at arms length and conducted for fair value.

### Subsidiaries

Mr G H Clemens has declared an interest in all transactions between SICON Limited and Saint Columbe Company Limited during the period. The nature of that interest is that he is a Director of Saint Columbe Company Limited. All transactions were completed at arms length and conducted for fair value.

Directors of the company and its subsidiaries have not declared any other interests in transactions with the company or its subsidiaries during the year.

### Directors Benefits

No Director of the company or its subsidiaries has received or become entitled to receive a

benefit (other than a benefit included in the total emoluments, as shown in the financial statements).

There were no notices from Directors of the company or its subsidiaries requesting to use company information received in their capacity as Directors, which would not otherwise be available to them.

### Directors Insurance

The company has arranged policies for Directors liability insurance, which ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors.

SICON Limited and Selwyn Plantation Board Ltd have arranged policies of Directors liability insurance, which ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors.

## Remuneration of Directors

Remuneration paid to Directors of the company and its subsidiaries for services as a Director during the year are as follows:

Selwyn Council Trading Enterprises Ltd	\$	SICON Limited	\$	Selwyn Plantation Board Ltd	\$
E M Frew	29,000	K J Beams	15,000	A Berge	15,000
W J Bell	19,000	W J Bell	22,500	P J Coakley	18,000
W E Woods	5,000	G J C Clark	7,500	G D Heenan	19,000
S A Leck	19,000	G H Clemens	20,000	D G Marsh	28,000
R B MacGeorge	19,000	G E Doyle	5,500	H M Wild	11,250
		A D Hunter	20,000	C M Williams	15,000
		L A McCracken	20,000		
	91,000		110,500		106,250

## Remuneration of Employees

The number of employees (not including Directors) of subsidiaries whose total remuneration and other benefits were above \$100,000 per annum is as follows:

Range	Group
\$110,000 - \$120,000	3
\$120,000 - \$130,000	1
\$130,000 - \$140,000	1
\$190,000 - \$200,000	1
\$210,000 - \$220,000	1

Selwyn Council Trading Enterprises Limited had no employees whose total remuneration and other benefits were above \$100,000 per annum.

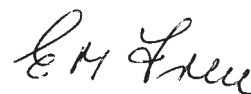
## Auditors

The Audit Office is appointed as the company's and its subsidiaries auditor under Section 70 of the Local Government Act 2002. Audit New Zealand has been appointed to provide these services.

## Other Statutory Requirements

Donations, changes in the accounting policies and auditors remuneration are as contained in the financial statements.

## For and on behalf of the Board:



E M Frew - Director



W J Bell - Director  
13 September 2005

# Chairperson's report



It gives me pleasure to present the Chairperson's Report for Selwyn Council Trading Enterprises Limited (SCTEL) and group in the tenth year of trading operations.

This is the last annual report under the name of SCTEL as the company has changed its name to Selwyn Investment Holdings Limited on 5 August 2005. The company commenced trading on 1 July 1995 when the Selwyn District Council's investments in Orion Group Limited (formerly Southpower) and SICON Limited (formerly Selwyn Works Limited) were transferred to it. On 1 July 1996, the company purchased the Council's investment in Selwyn Plantation Board Ltd (SPBL).

SCTEL continues to monitor its investments and actively investigate opportunities to enable the company to position itself as a long-term strategic investment unit for the Selwyn District. Regular reports to Council have been made of SCTEL plans and activities.

## Financial performance

The parent company has achieved an after tax surplus of \$5,364,029 in the year under review compared to a surplus of \$8,564,941 last year that included a special dividend of \$4.29 million received from Orion Group Limited. The surplus after tax for the year is ahead of budget by \$1,768,950 (49.2%). The company has paid or is payable an ordinary dividend of \$4,827,452 (net of imputation credits) compared to a budget of \$3,235,572.

## Subsidiary companies

SICON Limited has produced a surplus after tax of \$1,041,956 for the year compared to \$859,152 for the previous year. More information is obtained under SICON Limited in the Subsidiary Companies and Investments section of this annual report.

At last year's annual general meeting SCTEL appointed Mr Warren Bell and Mr Ken Beams to the Board of Directors. Warren was appointed Chairman of SICON replacing Mr Geoffrey Clark who retired at the last annual general meeting.

SPBL financial performance has been steady in very difficult trading conditions for the forest industry sector and has produced a net deficit after tax of \$1,834,691 and after including a forest revaluation decrement of \$4,585,000 compared to a surplus after tax of \$2,706,585 for 2004. Further details are provided on SPBL in the Subsidiary Companies and Investments section of this annual report.

As reported in my last year's report SPBL presented a submission to the Commissioner of Crown Lands seeking the removal of the covenants on all the company's land. It is with much pleasure to announce that SPBL were successful with their submission to

the Commissioner and was granted approval for the removal of the covenants. This is a significant achievement and will allow SPBL to sell any surplus land and to ascertain the most cost effective and environmentally sustainable method of converting the plains forest land to an alternative land use.

Orion achieved a net surplus after tax of \$52,329,000 for the year compared to \$214,000 for the previous year. This includes a realised gain on the sale of \$24.5 million from the sale of the EDL investment during the year. With Orion now concentrating on their core business of the electricity network (lines) they will continue to undertake further divestments of technology companies when opportunities arise to maximise their commercial returns.

Orion paid a \$15 million dividend in December 2004 and a \$20 million dividend in June 2005 (SCTEL share of both dividends is \$3.754 million) which is above their Statement of Intent forecast for the year.

With the possible amalgamation of Banks Peninsula District Council (BPDC) into the Christchurch City Council, SCTEL wanted to protect its pre-emptive rights in relation to BPDC's shares in Orion which gives the other 'B' shareholder (SCTEL) certain rights to those shares on a sale under Orion's constitution. SCTEL made a written submission on this matter to the Local Government Commission in June and requested to speak to the submission at a hearing in July.

## SCTEL Outlook

The focus for the 2005 year has been to add new resources to the company so that the company can start growing its investment portfolio. The Directors are therefore pleased with the appointment of Arjan Bartlema in the new role of Investment Manager which

commenced on 1 June 2005. The company is now set on a new course and is actively working on growing its investment portfolio. The focus is on solid stable and proven investments that have reliable cash flows that can increase returns to the portfolio. The company will be looking for returns in both dividend and capital appreciation. We will typically take a controlling interest in the new investments and will be active New Zealand wide with a focus on our own region.

I look forward to advancing our goals, knowing that we have both the right skills and financial strength to succeed.

## Appreciation

In conclusion I would like to record my sincere thanks to my fellow Directors and Company Secretary for their support and hard work during the year. A special mention of Mr Bill Woods who retired during the year, after being with the Board since December 1998. Bill's contribution and effort during this period was well appreciated by the other Directors, I give Bill my best wishes on his new endeavours. The Directors have broadened the scope of the company and brought new commercial skills to the Board. I believe the Board is now well balanced to take the company into the future.

Evan M Frew - Chairperson  
13 September 2005

# Corporate governance statement

This statement gives an overview of the company's main corporate governance policies, practices and processes adopted by SCTEL Board of Directors.

## **Role of 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 SCTEL on behalf of the Shareholder, Selwyn District Council (the Council), to whom it is accountable, and within the mission statement and objectives that are set out in the Statement of Intent (SOI) and Investment Guidelines.

## **Responsibility to Shareholder**

The company submits a draft SOI for the forthcoming financial year to the Council. The SOI sets out the company's objectives, financial and performance targets, which are approved by the Council.

The Board ensures the Council is informed of all major developments and transactions affecting the company while recognising that commercial sensitivity of certain information cannot be made available to them. The Board reports subject to confidentiality agreements quarterly to the Council and provides to Finance and Audit Portfolio committee the annual report and half-yearly report.

The Board recommends to the Council the appointment of Directors to subsidiary companies and the adoption of SOI's. These matters are required by the SCTEL constitution to be ratified by the Council.

## **Board Composition and Fees**

The Board currently comprises of four Directors who are appointed external to the Council. All Directors are required to retire by rotation at the end of their term (normally three years) and being eligible offer themselves for re-election at the annual general meeting of the company.

Fees for the Board of SCTEL are set annually with triennially reviews recommended by SCTEL, based on the commercial rates. SCTEL engages an independent specialist to provide the commercial rates specifically for the company.

## **Board Committee**

SCTEL has established an audit and risk committee, chaired by Warren Bell whose responsibilities include reviewing the company's accounting policies, reporting practices and resultant financial statements. The committee will also consider external audit reports, audit appointments, audit relationship matters and fees.

## **Subsidiary and Monitored Companies**

Each company submits a draft SOI, which is initially evaluated by SCTEL. SCTEL reviews the SOI, suggest any changes that may be considered necessary and forwards the SOI to the Council for final ratification.

The representatives of the subsidiary Board's and management meet with SCTEL quarterly to discuss the company's strategic direction and any other significant issues that arise. SCTEL also receives such other reports that are necessary to perform its monitoring function.

## **Board Appointments**

All Directors of the parent (SCTEL) and subsidiary companies (including any Councillor Directors) are selected for their commercial expertise and aptitude in accordance with the Council appointment policy approved in June 2003.

## Subsidiary companies and investments





## SICONlimited

(100% Shareholding)

### Financial Performance

The net surplus after tax for the year was \$1.042 million compared to \$0.859 million for the previous year. Operating revenue for the year was \$38.560 million compared to \$34.284 million for last year. Revenue was evenly spread geographically and throughout the year in respect to the monthly workload.

SICON's main core maintenance contracts were re-tendered at the end of last year and SICON was successful in the vast majority of them. In addition SICON has been successful with the renewals of Waimakariri road maintenance and reserve maintenance contracts. Some of these contracts were won on a price/quality evaluation method.

In some areas of the construction sector the market has lifted and they were successful, particularly in the last quarter of the year, in gaining sufficient contracts to push their revenue and profitability to record levels.

### Operations

Recruitment and retention of skilled staff is critical to the future success of SICON. During the year SICON have made considerable efforts in the recruitment, training and development of staff. SICON employs a full time training manager who carries out in-house training and arranges external training courses when required.

SICON is committed to providing a safe working environment. In addition to task specific training, SICON have during the year provided a refresher induction course and the Site Safe Civil course for all staff. SICON continues with their annual health monitoring regime, available to all staff.

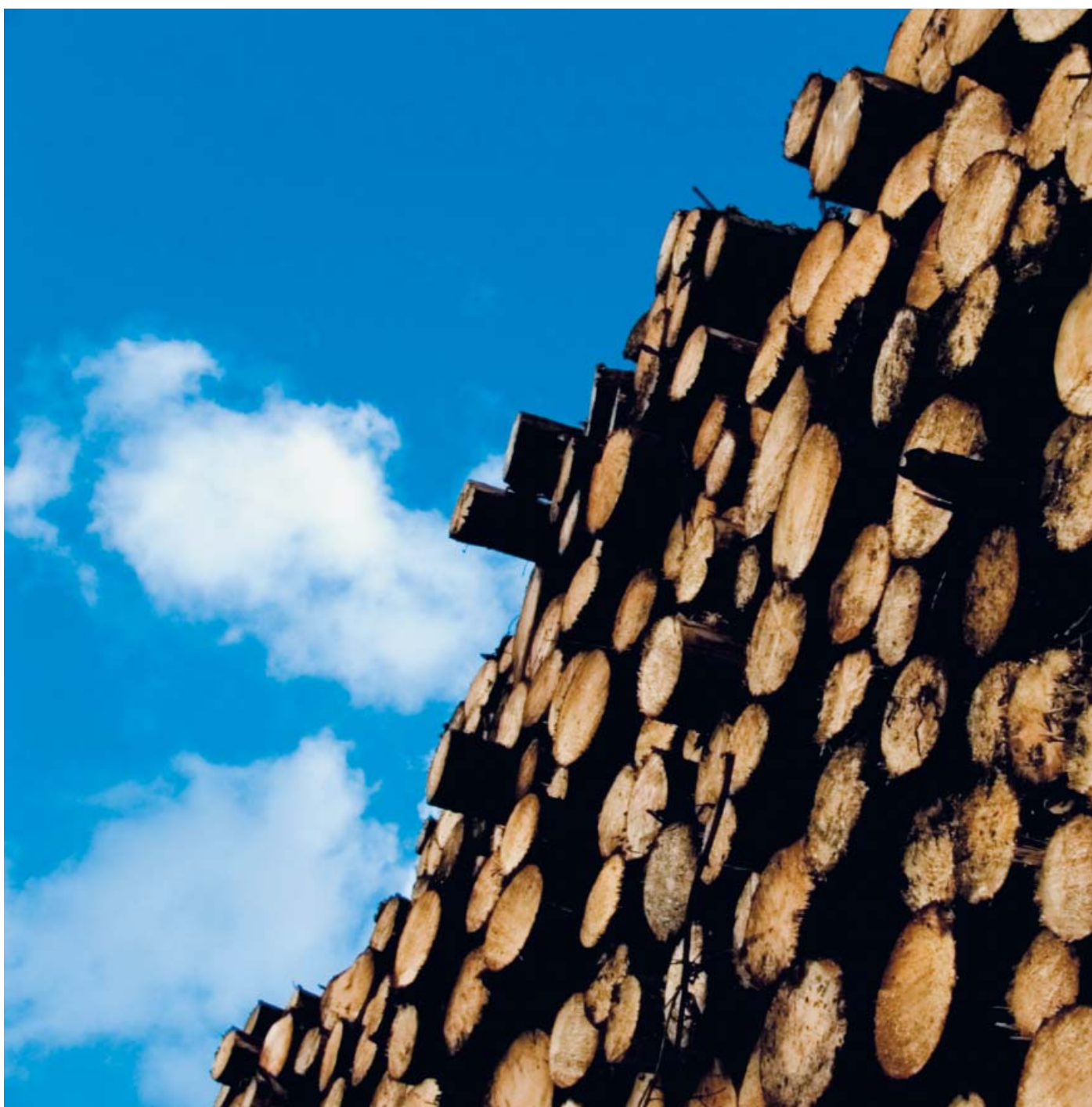
In December 2004 SICON were accredited under Operate Safe, the Roading Industry self-governance scheme for Health and safety.

### Looking Ahead

SICON's strategic plan, completed in June 2005, incorporates objectives and strategies to meet the critical success factors for further development and growth of the company. It is critical for SICON to maintain skilled staff and recruit when it is necessary to ensure future success. They need to maintain their customer relationships and continuously review the company's business to meet the changing market and achieve their objectives and goals.

SICON's base workload maintenance contracts and signs that the construction market is improving provide SICON Directors and management confidence for another strong year.

## Subsidiary companies and investments





# Selwyn Plantationboard Ltd

(60.68% Shareholding)

## Financial Performance

The net deficit after tax for the year was \$1.8 million compared to surplus of \$2.7 million for the previous year, however, this year's result included a \$4.6 million forest revaluation decrement. The result was achieved through prudent marketing initiatives and a strong emphasis on minimising operating costs in the harvesting and distribution area. Domestic sawmills demand has remained steady throughout the year as Australasian construction activity remained strong.

Export log sale prices remained at historic lows throughout the year, as a result of high NZ\$ v US\$ exchange rate and record high ocean freight rates. Log export volumes were therefore minimised where possible, with only logs unsuitable for domestic consumption being shipped.

The company harvested a total of 191,208 tonnes, including third party contract harvesting, up 8.6% on the budgeted amount.

## Operations

SPBL was successful in removing all the land covenants in October 2004. This significant achievement will allow the company to maximise the potential land value of its land under what was its traditional plains forests.

SPBL second annual audit for FSC (Forest Stewardship Council) was completed positively. Objectives set by the company under the guidelines of FSC continue to be initiated and implemented with a significant amount of knowledge and data having been captured.

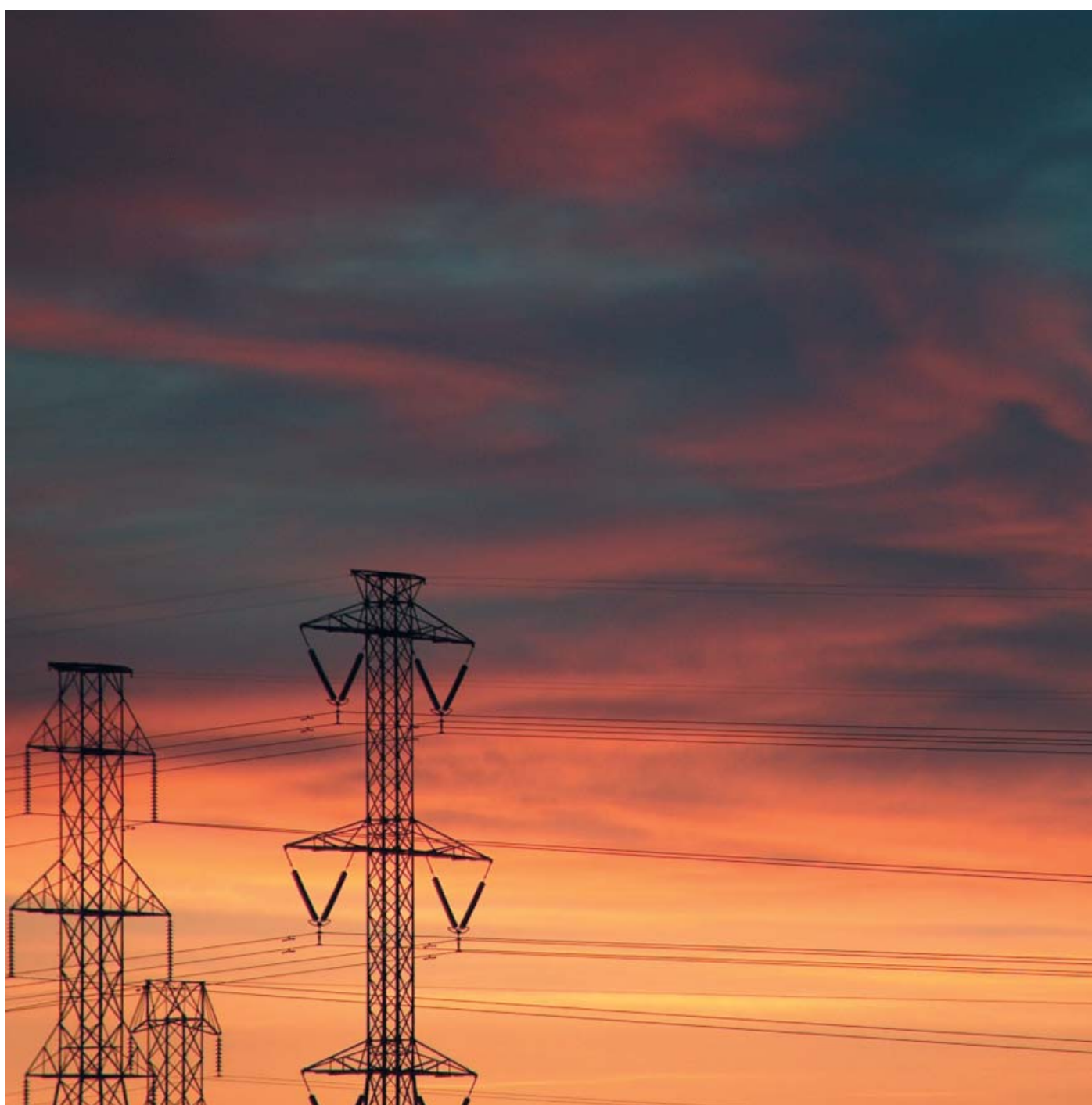
## Looking Ahead

In line with SPBL strategic objectives to maximise shareholder value from plains land, all harvesting in the next financial year will be restricted to the plains forest.

The company continues to seek additional strategic opportunities through new technologies and partnerships in all facets of its business, and this can be witnessed specially in its re-pasturing project which will be a significant and key component of the period ahead.

The Directors of SPBL believe the forests operational result will remain under significant pressure due to very difficult trading conditions.

## Subsidiary companies and investments





## Orion group **limited**

(10.725% Shareholding)

### Financial Performance

The net surplus after tax for the year was \$52.3 million compared to a Statement of Intent target of \$17.0 million and \$0.2 million for the previous year. Factors contributing to higher than budgeted surplus include:

- Unrealised gain in the carrying value of the shareholding in Energy Development Limited (EDL) - \$4.8 million.
- Realised gain on the sale of 14.1 million EDL shares - \$24.5 million.

Orion achieved a net surplus on the core electricity network of \$33.5 million.

### Network

Orion continues to rank the best in New Zealand as the most reliable and efficient electricity distribution networks. In the last five years Orion has 'kept the lights on' for 99.989% of the time and on average their consumers' experienced less than one interruption to their electricity supply per annum.

Orion helped to solve the transmission constraint issues in our region in the 2004 winter by implementing a range of initiatives to reduce electricity consumption.

### Industry Change

Orion continues to make positive contributions to the electricity industry's regulatory environment. Their key message is that regulation must give line companies the incentives to invest appropriately for the long term benefit of consumers.

With the price threshold being in place Orion increased their prices marginally by 1.1% in April 2005, again below the rate of inflation which is in line with the price threshold of the consumer price index less one percent.

### Looking Ahead

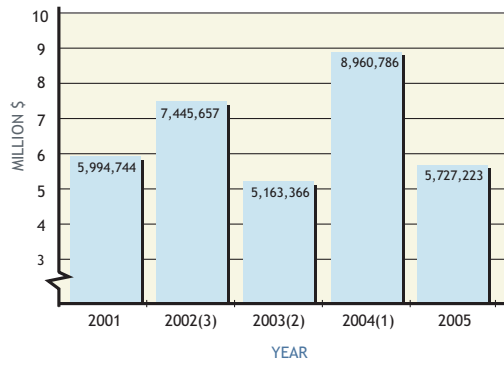
As stated last year Orion is focusing on its core business. To this end Orion's capital expenditure over the next few years will need to increase as Orion continues to replace many of their assets which were installed in the 1960's.

Orion is very mindful that their employees are key to their success. With the ongoing tightening of the labour market and worsening skills shortages throughout the energy sector, Orion is increasing the number of recruitment, training and career development initiatives.

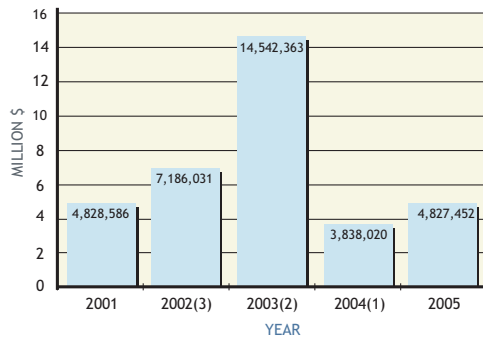
## Financial statements



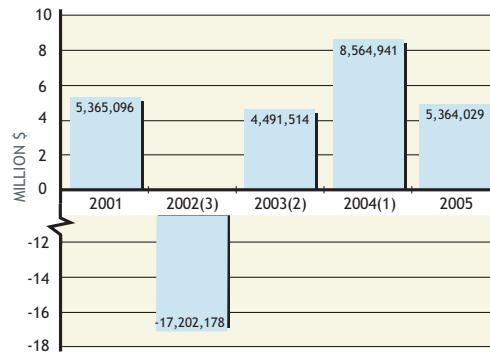
Operating Revenue



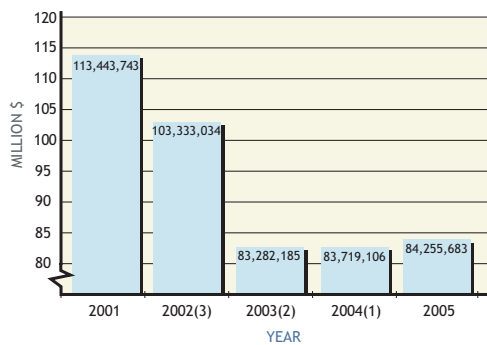
Total Return to Shareholder



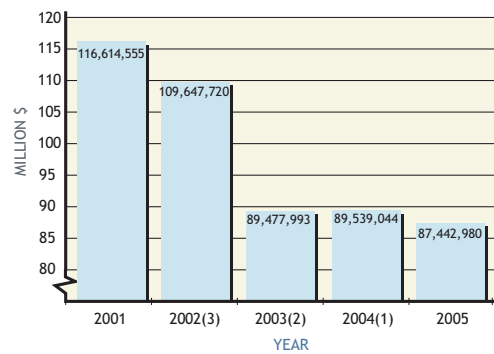
Net Surplus After Tax



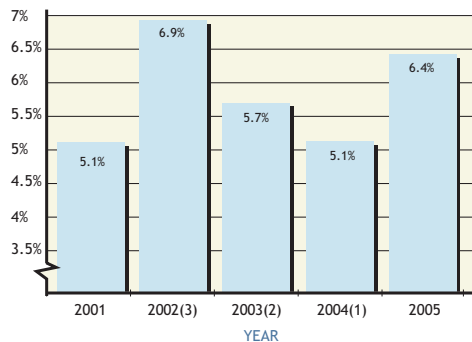
Total Equity



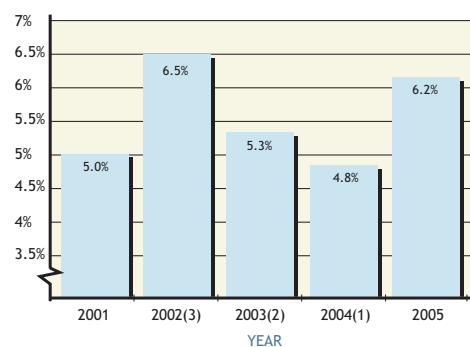
Total Assets



Return on Equity



Return on Total Assets



**Statement of Financial Performance**  
**For the Year Ended 30 June 2005**

	Note	Parent		Group	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Revenue</b>					
Dividends Received - Ordinary	1	5,275,948	4,296,206	3,755,204	2,895,750
Dividends Received - Special	1	-	4,290,000	-	4,290,000
Interest Received		451,275	374,580	604,793	492,699
Other Income	1	-	-	48,913,145	45,479,975
Net Gain on sale of Property, Plant & Equipment		-	-	906,646	106,186
<b>Operating Revenue</b>		<b>5,727,223</b>	<b>8,960,786</b>	<b>54,179,788</b>	<b>53,264,610</b>
<b>Expenses</b>					
Audit Fees		7,650	7,320	50,491	46,410
Bad Debts Written Off		-	-	9,579	22,026
Movement in Doubtful Debts		-	-	(4,367)	(74,491)
Depreciation		-	-	1,687,423	1,600,105
Director Fees		91,000	105,000	307,750	335,000
Employment Expenses		54,730	-	14,607,956	14,076,001
Interest Paid		58,070	205,983	357,801	268,936
Leases		-	-	290,358	290,226
Secretarial Fees		44,300	40,385	44,300	40,385
Other Expenses	2	64,349	47,631	28,274,006	24,801,174
<b>Total Operating Expenses</b>		<b>320,099</b>	<b>406,319</b>	<b>45,625,297</b>	<b>41,405,772</b>
<b>Net Operating Surplus Before Tax &amp; Write-downs</b>		<b>5,407,124</b>	<b>8,554,467</b>	<b>8,554,491</b>	<b>11,858,838</b>
Forest Revaluation Decrement		-	-	(4,585,000)	-
<b>Net Surplus Before Tax</b>		<b>5,407,124</b>	<b>8,554,467</b>	<b>3,969,491</b>	<b>11,858,838</b>
Taxation	3	43,095	(10,474)	920,395	1,128,616
<b>Net Surplus After Tax</b>		<b>5,364,029</b>	<b>8,564,941</b>	<b>3,049,096</b>	<b>10,730,222</b>
Minority Interest in Deficit/(Surplus) of Subsidiary		-	-	721,401	(1,064,229)
<b>Net Surplus After Minority Interest and Tax</b>		<b>5,364,029</b>	<b>8,564,941</b>	<b>3,770,497</b>	<b>9,665,993</b>

## Statement of Movements in Equity

### For the Year Ended 30 June 2005

	Note	Parent		Group	
		2005 \$	2004 \$	2005 \$	2004 \$
Equity at the start of the Period		83,719,106	83,282,185	129,458,330	117,428,383
Net Surplus After Minority Interest and Tax		5,364,029	8,564,941	3,770,497	9,665,993
Movement in Revaluation Reserve	13	-	(4,290,000)	4,750,523	1,848,295
<b>Total Recognised Revenues and Expenses for the Period</b>		<b>5,364,029</b>	<b>4,274,941</b>	<b>8,521,020</b>	<b>11,514,288</b>
Distributions to owners during the period	6	(4,827,452)	(3,838,020)	(4,827,452)	(3,838,020)
		<b>84,255,683</b>	<b>83,719,106</b>	<b>133,151,898</b>	<b>125,104,651</b>
<b>Movements in Minority Interests</b>					
Share of (Deficit)/Surplus in Subsidiary		-	-	(721,401)	1,064,229
Minority Interest in Revaluation Reserve Movement		-	-	3,078,289	3,977,550
Distribution to Minority Interests		-	-	(629,120)	(688,100)
<b>Equity at the end of the Period</b>		<b>84,255,683</b>	<b>83,719,106</b>	<b>134,879,666</b>	<b>129,458,330</b>

## Statement of Financial Position

As at 30 June 2005

	Note	Parent		Group	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Equity</b>					
Share Capital	7	60,000,000	60,000,000	60,000,000	60,000,000
Revaluation Reserve	13	11,301,500	11,301,500	21,086,073	16,966,622
Retained Earnings		12,954,183	12,417,606	25,532,767	25,958,650
Minority Interests		-	-	28,260,826	26,533,058
<b>TOTAL EQUITY</b>		<b>84,255,683</b>	<b>83,719,106</b>	<b>134,879,666</b>	<b>129,458,330</b>
<b>Represented by:</b>					
<b>Current Assets</b>					
Cash & Bank		175,922	140,538	451,361	791,050
Receivables and Prepayments	8	1,180,302	930,504	8,380,720	8,268,592
Tax Receivable	3	33,187	20,282	1,738,001	1,594,662
Inventory and Work in Progress		-	-	1,765,299	2,084,885
Investments - Current Bank Deposits		7,000,000	5,800,000	9,427,303	10,850,376
Investments - Current Other	10	-	3,600,000	-	-
Livestock		-	-	464,137	-
Properties Intended for Sale		-	-	8,091,792	-
<b>Total Current Assets</b>		<b>8,389,411</b>	<b>10,491,324</b>	<b>30,318,613</b>	<b>23,589,565</b>
<b>Current Liabilities</b>					
Accounts Payable and Accruals	9	131,824	79,523	4,357,100	4,092,537
Employee Entitlements		903	-	1,473,182	1,403,352
Loans - Current	12	-	3,600,000	1,737,500	4,600,000
Finance Lease - Current		-	-	71,659	-
Dividend Payable	6	3,054,570	2,140,415	3,054,570	2,140,415
<b>Total Current Liabilities</b>		<b>3,187,297</b>	<b>5,819,938</b>	<b>10,694,011</b>	<b>12,236,304</b>
<b>Working Capital</b>		<b>5,202,114</b>	<b>4,671,386</b>	<b>19,624,602</b>	<b>11,353,261</b>

## Statement of Financial Position (Continued)

As at 30 June 2005

	Note	Parent		Group	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Non-Current Assets</b>					
Investments	10	79,047,720	79,047,720	51,262,756	51,090,000
Property, Plant & Equipment	11	5,849	-	66,338,697	66,944,691
Deferred Tax	3	-	-	196,355	173,354
<b>Total Non-Current Assets</b>		<b>79,053,569</b>	<b>79,047,720</b>	<b>117,797,808</b>	<b>118,208,045</b>
<b>Non-Current Liabilities</b>					
Term Loans	12	-	-	2,062,500	-
Other Provisions & Leases		-	-	480,244	102,976
<b>Total Non-Current Liabilities</b>		<b>-</b>	<b>-</b>	<b>2,542,744</b>	<b>102,976</b>
<b>NET ASSETS</b>		<b>84,255,683</b>	<b>83,719,106</b>	<b>134,879,666</b>	<b>129,458,330</b>

## Approval of Financial Statements

For the Year Ended 30 June 2005

## Approval by Directors

The Directors are pleased to present the financial statements of Selwyn Council Trading Enterprises Limited for the year ended 30 June 2005.

The financial statements were authorised by the Board of Directors on 13 September 2005 for release to the shareholder.



EM Frew - Director



WJ Bell - Director

**Statement of Cash Flows**  
**For the Year Ended 30 June 2005**

	Note	Parent		Group	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Cash Flows from Operating Activities</b>					
<b>Cash was provided from:</b>					
- Receipts from Customers		-	-	48,721,655	45,100,678
- Interest Received		353,708	367,303	511,501	479,441
- Dividends Received		5,115,904	8,863,064	3,755,204	7,367,552
		<b>5,469,612</b>	<b>9,230,367</b>	<b>52,988,360</b>	<b>52,947,671</b>
<b>Cash was applied to:</b>					
- Supplier & Employee Payments		(206,223)	(318,357)	(43,285,465)	(40,014,489)
- Interest Paid		(58,708)	(256,276)	(358,871)	(318,611)
- Income Taxes Paid		(56,000)	(17,827)	(1,086,743)	(1,547,653)
- GST Payable		-	-	31,486	(55,851)
		<b>(320,931)</b>	<b>(592,460)</b>	<b>(44,699,593)</b>	<b>(41,936,604)</b>
<b>Net Cash Flows from Operating Activities</b>	<b>5</b>	<b>5,148,681</b>	<b>8,637,907</b>	<b>8,288,767</b>	<b>11,011,067</b>
<b>Cash Flows from Investing Activities</b>					
<b>Cash was provided from:</b>					
- Repayment of Loan from Subsidiary		3,600,000	-	-	-
- Sale of Property, Plant & Equipment		-	-	4,167,509	419,613
		<b>3,600,000</b>	<b>-</b>	<b>4,167,509</b>	<b>419,613</b>
<b>Cash was applied to:</b>					
- Purchase of Investments		-	-	(172,756)	-
- Purchase of Property, Plant & Equipment		-	-	(8,703,865)	(2,543,714)
		<b>-</b>	<b>-</b>	<b>(8,876,621)</b>	<b>(2,543,714)</b>
<b>Net Cash Flows from Investing Activities</b>		<b>3,600,000</b>	<b>-</b>	<b>(4,709,112)</b>	<b>(2,124,101)</b>

## Statement of Cash Flows (Continued)

For the Year Ended 30 June 2005

	Note	Parent		Group	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Cash Flows From Financing Activities</b>					
Cash was provided from:					
- Loans Raised		-	-	2,800,000	800,000
		-	-	2,800,000	800,000
Cash was applied to:					
- Dividends Paid		(3,913,297)	(4,045,369)	(4,542,417)	(4,915,271)
- Repayment of Loans		(3,600,000)	-	(3,600,000)	-
		(7,513,297)	(4,045,369)	(8,142,417)	(4,915,271)
<b>Net Cash Flows from Financing Activities</b>		<b>(7,513,297)</b>	<b>(4,045,369)</b>	<b>(5,342,417)</b>	<b>(4,115,271)</b>
<b>NET INCREASE IN CASH HELD</b>		<b>1,235,384</b>	<b>4,592,538</b>	<b>(1,762,762)</b>	<b>4,771,695</b>
<b>Add Opening Cash Balance</b>		<b>5,940,538</b>	<b>1,348,000</b>	<b>11,641,426</b>	<b>6,869,731</b>
<b>CLOSING CASH BALANCE</b>		<b>7,175,922</b>	<b>5,940,538</b>	<b>9,878,664</b>	<b>11,641,426</b>

*Summary of Cash Resources*

Cash and Bank	175,922	140,538	451,361	791,050
Investments - Current Bank Deposits	7,000,000	5,800,000	9,427,303	10,850,376
<b>Closing Cash Balance</b>	<b>7,175,922</b>	<b>5,940,538</b>	<b>9,878,664</b>	<b>11,641,426</b>

## Statement of Accounting Policies

For the Year Ended 30 June 2005

### Statement of Reporting Entity

Selwyn Council Trading Enterprises Limited is registered under the Companies Act 1993. The Company is a Council Controlled Trading Organisation, as defined by Section 6 of the Local Government Act 2002.

The Company is a wholly owned subsidiary of Selwyn District Council formed for the purpose of holding and managing Council's investments in trading organisations in a commercial manner.

The Company holds investments in Orion New Zealand Limited (10.725%), SICON Limited (100%) and Selwyn Plantation Board Ltd (60.68%) (see note 10).

The financial statements of Selwyn Council Trading Enterprises Limited and Group have been prepared in accordance with the requirements of the Local Government Act 2002, the Companies Act 1993, and the Financial Reporting Act 1993 and Financial Reporting Standards issued by the Institute of Chartered Accountants of New Zealand.

### Measurement Base

Accounting policies recognised as appropriate for the measurement and reporting of the financial performance, cash flows and financial position under the historical cost method have been followed in the preparation of these financial statements modified by the revaluation of certain assets.

### Accounting Policies

The following specific accounting policies, which have a material effect on the measurement of the financial performance and financial position, have been applied.

### Basis of Consolidation

The group financial statements include the parent company and its subsidiaries (SICON Limited (see note 10) and Selwyn Plantation Board Ltd) are accounted for using the line-by-line method. This shows the group surplus in the Consolidated Statement of Financial Performance and the assets and liabilities in the Consolidated Statement of Financial Position. All significant inter-company profits and transactions are eliminated upon consolidation.

All subsidiaries consolidated have a balance date of 30 June with the exception of Selwyn Plantation Board Ltd, which has a balance date of 31 March.

### Investments

The investment in SICON Limited, Selwyn Plantation Board Ltd and Orion Group Limited are valued based on an independent valuation as at 30 June 2002 completed by Ernst & Young Limited, Chartered Accountants, Christchurch dated 9 September 2002. These valuations are based on the higher of the present value of the Company's estimated future earnings or notional liquidation value. Other investments are shown at cost. All investments are reviewed each year for permanent impairments.

### Accounts Receivable

Accounts Receivable are stated at estimated realisable value, after an allowance for amounts, which are not considered recoverable.

## Financial Instruments

The Group is party to financial instrument arrangements as part of its everyday operations. These financial instruments include Bank, Investments, Accounts Receivable, Accounts Payable and Non-Current Liabilities. These instruments are recognised in the Statement of Financial Position at their estimated realisable value. The Group has not entered into any off-balance sheet instruments.

Revenue and Expenditure in relation to all financial instruments are recognised in the Consolidated Statement of Financial Performance.

## Revenue Recognition

Income is recognised on an accrual basis with dividends being recognised as income in the period to which they relate.

## Income Tax

The income tax expense charged against the surplus for the year is the estimated liability in respect of that surplus and is calculated after allowance for permanent differences.

The Selwyn Council Trading Enterprises Limited and Group uses the liability method of accounting for deferred taxation and applies this on a partial basis where the taxation effect of certain items of income and expenditure is deferred until later periods. The Group calculates and recognises deferred taxation in the financial statements with the exception of deferred taxation arising from the revaluation of buildings and forests and amortisation of forest for tax where the reversal of these particular timing differences is not likely to occur within the foreseeable future. Future taxation benefits attributable to taxation losses or timing differences are only recognised when there is virtual certainty of realisation.

## Goods and Services Tax

Being an investment holding company, which does not make any taxable supplies, Selwyn Council Trading Enterprises Limited is not registered for GST. As a result, amounts shown in these financial statements are inclusive of GST for the parent company. For its subsidiaries, SICON Limited and Selwyn Plantation Board Ltd, all figures have been prepared on a GST exclusive basis except for Accounts Receivable and Accounts Payable, which are shown inclusive of GST.

## Statement of Cash Flows

Cash means cash & bank, investments - current bank deposits and other highly liquid investments in which the Company invests as part of its day-to-day cash management.

Operating activities include cash received from all sources of the Company and records the cash payments made for supply of goods and services. Investing activities are those activities relating to the acquisition and disposal of non-current assets. Financing activities comprise the change in equity and debt capital structure of the Company.

## Inventories and Work in Progress (Group)

Inventories and work in progress are stated at the lower of cost and net realisable value. Cost is determined on a "first in first out" basis for Selwyn Plantation Board Ltd and "weighted average" basis for SICON Limited. In the case of manufactured goods, cost includes direct materials, labour and production overheads associated with putting the inventories in their present location and condition. Work in progress includes materials and a portion of direct labour and production overhead appropriate to the stage of completion attained. For major contracts, the percentage method of calculation is used.

## Livestock

Livestock is valued at national Standard Cost Values set by the Inland Revenue Department.

## Property, Plant & Equipment and Depreciation

### *Parent*

All property, plant and equipment are recorded at cost. Property, plant and equipment are depreciated on a diminishing value basis at rates allowed by Inland Revenue for that class of asset.

### *Selwyn Plantation Board Ltd*

All property, plant and equipment are initially recorded at cost.

Freehold land and buildings were independently valued at net current value at 31 March 2005 by KC Hagan Dip VFM ANZIV Registered Valuer. All assets within these classes are revalued independently every year. Properties intended for sale are valued at the lower of carrying value (when the decision was made to sell) and net realisable value.

The forest was revalued as at 31 March 2005 pursuant to a Directors valuation. The Board has adopted the discounted cash flow methodology to value its forest assets. The forests are revalued annually by the Directors, in accordance with this methodology. An independent valuer will check the Directors' valuation every three years. In 2003 the independent valuation was performed by Mr B Liley of Jaakko Pöyry Consulting.

### *SICON Limited*

Property, plant and equipment are included at cost. Property, plant and equipment are depreciated on a straight-line basis at rates estimated to allocate the cost over the useful life of each class of asset.

Specific Rates Applied are:

		Selwyn Plantation Board Ltd	SICON Limited
Buildings	Wooden	40	10-33
	Brick	50	
	Improvements	50	
Heavy Plant and Machinery		10	2-12
Other Plant and Machinery		5	2-12
Motor Vehicles		5	6-10
Furniture and Fittings		5	3-10
Computer Equipment		5	3

## Changes in Accounting Policies

There have been no material changes in accounting policies, which have been applied on a basis consistent with those used in the previous year.

## Notes to the Financial Statements

For the Year Ended 30 June 2005

### 1. Dividends Received & Other Income

The Parent Dividends Received relates to SICON Limited, Selwyn Plantation Board Ltd and Orion Group Limited dividends received or receivable during the year. In the 2004 year Orion Group Limited paid a special dividend of \$4,290,000 in February 2004.

The Group Other Income relates to SICON Limited and Selwyn Plantation Board Ltd revenue for the year. Major items of revenue are private contracts, Selwyn, Tasman, Timaru, and Waimakariri District Council's contracts; and forest produce sales.

### 2. Other Expenses

The Group Other Expenses relate mainly to SICON Limited and Selwyn Plantation Board Ltd expenses for the year. The major items of expenditure are cost of sales and other operating expenses.

### 3. Taxation

	Parent		Group	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>Net Surplus Before Tax</b>	<b>5,407,124</b>	<b>8,554,467</b>	<b>3,969,491</b>	<b>11,858,838</b>
Prima Facie Tax @ 33 %	1,784,351	2,822,974	1,309,932	3,913,417
Imputation Credit Adjustment	(1,741,064)	(2,833,448)	(1,238,739)	(2,371,298)
Plus/(Less) Tax Effect of Permanent Differences				
- Other	-	-	906,021	(425,269)
Prior Year Current Tax Adjustment	(192)	-	(56,819)	11,766
<b>Income Tax Expense</b>	<b>43,095</b>	<b>(10,474)</b>	<b>920,395</b>	<b>1,128,616</b>
<b>made up as follows:</b>				
Current Taxation	43,095	(10,474)	943,396	997,470
Deferred Taxation	-	-	(23,001)	131,146
	<b>43,095</b>	<b>(10,474)</b>	<b>920,395</b>	<b>1,128,616</b>

### 3. Taxation (continued)

	Parent		Group	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Deferred Taxation / (Asset)</b>				
Opening Balance	-	-	(173,354)	(304,500)
Current Year Timing Difference	-	-	(23,001)	131,146
<b>Closing Balance</b>	<b>-</b>	<b>-</b>	<b>(196,355)</b>	<b>(173,354)</b>

Due to Selwyn Plantation Board Ltd applying the liability method of accounting for deferred tax on a partial basis, the company has an unrecognised future deferred tax liability. There are unrecognised timing differences of \$6,982,390 (2004: \$15,173,181) with a tax effect of \$2,304,189 (2004: \$5,007,150).

	Parent		Group	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Income Taxation Provision / (Asset)</b>				
Opening Balance	(20,282)	8,019	(1,594,662)	(1,044,479)
Current Year Income Tax	43,095	(10,474)	943,396	997,470
Plus Tax Refunded	-	-	1,551,556	1,430,080
Less RWT Paid	-	-	(84)	-
Less Tax Paid	(56,000)	(17,827)	(2,581,787)	(2,911,685)
Less IRD Use of Money Interest Credited	-	-	(56,420)	(66,048)
<b>Closing Balance</b>	<b>(33,187)</b>	<b>(20,282)</b>	<b>(1,738,001)</b>	<b>(1,594,662)</b>

### 4. Imputation Credit Account

	Parent		Group	
	2005	2004	2005	2004
	\$	\$	\$	\$
Opening Balance	3,506,196	1,115,474	4,794,619	2,105,172
Add: Income Tax Paid	56,000	17,827	2,581,871	2,911,685
Add: Imputation Credits attached to Dividends Received	2,519,774	4,365,390	1,849,194	3,539,249
Less: Tax Refund Received	-	-	(1,551,556)	(1,430,080)
Less: Imputation Credits attached to Dividends Paid to Shareholders	(1,927,445)	(1,992,495)	(2,223,569)	(2,331,407)
<b>Closing Balance</b>	<b>4,154,525</b>	<b>3,506,196</b>	<b>5,450,559</b>	<b>4,794,619</b>

## 5. Reconciliation of Net Surplus to Cash Flow from Operating Activities

	Parent		Group	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>Net Surplus After Tax</b>	<b>5,364,029</b>	<b>8,564,941</b>	<b>3,049,096</b>	<b>10,730,222</b>
<b>Add / (Less) Non-Cash Items</b>				
Depreciation	-	-	1,687,423	1,600,105
Forest Revaluation Decrement	-	-	4,585,000	-
Movement in Other Provisions	-	-	12,886	(16,943)
Net (Gain) / Loss on Sale of Property, Plant & Equipment	-	-	(906,647)	(106,186)
	<b>5,364,029</b>	<b>8,564,941</b>	<b>8,427,758</b>	<b>12,207,198</b>
<b>Add / (Less) Movements in Working Capital</b>				
Accounts Receivable & Prepayments	(89,754)	(15,089)	(33,554)	(696,540)
Dividend Receivable	(160,044)	276,858	(160,044)	276,858
GST	-	-	21,280	(66,925)
Accounts Payable	24,897	(109,127)	211,328	275,924
Sundry Creditors & Accruals	22,458	(51,375)	95,935	(182,341)
Inventory & Work in Progress	-	-	319,586	(537,158)
Livestock	-	-	(464,137)	-
Taxation Receivable	(12,905)	(28,301)	(143,339)	(550,183)
Retentions	-	-	81,470	(126,912)
Deferred Taxation	-	-	(23,001)	131,146
Land Purchase Deposit in Receivables	-	-	(44,515)	280,000
<b>Net Cash Flows from Operating Activities</b>	<b>5,148,681</b>	<b>8,637,907</b>	<b>8,288,767</b>	<b>11,011,067</b>

## 6. Dividends Paid

The parent company has provided for dividends paid to our shareholder (Selwyn District Council) at 90% of net surplus before taxation excluding any special dividend declared or paid by Orion Group Limited or any subsidiary as indicated in the Statement of Intent. The proposed total dividend for the year is \$4,827,452 (net of imputation credits). An interim dividend of \$1,772,882 (net of imputation credits) has been paid during the year.

SICON Limited has proposed a final dividend to be paid to Selwyn Council Trading Enterprises Limited at 50% of net surplus after taxation as per SICON Limited Statement of Intent. The proposed total dividend for the year is \$520,978 (net of imputation credits). An interim dividend of \$143,500 (net of imputation credits) has been paid during the year.

Selwyn Plantation Board Ltd has proposed a final dividend to be paid to Selwyn Council Trading Enterprises Limited on 29 July 2005. The proposed total dividend for the year is \$1,001,220 (net of imputation credits). An interim dividend of \$303,400 (net of imputation credits) has been paid during the year.

### 7. Share Capital - Parent

	2005 \$	2004 \$
<b>Issued and Paid Up Capital</b>		
60,000,000 ordinary shares of \$1.00 each	60,000,000	60,000,000
<b>Issued but Uncalled Capital</b>		
8151 preference shares of \$1,000.00 each	8,151,000	8,151,000
<b>TOTAL ISSUED CAPITAL</b>	<b>68,151,000</b>	<b>68,151,000</b>

### 8. Receivables and Prepayments

	Parent		Group	
	2005 \$	2004 \$	2005 \$	2004 \$
Dividend Receivable - SICON Limited	377,478	247,774	-	-
Dividend Receivable - Selwyn Plantation Board Ltd	697,820	667,480	-	-
Accounts Receivable - Selwyn District Council	-	-	1,371,008	1,197,229
Accounts Receivable - Other	105,004	15,250	6,823,414	6,928,865
Prepayments	-	-	186,298	142,498
	<b>1,180,302</b>	<b>930,504</b>	<b>8,380,720</b>	<b>8,268,592</b>

### 9. Accounts Payable and Accruals

	Parent		Group	
	2005 \$	2004 \$	2005 \$	2004 \$
Accounts Payable - Selwyn District Council	94,896	64,150	106,552	72,322
Accounts Payable - Other	-	-	3,114,714	2,950,429
GST Payable	-	-	228,235	206,955
Other Creditors & Accruals	36,928	15,373	907,599	862,831
	<b>131,824</b>	<b>79,523</b>	<b>4,357,100</b>	<b>4,092,537</b>

## 10. Investments

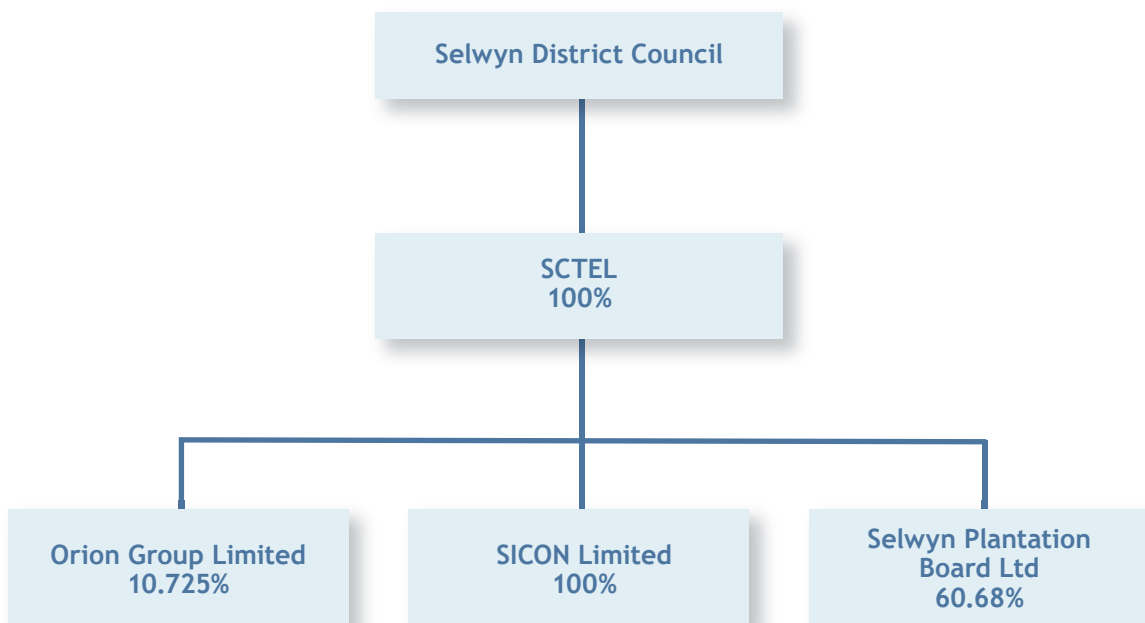
The Investments of the parent and the group are as follows:

	Parent		Group	
	2005	2004	2005	2004
	\$	\$	\$	\$
Orion Group Limited - Shareholding	51,090,000	51,090,000	51,090,000	51,090,000
SICON Limited - Debt	-	3,600,000	-	-
SICON Limited - Shareholding	4,960,000	4,960,000	-	-
Selwyn Plantation Board Ltd - Shareholding	22,997,720	22,997,720	-	-
Central Plains Water Limited - Shareholding	-	-	172,756	-
	<b>79,047,720</b>	<b>82,647,720</b>	<b>51,262,756</b>	<b>51,090,000</b>
Less Current Portion	-	(3,600,000)	-	-
	<b>79,047,720</b>	<b>79,047,720</b>	<b>51,262,756</b>	<b>51,090,000</b>

SICON Limited - Debt: This was repaid by SICON Limited on 24 September 2004.

### Structure of Selwyn Council Trading Enterprises Limited's Investment Portfolio

As at 30 June 2005, the Selwyn Council Trading Enterprises Limited trading investment portfolio can be shown as follows:



## 11. Property, Plant & Equipment - Group

	Cost / Valuation \$	Accumulated Depreciation \$	Book Value 2005 \$	Book Value 2004 \$
Land - at Valuation	37,500,210	-	37,500,210	32,955,350
Land Development - at Cost	964,140	104,188	859,952	417,776
Buildings - at Cost	174,096	70,262	103,834	107,019
Buildings - at Valuation	1,070,000	-	1,070,000	605,000
Plant - at Cost	18,083,631	8,067,923	10,015,708	7,343,896
Motor Vehicles - at Cost	818,422	397,463	420,959	396,241
Fixtures, Fittings & Office Equipment - at Cost	1,034,406	708,220	326,186	339,398
Forests - at Valuation	15,583,000	-	15,583,000	24,765,000
Leased Assets	488,453	35,868	452,585	-
Pooled Assets - at Cost	26,512	20,249	6,263	15,011
	<b>75,742,870</b>	<b>9,404,173</b>	<b>66,338,697</b>	<b>66,944,691</b>

The respective subsidiary company's considers land and buildings to be recorded at fair value. The parent company has \$5,849 office equipment at year end (2004 - Nil).

## 12. Term Loans

	Parent		Group	
	2005 \$	2004 \$	2005 \$	2004 \$
ANZ Banking Group (NZ) Debenture	-	3,600,000	-	3,600,000
Bank of New Zealand	-	-	3,800,000	1,000,000
	-	<b>3,600,000</b>	<b>3,800,000</b>	<b>4,600,000</b>
Less Current Portion	-	(3,600,000)	(1,737,500)	(4,600,000)
	-	-	<b>2,062,500</b>	-

Selwyn Council Trading Enterprises Limited had a term loan facility with ANZ Banking Group (New Zealand) Limited for \$3,600,000. This loan was repaid in full on 30 September 2004.

SICON Limited has a committed cash advance facility (CCAF) with the Bank of New Zealand (BNZ) for a total facility of \$3.0 million (2004: \$1.65 million). The balance of the CCAF was \$1.3 million at 30 June 2005 (2004: \$1.0 million). Registered debentures secured over all assets and undertakings of the company have been executed in favour of the BNZ. Interest rates at 30 June 2005 were 7.75% to 8.0% (2004: 7.2% to 7.35%).

SICON Limited has a loan with the Bank of New Zealand (BNZ) for a total facility of \$3.0 million. The balance of the loan was \$2.5 million at 30 June 2005 (2004: nil). This loan is repayable by \$1.0 million on 24 September 2006 and \$1.5 million on 24 September 2007. The interest rates at 30 June 2005 were 8.12% to 8.2% (2004: nil).

### 13. Revaluation Reserve

	Parent		Group	
	2005	2004	2005	2004
	\$	\$	\$	\$
Opening Balance 1 July	11,301,500	15,591,500	16,966,622	15,118,327
Current Year Movements	-	(4,290,000)	4,750,523	1,848,295
Transfer to Retained Earnings	-	-	(631,072)	-
<b>Closing Balance 30 June</b>	<b>11,301,500</b>	<b>11,301,500</b>	<b>21,086,073</b>	<b>16,966,622</b>

The balance in this account relates to revaluation of the following items:

	Parent		Group	
	2005	2004	2005	2004
	\$	\$	\$	\$
Orion Group Limited Investment	9,691,500	9,691,500	9,691,500	9,691,500
Selwyn Plantation Board Ltd	-	-	11,224,382	7,104,931
SICON Limited	1,610,000	1,610,000	170,191	170,191
<b>Closing Balance 30 June</b>	<b>11,301,500</b>	<b>11,301,500</b>	<b>21,086,073</b>	<b>16,966,622</b>

### 14. Financial Instruments

#### *Nature of activities and management policies*

The nature of activities and management policies with respect to financial instruments is:

#### *Credit Risk*

In the normal course of its business, the parent company and its subsidiaries (SICON Limited and Selwyn Plantation Board Ltd) incurs credit risk from accounts receivable and financial institutions.

The maximum exposure to credit risk at balance date, is the fair value of the financial instruments as stated in the Statement of Financial Position.

Significant concentrations of credit risk apply principally in respect of cash, dividends receivable and accounts receivable. Selwyn Council Trading Enterprises Limited, SICON Limited and Selwyn Plantation Board Ltd reduces the risk by investing with high credit rating institutions. The major concentration of credit risk for SICON Limited is with respect to accounts receivable is the debt of Selwyn and Timaru District Councils at balance date. This risk is considered minimal.

#### *Currency Risk*

Selwyn Council Trading Enterprises Limited and its subsidiaries (SICON Limited and Selwyn Plantation Board Ltd) have no direct currency risk, given that all financial instruments are dealt with in New Zealand dollars.

## 14. Financial Instruments (continued)

### *Interest Rate Risk*

SICON Limited is subject to fluctuations in the market interest rate in relation to the term loan.

### *Credit Facilities*

SICON Limited has a total committed cash advance facility of \$3,000,000 (note 12). Of this, \$1,300,000 has been borrowed by SICON Limited at balance date (2004: \$1,000,000).

### *Fair Value*

The fair value of financial instruments is equivalent to the carrying amount as stated in the Statement of Financial Position.

## 15. Transactions with Related Parties

Transactions with related parties are detailed below.

### *SICON Limited*

During the reporting period, Selwyn Council Trading Enterprises Limited entered into normal commercial transactions with SICON Limited. Selwyn Council Trading Enterprises Limited had:

	2005	2004
Interest income	\$58,522	\$215,123
Dividend income	\$520,978	\$429,576
At balance date a final dividend receivable	\$377,478	\$247,774
At balance date a loan receivable	\$0	\$3,600,000

### *Selwyn District Council*

During the reporting period Selwyn Council Trading Enterprises Limited entered into normal commercial transactions with Selwyn District Council.

Selwyn Council Trading Enterprises Limited made payment to the Council for:

	2005	2004
Dividend for year	\$4,827,452	\$3,838,020

### 15. Transactions with Related Parties (continued)

Selwyn Council Trading Enterprises Limited owed money to the Council, at balance date for:

	2005	2004
Accounts paid on their behalf	\$94,896	\$64,510
The final dividend	\$3,054,570	\$2,140,415

#### *Selwyn Plantation Board Ltd*

During the reporting period Selwyn Council Trading Enterprises Limited entered into the following transactions with Selwyn Plantation Board Ltd. Selwyn Council Trading Enterprises Limited had:

	2005	2004
Dividends received	\$1,001,220	\$970,880
At balance date – final dividend receivable	\$697,820	\$667,480

#### *Other Transactions with Related Parties*

The Selwyn District Council entered into the following transactions with SICON Limited.

SICON Limited had:

	2005	2004
Received income from the Council	\$8,449,434	\$5,746,396
Paid expenses to the Council	\$247,637	\$186,587
At balance date owed money to the Council	\$11,656	\$8,172
At balance date was owed money from the Council	\$1,371,008	\$1,197,229

The Selwyn District Council entered into the following transactions with Selwyn Plantation Board Ltd.

Selwyn Plantation Board Ltd had:

	2005	2004
Received income from the Council	\$535	\$558
Paid expenses to the Council	\$77,550	\$67,055

### 15. Transactions with Related Parties (continued)

The Selwyn District Council entered into the following transactions with Selwyn Plantation Board Ltd.

Selwyn Plantation Board Ltd had:

	2005	2004
At balance date owed money to the Council	\$0	\$0
At balance date was owed money from the Council	\$0	\$0

### *Ian Giltrap Limited and Roofline Products Limited*

SICON Limited entered into the following transactions with Ian Giltrap Limited and Roofline Products Limited.

SICON Limited had:

	2005	2004
Received income	\$0	\$0
Paid expense	\$0	\$27,555

### 16. Statement of Commitments

The parent company and its subsidiaries (SICON Limited and Selwyn Plantation Board Ltd) have no capital commitments, other than disclosed in note 19, as at 30 June 2005 (2004: nil).

SICON Limited had the following operating lease commitments:

	2005	2004
<b>Photocopiers</b>		
Less than one year	\$12,024	\$10,908
One to two years	\$11,078	\$7,812
Two to five years	\$9,435	\$6,428
<b>Depot Leases</b>		
Less than one year	\$289,111	\$214,766
One to two years	\$186,211	\$212,766
Two to five years	\$181,068	\$266,863
Greater than five years	\$0	\$30,291
<b>Vehicles</b>		
Less than one year	\$266,698	\$146,870
One to two years	\$101,853	\$70,944
Two to five years	\$192,045	\$0
<b>Total Operating Lease Commitments</b>	<b>\$1,249,523</b>	<b>\$967,648</b>

## 16. Statement of Commitments (continued)

SICON Limited had the following finance lease commitments:

Analysis of Finance Lease Liabilities	Principal	Interest	Total
Payable no later than one year	\$71,659	\$41,128	\$112,787
Payable one to two years	\$79,272	\$33,515	\$112,787
Payable three to five years	\$285,110	\$43,502	\$328,612
	\$436,041	\$118,145	\$554,186

Finance Lease commitment for 2004 \$nil.

Finance lease interest rates range from 9.9% to 10.55% (2004: nil).

## 17. Statement of Contingencies

The parent company and group have no contingent assets or liabilities as at 30 June 2005 (2004: nil). SICON Limited has performance bonds and bonds in lieu of retention to third parties from time to time, \$1,161,381 (2004: \$1,137,479) was committed to 30 June 2005.

## 18. Statement of Service Performance (Parent)

Following is an analysis of performance relative to the financial performance targets outlined in the company's Statement of Intent for the year ended 30 June 2005:

	Actual 2004/05 \$	Target/Budget 2004/05 \$
Net surplus before tax	5,407,124	3,595,079
Net surplus after tax	5,364,029	3,595,079
Proposed dividend	4,827,452	3,235,572
Return on total assets	6.2%	4.0%
Return to shareholders funds	6.4%	4.1%

## 19. Events Subsequent to Balance Date - SPBL

In May 2005, SPBL has entered into a conditional sale and purchase agreement for the sale of 3,386 ha of its southern plains land. At balance date this property has been disclosed as property intended for sale within the current asset section of the group statement of financial position.

## 20. Five Year Trends - (Parent)

	2005	2004 (1)	2003 (2)	2002 (3)	2001
Operating Revenue	5,727,223	8,960,786	5,163,366	7,445,657	5,994,744
Net Surplus Before Tax	5,407,124	8,554,467	4,716,533	(16,836,018)	5,822,096
Net Surplus After Tax	5,364,029	8,564,941	4,491,514	(17,202,178)	5,365,096
Proposed Dividend	4,827,452	3,838,020	4,042,363	4,186,031	4,828,586
Special Dividend Paid	0	0	10,500,000	3,000,000	0
Total Return to Shareholder	4,827,452	3,838,020	14,542,363	7,186,031	4,828,586
Total Assets	87,442,980	89,539,044	89,477,993	109,647,720	116,614,555
Total Equity	84,255,683	83,719,106	83,282,185	103,333,034	113,443,743
Return on Total Assets	6.2%	4.8%	5.3%	6.5%	5.0%
Return on Equity	6.4%	5.1%	5.7%	6.9%	5.1%

1. Operating revenue, net surplus before and after tax includes a one-off special dividend from Orion Group Limited of \$4,290,000. The return on total assets and equity excludes the \$4,290,000 special dividend from Orion Group Limited.
2. On 30 June 2003 Selwyn Council Trading Enterprises Limited repurchased \$10,000,000 of shares from its shareholder the Selwyn District Council and subsequently cancelled those shares on that date.
3. Operating revenue, net surplus before and after tax in 2002 includes a one off special dividend from Orion Group Limited of \$2,145,000. A special dividend of \$3,000,000 was paid to the Council during the 2002 year. Net surplus before and after tax also includes a Selwyn Plantation Board Ltd investment write down of \$23,998,325. The return on total assets and equity excludes the Selwyn Plantation Board Ltd investment write down.



**AUDIT REPORT**

**TO THE READERS OF  
SELWYN COUNCIL TRADING ENTERPRISES LIMITED AND GROUP'S  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2005**

The Auditor-General is the auditor of Selwyn Council Trading Enterprises Limited (the company) and group. The Auditor-General has appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company and group, on his behalf, for the year ended 30 June 2005.

**Unqualified Opinion**

In our opinion:

- ▲ the financial statements of the company and group on pages 17 to 37:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the company and group's financial position as at 30 June 2005; and
    - the results of operations and cash flows for the year ended on that date.
- ▲ the performance information of the company and group on page 36 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 30 June 2005.
- ▲ based on our examination the company and group kept proper accounting records.

The audit was completed on 13 September 2005, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

**Basis of Opinion**

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- ▲ determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- ▲ verifying samples of transactions and account balances;
- ▲ performing analyses to identify anomalies in the reported data;
- ▲ reviewing significant estimates and judgements made by the Board of Directors;
- ▲ confirming year-end balances;
- ▲ determining whether accounting policies are appropriate and consistently applied; and
- ▲ determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support the opinion above.

### **Responsibilities of the Board of Directors and the Auditor**

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company and group as at 30 June 2005. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the year ended 30 June 2005. The Board of Directors' responsibilities arise from the Financial Reporting Act 1993 and the Local Government Act 2002.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

### **Independence**

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the company or its subsidiaries.



Julian Tan  
Audit New Zealand  
On behalf of the Auditor-General  
Christchurch, New Zealand







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