PORT OTAGO LIMITED

2003 Annual Report

Annual Report Two Thousand and Three

Contents

Results in Brief

	2003 $000	2002 $000
Revenue	**39,964**	35,885
Operating surplus	**13,324**	11,254
Net surplus after taxation	**8,692**	10,905
Net surplus after unrealised revaluations	**15,915**	14,617
Total assets	**133,643**	108,050
Shareholders equity	**94,352**	83,687
Dividends declared and proposed	**6,100**	5,250

Highlights

- Securing the sole South Island port call for the 4100 round-the-world service operated by P&O Nedlloyd, CP Ships and partners.
- A record cargo tonnage of 2.5m tonnes, an increase of 11% over last year.
- Continued expansion of warehousing activities with the construction of a new 6,000m^2 warehouse.
- Delivery of the new tug "Otago".
- A rise of $7.2 million in the value of the investment property portfolio which is incorporated in the total surplus for the year of $15.9 million.
- Dividend increased to $6.1 million.

Directory

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 2003 year has been a period of significant change with the announcement by the ANZ Alliance in October 2002 of the selected New Zealand ports for the new round-the-world container shipping service. Port Otago was fortunate to secure the sole South Island port call for the new weekly service. This combined with the continued export led growth from the Otago and Southland Regions has seen the Port enjoy strong growth in container volumes, create employment opportunities and report an improved financial result.

Chalmers Properties Ltd has also enjoyed a successful year with an improved trading result and a significant increase in the value of its investment properties.

Financial Results
The Group achieved an Operating Surplus before taxation of $13.3 million, an increase of 18%.

The Net Surplus after Tax of $8.7 million compares with a net surplus of $10.9 million in the 2002 financial year. However the previous year's result included a profit of $3.0 million from the sale of investment property.

In accordance with accounting standards Chalmers Properties Ltd is required to revalue its property portfolio annually. The increase in the value of the investment properties of $7.2 million (last year $3.7 million) boosted the total surplus for the year to $15.9 million. This represents a 9% increase over last year's total surplus of $14.6 million.

Trade
The Port handled a record 2.5 million tonnes of cargo during the year, an increase of 11%. The number of containers handled during the year increased by 30% reflecting the benefit of the new ANZ Alliance round-the-world service, which commenced in December 2002, and continued strong growth in export volumes from the Region.

Conventional cargoes were 6% lower than the previous year at 1.1 million tonnes.

Port Operations
The port operating surplus after tax of $6.5 million, was an increase of 14% on the previous year.

The highlight of the year was undoubtedly the Company's success in securing the new ANZ Alliance round-the-world container shipping service. This was a result of detailed planning and investment in resources in the preceding two years which included raising both container cranes and commissioning the new tug "Otago".

The Company took delivery of its new tug "Otago" in April 2003 and it is already proving its worth in towage operations in the harbour.

The Company continues to enjoy strong demand for its warehousing services. A new 6,000 square metre warehouse was completed in February 2003 for the storage of dairy products and subsequent to balance date the Board has approved the construction of a further 8,000 square metre warehouse. Following completion of the new store the Company will have 34,600 square metres of warehousing space at Port Chalmers.

During the year under review the Company's warehousing division packed a total of 10,900 containers, an increase of 92% from the previous year. Warehousing now represents a significant part of the Company's activities and it has experienced strong growth each year since the construction of the first warehouse in 1998.

As a consequence of growth in port operations and warehousing a further 35 new staff have been employed during the year thereby increasing the number of permanent staff to 205.

The Company's strong performance in recent years is a reflection of the hard work, commitment and contribution by all of our staff. The positive team effort and continual emphasis on customer service provides our customers with confidence in our ability to efficiently handle the increasing levels of trade.

Health and Safety

Nine lost time accidents occurred during the year to give a frequency rate of 2.6. While this is an improvement on the 15 lost time accidents at a frequency rate of 4.8 in the previous year the result is considerably above the target of 1.5. Four of the lost time accidents involved lashing on board vessels or handling twist locks. The Company continues to place considerable focus on health and safety in all its activities in order to eliminate lost time accidents and to actively manage the hazards associated with work on the waterfront.

We are pleased to report that the Company obtained the highest tertiary rating in the October 2002 audit for the ACC Partnership programme.

Environmental Management

Highlights during the year under review include completion of the landscaping on Flagstaff Hill and an extension of the walkway and landscaping at the southern end of Back Beach.

The Directors value the contribution made by the Port Environment / Liaison Committee to the planning of landscaping and other projects designed to improve the interface between the community and the Port. The attendance at the meetings by a Director and the Chief Executive reflects the importance to the Company of these meetings.

The noise regime to be included in the Dunedin City Council District Plan was subject to an Environment Court hearing in April 2003. While the District Plan is responsible for land based noise our preference is to manage both land and ship noise in a comprehensive way through a noise management plan. Performance monitoring, investigation into noise reduction methods and noise complaints would be dealt with by the Port Environment / Liaison Committee.

The decision of the Environment Court is expected to be released towards the end of the year.

In line with international obligations all New Zealand ports are required to meet new security standards by 1 July 2004. The Maritime Safety Authority, which has overall responsibility for the security review, will be undertaking an audit of the Port's security arrangements in October 2003. In order to comply with the new security requirements the Company may be required to restrict public access to the Port Chalmers wharves. A programme of public consultation will be undertaken if this restriction becomes necessary.

Chalmers Properties Ltd

Chalmers Properties Ltd achieved a total surplus for the year of $9.4 million. This comprised a tax paid surplus of $2.2 million (last year $5.2 million, which included a $3.0 million profit on sale of part of the Dunedin ground lease portfolio) and a $7.2 million (last year $3.7 million) increase in the valuation of the investment property portfolio.

Three properties at a cost of $8.4 million were purchased during the year. Two of these are located in Auckland and one in Dunedin. In addition the Company entered into an agreement to purchase a 50% interest in a parcel of land for redevelopment in East Tamaki, Auckland.

The Company has also commenced the redevelopment of part of its Porana Road, Auckland property with the construction of five industrial units. The development will be completed during the August / September 2003 period with the first completed unit being leased to New Zealand Post.

The Company continues to pursue a strategy of establishing a diversified New Zealand wide property portfolio. By value, 64% of the property portfolio remains in Dunedin. The following table summarises the geographical breakdown of the Company's property portfolio at 30 June:

Location	2003 $m	2003 %	2002 $m	2002 %
Dunedin	41.6	64%	35.1	74%
Auckland	19.9	30%	9.1	19%
Wellington	3.7	6%	3.3	7%
Total property portfolio value	**65.2**	**100%**	**47.5**	**100%**

$5.7 million of the $7.2 million increase in the valuation of the property portfolio at 30 June 2003 arose on the Dunedin portfolio. $2.1 million of the increase in the Dunedin portfolio is due to the reduction in the anticipated disposal costs which would be incurred in the event of a sale of the ground lease portfolio. This change reflects a more accurate estimate of likely disposal costs and it has been modelled in part on the Company's experience from the portfolio sale completed in the 2002 financial year.

Chalmers Properties Ltd's financial position remains strong with an 80% equity ratio in a property portfolio valued at $65.2 million. This value of the portfolio compares with $33 million when the Company started trading in 1998.

Performance Targets

A summary of this year's performance targets, which are set out in the Statement of Corporate Intent, is set out in the following table:

	Actual	Target	Outcome
Trade			
Cargo tonnage	2,513,000 tonnes	2,300,000 tonnes	*Target exceeded*
Number of vessel arrivals	554 vessels	480 vessels	*Target exceeded*
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	*Target achieved*
Compliance with all resource consent conditions	Full Compliance	Full Compliance	*Target achieved*
Health & Safety			
Frequency rate	2.6	1.5	*Target not achieved*

Financial performance

	Port Otago Group Actual	Port Otago Group Target	Port Operations Actual	Port Operations Target	
Return on assets	13.2%	6.9%	10.5%	9.4%	
Return on shareholders funds	17.9%	9.7%	16.5%	12.5%	
Equity ratio	71%	65%	65%	64%	*Financial*
Debt servicing ratio (times)	12.3	6.6	11.6	6.5	*targets exceeded*

Dividend

Dividends totalling $6.1 million were paid or provided in the year to 30 June 2003. The dividend for the year, which is a 16% increase from last year, represents 70% of the Surplus after Taxation.

Outlook
Port Otago continues to succeed in a challenging and competitive environment. Strong focus on service delivery and technology will continue to ensure that we maintain excellent standards of customer service. This has been of particular importance while we manage the workload from the growing container volumes and warehouse business.

After five years of strong growth we anticipate that the 2003/4 year will be one of consolidation of the growth patterns already established.

Chalmers Properties Ltd will continue to identify property investment and development opportunities in pursuit of its strategic goals.

For and on behalf of the Board

John Gilks
Chairman
2 September 2003

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 2003.

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 $15.9 million compared to $14.6 million last year, an increase of 9%.

The net surplus after tax but before unrealised revaluations was $8.7 million, a decrease of 20%. Last year's result included realised gains on disposal of investment property amounting to $3.0 million after tax.

Dividends

A final dividend of $1.1 million will be paid on 5 September 2003, to give a total dividend for the year of $6.1 million.

Changes in Accounting Policies

There have been no changes in accounting policies during the year.

Directors

In accordance with the constitution Messrs D R Black and D Rillstone retire by rotation and have been reappointed for a further term.

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)	37,500	625	38,125
D R Black (Deputy Chairman)	25,000	-	25,000
R D Anderson	-	15,000	15,000
G L Berry	20,000	15,000	35,000
G P Hinton	-	13,125	13,125
E G Johnson	20,000	-	20,000
J D Miller	20,000	10,000	30,000
D Rillstone	20,000	-	20,000
V H Pooch	-	13,125	13,125
	142,500	**66,875**	**209,375**

Directors' Interests
Directors have disclosed the following general interests for the year ended 30 June 2003 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
G L Berry	Banco Properties Limited	Director
	Banco Trustees Limited	Director
	Berry & Co	Senior Partner
	Berry & Co Solicitors Nominee Limited	Director
	Millbrook Resort Property Companies	Director
	Port Otago Limited	Director
	Shotover Nominees Limited	Director
	South Freight Limited	Director
	Southern Lakes Development Co. Limited	Director
	Southern Property Holdings Limited	Director
	Totara Irrigation Development Limited	Director
	Totaratahi Estate Limited	Director
	Waitaki District Health Services Limited	Chairman
D R Black	Clough Holdings Limited	Director
	Farra Dunedin Engineering Limited	Chairman
	Forests Otago Limited	Director
	HealthCare Otago Charitable Trust	Trustee
	Otago Emergency Air Ambulance Limited	Chairman
	Otago Emergency Air Ambulance Trust	Chairman
	South Freight Limited	Director
	Timberlands West Coast Limited	Chairman
J W Gilks	Aurora Energy Limited	Director
	Chalmers Properties Limited *(resigned August 2002)*	Director
	Citibus Newton Limited	Director
	City Forests Limited	Director
	Delta Utility Services Limited	Director
	Dublin Bay Investments Limited	Director
	Dunedin City Holdings Limited	Director
	Dunedin Rhododendron Festival Trust	Chairman
	Fisher & Paykel Appliances Holdings Limited	Director
	Fisher & Paykel Finance Limited	Director
	Otago Emergency Air Ambulance Limited	Director
	Pacific Edge Biotechnology Limited	Director
	Philip Laing House Limited	Director
	South Freight Limited	Director
	St Andrews Group Limited	Director
	The National Bank of New Zealand Limited	Director
E G Johnson	Bank of New Zealand Limited	Director
	Custom Fleet (NZ) Limited	Chairman
	E G & D M Johnson Family trust	Trustee
	Fulton Hogan Limited (and its wholly owned subsidiaries)	Chairman
	Goldpine Group Limited (and its wholly owned subsidiaries)	Chairman
	Mudhouse Wine Company Limited	Director
	South Freight Limited	Director
	Stone Farm Holdings Limited	Director
	Stone Farm Olives Limited	Director
J D Miller	Chalmers Properties Limited	Director
	Fulton Hogan Limited (and group companies)	Director
	South Freight Limited	Director
D Rillstone	Clearwater Lakes International Hotel Limited	Director
	Durran Holdings Limited	Director
	Hazlett & Sons Limited	Director
	Mobile Medical Technology Limited	Director
	South Freight Limited	Director

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 range ($)	Number of employees
190,001-200,000	1
180,001-190,000	1
170,001-180,000	1
130,001-140,000	1
110,001-120,000	4
100,000-110,000	2

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 under directors' remuneration. No directors' fees were payable by South Freight Limited.

Company	Directors
Chalmers Properties Limited	G L Berry (Chairman), J W Gilks (resigned August 2002), R D Anderson, G P Hinton (appointed August 2002), J D Miller, V H Pooch (appointed August 2002)
South Freight Limited	J W Gilks (Chairman), D R Black, G L Berry, E G Johnson, J D Miller, D Rillstone

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 Audit New Zealand to undertake the audit on its behalf.

The Group audit fee for the year ended 30 June 2003 was $32,000.

For and on behalf of the Board of Directors

J W Gilks
Chairman
2 September 2003

J D Miller
Director
2 September 2003

Consolidated Statement of Financial Performance

For the Year Ended 30 June 2003

	Notes	Group		Parent Company	
		2003	2002	2003	2002
		$000	$000	$000	$000
Revenue	1				
Port operations		35,226	28,699	35,746	28,435
Investment property		4,738	7,186	-	-
		39,964	**35,885**	**35,746**	**28,435**
Surplus before interest and unusual items					
Port operations		10,691	8,667	12,674	9,886
Investment property		3,798	3,384	-	-
		14,489	12,051	12,674	9,886
Net interest		(1,165)	(797)	(902)	(669)
Operating surplus		13,324	11,254	11,772	9,217
Gain/(loss) on disposal of investment property		(12)	2,969	-	-
Surplus before taxation	2	13,312	14,223	11,772	9,217
Taxation	3	(4,620)	(3,318)	(3,183)	(2,228)
Net surplus after taxation		8,692	10,905	8,589	6,989
Unrealised net change in the value of investment property	5	7,223	3,712	-	-
Net surplus after unrealised revaluations		**15,915**	**14,617**	**8,589**	**6,989**

The accompanying notes form part of these financial statements

Consolidated Statement of Movements in Equity

For the Year Ended 30 June 2003

	Notes	Group		Parent Company	
		2003	2002	2003	2002
		$000	$000	$000	$000
Total recognised revenues and expenses:					
Net surplus		15,915	14,617	8,589	6,989
Distribution to owners:					
Dividend	19	(5,250)	(6,000)	(5,250)	(6,000)
Equity at beginning of the year		83,687	75,070	43,525	42,536
Equity at end of the year		**94,352**	**83,687**	**46,864**	**43,525**

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position

As at 30 June 2003

	Notes	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
Equity					
Share capital	4	20,000	20,000	20,000	20,000
Property revaluation reserve	5	32,363	25,146	-	-
Retained earnings		41,989	38,541	26,864	23,525
		94,352	83,687	46,864	43,525
Non current liabilities					
Borrowings (secured)	6	33,155	19,685	21,405	14,835
Employee entitlements	7	726	680	726	680
		33,881	20,365	22,131	15,515
Current liabilities					
Bank overdraft (secured)		-	-	1,304	3,241
Accounts payable	8	3,971	2,701	2,704	2,399
Employee entitlements	7	1,439	1,297	1,401	1,266
		5,410	3,998	5,409	6,906
Total equity and liabilities		**133,643**	**108,050**	**74,404**	**65,946**
Non current assets					
Fixed assets	9	60,874	53,932	60,775	53,799
Investment property	10	65,190	47,498	-	-
Investment in subsidiaries	11	-	-	7,050	7,050
Intangible assets	12	1,054	876	1,255	838
		127,118	102,306	69,080	61,687
Current assets					
Bank (secured)		174	419	109	-
Receivables and prepayments	13	5,738	4,874	4,684	3,839
Stores and materials		333	302	333	302
Income tax refund		280	149	198	118
		6,525	5,744	5,324	4,259
Total assets		**133,643**	**108,050**	**74,404**	**65,946**

For and on behalf of the Board of Directors

J W Gilks
Chairman
2 September 2003

J D Miller
Director
2 September 2003

The accompanying notes form part of these financial statements

Consolidated Cash Flow Statement

For the Year Ended 30 June 2003

	Notes	Group		Parent Company	
		2003	2002	2003	2002
		$000	$000	$000	$000
Cash flows from operations					
Cash was provided from:					
Receipts from port operations		34,602	28,659	32,784	26,902
Rental income		4,688	4,312	-	-
Dividend income received		-	-	2,400	1,500
Cash was disbursed to:					
Payments to employees and suppliers		(22,066)	(18,070)	(19,810)	(15,907)
Interest paid		(1,142)	(805)	(969)	(599)
Income tax paid		(4,403)	(3,905)	(3,154)	(2,774)
Tax subvention payment	3	(40)	-	(40)	-
Net cash flows from operations	14	**11,639**	**10,191**	**11,211**	**9,122**
Cash flows from investing activities					
Cash was provided from:					
Sale of fixed assets		6	145	6	145
Sale of investment property		372	12,848	-	-
Cash was applied to:					
Purchase of fixed assets		(9,708)	(9,311)	(9,686)	(9,287)
Interest capitalised		(302)	(142)	(302)	(142)
Purchase of investment property		(8,562)	(9,012)	-	-
Improvements to investment property		(1,407)	(3)	-	-
Purchase of investments		(503)	-	(503)	-
Net cash flows from investing activities		**(20,104)**	**(5,475)**	**(10,485)**	**(9,284)**

The accompanying notes form part of these financial statements

PORT OTAGO LIMITED

	Notes	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
Cash flows from financing activities					
Cash was provided from:					
Proceeds from borrowings		17,870	18,660	9,970	15,160
Cash was applied to:					
Repayment of borrowings		(4,400)	(14,900)	(3,400)	(9,400)
Dividends paid		(5,250)	(8,000)	(5,250)	(8,000)
Net cash flows from financing activities		**8,220**	**(4,240)**	**1,320**	**(2,240)**
Increase (decrease) in cash held		(245)	476	2,046	(2,402)
Cash held at beginning of year		419	(57)	(3,241)	(839)
Cash held at end of year		**174**	**419**	**(1,195)**	**(3,241)**

The accompanying notes form part of these financial statements

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 is incorporated into the Company and consolidated financial statements on a line-by-line basis.

Goodwill arising on acquisition

Goodwill represents the excess of purchase consideration over the fair value of net assets acquired at the time of acquisition of a business. Goodwill is amortised on a straight line basis over the shorter of its useful life or 20 years.

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

Apart from capital work-in-progress, all 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.

Capital work-in-progress is recorded at cost.

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
There have been no changes in accounting policies during the year.

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
1. REVENUE				
Port operating revenue includes:				
Rental income from subsidiary	-	-	178	176
Interest income from subsidiary	-	-	16	1
Other interest income	11	48	11	4
Gain on sale of assets	-	144	-	144
Dividend income from Chalmers Properties Limited	-	-	2,400	1,500
Investment property revenue includes:				
Rental income	4,738	4,217	-	-
Gain on disposal of property	-	2,969	-	-
	4,738	**7,186**	-	-

2. SURPLUS BEFORE TAXATION

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
The surplus before taxation is stated after charging:				
Depreciation				
Land improvements	352	340	352	352
Buildings	352	230	348	226
Wharves and berth dredging	441	444	441	444
Plant, equipment and vehicles	1,520	1,488	1,468	1,415
Computer software	262	193	262	193
	2,927	**2,695**	**2,871**	**2,630**
Audit fees	32	31	23	24
Goodwill amortisation	17	-	17	-
Bad debts	2	1	2	1
Directors' remuneration	209	145	143	112
Loss on disposal of assets	22	-	22	-
Interest expense	1,176	845	929	674

3. TAXATION

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
Surplus before taxation	13,312	14,223	11,772	9,217
Permanent differences	316	(3,293)	(2,100)	(1,594)
Taxable income	13,628	10,930	9,672	7,623
Taxation @ 33%	4,497	3,607	3,192	2,516
Under/(over) provision in prior years	123	6	(9)	7
Recognise deferred tax on provisions	-	(295)	-	(295)
Taxation charge	**4,620**	**3,318**	**3,183**	**2,228**
The taxation charge is represented by:				
Current taxation	4,288	3,595	3,090	2,500
Deferred taxation	332	(277)	93	(272)

During the year the Company and its shareholder, the Otago Regional Council ("ORC"), entered into an agreement for the ORC to transfer tax losses to the Company. In conjunction with the tax loss transfer the Company made a subvention payment of $40,000 to the ORC. The consequence of the tax loss transfer and the subvention payment was a $40,000 reduction in income tax payments in the current year.

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
The movements in the imputation credit account are:				
Credits available at beginning of year	16,543	16,667	14,523	15,038
Imputation credits attached to dividends received	-	-	1,182	739
Income tax payments	4,403	3,905	3,154	2,774
Imputation credits attached to dividends paid	(2,586)	(3,940)	(2,586)	(3,940)
Prior year adjustment	(1)	(89)	(4)	(88)
Credits available at end of year	**18,359**	**16,543**	**16,269**	**14,523**

4. SHARE CAPITAL

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
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.

5. PROPERTY REVALUATION RESERVE

	Group 2003 $000	Group 2002 $000
Balance at beginning of year	25,146	28,356
Transfers from (to) retained earnings:		
Realised revaluation on property sold	(6)	(6,922)
Change in value of investment property	7,223	3,712
Balance at end of year	**32,363**	**25,146**

6. BORROWINGS

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

The Group has a $39 million 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 2005. 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 2003, $33.2 million (last year: $19.7 million) was drawn which, after allowing for interest rate swaps, was:

- on effective terms ranging from on call to 10 years (last year: call to 5 years), and
- at effective interest rates ranging from 5.6% to 7.5% per annum (last year: 5.8% to 8.2% per annum).

7. EMPLOYEE ENTITLEMENTS

	Group		Parent Company	
	2003	2002	2003	2002
	$000	$000	$000	$000
Balance at beginning of year	1,977	1,909	1,946	1,870
Additional provision made	1,046	899	1,013	880
Amount utilised	(858)	(831)	(832)	(804)
Balance at end of year	**2,165**	**1,977**	**2,127**	**1,946**
The balance is classified as:				
Current	1,439	1,297	1,401	1,266
Non current	726	680	726	680

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	
	2003	2002	2003	2002
	$000	$000	$000	$000
Accounts payable	2,171	1,742	1,316	1,387
Amount owing to subsidiaries	-	-	30	170
Other accrued charges	1,800	959	1,358	842
	3,971	**2,701**	**2,704**	**2,399**

9. FIXED ASSETS

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
Land and improvements				
at cost	20,172	19,793	20,172	19,793
accumulated depreciation	(2,682)	(2,330)	(2,682)	(2,330)
	17,490	17,463	17,490	17,463
Buildings				
at cost	13,653	11,990	13,610	11,947
accumulated depreciation	(1,992)	(1,711)	(1,967)	(1,691)
	11,661	10,279	11,643	10,256
Wharves and berth dredging				
at cost	18,080	18,074	18,080	18,074
accumulated depreciation	(5,372)	(4,923)	(5,372)	(4,923)
	12,708	13,151	12,708	13,151
Plant, equipment and vehicles				
at cost	29,456	19,494	29,017	19,078
accumulated depreciation	(12,988)	(11,440)	(12,630)	(11,134)
	16,468	8,054	16,387	7,944
Computer software				
at cost	2,159	1,800	2,159	1,800
accumulated depreciation	(1,768)	(1,506)	(1,768)	(1,506)
	391	294	391	294
Capital work in progress				
at cost	2,156	4,691	2,156	4,691
Total net carrying amount	**60,874**	**53,932**	**60,775**	**53,799**

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.

	2003 $000	2002 $000
Group and parent:		
Rating valuation with subsequent additions at cost	31,744	29,415
Comparative cost less depreciation to date	29,151	27,742

10. INVESTMENT PROPERTY

	Group 2003 $000	Group 2002 $000
Balance at beginning of year	47,498	44,225
Property improvements during year	2,051	3
Property purchased	8,462	9,112
Property sold	(44)	(9,554)
Change in value of investment property	7,223	3,712
Balance at end of year	**65,190**	**47,498**
Comprising:		
Property portfolio at cost	32,827	22,352
Revaluation	32,363	25,146
	65,190	47,498
Valuation analysis:		
Valued at 30 June balance date as determined by:		
Barlow Justice Limited	41,577	35,100
DTZ New Zealand Limited	13,127	8,643
Seagar & Partners (Manukau) Limited	7,460	3,755
Property recorded at net current value	62,164	47,498
Capital work-in-progress at cost	3,026	-
	65,190	47,498

The subsidiary company Chalmers Properties Limited owns a Porana Road address Auckland property which is being developed with the construction of five industrial units. The $3,026,000 of capital work-in-progress reflects the cost of land and construction work to 30 June 2003.

Apart from capital work-in-progress, the Company's investment properties were revalued at balance date in accordance with valuation reports prepared by independent registered valuers.

Property valuations include an allowance for disposal costs of:
- 5% for the Dunedin land portfolio (last year: 10%), and
- a weighted average of 2.7% for other property (last year: 2.7%).

11. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURE

Name	Percentage owned	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.

12. INTANGIBLE ASSETS

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
Future tax benefit:				
Balance at beginning of year	876	518	838	485
Over/(under) provision for prior years' tax	(107)	81	24	81
Recognise deferred tax on provisions	-	295	-	295
Tax on current year timing differences	(201)	(18)	(93)	(23)
Balance at end of year	568	876	769	838
Goodwill:				
Balance at beginning of year	-	-	-	-
Acquired during the year	503	-	503	-
Current year amortisation	(17)	-	(17)	-
Balance at end of year	486	-	486	-
Total intangible assets	**1,054**	**876**	**1,255**	**838**

In May 2003 the Company acquired from Tranz Rail Limited 100% of its Dunedin rail-side container depot business for a consideration of $545,000. The goodwill resulting from this acquisition is being amortised over a period of 5 years.

13. RECEIVABLES AND PREPAYMENTS

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
Trade receivables	5,252	4,716	4,166	3,635
Amount owing by subsidiaries	-	-	128	88
Prepayments	486	158	390	116
	5,738	**4,874**	**4,684**	**3,839**

14. CASH FLOW FROM OPERATIONS

	Group 2003 $000	Group 2002 $000	Parent Company 2003 $000	Parent Company 2002 $000
The reconciliation between the net surplus and the cashflow from operations is:				
Net surplus	15,915	14,617	8,589	6,989
Non cash/investing items:				
Unrealised net change in the value of investment property	(7,223)	(3,712)	-	-
Depreciation	2,927	2,695	2,871	2,630
Goodwill amortisation	17	-	17	-
Loss/(gain) on sale of fixed assets	22	(144)	22	(144)
Loss/(gain) on disposal of investment property	12	(2,969)	-	-
Non current employee entitlements	46	118	46	118
Deferred taxation	308	(358)	69	(353)
Changes in working capital:				
Receivables and prepayments	(1,102)	288	(856)	113
Accounts payable and current employee entitlements	879	(133)	564	(56)
Income tax receivable	(131)	(229)	(80)	(193)
Stores and materials	(31)	18	(31)	18
Net cash flow from operations	**11,639**	**10,191**	**11,211**	**9,122**

15. CAPITAL EXPENDITURE COMMITMENT

At 30 June 2003 the Group had commitments in respect of contracts for capital expenditure of $2.1 million (last year: $3.0 million).

16. CONTINGENCIES

There are no contingent liabilities at 30 June 2003 (last year: nil).

A contingent gain existed at 30 June 2003 relating to a legal claim being made by the Company. An engineering investigation into the cause of the September 1999 Flagstaff Hill slip identified shortcomings in the initial design of the excavation which caused the slip. The Company's legal claim has been lodged with the engineers who carried out the detailed design and who supervised the excavation.

17. TRANSACTIONS WITH RELATED PARTIES

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

	Group		Parent Company	
	2003 $000	2002 $000	2003 $000	2002 $000
Revenue:				
Contribution by Otago Regional Council towards operation of Harbour Control Centre	84	105	84	105
Capital contribution by Otago Regional Council towards new harbour radar and microwave link	100	-	100	-
Management services provided to Chalmers Properties Limited	-	-	66	78
Interest charged to Chalmers Properties Limited	-	-	16	1
Rent charged to South Freight Limited	-	-	178	176
Expense:				
Interest charged by Chalmers Properties Limited	-	-	(105)	(168)
Transport charged by South Freight Limited	-	-	(118)	(12)

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 Aurora Energy Limited	Lease of property from Group
J W Gilks	Director of Delta Utility Services Limited	Supplier to the Group Lease of property from Group
J W Gilks	Director of Fisher and Paykel Appliances Holdings Limited	Customer of the Group
J W Gilks	Chairman of the Dunedin Rhododendron Festival Trust	Supplier to the 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

17. TRANSACTIONS WITH RELATED PARTIES *Continued*

Related party revenue/(expenditure) transactions during the year:

	Group		Parent Company	
	2003 $000	2002 $000	2003 $000	2002 $000
□ The National Bank of New Zealand Limited				
Interest and bank fee expenses	(1,547)	(1,025)	(1,194)	(661)
□ City Forests Limited				
Port facility revenue	218	175	218	175
□ Aurora Energy Limited				
Property rental	36	38	–	–
□ Delta Utility Services Limited				
Property rental	22	22	22	22
Maintenance expense	(79)	(45)	(77)	(45)
Capital expenditure	–	(25)	–	(25)
□ Fisher and Paykel Appliances Holdings Limited				
Container depot services	–	2	–	–
□ Dunedin Rhododendron Festival Trust				
Sponsorship expenses	(1)	(1)	(1)	(1)
□ Farra Dunedin Engineering Limited				
Property rental	22	22	–	–
Maintenance expense	(34)	(9)	(34)	(9)
□ Fulton Hogan Group companies				
Property rental	14	22	14	15
Transport and warehouse revenue	9	6	–	–
Maintenance and waste disposal costs	(73)	(74)	(68)	(66)

Related party receivable/(payable) at year end:

□ The National Bank of New Zealand Limited				
Interest payable	(182)	(142)	(94)	(104)
□ City Forests Limited				
Receivable	17	1	17	1
□ Aurora Energy Limited				
Receivable	10	6	–	–
□ Delta Utility Services Limited				
Receivable	–	2	–	2
Accounts payable	(7)	(28)	(7)	(28)
□ Farra Dunedin Engineering Limited				
Receivable	6	6	–	–
Accounts payable	(3)	–	(3)	–
□ Fulton Hogan Group companies				
Receivable	1	5	–	4
Accounts payable	(10)	(20)	(8)	(19)

At balance date all borrowings and bank balances showing in the Consolidated Statement of Financial Position were with The National Bank of New Zealand Limited.

All related party transactions are conducted by the management of the respective companies on a commercial and arms length basis.

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	
	2003 $000	**2002 $000**	**2003 $000**	**2002 $000**
Interest rate swaps	25,300	12,800	15,500	8,900

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

	2003 $000	**2002 $000**
Declared in respect of the current financial year:		
Interim dividend	2,500	2,500
Second interim dividend	2,500	2,500
Final dividend	1,100	250
Dividends for the financial year	**6,100**	**5,250**
Adjust for dividends declared after year end:		
2003 Final dividend declared September 2003	(1,100)	-
2002 Final dividend declared August 2002	250	(250)
2001 Final dividend declared August 2001	-	1,000
Dividend distributed to owners as disclosed in the Statement of Movements in Equity	5,250	6,000

20. OPERATING LEASES - Group and Parent Company

Minimum rental commitments for all non-cancellable operating leases are:		
Payable within one year	687	557
Payable within one to two years	687	557
Payable within two to five years	1,327	1,524
	2,701	**2,638**

Operating leases comprise leases of property and equipment leases.

21. EVENTS SUBSEQUENT TO BALANCE DATE

Dividends

On 2 September 2003 the Directors declared a final dividend of $1,100,000 for the year ended 30 June 2003. Combined with interim dividends totalling $5,000,000 this brings dividends paid and declared to $6,100,000 for the full financial year.

TO THE READERS OF THE FINANCIAL STATEMENTS OF PORT OTAGO LIMITED AND GROUP FOR THE YEAR ENDED 30 JUNE 2003

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 2003. 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 2003 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.

During the year we completed a review of the Consolidated Interim Financial Statements for Port Otago Limited for the six months ended 31 December 2002. Other than this and 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 2003; and
    - the results of operations and cash flows for the year ended on that date.

Our audit was completed on 4 September 2003 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	2003	2002	2001	2000	1999
Number of ships	554	469	500	488	491
Cargo throughput (000's tonnes)	2,513	2,262	2,227	1,994	1,811

Financial comparisons	2003 $000	2002 $000	2001 $000	2000 $000	1999 $000
Revenue	39,964	35,885	31,256	27,645	26,386
Surplus from operations (EBIT)					
Port operations	10,691	8,667	8,140	7,302	6,759
Investment property	3,798	3,384	3,275	3,366	3,315
Total group	14,489	12,051	11,415	10,668	10,074
Unusual revenues/(expenses)	(12)	2,969	651	(1,203)	0
Surplus before tax	13,312	14,223	11,052	8,477	8,904
Net surplus after tax	8,692	10,905	7,368	5,728	5,920
Unrealised net change in value of investment property	7,223	3,712	2,977	(295)	5,076
Net surplus after unrealised revaluations	15,915	14,617	10,345	5,433	10,996
Dividends for financial year	6,100*	5,250*	5,000*	4,000	4,000
Shareholders equity	94,352	83,687	75,070	68,725	67,292
Net interest bearing debt	33,155	19,685	15,982	13,076	12,859
Total assets	133,643	108,050	97,497	87,456	86,676
Shareholders equity	71%	77%	77%	79%	78%
Net asset backing per share	$4.72	$4.18	$3.75	$3.44	$3.36
Earnings per share (cents)	79.6	73.1	51.7	27.2	55.0
Dividends per share (cents)	30.5*	26.3*	25.0*	20.0	20.0
Return on equity**					
before unrealised revaluations	9.8%	13.7%	10.2%	8.4%	9.3%
after unrealised revaluations	17.9%	18.4%	14.4%	8.0%	17.2%
EBIT return on assets					
Port operations	17.2%	16.0%	16.4%	15.6%	14.6%
Investment property	6.5%	7.0%	7.6%	8.4%	8.8%
Total group	12.0%	11.7%	12.3%	12.3%	12.0%

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

Annual Report Two Thousand and Three

PORT OTAGO LIMITED

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