PORT OTAGO LIMITED

2002 annual report

annual report two thousand and two

PORT OTAGO LIMITED

contents

results in brief

	2002 $000	2001 $000
Revenue	**35,885**	31,526
Net surplus after taxation	**10,905**	7,368
Net surplus for year after unrealised revaluations	**14,617**	10,345
Total assets	**108,050**	97,497
Shareholders equity	**83,687**	75,070
Dividends declared and proposed	**5,250**	5,000

highlights

- A record cargo tonnage of 2.3m tonnes, an increase of 2% over last year.
- Continued expansion of warehousing and cold storage activities.
- Investment property sales giving a gain on disposal of $3.0m after tax.
- A rise of $3.7m in the value of the investment property portfolio which is incorporated in the total surplus for the year of $14.6m.
- Dividend increased to $5.25m.

Directors

John Gilks	Chairman
Ross Black	Deputy Chairman
George Berry	
Ed Johnson	
Jim Miller	
Dougal Rillstone	

Executive

René Bakx	Chief Executive
Geoff Plunket	Deputy Chief Executive
Iain Lindsay	Marketing Manager
Bruce Trainor	Operations Manager
Wayne Muir	General Manager, Port Otago Group Warehousing
Chris Kaye	Marine Services Manager
Andrew Taggart	Chief Financial Officer

Chalmers Properties Limited

Andrew Duncan	Chief Executive

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Bankers

The National Bank of New Zealand Limited

Solicitors

Anderson Lloyd Caudwell

Auditors

Audit New Zealand on behalf of the Auditor-General

The results to 30 June 2002 reflect a year of consolidation in the port's position, after four years of significant cargo gains, and evidence the progress made by Chalmers Properties Limited in establishing a fully diversified property portfolio.

Financial results

A tax paid surplus of $10.9 million, an increase of 48% was recorded for the year. The result includes a profit of $3.0 million from the sale by Chalmers Properties Limited of part of its Dunedin land portfolio.

The addition of a $3.7 million unrealised increase in the value of Chalmers Properties Limited investment property portfolio increases the total surplus for the year to $14.6 million.

Trade

The port handled a record 2.3 million tonnes of cargo during the year, an increase of 2% from last year. The number of containers handled through Port Otago's container facility and conventional cargo volumes both increased by 2%. This is a pleasing result given the strong growth in container and cargo volumes over the past four years.

Port operations

The port operating surplus after tax was $5.7 million, an increase of 12% on the previous year. This year's result includes a tax benefit of $295,000 from the reclassification of long service leave, retiring allowances and stock obsolescence provisions as deferred tax timing differences. Excluding this one-time gain, the current year profit is 7% higher than last year's result.

The Company continues to invest in the port infrastructure in order to maintain modern and efficient port facilities. The Company's two container cranes were successfully raised by six metres in October/ November 2001 at a cost of $1.2 million and with little disruption to our container shipping clients. Construction of our new McIlwain designed tug by Ship Constructors of Whangarei is currently underway with delivery expected in February 2003. The new tug, to be named 'Otago', will improve the towage capability within the harbour. With a projected cost of $7 million the new tug represents a major investment for the Company.

The planned relocation of the Taiaroa Head Signal Station to a Port Chalmers Control Centre and the associated upgrade of the security within the Port Chalmers port area is underway with contracts being awarded for the supply of the cameras, radar and other equipment. At this stage we expect that the new Control Centre will be operational by the end of October.

Warehousing and cold storage

The Company's warehousing and cold store activities continue to expand with the completion of a new 8,000 square metre warehouse at Back Beach, Port Chalmers to handle the growing dairy trade.

We have also negotiated a long term lease of one third of Enza's cool store facility in Dunedin. The leased area, which has been converted by Enza into a cold store facility, provides the opportunity to meet the demand for additional cold storage capacity from fishing companies and the dairy industry. Benefits will also come from working closely with the HarbourCold Dunedin facility.

HarbourCold Dunedin, our cold store joint venture with the Sealord Group, completed its first full year of operation. A small but satisfactory profit was recorded through this initial period.

Health and safety

Fifteen lost time injuries occurred during the year to give a frequency rate of 4.8. This result is significantly above the target rate of 1.5 and it represents a disappointing outcome for the year. In order to facilitate a significant improvement the Board initiated, in May 2002, a major focus on health and safety within all aspects of the Company's activities. Early results from this focus are encouraging with no lost time injuries over the past three months and a substantial reduction in reported incidents.

Environmental management
The Port Environment / Liaison Committee which includes representatives from Port Otago, local Port Chalmers residents and other interest groups met on a regular basis during the year to review the environmental impact of port activities. The Committee has overseen a number of environmental projects during the year, continuing the work of recent years to improve the interface between the community and the port. The projects include the extension of the walkway at Back Beach with additional landscaping and the inclusion of a new picnic area and extra seating. A vacant property adjacent to the car park at Back Beach has been cleared and planted. A viewing platform has been constructed at the top of Flagstaff Hill. As part of this project a further grassed and planted rest area complete with picnic table and seating has also been developed. Further planting has also been undertaken on Flagstaff Hill as part of the long term landscaping plan for this area. Monitoring survey work has also been carried out for the sand beach renourishment project at Careys Bay.

The Committee has also reviewed codes of practice. These have been prepared in conjunction with operators in the port to minimise the effect of operations on the surrounding community.

The outstanding appeals (except the appeals on port noise) on the Dunedin City Council District Plan which impact on port operations were considered by the Environment Court in September 2001. The most important of the appeals which related to height limits within the port area was finalised on the basis which provides the required flexibility to enable the port to operate efficiently.

The noise provisions within the District Plan have yet to be finalised. One of the complicating factors is that noise made by ships is covered by the Otago Regional Council's Coastal Plan whereas land-based noise is covered by the Dunedin City Council's District Plan. In any noise monitoring it is virtually impossible to separate the two noise sources. A further Environment Court hearing will be held in September to deal with these aspects of noise control and management.

Our preference is to manage all noise, from both ships and land-based activities, in a comprehensive way. This would be through a comprehensive noise management plan, placing the obligations on the port to demonstrate by real-time monitoring that it can manage noise within prescribed but achievable limits. Details of monitoring, investigation into noise reduction methods and noise complaints would be reported and discussed through regular meetings to a port noise liaison committee.

Following the slip on Flagstaff Hill, which occurred in October 2000, a claim was lodged with the firm of consulting engineers who carried out the detailed design for the excavation. Negotiations are in progress with the engineering firm, which we hope will enable settlement of the claim.

Chalmers Properties Limited
Chalmers Properties Limited achieved an operating surplus after tax of $5.2 million. This result includes a profit of $3 million from the sale of 25% of the Dunedin ground lease portfolio and compares with a profit of $2.4 million for the previous year.

The portion of the Dunedin ground lease portfolio sold provided $12.65 million for reinvestment. In line with the Company's strategy of developing a diversified property portfolio two acquisitions were made in Auckland during the year. In October 2001 a commercial property was purchased in Glenfield at a cost of $5.2 million and in May 2002 a property was purchased in the Manukau City centre at a cost of $3.8 million.

The Company continues to be in a strong financial position with a property portfolio valued at $47.5 million and a 90% equity ratio.

Subsequent to balance date the Company's Board has been strengthened with the appointment of two independent directors, thereby increasing the size of the Board to five Directors. We are pleased to welcome to the Board Mr Greg Hinton, an Auckland property investor with strong links to the Otago Region, and Christchurch-based consultant Mr Vincent Pooch.

Performance targets

A summary of this year's performance targets, as set out in the Statement of Corporate Intent, is recorded in the following table.

As part of initiatives to minimise the effect of port noise on the community a real-time noise monitoring station, overlooking the Port Chalmers berths, was installed in January 2002. Accordingly the actual noise incidents, which include both port and non-port related noises, are for the 6 month period ended June 2002. Wind-related noise incidents are excluded from the data by using wind speed readings from wind monitoring equipment on Goat Island. The real-time noise monitor detects noise made by ships, land-based port noise and noise generated from the surrounding community such as that from trains passing through Port Chalmers. Video recording is being used to gain a better understanding of the causes of high noise incidents.

	Actual	Target	Outcome
Trade			
Cargo tonnage	2,262,000 tonnes	2,100,000 tonnes	Target exceeded
Number of vessel arrivals	469 vessels	495 vessels	Target not achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Noise within 65/55 Ldn noise boundaries	exceeded on 13 days	Nil	Target not achieved
Health & Safety			
Frequency rate	4.8	1.5	Target not achieved

Financial performance

	Port Otago Group		Port Operations		
	Actual	**Target**	**Actual**	**Target**	
Return on assets	14.2%	10.1%	9.4%	7.5%	
Return on shareholders funds	18.4%	10.3%	13.0%	10.3%	
Equity ratio	77%	70%	70%	69%	Financial
Debt servicing ratio (times)	14.3	8.0	13.0	9.0	targets exceeded

Dividend

Dividends totalling $6.0 million were paid during the year to 30 June. This includes the final dividend for the 2001 year of $1.0 million, which was paid in August 2001.

The Board is pleased to confirm the payment of a final dividend for the 2002 year of $250,000 which will be paid on 30 August 2002. This brings the total dividends declared for the 2002 financial year to $5.25 million, which amounts to a 5% increase from last year. The dividend for the year represents 70% of the Group's operating surplus before the profit from asset sales.

Directors

Ian Farquhar retired from the Board in September 2001. Ian made an outstanding contribution to the development of the port through his long association with the Otago Harbour Board and, following port reform, with Port Otago Limited. Ian served as an elected member of the Harbour Board from 1971 to 1989 and was Chairman from 1981 to 1983. Ian joined the Port Otago Limited Board on the establishment of the port company and he served as Chairman from 1999 to his retirement. Ian's detailed knowledge of the port and shipping industries has been invaluable to the Board.

Mr Ed Johnson joined the Board in March 2002 to fill the vacancy created by Ian's retirement.

Staff
One of the port's key strengths continues to be the commitment of all staff to maintaining high levels of service to our customers and a commitment to continuously improve performance. It is also pleasing to report on the increased employment opportunities within the port which have been created through the growth in container volumes and the expansion of our warehousing activities.

We were also pleased to finalise a three year Employment Agreement with our staff. This agreement reflects the partnership approach developed by management and staff and it places the port in a strong position to manage changing trade patterns.

Outlook
The port has in place the facilities to service the new generation of container vessels and to provide a high quality service to all of our clients. The port also enjoys the benefits of a dedicated workforce focused on providing quality service. The expansion of our warehouse and cold storage activities continues to strengthen and diversify our trade base.

While the work undertaken by the Board and staff continues to strengthen the port's competitive position, the decision by the ANZ Alliance of P&O Nedlloyd, CP Ships, Columbus Line and partners on the New Zealand port calls for their combined East Coast North America and North Europe service will have a significant impact on container volumes through the port. We remain confident that we have taken all practical steps to secure this trade for the port. We expect the decision by the Alliance will be known within the next one to two months.

The Group's investment property subsidiary, Chalmers Properties Limited, continues to identify acquisition opportunities to strengthen the diversity of its property portfolio.

For and on behalf of the Board

John Gilks
Chairman
27 August 2002

directors' report

The Directors are pleased to present their annual report including the audited financial statements for the Port Otago Group for the year ended 30 June 2002.

Group activities

Port Otago Limited provides a full range of port facilities, cargo handling and warehousing services at the Port of Otago.

Port Otago Limited has two wholly-owned subsidiaries, South Freight Limited and Chalmers Properties Limited. South Freight Limited operates a container depot and provides warehousing services in Dunedin. Chalmers Properties Limited manages the Group's investment property portfolio. Port Otago Limited has a 50% share in a joint venture, HarbourCold Dunedin, which operates a wharfside cold store.

Financial results

The Group recorded a net surplus for the year after unrealised revaluations of $14,617,000 compared to $10,345,000 last year, an increase of 41%.

The net surplus after tax but before unrealised revaluations was $10,905,000, an increase of 48%. The result included realised gains on disposal of investment property amounting to $2,969,000 after tax.

Dividends

A final dividend of $250,000 will be paid on 30 August 2002, to give a total dividend for the year of $5,250,000.

Changes in Accounting Policies

The Group has changed the accounting policy during the year relating to the tax treatment of provisions. Under the new policy provisions for stock obsolescence, long service leave and retiring allowances are treated as timing differences in the tax calculation whereas previously they were treated as permanent differences. Further details are contained in the notes to the accounts under the Changes in Accounting Policies section.

Directors

In accordance with the constitution Messrs G L Berry and J D Miller retire by rotation and being eligible, offer themselves for re-election.

Directors' remuneration

Remuneration paid by the Port Otago Group to Directors during the year was:

	Port Otago Limited $	Chalmers Properties Limited $	Total Group $
J W Gilks (Chairman)	29,400	5,000	34,400
D R Black (Deputy Chairman)	22,050	-	22,050
R D Anderson	-	13,500	13,500
G L Berry	16,200	9,500	25,700
I J Farquhar (retired September 2001)	7,800	-	7,800
E G Johnson (appointed March 2002)	4,050	-	4,050
J D Miller	16,200	5,000	21,200
D Rillstone	16,200	-	16,200
	111,900	**33,000**	**144,900**

Directors' interests
The Directors have disclosed the following interests as at 30 June 2002:

G L Berry
Director of South Freight Limited
Director of Chalmers Properties Limited
Senior Partner of Berry & Co
Director of Millbrook Resort Property Companies
Director of Berry & Co Solicitors Nominee Limited
Director of North Otago Downlands Water Company Limited
Chairman of Waitaki District Health Services Limited
Director of Southern Lakes Development Co. Limited

D R Black
Chairman of Farra Dunedin Engineering Limited
Chairman of Timberlands West Coast Limited
Director of South Freight Limited
Director of Clough Holdings Limited
Director of Forests Otago Limited
Chairman of Otago Emergency Air Ambulance Limited
Chairman of Otago Emergency Air Ambulance Trust
Trustee of HealthCare Otago Charitable Trust

J W Gilks
Director of South Freight Limited
Director of Chalmers Properties Limited
Director of St Andrews Group Limited
Director of Fisher & Paykel Appliances Holdings Limited
Director of Fisher & Paykel Finance Limited
Director of National Bank of New Zealand Limited
Director of Pacific Edge Biotechnology Limited
Director of Dublin Bay Investments Limited
Director of Philip Laing House Limited
Director of Dunedin City Holdings Limited
Director of City Forests Limited
Director of Dunedin Electricity Limited
Director of Delta Utility Services Limited
Director of Citibus Newton Limited
Chairman of Dunedin Rhododendron Festival Trust
Advisory Trustee Alexander McMillan Trust
Director of Otago Emergency Air Ambulance Limited
Trustee of Otago Emergency Air Ambulance Trust

E G Johnson
Director of South Freight Limited
Deputy Chairman of Fulton Hogan Limited (and all group NZ companies)
Director of FRH Pty Limited
Chairman of Goldpine Industries Limited
Director of Profarm Supplies Limited
Director of Cantapine Limited
Director of Bank of New Zealand Limited
Director of Stone Farm Holdings Limited
Director of Stone Farm Olives Limited

J D Miller
Director of South Freight Limited
Director of Chalmers Properties Limited
Director of Fulton Hogan Limited (and group companies)

D Rillstone
Director of South Freight Limited
Director of Mobile Medical Technology Limited
Director of Hazlett & Sons Limited
Director of Durran Holdings Limited
Director of Clearwater Lakes International Hotel Limited

Employee remuneration
During the year, the number of employees of Port Otago Limited and its subsidiaries who received total remuneration in excess of $100,000 are:

Remuneration	Number of employees
$170,001-$180,000	1
$150,001-$160,000	1
$140,001-$150,000	1
$120,001-$130,000	1
$110,001-$120,000	1
$100,000-$110,000	4

Directors of subsidiary companies
The following persons held the office of director of the respective subsidiaries during the year. Directors' fees for Chalmers Properties Limited are shown in the preceding paragraph covering directors' remuneration while for South Freight Limited no directors' fees were payable.

Company	*Directors*
Chalmers Properties Limited	G L Berry (Chairman), J W Gilks (resigned August 2002), R D Anderson, J D Miller
South Freight Limited	J W Gilks (Chairman), D R Black, G L Berry, I J Farquhar (retired September 2001), E G Johnson (appointed March 2002), J D Miller, D Rillstone

In August 2002 Messrs G P Hinton and V H Pooch were appointed as directors of Chalmers Properties Limited.

Directors' insurance
The Group provides insurance cover for directors under the following policies:
(a) Directors' liability insurance which ensures that generally directors will incur no monetary loss as a result of action undertaken by them as directors.
(b) Personal accident insurance which covers directors while travelling on company business.

Use of Company Information
There were no notices received from Directors of the Company requesting to use Company information received in their capacity as Director, which would not otherwise have been available to them.

Auditors
The Auditor-General continues as the Company's auditor in accordance with the Port Companies Act 1988. The Auditor-General has appointed Mr K J Boddy of Audit New Zealand to undertake the audit.

The Group audit fee for the year ended 30 June 2002 was $31,000.

For and on behalf of the Board of Directors

D R Black
Director
27 August 2002

J D Miller
Director
27 August 2002

consolidated statement of financial performance

for the year ended 30 june 2002

	Notes	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Revenue	1				
Port operations		28,699	27,095	28,435	27,109
Investment property		7,186	4,431	-	-
		35,885	**31,526**	**28,435**	**27,109**
Surplus before interest and unusual items					
Port operations		8,667	8,140	9,886	9,565
Investment property		3,384	3,275	-	-
		12,051	11,415	9,886	9,565
Net interest		(797)	(1,014)	(669)	(639)
Operating surplus		11,254	10,401	9,217	8,926
Gain on disposal of investment property		2,969	651	-	-
Surplus before taxation	2	14,223	11,052	9,217	8,926
Taxation	3	(3,318)	(3,684)	(2,228)	(2,448)
Net surplus after taxation		10,905	7,368	6,989	6,478
Unrealised net change in the value of investment property	5	3,712	2,977	-	-
Net surplus for the year after unrealised revaluations		**14,617**	**10,345**	**6,989**	**6,478**

This statement is to be read in conjunction with the notes set out on pages 16 to 26

consolidated statement of movements in equity

for the year ended 30 june 2002

	Notes	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Equity at beginning of the year		75,070	68,725	42,536	40,058
Total recognised revenues and expenses:					
Net surplus for the year		14,617	10,345	6,989	6,478
Distribution to owners:					
Dividend	19	(6,000)	(4,000)	(6,000)	(4,000)
Equity at end of the year		**83,687**	**75,070**	**43,525**	**42,536**

This statement is to be read in conjunction with the notes set out on pages 16 to 26

consolidated statement of financial position

as at 30 June 2002

PORT OTAGO LIMITED

	Notes	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
FUNDS EMPLOYED					
Equity					
Share capital	4	20,000	20,000	20,000	20,000
Property revaluation reserve	5	25,146	28,356	-	-
Retained earnings		38,541	26,714	23,525	22,536
		83,687	75,070	43,525	42,536
Non current liabilities					
Borrowings (secured)	6	19,685	15,925	14,835	9,075
Employee entitlements	7	680	562	680	562
		20,365	16,487	15,515	9,637
Current liabilities					
Bank overdraft (secured)		-	57	3,241	839
Accounts payable	8	2,701	2,456	2,399	2,149
Dividend payable	19	-	2,000	-	2,000
Income tax payable		-	80	-	75
Employee entitlements	7	1,297	1,347	1,266	1,308
		3,998	5,940	6,906	6,371
Total funds employed		**108,050**	**97,497**	**65,946**	**58,544**
EMPLOYMENT OF FUNDS					
Non current assets					
Fixed assets	9	53,932	46,904	53,799	46,730
Investment property	10	47,498	34,784	-	-
Investment in subsidiaries	11	-	-	7,050	7,050
Future taxation benefit	12	876	518	838	485
		102,306	82,206	61,687	54,265
Current assets					
Bank (secured)		419	-	-	-
Receivables and prepayments	13	4,874	5,530	3,839	3,959
Stores and materials		302	320	302	320
Property intended for sale	10	-	9,441	-	-
Income tax refund		149	-	118	-
		5,744	15,291	4,259	4,279
Total assets		**108,050**	**97,497**	**65,946**	**58,544**

For and on behalf of the Board of Directors

D R Black
Director
27 August 2002

J D Miller
Director
27 August 2002

This statement is to be read in conjunction with the notes set out on pages 16 to 26

PORT OTAGO LIMITED

consolidated cash flow statement

for the year ended 30 june 2002

	Notes	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Cash flows from operations					
Cash was provided from:					
Receipts from port operations		28,659	25,400	26,902	23,749
Rental income		4,312	3,782	-	-
Dividend income received		-	-	1,500	1,750
		32,971	29,182	28,402	25,499
Cash was disbursed to:					
Payments to employees and suppliers		(18,070)	(15,662)	(15,907)	(13,782)
Interest paid		(805)	(917)	(599)	(662)
Income tax paid		(3,905)	(3,572)	(2,774)	(2,315)
		(22,780)	(20,151)	(19,280)	(16,759)
Net cash flows from operations	14	10,191	9,031	9,122	8,740
Cash flows from investing activities					
Cash was provided from:					
Sale of fixed assets		145	247	145	240
Sale of investment property		12,848	1,622	-	-
		12,993	1,869	145	240
Cash was applied to:					
Purchase of fixed assets		(9,311)	(5,673)	(9,287)	(5,654)
Interest capitalised		(142)	-	(142)	-
Purchase of investment property		(9,015)	(3,646)	-	-
		(18,468)	(9,319)	(9,429)	(5,654)
Net cash flows from investing activities		(5,475)	(7,450)	(9,284)	(5,414)

This statement is to be read in conjunction with the notes set out on pages 16 to 26

	Notes	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Cash flows from financing activities					
Cash was provided from:					
Proceeds from borrowings		18,660	13,750	15,160	6,600
Cash was applied to:					
Repayment of borrowings		(14,900)	(10,587)	(9,400)	(6,287)
Dividends paid	19	(8,000)	(4,500)	(8,000)	(4,500)
		(22,900)	(15,087)	(17,400)	(10,787)
Net cash flows from financing activities		(4,240)	(1,337)	(2,240)	(4,187)
Increase (decrease) in cash held		476	244	(2,402)	(861)
Cash held at beginning of year		(57)	(301)	(839)	22
Cash held at end of year		**419**	**(57)**	**(3,241)**	**(839)**

This statement is to be read in conjunction with the notes set out on pages 16 to 26

Reporting entity
Port Otago Limited is registered under the Companies Act 1993. The Group consists of Port Otago Limited (the "Company") and its subsidiaries South Freight Limited and Chalmers Properties Limited. The financial statements are presented in accordance with the Companies Act 1993 and have been prepared in accordance with the Financial Reporting Act 1993.

Measurement base
The measurement base adopted is that of historical cost modified by the revaluation of certain assets.

Accounting Policies
The following accounting policies which significantly affect the measurement of profit and the financial position have been applied:

a) **Basis of Consolidation**

Subsidiaries
The consolidated financial statements are prepared from the financial statements of Port Otago Limited and its subsidiary companies using the purchase method. All inter-company transactions are eliminated on consolidation.

Joint ventures
Joint ventures are joint arrangements with other parties in which the Company has several liability in respect of costs and liabilities. The Company's share of the assets, liabilities, revenues and expenses of joint ventures are incorporated into the Company and consolidated financial statements on a line-by-line basis.

b) **Fixed Assets and Depreciation**

Fixed assets are recorded at cost less depreciation to date.
Depreciation is provided on a straight line basis to write off the cost of the fixed assets over their estimated useful lives.

The estimated useful lives are as follows:

Buildings	10 - 50 years
Wharves, paving and dredging	15 - 40 years
Vessels and floating plant	5 - 20 years
Plant, equipment and vehicles	3 - 20 years
Computer software	1 - 3 years

c) **Investment property**

Investment properties are recorded at their net current value as determined annually by independent valuers. Net current value is the open market value less the costs of disposal that could reasonably be anticipated. Revaluation gains and losses are recognised directly in the statement of financial performance. In the year in which any properties are sold the difference between the net sale proceeds and the carrying amount is recognised in the statement of financial performance. Investment properties are not subject to depreciation.

d) **Accounts receivable**

Accounts receivable are stated at the estimated realisable value after making adequate provision for doubtful debts.

e) **Stores and materials**

Stores and materials are valued at cost, on a weighted average basis, with appropriate allowances for obsolescence and deterioration.

f) **Employee entitlements**

Provision is made in respect of the liability for annual leave, long service leave and retiring allowances. Annual leave is calculated on an actual entitlement basis at current rates of pay. Long service leave and retiring allowances are measured as the present value of the estimated future cash outflows to be made by the Company. The provision is affected by a number of estimates including projected interest rates, the expected length of service of employees and future levels of employee earnings.

g) **Taxation**
The income tax expense charged against the profit for the year is the estimated liability in respect of that profit and is calculated after allowances for permanent differences. The Group uses the liability method of accounting for deferred taxation and applies this on a comprehensive basis. Future tax benefits attributable to timing differences are only recognised when there is virtual certainty of realisation.

h) **Statement of Cash Flows**
The following is the definition of terms used in the Statement of Cash Flows:
i) Cash means bank balances and cash on deposit with banks.
ii) Investment activities comprise the purchase and sale of fixed assets and investment properties and advances to/from subsidiary companies.
iii) Financing activities comprise the change in equity and debt structure of the Group and the payment of dividends.
iv) Operating activities include all transactions and events that are not investing or financing activities.

i) **Derivative financial instruments**
The Company uses interest rate swaps and fixed rate agreements to reduce its exposure to fluctuations in interest rates. The net differential paid or received on either swaps or fixed rate agreements is recognised as a component of interest expense over the period of the agreement.

Changes in Accounting Policies
Future taxation benefits
During the current year the Company changed the tax treatment of provisions. Under the new policy provisions for stock obsolescence, long service leave and retiring allowances are treated as timing differences in the tax calculation whereas previously they were treated as permanent differences.

This change has been made to align company policy more closely with the preferred treatment in SSAP-12 Accounting for Income Tax which is tax effective accounting applied on a comprehensive basis.

For the current year this change in policy has increased the net surplus and increased the future taxation benefit by $295,000.

With the exception of the above change in accounting policy, uniform accounting policies have been applied on a consistent basis with those of the previous year.

	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
1. REVENUE				
Port operating revenue includes:				
Rental income from subsidiary	-	-	176	179
Interest income from subsidiary	-	-	1	22
Other interest income	48	13	4	13
Gain on sale of assets	144	147	144	147
Dividend income from Chalmers Properties Limited	-	-	1,500	1,750
Investment property revenue includes:				
Rental income	4,217	3,780	-	-
Gain on disposal of property	2,969	651	-	-
	7,186	**4,431**	-	-

2. SURPLUS BEFORE TAXATION

	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
The surplus before taxation is stated after charging:				
Audit fees	31	30	24	22
Depreciation	2,695	2,620	2,630	2,547
Bad debts	1	18	1	17
Directors' remuneration	145	153	112	120
Loss on sale of assets	-	5	-	5
Interest expense	845	1,027	674	674

	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
3. TAXATION				
Surplus before taxation	14,223	11,052	9,217	8,926
Permanent differences	(3,293)	122	(1,594)	(1,498)
Taxable income	10,930	11,174	7,623	7,428
Taxation @ 33%	3,607	3,687	2,516	2,451
Prior year's taxation over provided	6	(3)	7	(3)
Recognise deferred tax on provisions	(295)	-	(295)	-
Taxation charge	**3,318**	**3,684**	**2,228**	**2,448**
The taxation charge is represented by:				
Current taxation	3,595	3,751	2,500	2,501
Deferred taxation	(277)	(67)	(272)	(53)
The movements in the imputation credit account are:				
Credits available at beginning of year	16,667	15,222	15,038	13,948
Imputation credits attached to dividends received	-	-	739	862
Income tax payments	3,905	3,572	2,774	2,315
Imputation credits attached to dividends paid	(3,940)	(2,216)	(3,940)	(2,216)
Prior year adjustment	(89)	89	(88)	129
Credits available at end of year	**16,543**	**16,667**	**14,523**	**15,038**
4. SHARE CAPITAL				
Issued and paid up capital 20,000,000 shares	20,000	20,000	20,000	20,000

All shares carry equal voting rights and the right to share in any surplus on the winding up of the Group.

	Group 2002 $000	Group 2001 $000
5. PROPERTY REVALUATION RESERVE		
Balance at beginning of year	28,356	26,051
Transfers from (to) retained earnings:		
Realised revaluation on property sold	(6,922)	(672)
Change in value of investment property	3,712	2,977
Balance at end of year	**25,146**	**28,356**

6. BORROWINGS

Borrowings are secured by debenture and comprise amounts owing to The National Bank of New Zealand Limited.

The Group has a $26,000,000 committed facility with The National Bank of New Zealand Limited. The Group may draw funding for terms ranging from call to the termination of the agreement, which is 30 September 2004. The facility is reviewed annually on the 30 September of each year, with a view to extending the expiry of the facility for successive periods of one year.

The security for advances is a floating charge debenture over the assets of the Group.

At 30 June 2002, $19,685,000 (last year: $15,925,000) was drawn which, after allowing for interest rate swaps, was:

- on effective terms ranging from on call to 5 years (last year: call to 5 years), and
- at effective interest rates ranging from 5.8% to 8.2% per annum (last year: 6.2% to 8.2% per annum).

7. EMPLOYEE ENTITLEMENTS

	Group		Parent Company	
	2002	**2001**	**2002**	**2001**
	$000	**$000**	**$000**	**$000**
Balance at beginning of year	1,909	1,577	1,870	1,559
Additional provision made	899	1,047	880	1,012
Amount utilised	(831)	(715)	(804)	(701)
Balance at end of year	**1,977**	**1,909**	**1,946**	**1,870**
The balance is classified as:				
Current	1,297	1,347	1,266	1,308
Non current	680	562	680	562

The provision for employee entitlements relates to employee benefits such as accrued annual leave, long service leave and retiring allowances. The provision is affected by a number of estimates, including the expected length of service of employees and the timing of benefits being taken.

8. ACCOUNTS PAYABLE

	Group		Parent Company	
	2002	**2001**	**2002**	**2001**
	$000	**$000**	**$000**	**$000**
Accounts payable	1,742	1,691	1,387	1,430
Amount owing to subsidiaries	-	-	170	64
Other accrued charges	959	765	842	655
	2,701	**2,456**	**2,399**	**2,149**

	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
9. FIXED ASSETS				
Land and improvements				
at cost	19,793	19,658	19,793	19,658
accumulated depreciation	(2,330)	(1,990)	(2,330)	(1,990)
	17,463	17,668	17,463	17,668
Buildings				
at cost	11,990	9,247	11,947	9,204
accumulated depreciation	(1,711)	(1,434)	(1,691)	(1,417)
	10,279	7,813	10,256	7,787
Wharves and berth dredging				
at cost	18,074	17,657	18,074	17,657
accumulated depreciation	(4,923)	(4,480)	(4,923)	(4,480)
	13,151	13,177	13,151	13,177
Plant, equipment and vehicles				
at cost	19,494	17,466	19,078	17,074
accumulated depreciation	(11,440)	(10,017)	(11,134)	(9,773)
	8,054	7,449	7,944	7,301
Computer software				
at cost	1,800	1,568	1,800	1,568
accumulated depreciation	(1,506)	(1,313)	(1,506)	(1,313)
	294	255	294	255
Capital work in progress				
at cost	4,691	542	4,691	542
Total net carrying amount	**53,932**	**46,904**	**53,799**	**46,730**

The Company is following the statutory process to obtain a Certificate of Title for the 1997 Boiler Point reclamation. In accordance with this process application has been made to the Minister of Conservation for approval for the issuing of a Certificate of Title. The Company has satisfactory title to all other assets.

The Directors consider the latest rating valuations, completed in 2001, are an indication of fair value for land and buildings.

	2002 $000	2001 $000
Group and parent:		
Rating valuation with subsequent additions at cost	29,415	31,979
Comparative cost less depreciation to date	27,742	25,481

10. INVESTMENT PROPERTY

	Group 2002 $000	Group 2001 $000
Balance at beginning of year	44,225	39,263
Property purchased and improvements	9,115	3,645
Property sold	(9,554)	(1,660)
Change in value of investment property	3,712	2,977
Balance at end of year	**47,498**	**44,225**
Comprising:		
Investment property		
Valued to net current value at 30 June balance date as determined by:		
Barlow Justice Limited	35,100	31,954
DTZ New Zealand Limited	8,643	2,830
Seagar and Partners	3,755	-
Classified as a non current asset	47,498	34,784
Property intended for sale		
Classified as a current asset	-	9,441
	47,498	44,225

Last year property intended for sale was classified as a current asset and recorded at net current value as determined by Beca Valuations Limited at 30 June 2000.

11. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

Name	Voting interest held	Balance date	Principal activity
Subsidiaries			
Chalmers Properties Limited	100%	30 June	Property investment
South Freight Limited	100%	30 June	Container management and cargo aggregation
Joint venture			
HarbourCold Dunedin	50%	30 June	Cold store operation

Port Otago Limited's investment in its wholly-owned subsidiary companies, Chalmers Properties Limited and South Freight Limited, is recorded at cost.

The Company and Group financial statements include the relevant interest in HarbourCold Dunedin's assets and liabilities at 30 June along with the share of trading for the year.

	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
12. FUTURE TAXATION BENEFIT				
Balance at beginning of year	518	475	485	456
Over provision for prior year's tax	81	(24)	81	(24)
Recognise deferred tax on provisions	295	-	295	-
Tax on current year timing differences	(18)	67	(23)	53
Balance at end of year	**876**	**518**	**838**	**485**

13. RECEIVABLES AND PREPAYMENTS

	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Trade receivables	4,716	5,390	3,635	3,773
Amount owing by subsidiaries	-	-	88	70
Prepayments	158	140	116	116
	4,874	**5,530**	**3,839**	**3,959**

14. CASH FLOW FROM OPERATIONS

	Group 2002 $000	Group 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
The reconciliation between the net surplus and the cashflow from operations is:				
Net surplus	14,617	10,345	6,989	6,478
Non cash/investing items:				
Unrealised net change in the value of investment property	(3,712)	(2,977)	-	-
Depreciation	2,695	2,620	2,630	2,547
Gain on sale of fixed assets	(144)	(142)	(144)	(142)
Gain on disposal of investment property	(2,969)	(651)	-	-
Non current employee entitlements	118	238	118	238
Deferred taxation	(358)	(43)	(353)	(29)
	10,247	9,390	9,240	9,092
Changes in working capital:				
Receivables and prepayments	288	(1,699)	113	(1,601)
Accounts payable and current employee entitlements	(133)	1,238	(56)	1,141
Income tax receivable	(229)	154	(193)	162
Stores and materials	18	(52)	18	(54)
Net cash flow from operations	**10,191**	**9,031**	**9,122**	**8,740**

15. CAPITAL EXPENDITURE COMMITMENT

At 30 June 2002 the Group had commitments in respect of contracts for capital expenditure of $2,950,000 (last year: $1,200,000).

16. CONTINGENCIES

There are no contingent liabilities at 30 June 2002 (last year: nil).

17. TRANSACTIONS WITH RELATED PARTIES

a) Transactions within the Group and with Otago Regional Council:

	Group		Parent Company	
	2002 $000	2001 $000	2002 $000	2001 $000
Revenue:				
Contribution by Otago Regional Council towards operation of Signal Station	105	105	105	105
Management services provided to Chalmers Properties Limited	-	-	78	74
Interest charged to Chalmers Properties Limited	-	-	1	22
Rent charged to South Freight Limited	-	-	176	179
Expense:				
Interest charged by Chalmers Properties Limited	-	-	168	12
Transport charged by South Freight Limited	-	-	12	6

Amounts owing to and receivable from related parties are detailed in notes 8 and 13 respectively.

b) Other related party transactions:

Director(s)	Related Party	Nature of relationship
J W Gilks	Director of The National Bank of New Zealand Limited	Supplier to the Group
J W Gilks	Director of City Forests Limited	Customer of the Group
J W Gilks	Director of Dunedin Electricity Limited	Lease of property from Group
J W Gilks	Director of Delta Utility Services Limited	Supplier to the Group Lease of property from Group
D R Black	Director of Farra Dunedin Engineering Limited	Supplier to the Group Lease of property from Group
J D Miller E G Johnson	Directors of Fulton Hogan Group	Supplier to the Group Lease of property from Group

All related party transactions are conducted by the management of the respective companies on a commercial and arms length basis. The revenue and expenditure with the respective companies during the year ended 30 June 2002 was not a material part of the Group and parent company revenue and expenditure.

The amounts owing to/from related parties are payable in accordance with the Company's normal terms of trade. No related party debts have been written-off or forgiven during the year.

18. FINANCIAL INSTRUMENTS

a) *The nature of the activities and management policies with respect to financial instruments are:*

i) *Interest rate*
The Group has a term facility with The National Bank of New Zealand Limited. Under the facility the Group may draw funding for terms ranging from call to the termination of the facility. Interest rate risk is managed by drawing funding over a range of maturities using interest rate swaps and through maintaining a balanced portfolio.

The principal amounts of derivative financial instruments outstanding at balance date were:

	Group		Parent Company	
	2002	**2001**	**2002**	**2001**
	$000	**$000**	**$000**	**$000**
Interest rate swaps	12,800	10,300	8,900	5,400
Fixed rate agreements	-	1,000	-	1,000

ii) *Credit*
In the normal course of its business the Group incurs credit risk from trade receivables. Reflecting the nature of the business the majority of the credit risk is concentrated on a small number of shipping line clients. Regular monitoring of trade receivables is undertaken to ensure that the exposure remains within the Group's normal terms of trade.

b) *Fair values*
The fair values of financial instruments do not differ by a material amount from the carrying values shown in the statement of financial position.

19. DIVIDENDS – Group and Parent Company

	2002 $000	2001 $000
Declared in respect of the current financial year:		
Interim dividend	2,500	2,000
Second interim dividend	2,500	2,000
Final dividend	250	1,000
Dividends for the financial year	**5,250**	**5,000**
Adjust for dividends declared after year end:		
2002 Final dividend declared August 2002	(250)	-
2001 Final dividend declared August 2001	1,000	(1,000)
Dividend distributed to owners as disclosed in the Statement of Movements in Equity	6,000	4,000
Adjust for dividends payable at year end:		
2001 Second interim dividend declared June 2001 and paid August 2001	2,000	(2,000)
2000 Final dividend declared August 2000 and paid September 2000	-	2,500
Dividends paid as disclosed in the Cash Flow Statement	8,000	4,500

Dividends declared by Directors by a resolution after balance date were treated as a liability at balance date for the financial year ended 30 June 2000. Following the issue of the accounting standard FRS-5 Events after Balance Date, dividends declared after balance date for the year ended 30 June 2001 and later financial years are not treated as a liability at year end but are disclosed in the notes to the accounts.

20. EVENTS SUBSEQUENT TO BALANCE DATE

Dividends

On 27 August 2002 the Directors declared a final dividend of $250,000 for the year ended 30 June 2002. Combined with interim dividends totalling $5,000,000 this brings dividends paid and declared to $5,250,000 for the full financial year.

TO THE READERS OF THE FINANCIAL STATEMENTS OF PORT OTAGO LIMITED AND GROUP FOR THE YEAR ENDED 30 JUNE 2002

We have audited the financial statements on pages 11 to 26. The financial statements provide information about the past financial performance and financial position of Port Otago Limited and Group as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 16 to 17.

Responsibilities of the Board of Directors
The Port Companies Act 1988 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of Port Otago Limited and Group as at 30 June 2002 and the results of operations and cash flows for the year ended on that date.

Auditor's Responsibilities
Section 15 of the Public Audit Act 2001 and section 19(1) of the Port Companies Act 1988 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed K J Boddy, of Audit New Zealand, to undertake the audit.

Basis of Opinion
An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements; and
- whether the accounting policies are appropriate to Port Otago Limited and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in Port Otago Limited or any of its subsidiaries.

Unqualified Opinion
We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by Port Otago Limited and Group as far as appears from our examination of those records; and
- the financial statements of Port Otago Limited and Group on pages 11 to 26:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - Port Otago Limited's and Group's financial position as at 30 June 2002; and
    - the results of operations and cash flows for the year ended on that date.

Our audit was completed on 27 August 2002 and our unqualified opinion is expressed as at that date.

KJ Boddy

K J Boddy
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

PORT OTAGO LIMITED

five year summary

Trade analysis	2002	2001	2000	1999	1998
Number of ships	469	500	488	491	418
Cargo throughput (000's tonnes)	2,262	2,227	1,994	1,811	1,426

Financial comparisons	2002 $000	2001 $000	2000 $000	1999 $000	1998 $000
Revenue	35,885	31,526	27,645	26,386	22,608
Surplus from operations (EBIT)					
Port operations	8,667	8,140	7,302	6,759	4,486
Investment property	3,384	3,275	3,366	3,315	3,574
Total group	12,051	11,415	10,668	10,074	8,060
Unusual revenues/(expenses)	2,969	651	(1,203)	0	893
Surplus before tax	14,223	11,052	8,477	8,904	7,594
Net surplus after tax	10,905	7,368	5,728	5,920	5,037
Unrealised net change in value of investment property	3,712	2,977	(295)	5,076	(1,512)
Net surplus after unrealised revaluations	14,617	10,345	5,433	10,996	3,525
Dividends for financial year	5,250*	5,000*	4,000	4,000	2,800
Shareholders equity	83,687	75,070	68,725	67,292	60,296
Net interest bearing debt	19,685	15,982	13,076	12,859	15,569
Total assets	108,050	97,497	87,456	86,676	81,284
Shareholders equity	77%	77%	79%	78%	74%
Net asset backing per share	$4.18	$3.75	$3.44	$3.36	$3.01
Earnings per share (cents)	73.1	51.7	27.2	55.0	17.6
Dividends per share (cents)	26.3*	25.0*	20.0	20.0	14.0
Return on equity**					
before unrealised revaluations	13.7%	10.2%	8.4%	9.3%	8.4%
after unrealised revaluations	18.4%	14.4%	8.0%	17.2%	15.9%
EBIT return on assets					
Port operations	16.0%	16.4%	15.6%	14.6%	9.9%
Investment property	7.0%	7.6%	8.4%	8.8%	10.0%
Total group	11.7%	12.3%	12.3%	12.0%	9.9%

* Includes the final dividend for the financial year declared after balance date, as disclosed in Note 19
** Net surplus divided by average shareholders equity

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