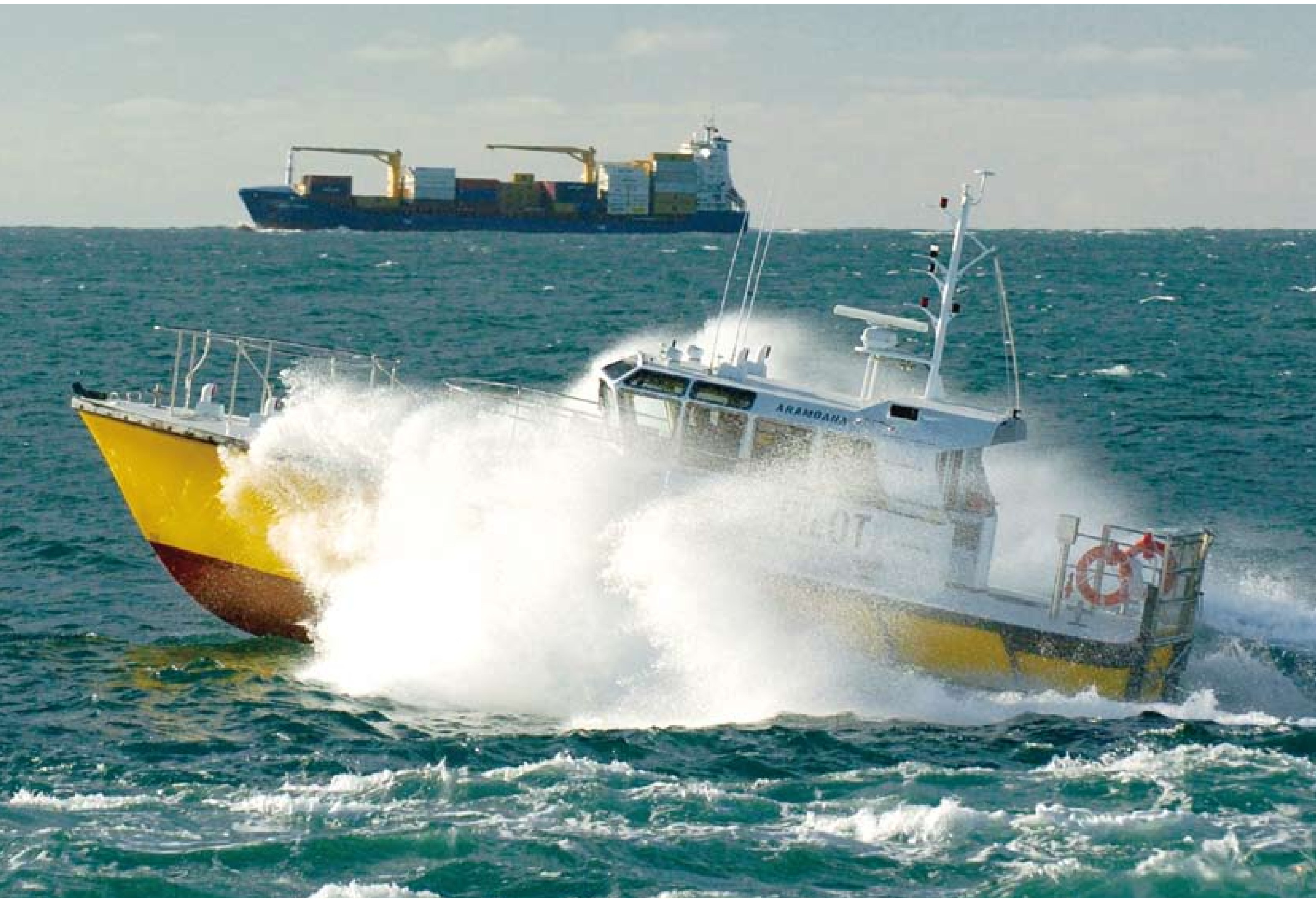
Annual Report 2008



Cover photo courtesy of the Otago Daily Times

OVERVIEW OF GROUP RESULTS

	2008 $million	2007 $million
Operating revenue	62.6	59.4
Operating surplus before tax	14.8	13.5
Profit for the period	27.8	39.3
Total assets	401	396
Shareholders equity	266	252
Equity ratio	66%	64%
Net asset backing per share	$13.32	$12.60
Trade:		
Container throughput (TEU)	209,000	171,000
Conventional cargo volume (000 tonnes)	959	969
Number of vessel arrivals	551	617

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2008 CHAIRMAN'S REVIEW

Financial performance

A record container throughput combined with a further increase in investment property values resulted in a solid financial performance for the year ended 30 June 2008. Consolidated profit, which comprises profit for both the port activities of Port Otago and the investment property business operated by Chalmers Properties, was $27.8 million for the year, $11.5 million less than last year. The reduction in profit relative to last year reflects a lower level of unrealised gains from investment property revaluations and interest rate swaps.

The Group's operating surplus before tax was 10% higher than in the previous year at $14.8 million. The 3% reduction in EBITDA* was offset by the realised gain from the sale of property. Reflecting recent ongoing upgrades to the port's infrastructure, depreciation and interest costs were 9% higher than last year.

A summary of the financial year's result follows:

Profits (years ended 30 June)	2008 $m	2007 $m	Change
EBITDA*	26.3	27.1	-3%
Net gain on sale of property	2.4	0.1	
Depreciation and amortisation	(6.8)	(6.1)	
Net interest expense	(7.2)	(6.8)	
Net currency exchange (losses)/gains	0.1	(0.8)	
Operating surplus before tax	14.8	13.5	+10%
Unrealised items			
Unrealised revaluation of investment property	17.9	24.9	
Unrealised change in value of interest rate swaps	(0.6)	3.2	
Profit before tax	32.1	41.6	-23%
Income tax expense	(4.3)	(2.3)	
Profit for the year	27.8	39.3	-29%

**EBITDA = Earnings before interest, currency exchange losses or gains, tax, depreciation and amortisation*

Last year's result included $3.2 million of unrealised gains from changes in value of interest rate swaps, whereas a $0.6 million decline in value occurred for the current year. In cash flow terms the interest rate swaps act to limit the Group's exposure to interest rate fluctuations by locking in fixed rates of interest on borrowings. To more accurately reflect their economic impact the Group has designated its portfolio of interest rate swaps as cash flow hedges from 1 January 2008.

Financial position

With Group assets exceeding $400 million for the first time and the equity ratio improving to 66% the Group is in a strong financial position. Borrowings reduced by $15 million during the year and totalled $105 million at 30 June 2008. The Group has committed long-term bank facilities in place and is soundly positioned to weather the current upheaval in credit markets.

2008 CHAIRMAN'S REVIEW continued

Dividend

The strong growth in equity over the past five years has enabled the Company to declare a $2.5 million special dividend for the 2008 financial year. This dividend was paid on 1 July 2008.

In addition to the special dividend, $6.9 million of fully imputed ordinary dividends were paid or declared, the same as last year. The ordinary dividends represent 86% of the trading surplus after tax.

Port operations

Financial

Port operations earnings before interest and tax (EBIT) were $14.6 million, which includes a $1.4 million realised gain from the sale of port property. The EBIT result was 7% higher than last year's comparative. The gain from the sale of property is offset by higher energy, maintenance and payroll costs. This year's result has been adversely affected by rapidly increasing oil prices, higher spot electricity prices and other cost pressures within the New Zealand economy.

Trade

Port operations experienced another year of strong growth in container volumes with throughput up 22% to 209,000 TEU (twenty foot equivalent units). Tranship containers dominated the growth with 72,800 TEU handled in the 2008 year, up 84% on the 39,500 TEU of tranships for last year. Tranship containers are those containers landed at the port and then shipped out again on another vessel without leaving the port area.

In terms of conventional cargo, the port handled 959,000 tonnes for the year which was 1% behind last year. Significant increases in fertiliser and cement imports helped to partially offset a sharp 43% fall in log exports.

There were 551 vessel arrivals for the full year, an 11% reduction on last year. This was mainly due to a reduction in port calls by fishing vessels with 95 visits recorded versus a last year comparative of 149 visits. Despite the higher container throughput the number of container vessel port calls declined by 11%.

Shipping services

In the past financial year Port Otago has proven its ability to efficiently handle higher container volumes and, in particular, to cope with significant tranship volumes. Container shipping lines have introduced a number of significant changes to their shipping services in the first half of the 2008 calendar year. While some of the changes have resulted in additional container movements through the port other changes have impacted negatively and have diverted trade to other ports. Despite these changes, the Region's exporters and importers remain well served by a very good frequency and range of shipping services to world markets. In the 2008/09 financial year it is expected that container throughput will be below this year's record due to a decrease in tranship containers.

Infrastructure upgrade

The port's capital expenditure of $8.9 million for the financial year was $2.2 million higher than depreciation. Significant items comprised final payments for the second new ZPMC container crane, the purchase of two new straddle carriers and the construction of a new pilot launch.

The new pilot launch, "Aramoana", which was launched in April 2008, is purpose-built to handle the sea conditions experienced at the Otago harbour entrance. The Group also purchased a second-hand pilot launch which will be used to facilitate pilot transfers as part of the recently established Fiordland piloting operations.

2008 CHAIRMAN'S REVIEW continued

Shortly after balance date the Company started a $2.3 million upgrade of the “C-Block” refrigerated container storage area. The upgrade will improve the reliability of the electrical reticulation as well as increasing the total reefer capacity to over 1,700 power points.

Project next generation

The Company has continued investigating the development needed for Port Chalmers to handle the next generation of container ships. Around the world the average size of container ships is steadily increasing as shipping lines strive to minimise the unit cost of transporting each container. There is an increasing proportion of new-build container ship orders for vessels with capacities in excess of 6,000 TEU – this compares to the 4,100 TEU capacity for the largest container vessels which currently transit the New Zealand coast.

The project’s initial focus is to consider issues associated with deepening the harbour channel, the need for improvements to wharves and berths and the logistical implications from larger container flows.

Health and safety

With the port business handling record levels of container throughput it was excellent that the Company also performed to a higher standard in terms of health and safety. 3 lost time accidents were recorded during the year, an improvement on the 5 recorded for the previous year. This reduction in lost time accidents was reflected in the lost time accident frequency rate for the year falling to a record low for the Company of 0.6 per 100,000 hours worked, down from the rate of 1.0 for last year.

Management continues to promote health and safety awareness with the philosophy that every job must be done in a safe manner.

Staff

Our staff have shown great commitment during the year to meet and overcome the challenges of dealing with higher levels of business activity. The demonstrated improvement in health and safety performance is also a credit to all staff.

The port’s catch-line of “Right People, Right Facilities, Right Attitude” recognises the importance of the can-do attitude of our staff to the Company’s success. Looking to the future we must keep working hard at delivering superior standards of customer service as well as both exploring improved operating methods and constantly seeking to lift productivity levels.

Environment and community

The Company continued to work constructively with the community through the Port Environment / Liaison Committee. The regular meetings of the Committee, ably chaired by Dougal Rillstone, are well attended and provide an important forum for the discussion of environmental issues within the port area such as noise, landscaping and lighting.

Good results are being achieved by the Company’s acoustic treatment programme. During the year 3 properties which had undergone acoustic treatment work were independently tested and found to meet the required reduction in noise levels. Acoustic treatment work commenced on a further 2 properties shortly after balance date and several properties have either design work underway or construction activity due to start.

As in prior years we have maintained our programme of supporting a number of local schools and sports organisations with donations and sponsorships of $24,000. Continuing an initiative started in 2006, the Company has helped fund the costs of the curator at the Port Chalmers Museum.

2008 CHAIRMAN'S REVIEW continued

Investment in Lyttelton Port Company Limited (LPC)

During the year the Group received dividends of $665,000 from its investment in LPC shares, a decrease from last year's level of $997,000. Based on sharemarket transactions at balance date the Group's 15.47% shareholding in LPC was valued at $35.3 million or $2.23 per share.

Chalmers Properties Limited (CPL)

A profit of $21.7 million was recorded by CPL which included the benefit of a $17.9 million unrealised increase in investment property values and a net gain on property sales of $1.0 million. The profit was $8.5 million below the $30.2 million result achieved last year reflecting the $7.0 million lower contribution from investment property revaluations.

CPL's trading performance was slightly ahead of last year. A profit before tax excluding property disposals and unrealised items (property revaluations and fair value changes for interest rate swaps) of $5.0 million was recorded versus $4.8 million for last year.

During the year CPL successfully completed changes to its joint venture land holdings. Concurrent with the joint venture purchase of two further Hamilton properties CPL sold its interest in three blocks of land that were unlikely to be developed in the near future. There was no gain or loss on the three blocks sold since CPL's share of sales proceeds was equal to the carrying values of the properties.

The Hamilton City Council has completed a further step in the planning process for the Rotokauri area of Hamilton, which is the area where CPL's joint venture land holdings are located. The closing date for further submissions on the Rotokauri Structure Plan was in February 2008 and the Hamilton City Council is expected to hold a submissions hearing later in the year.

The planning process for the Dunedin Harbourside area continued to move forward. In July 2008 the Dunedin City Council and the Otago Regional Council held a joint hearing into submissions on the proposed plan change for the Harbourside area. CPL was represented at the hearing and presented in favour of the plan change in accordance with its earlier submissions. The independent commissioners are expected to complete their deliberations and announce their decisions before the end of the year.

At balance date the redevelopment project at CPL's Ronwood Avenue, Auckland, property was substantially complete and will fully contribute to rents in the 2009 financial year. CPL is well placed to see through any deterioration in economic conditions with its portfolio of high quality, well located properties with quality tenants.

The following table shows the geographical location of the Group's investment property, including property held for sale, by value at 30 June 2008:

Location	2008	2007
Dunedin	56%	52%
Auckland	32%	33%
Hamilton	12%	15%
Total	**100%**	**100%**

Directors

I would like to thank my fellow directors for their continuing insight and wise guidance to the business. Their blend of skills and expertise is invaluable in addressing the opportunities and challenges which the Company presents.

2008 CHAIRMAN'S REVIEW continued

George Berry resigned from the Board in April 2008, after serving as a Director for 12 years. George made a significant contribution to the growth and development of the port and property businesses. As Chairman of Chalmers Properties during that Company's establishment phase, George provided strong leadership and was instrumental in positioning CPL for the performance and growth it subsequently achieved.

Performance targets

A comparison of actual performance with the targets in the Statement of Corporate Intent is as follows:

	Actual	Target	Outcome
Trade			
Container throughput	209,000 TEU[ø]	178,000 TEU[ø]	Target achieved
[ø]TEU = twenty foot equivalent units			
Conventional cargo throughput	0.96 million tonnes	0.98 million tonnes	Target not achieved
Number of vessel arrivals	551 vessels	603 vessels	Target not achieved
Environmental			
Incidents leading to pollution of harbour	Nil	Nil	Target achieved
Full compliance with all resource consent conditions	Achieved	Achieved	Target achieved
Health & Safety			
Accident frequency rate (lost time accidents per 100,000 work hours)	0.6	0.5	Target not achieved

Financial performance	**Port Otago Group**		
	Actual	**Target**	
EBIT* return on assets	5.5%	5.9%	Target not achieved
Return on shareholders funds	10.7%	6.2%	Target achieved
Equity Ratio	66%	61%	Target achieved
Debt servicing ratio (times)	2.5	2.5	Target achieved

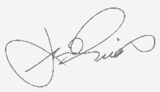
**EBIT = Earnings before interest and taxation*

The lower than forecast EBIT return on assets reflects a lower than forecast trading result combined with a higher property revaluation than expected at the start of the financial year.

Outlook

Port Otago is a long term business and recent investment in infrastructural assets means the company is well-positioned to manage the current and future changes in trade. The Company will continue to strive for improvements to productivity while seeking to deliver levels of customer service that are aligned with the needs of exporters and importers. With its deep harbour and strong export cargo base Port Chalmers will remain attractive for shipping lines to include in their service schedules.

The Group's investment property business, held through Chalmers Properties Limited, is well-diversified with its mixture of Dunedin ground leases, developed properties and property with future development potential. In the current economic climate CPL is in a strong financial position with no significant development work-in-progress and strong rent cash flows. While the recent rises in property values are unlikely to continue over the short-term, and may even partially reverse, CPL will remain as a solid anchor to the Group.



John Gilks
Chairman
2 September 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2008

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Revenue					
Port operations		53,389	49,970	53,430	50,043
Investment property rental		8,510	8,406	-	-
Dividend income		665	997	5,665	3,297
		62,564	59,373	59,095	53,340
Other income					
Net gain on disposal of property		2,447	84	1,412	-
Unrealised net change in the value of investment property	10	17,915	24,884	-	-
Total revenue and other income		82,926	84,341	60,507	53,340
Expenses					
Staff costs		(21,412)	(18,201)	(20,759)	(17,484)
Fuel and electricity		(2,920)	(2,415)	(2,885)	(2,381)
Purchased materials and services		(11,934)	(11,672)	(10,658)	(10,626)
Depreciation and amortisation		(6,794)	(6,095)	(6,708)	(6,037)
	3	(43,060)	(38,383)	(41,010)	(36,528)
Financial (expense)/income	4				
Interest and other financial (expense)/income		(7,231)	(6,763)	(5,830)	(5,074)
Net change in value of interest rate swaps		(635)	3,216	(334)	2,330
Realised exchange gain/(loss)		65	(741)	65	(741)
Unrealised exchange gain/(loss)		4	(120)	4	(120)
		(7,797)	(4,408)	(6,095)	(3,605)
Profit before tax		32,069	41,550	13,402	13,207
Income tax expense	5a	(4,281)	(2,269)	(2,375)	(1,771)
Profit for the year		**27,788**	**39,281**	**11,027**	**11,436**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Equity at the beginning of the year		251,923	212,904	112,411	101,237
Total recognised revenues and expenses:					
Profit for the year		27,788	39,281	11,027	11,436
Unrealised increase/(decrease) in the value of share investments	18b	(3,165)	6,488	(3,165)	6,488
Hedging reserve	18c	(831)	-	(528)	-
Distribution to owners:					
Dividend paid	26	(9,400)	(6,750)	(9,400)	(6,750)
Equity at the end of the year		**266,315**	**251,923**	**110,345**	**112,411**

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Current assets					
Cash and cash equivalents		1,450	2,349	-	2,220
Trade and other receivables	6	13,250	7,518	9,812	6,684
Secured advances	7	-	4,923	-	-
Inventories		333	345	333	345
Property held for sale	11	1,420	9,192	-	-
Other financial instruments	19	1,134	30	736	25
Finance leases	8	93	76	-	-
Income tax		357	297	331	198
		18,037	24,730	11,212	9,472
Non-current assets					
Property, plant and equipment	9	155,405	155,047	155,174	154,965
Investment property	10	189,467	170,870	-	-
Property deposit		644	1,142	-	-
Shares in listed companies	19	35,288	38,453	35,288	38,453
Investment in subsidiaries		-	-	7,000	7,000
Finance leases	8	1,150	1,252	-	-
Other financial instruments	19	1,060	3,861	712	2,512
Intangible assets	12	448	586	448	586
		383,462	371,211	198,622	203,516
Total assets		**401,499**	**395,941**	**209,834**	**212,988**
Current liabilities					
Cash and cash equivalents		-	-	2,150	-
Trade and other payables	13	3,819	2,696	3,042	2,069
Dividend payable		5,000	-	5,000	-
Employee entitlements	14	3,688	2,914	3,531	2,641
Other financial instruments	19	19	-	-	-
		12,526	5,610	13,723	4,710
Non-current liabilities					
Borrowings (secured)	15	105,030	120,450	72,380	82,220
Employee entitlements	14	1,388	924	1,024	924
Other financial instruments	19	106	-	-	-
Deferred tax liabilities	5c	16,134	17,034	12,362	12,723
		122,658	138,408	85,766	95,867
Total liabilities		135,184	144,018	99,489	100,577
Equity					
Share capital	17	20,000	20,000	20,000	20,000
Reserves	18	246,315	231,923	90,345	92,411
Total equity		266,315	251,923	110,345	112,411
Total equity and liabilities		**401,499**	**395,941**	**209,834**	**212,988**

For and on behalf of the Board of Directors

J W Gilks
Chairman

D R Black
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2008

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Cash flows from operating activities					
Cash was provided from:					
Receipts from port operations		53,314	48,516	53,368	48,589
Rental income		8,796	8,143	-	-
Dividend received		665	997	2,265	3,297
Interest received		726	499	85	123
Net GST received/(paid)		1,407	(1,104)	1,113	(981)
Cash was disbursed to:					
Payment to employees and suppliers		(36,196)	(32,593)	(33,243)	(30,093)
Interest paid		(7,902)	(7,568)	(5,752)	(5,069)
Income tax paid		(4,852)	(4,218)	(2,598)	(2,786)
Net cash flows from operating activities	20	**15,958**	**12,672**	**15,238**	**13,080**
Cash flows from investing activities					
Cash was provided from:					
Sale of property, plant and equipment		3,603	4	3,603	4
Sale of investment property		9,174	6,270	-	-
Advances repaid		5,091	-	-	-
Repayment of lessee improvements		85	-	-	-
Refund of property deposit		800	-	-	-
Cash was applied to:					
Purchase of property, plant and equipment		(9,038)	(13,582)	(8,856)	(13,502)
Purchase of assets subject to finance lease		-	(1,328)	-	-
Interest capitalised		(507)	(354)	(115)	(354)
Purchase of investment property		(5,115)	(7,335)	-	-
Improvements to investment property		(1,130)	(2,070)	-	-
Advances to joint venture		-	(94)	-	(171)
Net cash flows from investing activities		**2,963**	**(18,489)**	**(5,368)**	**(14,023)**
Cash flows from financing activities					
Cash was provided from:					
Proceeds from borrowings		77,910	17,010	67,410	13,690
Cash was applied to:					
Repayment of borrowings		(93,330)	(2,613)	(77,250)	(1,150)
Dividends paid		(4,400)	(6,750)	(4,400)	(6,750)
Net cash flows from financing activities		**(19,820)**	**7,647**	**(14,240)**	**5,790**
Increase (decrease) in cash held		**(899)**	**1,830**	**(4,370)**	**4,847**
Cash held at beginning of period		2,349	519	2,220	(2,627)
Cash held at end of period		**1,450**	**2,349**	**(2,150)**	**2,220**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Port Otago Limited ("the Company") is a limited company incorporated and domiciled in New Zealand. The address of its registered office and principal place of business is disclosed in the directory of the annual report.

Port Otago Limited operates a full service container port at Port Chalmers and provides wharf facilities in Dunedin. The principal activities of the Company, its subsidiaries and share of joint ventures ("the Group") are further described in note 21. The consolidated financial statements presented are those of Port Otago Limited, its subsidiaries and share of joint ventures ("the Group"). The ultimate parent of the Group is the Otago Regional Council.

These financial statements have been prepared to comply with the Companies Act 1993, the Financial Reporting Act 1993 and the Port Companies Act 1988. The financial statements of Port Otago Limited are for the year ended 30 June 2008. The financial statements were authorised for issue by the Board on 2 September 2008.

2. Summary of significant accounting policies

Basis of Preparation

These annual consolidated financial statements of Port Otago Limited have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand.
Accounting policies applied in these annual financial statements comply with NZ IFRS interpretations issued and effective as at the time of preparing these statements (August 2008) as applicable to the Company as a profit-oriented entity. In complying with NZ IFRS the Company is simultaneously in compliance with International Financial Reporting Standards (IFRS).

Measurement base

These annual financial statements have been prepared under the historical cost convention except for the revaluation of certain assets and the recognition at fair value of certain financial instruments (including derivative instruments).

The following specific accounting policies have a significant effect on the measurement of results and financial position:

Basis of Consolidation

The consolidated financial statements include those of Port Otago Limited (the parent company) and its subsidiaries accounted for by line aggregation of assets, liabilities, revenues, expenses and cash flows that are recognised in the financial statements of all entities in the consolidated group. All inter-company transactions are eliminated on consolidation.

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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's financial statements on a line-by-line basis.

Foreign currencies

(a) Functional presentation currency

The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional currency.

(b) Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the balance date exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment losses. Cost includes

NOTES TO THE FINANCIAL STATEMENTS continued

expenditure that is directly attributable to the acquisition of the items. When significant, interest costs incurred during the period required to construct an item of property, plant and equipment are capitalised as part of the asset's total cost.

Property is classified as property, plant and equipment rather than investment property if the property is held for any of the following reasons:

- to meet the strategic purposes of the port, or
- to form part of buffer zones to port activity, or
- to assist the provision of port services, or
- to promote or encourage the import or export of goods through the port.

Depreciation
Property, plant and equipment are depreciated on a straight-line basis so as to allocate the costs of assets over their estimated useful lives as follows:

Land	nil
Land improvements and buildings	10-50 years
Wharves, paving and dredging	15-70 years
Vessels and floating plant	5-30 years
Plant, equipment and vehicles	3-30 years

Investment property
Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in the Income Statement for the period in which they arise.

Goodwill
Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Other intangible assets
The cost of acquiring an intangible asset is amortised from the date the asset is ready for use on a straight-line basis over the periods of expected benefit. For computer software the amortisation periods range from 1 to 5 years. Where the periods of expected benefit or recoverable values have diminished, due to technological change or market conditions, amortisation is accelerated or the carrying value is written down.

Impairment
Assets are reviewed at each Balance Sheet date for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an indication of impairment exists then the asset's recoverable amount is estimated. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Leases – Finance leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Leases – Operating leases
Leases under which the lessor substantially retains all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

NOTES TO THE FINANCIAL STATEMENTS continued

Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of stores, materials and maintenance spares are determined on a weighted average basis. The carrying amount of inventories includes appropriate allowances for obsolescence and deterioration.

Property held for sale
Property classified as held for sale is measured at:
- fair value, measured at the time of transfer, for items transferred from investment property, and
- fair value less estimated costs of disposal, measured at the time of transfer, for items transferred from property, plant and equipment.

Property is classified as held for sale if the carrying amount will be recovered through a sales transaction rather than through continuing use. Property is not depreciated or amortised while it is classified as held for sale.

Borrowing costs
Borrowing costs directly attributable to the acquisition and/or construction of plant and equipment and long term investment property development projects are capitalised as part of the cost of those assets. Other borrowing costs are expensed in the period in which they are incurred.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less. Bank overdrafts form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Trade and other receivables including advances
Trade and other receivables, including advances, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is expensed in the Income Statement.

(b) Investments
Share investments held by the Group are classified as available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period. Investments in listed companies are valued at selling price as at balance date.

When parent company accounts are presented as part of annual financial reporting, investments in subsidiaries and joint ventures are measured at cost.

(c) Borrowings
Borrowings are recognised initially at fair value. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings, using the effective interest method.

(d) Trade and other payables
Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method.

(e) Derivative financial instruments

1. Managing financial risk
The Group's activities expose it primarily to the financial risks of changes in credit risk, interest rates and foreign exchange rates. The Group uses derivative financial instruments to minimise potential adverse effects from certain risk exposures.

NOTES TO THE FINANCIAL STATEMENTS continued

- **Interest rate risk**
  Borrowings at variable interest rates expose the Group to interest rate risk. The Group manages its interest rate risk by using floating-to-fixed interest rate swaps with a range of terms. These interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

- **Foreign exchange risk**
  The Group is exposed to foreign exchange risk when purchasing major items of plant and equipment with payment denominated in a foreign currency. Foreign currency forward purchase contracts are used to limit the Group's exposure to movements in exchange rates on foreign currency denominated liabilities and purchase commitments.

- **Market risk**
  The fair value of shares in listed companies will fluctuate as a result of changes in market prices. Market prices for a particular share may fluctuate due to factors specific to the individual share or its issuer, or factors affecting all shares traded in the market.

- **Credit risk**
  In the normal course of business the Group incurs credit risk from trade receivables. Reflecting the nature of the business, a concentration of credit risk occurs due to a small number of shipping line and warehousing clients comprising a majority amount of port trade receivables. Regular monitoring of trade receivables is undertaken to ensure that the credit exposure remains within the Group's normal terms of trade.

2. Accounting for derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are remeasured at their fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates hedges of highly probable forecast transactions as cash flow hedges. Changes in the fair value of derivatives qualifying as cash flow hedges are recognised in equity. The ineffective component of the fair value changes on the hedging instrument is recorded directly in the income statement.

When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

For qualifying hedge relationships, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The net differential paid or received on interest rate swaps is recognised as a component of interest expense over the period of the swap agreement.

(f) Fair value estimation

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

The fair value of listed shares traded actively on the stock exchange is based on quoted market prices at the balance date.

Employee benefits

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave, sick leave, long service leave, retiring allowances, superannuation contributions, profit sharing and bonus plans when it is probable that settlement will be required.

NOTES TO THE FINANCIAL STATEMENTS continued

(a) Short term employee benefits
Provisions made in respect of employee benefits expected to be settled within 12 months are measured at undiscounted amounts based on remuneration rates that the Group expects to pay.

(b) Long term employee benefits
Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date. These provisions are affected by a number of estimates including projected interest rates, the expected length of service of employees and future levels of employee earnings.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are calculated by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Revenue recognition

(a) Provision of services
Revenue from port services is recognised in the accounting period in which the actual service is provided to the customer.

(b) Rental income
Rental income is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(c) Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the asset to that asset's net carrying amount.

(d) Dividend income
Dividend income is recognised when the right to receive payment is established, being the declaration date of the dividend.

(e) Sale of investments, investment property and property held for sale
Net gains or losses on the sale of investments, investment property and property held for sale are recognised when an unconditional contract is in place and it is probable that the Group will receive the consideration due and significant risks and rewards of ownership of assets have been transferred to the buyer.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax except to the extent that it relates to items recognised directly in equity, in which case the tax expense is also recognised in equity.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted by the balance date.

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS continued

Goods and services tax (GST)

The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Critical Estimates and Accounting

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom, by definition, equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimate of Fair Value of Investment Property

At each balance date the Group obtains annual valuations of investment property, determined by registered independent valuers, in accordance with the accounting policy stated in the statement of accounting policies.

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information recent sales prices of similar properties in less active markets are used, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

Changes in property market values, including changes arising from alterations to proposed and existing planning rules, may result in the fair values of investment property being different from previous estimates. The carrying amount of investment property is detailed in note 10.

Property, plant and equipment

At each balance date, the Group reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful lives and residual value estimates of property, plant and equipment requires the Group to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Group, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life of residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the statement of financial performance, and carrying amount of the asset in the statement of financial position. The Group minimises the risk of this estimation uncertainty by:

- Physical inspection of assets;
- Asset replacement programmes;
- Analysis of prior asset sales.

The Group has not made significant changes to past assumptions concerning useful lives and residual values. The carrying amount of plant and equipment is disclosed in note 9.

Comparatives

Certain prior period revenue and expenditure have been reclassified between functional categories for consistency with the current period.

Changes in Accounting Policies

All accounting policies have been applied on bases consistent with those used in the financial statements for the year ended 30 June 2007 except for the capitalisation of borrowing costs on property development projects. Borrowing costs directly related to significant property developments in subsidiaries are capitalised to the cost of the relevant property asset whereas previously these interest costs were recorded as an expense in the Income Statement.

This accounting policy change was made to better reflect the costs of property development projects. During the year to 30 June 2008 $392,000 of borrowing costs were capitalised. There has been no impact on the Balance Sheet from the policy change.

NOTES TO THE FINANCIAL STATEMENTS continued

	NOTES	GROUP 2008 $000	GROUP 2007 $000
Income Statement			
Interest and other financial expense			
Previously reported		7,623	7,183
Impact of change in accounting policy		(392)	(420)
Restated expense		**7,231**	**6,763**
Unrealised net change in the value of investment property			
Previously reported		18,307	25,304
Impact of change in accounting policy		(392)	(420)
Restated income/(expense)		**17,915**	**24,884**

Standards, amendments and interpretations issued but not yet effective
The Group has not applied the following standards, amendments and interpretations that have been issued but are not yet effective:

- NZ IAS 1 Presentation of Financial Statements (revised 2007)
- NZ IFRS 3 Business Combinations (revised 2008)
- NZ IFRS 8 Operating Segments

Application of the standards, amendments and interpretations is not expected to have a material impact on the financial account balances of the Group.

NOTES TO THE FINANCIAL STATEMENTS continued

3. Operating expenses

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Auditors' remuneration					
Audit services – Audit New Zealand		69	65	41	44
Assurance services – Audit New Zealand		33	20	22	15
Audit services – Pricewaterhouse Coopers		7	4	-	-
Total auditors' remuneration		**109**	**89**	**63**	**59**
Bad and doubtful debts					
Movement in provision		-	42	-	42
Net write-off		82	42	72	-
Total bad and doubtful debts		82	84	72	42
Directors' remuneration		369	348	264	231
Defined contribution plan employer contributions		923	820	917	815
Donations		25	67	25	67
Loss on disposal of assets		51	28	51	33
Operating leases		1,254	1,196	1,254	1,190
Depreciation and amortisation					
Depreciation of property, plant and equipment	9	6,382	5,770	6,349	5,749
Amortisation of intangibles	12	359	288	359	288
Amortised leasing costs		53	37	-	-
Total depreciation and amortisation		**6,794**	**6,095**	**6,708**	**6,037**

4. Finance costs

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Financial (expense)/income					
Interest income		685	1,009	85	123
Interest expense		(8,423)	(8,546)	(6,030)	(5,551)
Interest capitalised		507	774	115	354
Interest rate swaps - fair value movement		(635)	3,216	(334)	2,330
Realised foreign exchange gain/(loss)		65	(741)	65	(741)
Unrealised foreign exchange gain/(loss)		4	(120)	4	(120)
Net financial (expense)/income		**(7,797)**	**(4,408)**	**(6,095)**	**(3,605)**

NOTES TO THE FINANCIAL STATEMENTS continued

5. Income taxes

(a) The total charge for the year can be reconciled to the accounting profit as follows:

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Profit before tax		**32,069**	**41,550**	**13,402**	**13,207**
Imputation credits		327	491	327	491
		32,396	42,041	13,729	13,698
Prima facie tax expense at 33%		(10,691)	(13,874)	(4,531)	(4,520)
Non deductible expenses		(1,036)	(348)	(120)	(65)
Non assessable income		934	28	2,132	759
Unrealised change in investment property		6,684	9,097	-	-
Prior year adjustment		(168)	188	(183)	(7)
Deferred tax asset (liability) not previously recognised		(351)	-	-	-
Adjustments relating to changes in tax rates		20	2,149	-	1,571
Benefit of imputation credits		327	491	327	491
Income tax expense		**(4,281)**	**(2,269)**	**(2,375)**	**(1,771)**
Allocated between:					
Current tax payable		(4,826)	(4,365)	(2,510)	(2,960)
Deferred tax		545	2,096	135	1,189

The New Zealand Government has enacted legislation to change the company tax rate from 33% to 30% effective from 1 April 2008. This change impacts temporary differences reversing after the 2008 financial year.

(b) The movements in the imputation credit account are:

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Balance at beginning of the year		22,441	21,057	20,621	19,536
Attached to dividends received		327	491	1,115	1,624
Taxation paid		4,852	4,218	2,596	2,786
Attached to dividends paid		(2,167)	(3,325)	(2,167)	(3,325)
Prior year adjustment		-	-	45	-
Balance at end of the year		**25,453**	**22,441**	**22,210**	**20,621**

Imputation credits are attached directly and indirectly to shareholders of the parent company, through:

Parent Company	22,210	20,621
Subsidiaries	3,243	1,820
	25,453	22,441

NOTES TO THE FINANCIAL STATEMENTS continued

5. Income taxes (continued)

(c) The following are the major deferred tax liabilities and assets and the movements thereon during the current and prior reporting periods.

GROUP	NOTES	PROPERTY PLANT AND EQUIPMENT $000	INVESTMENT PROPERTY $000	FINANCIAL INSTRUMENTS $000	OTHER $000	TOTAL $000
Balance 1 July 2007		13,373	3,592	1,168	(1,099)	17,034
Credited / (charged) to hedging reserve direct to equity		-	-	(355)	-	(355)
Credited / (charged) to income statement		(33)	(224)	(192)	(96)	(545)
Balance at 30 June 2008		**13,340**	**3,368**	**621**	**(1,195)**	**16,134**
Balance 1 July 2006		14,696	5,140	544	(1,250)	19,130
Credited / (charged) to income statement		(1,323)	(1,548)	624	151	(2,096)
Balance at 30 June 2007		**13,373**	**3,592**	**1,168**	**(1,099)**	**17,034**

PARENT	NOTES	PROPERTY PLANT AND EQUIPMENT $000	INVESTMENT PROPERTY $000	FINANCIAL INSTRUMENTS $000	OTHER $000	TOTAL $000
Balance 1 July 2007		13,373	-	762	(1,412)	12,723
Credited / (charged) to hedging reserve direct to equity		-	-	(226)	-	(226)
Credited / (charged) to income statement		(33)	-	(101)	(1)	(135)
Balance at 30 June 2008		**13,340**	**-**	**435**	**(1,413)**	**12,362**
Balance 1 July 2006		14,696	-	389	(1,173)	13,912
Credited / (charged) to income statement		(1,323)	-	373	(239)	(1,189)
Balance at 30 June 2007		**13,373**	**-**	**762**	**(1,412)**	**12,723**

6. Trade and other receivables

	NOTES	GROUP 2008 $000	GROUP 2007 $000	PARENT COMPANY 2008 $000	PARENT COMPANY 2007 $000
Trade receivables		6,752	7,317	5,971	6,295
Allowance for doubtful debts		-	(42)	-	(42)
Property disposal receivable		5,450	-	-	-
Amount owing by subsidiaries and related parties		793	-	3,605	220
Prepayments		255	243	236	211
		13,250	**7,518**	**9,812**	**6,684**

NOTES TO THE FINANCIAL STATEMENTS continued

7. Secured advances

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Advances receivable from:					
Other related entities		-	4,923	-	-
		-	**4,923**	**-**	**-**
Security analysis:					
Borrowings secured against property owned under joint venture arrangements		-	4,916	-	-
Unsecured		-	7	-	-
		-	4,923	-	-

Advances outstanding at 30 June 2007 were repaid during the year.

8. Finance leases

	NOTES	MINIMUM FUTURE LEASE PAYMENTS		PRESENT VALUE OF MINIMUM FUTURE LEASE RECEIVABLES	
		GROUP		GROUP	
		2008 $000	2007 $000	2008 $000	2007 $000
Repayments due:					
No later than 1 year		214	229	93	215
Later than 1 year and not later than 5 years		855	918	481	644
Later than 5 years		801	1,090	669	469
Minimum future lease payments		1,870	2,237	1,243	1,328
Gross finance lease receivables		1,870	2,237	1,243	1,328
Less unearned finance income		(627)	(909)	-	-
Present value of minimum lease payments		**1,243**	**1,328**	**1,243**	**1,328**
Included in the financial statements as:					
Current				93	76
Non-current				1,150	1,252
				1,243	1,328

The finance lease receivable relates to the Group funding of tenant improvements to an investment property. A lease commenced in April 2007 for an initial period of 10 years and the finance lease receivable will be recovered over this period. The pre-tax interest rate applicable to the finance lease receivable is 10.2%. Interest income is recognised on a consistent basis to produce a constant rate of return on the net investment.

NOTES TO THE FINANCIAL STATEMENTS continued

9. Property, Plant and Equipment

Group

Current period to 30 June 2008

	LAND $000	BUILDINGS AND IMPROVEMENTS $000	WHARVES AND BERTH DREDGING $000	PLANT, EQUIPMENT AND VEHICLES $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Cost						
Balance 1 July 2007	35,521	33,994	49,094	55,508	10,073	184,190
Additions	253	807	217	14,203	-	15,480
Disposals	(1,701)	(280)	-	(18)	(6,772)	(8,771)
Cost at 30 June 2008	34,073	34,521	49,311	69,693	3,301	190,899
Accumulated depreciation						
Balance 1 July 2007	-	2,959	3,751	22,433	-	29,143
Depreciation for period	-	1,257	1,451	3,674	-	6,382
Disposals	-	(13)	-	(18)	-	(31)
Depreciation at 30 June 2008	-	4,203	5,202	26,089	-	35,494
Net book value						
At 30 June 2007	35,521	31,035	45,343	33,075	10,073	155,047
At 30 June 2008	**34,073**	**30,318**	**44,109**	**43,604**	**3,301**	**155,405**

Comparative period to 30 June 2007

	LAND $000	BUILDINGS AND IMPROVEMENTS $000	WHARVES AND BERTH DREDGING $000	PLANT, EQUIPMENT AND VEHICLES $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Cost						
Balance 1 July 2006	34,807	33,428	45,925	54,609	2,022	170,791
Additions	714	991	3,169	1,024	8,051	13,949
Disposals	-	(425)	-	(125)	-	(550)
Cost at 30 June 2007	35,521	33,994	49,094	55,508	10,073	184,190
Accumulated depreciation						
Balance 1 July 2006	-	1,534	2,468	19,469	-	23,471
Depreciation for period	-	1,437	1,283	3,050	-	5,770
Disposals	-	(12)	-	(86)	-	(98)
Depreciation at 30 June 2007	-	2,959	3,751	22,433	-	29,143
Net book value						
At 30 June 2006	34,807	31,894	43,457	35,140	2,022	147,320
At 30 June 2007	**35,521**	**31,035**	**45,343**	**33,075**	**10,073**	**155,047**

NOTES TO THE FINANCIAL STATEMENTS continued

9. Property, Plant and Equipment (continued)

Parent

Current period to 30 June 2008

	LAND $000	BUILDINGS AND IMPROVEMENTS $000	WHARVES AND BERTH DREDGING $000	PLANT, EQUIPMENT AND VEHICLES $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Cost						
Balance 1 July 2007	35,521	33,994	49,094	55,354	10,073	184,036
Additions	253	807	217	14,021	-	15,298
Disposals	(1,701)	(280)	-	(18)	(6,772)	(8,771)
Cost at 30 June 2008	34,073	34,521	49,311	69,357	3,301	190,563
Accumulated depreciation						
Balance 1 July 2007	-	2,959	3,751	22,361	-	29,071
Depreciation for period	-	1,257	1,451	3,641	-	6,349
Disposals	-	(13)	-	(18)	-	(31)
Depreciation at 30 June 2008	-	4,203	5,202	25,984	-	35,389
Net book value						
At 30 June 2007	35,521	31,035	45,343	32,993	10,073	154,965
At 30 June 2008	**34,073**	**30,318**	**44,109**	**43,373**	**3,301**	**155,174**

Comparative period to 30 June 2007

	LAND $000	BUILDINGS AND IMPROVEMENTS $000	WHARVES AND BERTH DREDGING $000	PLANT, EQUIPMENT AND VEHICLES $000	CAPITAL WORK IN PROGRESS $000	TOTAL $000
Cost						
Balance 1 July 2006	34,807	33,428	45,925	54,536	2,022	170,718
Additions	714	991	3,169	943	8,051	13,868
Disposals	-	(425)	-	(125)	-	(550)
Cost at 30 June 2007	35,521	33,994	49,094	55,354	10,073	184,036
Accumulated depreciation						
Balance 1 July 2006	-	1,534	2,468	19,419	-	23,421
Depreciation for period	-	1,437	1,283	3,029	-	5,749
Disposals	-	(12)	-	(87)	-	(99)
Depreciation at 30 June 2007	-	2,959	3,751	22,361	-	29,071
Net book value						
At 30 June 2006	34,807	31,894	43,457	35,117	2,022	147,297
At 30 June 2007	**35,521**	**31,035**	**45,343**	**32,993**	**10,073**	**154,965**

NOTES TO THE FINANCIAL STATEMENTS continued

10. Investment property

	NOTES	GROUP 2008 $000	GROUP 2007 $000
Balance at beginning of year		170,870	152,879
Property purchased		4,380	-
Property improvements during the period		1,410	1,984
Interest capitalised		392	420
Property sold		(4,080)	(105)
Unrealised change in the value of investment property		17,915	24,884
Transfer to property held for sale	11	(1,420)	(9,192)
Balance at end of year		**189,467**	**170,870**
Comprising:			
Property portfolio at cost		56,208	49,371
Revaluation		133,259	121,499
		189,467	170,870
Valued at 30 June balance date as determined by:			
Barlow Justice Limited		5,180	4,965
Colliers International		102,951	89,700
DTZ New Zealand Limited		23,300	23,960
Seagar & Partners (Manukau) Limited		58,036	52,245
Property recorded at fair value		189,467	170,870

The Group's investment properties are valued annually at fair value effective 30 June. Fair value reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of the current market conditions.

All valuations were completed by independent valuers who conform with the New Zealand Property Institute Practice Standards. The valuers have extensive market knowledge in the types of investment properties owned by the Group.

All investment properties were valued based on open market evidence including market rentals, land sales and yield information available to the valuers.

Included within the gross values for investment properties are capitalised leasing costs. These costs represent expenditure incurred by the Group in relation to letting of property. These costs are initially recorded as an asset and amortised over the life of the lease they relate to. At balance date $379,000 (last year: $373,000) of capitalised leasing costs are included in the gross balance of investment properties.

There were no significant contractual obligations of a capital and/or maintenance nature relating to the current Investment Property portfolio at balance date (last year: none).

NOTES TO THE FINANCIAL STATEMENTS continued

11. Property held for sale

	NOTES	GROUP 2008 $000	GROUP 2007 $000
Balance at beginning of year		9,192	-
Property sold		(9,192)	-
Transfer from investment property		1,420	9,192
Balance at end of year		**1,420**	**9,192**
Comprising:			
Property held for sale - at cost		250	6,372
Property held for sale - at valuation		1,170	2,820
		1,420	9,192

(a) Property sold

The Group held an interest in three parcels of land, via Joint Venture participation, which were sold in September 2007. The three parcels of land were sold to parties related to the other Joint Venture participant for $18.4 million, of which the Group's share was $9.2 million.

(b) Transfer from investment property

The Group holds a 50% interest in The Hamilton Joint Venture (HJV) which has contracted to sell 10% of its Newby 1 block to the Chief Executive of Chalmers Properties Limited (CPL). Note 24(b) contains details of the contract terms. During the current financial year the HJV initiated the development process for the Newby 1 land by lodging land use and subdivision resource consents with the Hamilton City Council.

The Group's share of 10% of the Newby 1 block has been transferred from Investment property to Property held for sale since the development process has commenced and the land is to be sold in the ordinary course of business. The $1.42 million of property held for sale is expected to be recovered in more than 12 months after 30 June 2008.

12. Intangible Assets

Current period to 30 June 2008

	NOTES	GROUP $000	PARENT COMPANY $000
Computer Software			
Cost			
Balance 1 July 2007		3,399	3,399
Additions		221	221
Disposals		-	-
Balance at 30 June 2008		3,620	3,620
Accumulated amortisation			
Balance 1 July 2007		2,813	2,813
Amortisation for period	3	359	359
Disposals		-	-
Balance at 30 June 2008		3,172	3,172
Net book value			
At 30 June 2007		586	586
At 30 June 2008		**448**	**448**

NOTES TO THE FINANCIAL STATEMENTS continued

12. Intangible Assets (continued)

Comparative period to 30 June 2007

	NOTES	GROUP	PARENT COMPANY
		$000	$000
Computer Software			
Cost			
Balance 1 July 2006		2,997	2,997
Additions		402	402
Disposals		-	-
Balance at 30 June 2007		3,399	3,399
Accumulated amortisation			
Balance 1 July 2006		2,525	2,525
Amortisation for period	3	288	288
Disposals		-	-
Balance at 30 June 2007		2,813	2,813
Net book value			
At 30 June 2006		472	472
At 30 June 2007		**586**	**586**

13. Trade and other payables

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Accounts payable		2,520	1,324	1,939	697
Other accrued charges		1,299	1,372	1,103	1,372
		3,819	**2,696**	**3,042**	**2,069**

14. Employee entitlements

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Accrued wages and salaries		1,173	607	1,023	352
Annual leave		2,436	2,229	2,429	2,211
Long service leave		579	559	579	559
Retiring allowances		445	365	445	365
Sick leave		79	78	79	78
Employee incentive	24(b)	364	-	-	-
Balance		**5,076**	**3,838**	**4,555**	**3,565**
Analysed as:					
Current		3,688	2,914	3,531	2,641
Non current		1,388	924	1,024	924

NOTES TO THE FINANCIAL STATEMENTS continued

15. Borrowings

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Bank borrowings		105,030	120,450	72,380	82,220

(a) Port Otago Group facility

The Group has a $141 million committed facility with ANZ National Bank Limited. The Group may draw funding for terms ranging from call to the termination of the agreement, which is 31 October 2010.

The security for advances is a general security agreement over the assets of the Group.

(b) Hamilton Joint Venture facility

The Group has a 50% interest in The Hamilton Joint Venture (HJV) which has a $21 million committed facility with ANZ National Bank Limited. HJV may draw funding for terms ranging from call to the termination of the facility, which is 5 March 2011. At 30 June 2008 HJV had drawn $21 million under its facility, with the Group's 50% share amounting to $10.5 million.

Security for bank advances under the Hamilton Joint Venture facility is as follows:

- A general security agreement over the assets of both joint venture participants.
- Guarantees (each limited to $21 million) from the Group and the other joint venture participant's owner.
- A first registered mortgage over various joint venture land holdings.

The carrying amount of borrowings reflects fair value as the borrowing finance rates approximate market rates.

16. Capitalised borrowing costs

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Borrowing costs capitalised during the year		507	774	115	354
Weighted average capitalisation rate on funds borrowed		7.34%	7.03%	7.51%	7.14%

17. Share capital

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $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.

NOTES TO THE FINANCIAL STATEMENTS continued

18. Reserves

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Retained earnings					
Balance at beginning of year		109,010	101,267	90,902	86,216
Profit for the year		27,788	39,281	11,027	11,436
Less dividends paid		(9,400)	(6,750)	(9,400)	(6,750)
Transfers (to)/from property revaluation reserve:					
Revaluations realised on property sold		6,060	96	-	-
Unrealised change in the value of investment property		(17,915)	(24,884)	-	-
Balance at end of year		**115,543**	**109,010**	**92,529**	**90,902**
(a) Property revaluation reserve:					
Balance at beginning of year		121,404	96,616	-	-
Transfers from/(to) retained earnings:					
Realised on property sold		(6,060)	(96)	-	-
Change in value of investment property	10	17,915	24,884	-	-
Balance at end of year		**133,259**	**121,404**	**-**	**-**
(b) Available-for-sale revaluation reserve:					
Balance at beginning of year		1,509	(4,979)	1,509	(4,979)
Valuation gain/(loss) recognised		(3,165)	6,488	(3,165)	6,488
Balance at end of year		**(1,656)**	**1,509**	**(1,656)**	**1,509**
(c) Hedging reserve:					
Balance at beginning of year		-	-	-	-
Change in fair value of interest rate swaps		(1,186)	-	(754)	-
Deferred tax arising on fair value		355	-	226	-
Balance at end of year		**(831)**	**-**	**(528)**	**-**
Total Reserves		**246,315**	**231,923**	**90,345**	**92,411**

The available-for-sale revaluation reserve arises on the revaluation of shares in listed companies. Where a financial asset is sold that portion of the reserve which relates to that financial asset and is effectively realised is recognised in the Income Statement. Where a financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in the Income Statement.

The available-for-sale revaluation reserve has a negative balance of $1,656,000. This reflects the difference at balance date between the market price of listed shares and their cost. The value of the shares has not been impaired, and the amount has not been taken to the Income Statement, as per the view of the directors, the market price as at 30 June 2008 does not reflect a permanent impairment to their value.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Derivative financial instruments

Exchange Rates
Foreign exchange rates used at balance date for the New Zealand dollar are:

	30 June 2008	30 June 2007
USD	0.7619	0.7696
AUD	0.7918	0.9089

Material foreign currency monetary assets and liabilities
Monetary assets denominated in foreign currencies recognised in the balance sheet are:

	PARENT 2008 $000	PARENT 2007 $000
USD	-	881
AUD	33	1,081
	33	1,962

The Group does not have any material monetary liabilities denominated in foreign currencies.

(a) Financial instruments categories
The accounting policies for financial instruments have been applied to the line items below:

	GROUP		PARENT COMPANY	
	2008 $000	2007 $000	2008 $000	2007 $000
Financial Assets				
Fair value through profit and loss - Held for trading				
Derivative financial instrument assets	2,194	3,891	1,448	2,537
Derivatives that are hedge accounted				
Derivative financial instrument assets	1,186	-	754	-
Loans and receivables				
Cash and cash equivalents	1,450	2,349	-	2,220
Debtors and other receivables	13,250	7,518	9,812	6,684
Secured advances	-	4,923	-	-
Property deposit	644	1,142	-	-
Other financial assets:				
- finance leases	1,243	1,328	-	-
Total loans and receivables	**16,587**	**17,260**	**9,812**	**8,904**
Fair value through equity				
Listed Shares	35,288	38,453	35,288	38,453
Financial Liabilities				
Fair value through profit and loss - Held for trading				
Derivative financial instrument liabilities	125	-	-	-
Financial liabilities at amortised cost				
Creditors and other payables	3,819	2,696	3,042	2,069
Borrowings:				
- Cash and cash equivalents	-	-	2,150	-
- secured loans	105,030	120,450	72,380	82,220
Total financial liabilities at amortised cost	**108,849**	**123,146**	**77,572**	**84,289**

NOTES TO THE FINANCIAL STATEMENTS continued

19. Derivative financial instruments (continued)

(b) Credit quality of financial instruments

The maximum credit exposure for each class of financial instrument is as follows:

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Cash at bank and term deposits		1,450	2,349	-	2,220
Debtors and other receivables		13,250	7,518	9,812	6,684
Derivative financial instrument assets		3,380	3,891	2,202	2,537
Secured advances		-	4,923	-	-
Finance leases		1,243	1,328	-	-
Property deposit		644	1,142	-	-
Total credit risk		**19,967**	**21,151**	**12,014**	**11,441**

Debtors and other receivables mainly arise from the Group's principal activities and procedures are in place to regularly monitor trade receivables to ensure that the credit exposure remains within the Group's normal terms of trade.

Regular monitoring of other financial assets is undertaken to ensure the credit exposure is appropriate for that class of asset.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Derivative financial instruments (continued)

(c) Contractual maturity analysis of financial instruments

Financial Liabilities

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate of the instrument at the balance date.

The amounts disclosed are the contractual undiscounted cash flows.

	CARRYING AMOUNT $000	CONTRACTUAL CASH FLOWS $000	LESS THAN 1 YEAR $000	1 YEAR OR GREATER $000
Group 2008				
Creditors and other payables	3,819	3,819	3,819	-
Secured loans	105,030	131,491	5,989	125,502
Total	108,849	135,310	9,808	125,502
Parent 2008				
Creditors and other payables	3,042	3,042	3,042	-
Cash and cash equivalents	2,150	2,150	2,150	-
Secured loans	72,380	91,255	3,738	87,517
Total	77,572	96,447	8,930	87,517
Group 2007				
Creditors and other payables	2,696	2,696	2,696	-
Secured loans	120,450	147,241	5,584	141,656
Total	123,146	149,937	8,280	141,656
Parent 2007				
Creditors and other payables	2,069	2,069	2,069	-
Secured loans	82,220	101,645	2,989	98,656
Total	84,289	103,714	5,058	98,656

Financial Assets

The table below analyses financial assets into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date.

	CARRYING AMOUNT $000	CONTRACTUAL CASH FLOWS $000	LESS THAN 1 YEAR $000	1 YEAR OR GREATER $000
Group 2008				
Cash and cash equivalents	1,450	1,450	1,450	-
Debtors and other receivables	13,250	13,250	13,250	-
Property deposit	644	644	-	644
Net settled derivative assets	2,071	2,374	1,155	1,219
Finance leases	1,243	1,870	214	1,656
Total	18,658	19,588	16,069	3,519
Parent 2008				
Debtors and other receivables	9,812	9,812	9,812	-
Net settled derivative assets	1,448	1,667	762	905
Total	11,260	11,479	10,574	905
Group 2007				
Cash and cash equivalents	2,349	2,349	2,349	-
Debtors and other receivables	7,518	7,518	7,518	-
Property deposit	1,142	1,142	-	1,142
Secured advances	4,923	5,317	5,317	-
Net settled derivative assets	3,891	4,460	2,170	2,290
Finance leases	1,328	2,237	230	2,007
Total	21,151	23,023	17,584	5,439
Parent 2007				
Cash and cash equivalents	2,220	2,220	2,220	-
Debtors and other receivables	6,684	6,684	6,684	-
Net settled derivative assets	2,537	2,921	1,335	1,586
Total	11,441	11,825	10,239	1,586

NOTES TO THE FINANCIAL STATEMENTS continued

19. Derivative financial instruments (continued)

(d) Sensitivity analysis of financial instruments

The tables below illustrate the potential profit and equity (excluding retained earnings) impact for reasonably possible market movements where the impact is significant.

Group	**2008**				**2007**			
	-100bps		**+100bps**		**-100bps**		**+100bps**	
	Profit $000	**Other Equity $000**	**Profit $000**	**Other Equity $000**	**Profit $000**	**Other Equity $000**	**Profit $000**	**Other Equity $000**
Interest rate risk								
Financial Assets								
Derivatives - held for trading	-	-	-	-	(4,573)	-	4,312	-
Derivatives - hedge accounted	-	(3,017)	-	2,856	-	-	-	-
Financial Liabilities								
Borrowings	764	-	(764)	-	867	-	(867)	-
Total sensitivity to interest rate risk	**764**	**(3,017)**	**(764)**	**2,856**	**(3,706)**	**-**	**3,445**	**-**

	-10%		**+10%**		**-10%**		**+10%**	
	Profit $000	**Other Equity $000**	**Profit $000**	**Other Equity $000**	**Profit $000**	**Other Equity $000**	**Profit $000**	**Other Equity $000**
Equity Price Risk								
Financial Assets								
Shares in listed companies	-	(3,529)	-	3,529	-	(3,845)	-	3,845
Total sensitivity to equity price risk	**-**	**(3,529)**	**-**	**3,529**	**-**	**(3,845)**	**-**	**3,845**

Parent	**2008**				**2007**			
	-100bps		**+100bps**		**-100bps**		**+100bps**	
	Profit $000	**Other Equity $000**	**Profit $000**	**Other Equity $000**	**Profit $000**	**Other Equity $000**	**Profit $000**	**Equity $000**
Interest rate risk								
Financial Assets								
Derivatives - held for trading	-	-	-	-	(3,367)	-	3,166	-
Derivatives - hedge accounted	-	(2,140)	-	2,019	-	-	-	-
Financial Liabilities								
Borrowings	543	-	(543)	-	608	-	(608)	-
Total sensitivity to interest rate risk	**543**	**(2,140)**	**(543)**	**2,019**	**(2,759)**	**-**	**2,558**	**-**

	-10%		**+10%**		**-10%**		**+10%**	
	Profit $000	**Other Equity $000**	**Profit $000**	**Other Equity $000**	**Profit $000**	**Other Equity $000**	**Profit $000**	**Other Equity $000**
Equity Price Risk								
Financial Assets								
Shares in listed companies	-	(3,529)	-	3,529	-	(3,845)	-	3,845
Total sensitivity to equity price risk	**-**	**(3,529)**	**-**	**3,529**	**-**	**(3,845)**	**-**	**3,845**

NOTES TO THE FINANCIAL STATEMENTS continued

20. Reconciliation of consolidated operating cash flows

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
The reconciliation between profit & the cash flow from operations is:					
Profit for the period		27,788	39,281	11,027	11,436
Plus/(less) non cash items:					
Unrealised net change in the value of investment property		(17,915)	(25,304)	-	-
Depreciation, amortisation and goodwill impairment		6,795	6,110	6,709	6,037
Unrealised foreign exchange (gains)/losses		(4)	120	(4)	120
Movement in the fair value of interest rate swaps		672	(3,217)	334	(2,330)
Movement in non-current employee entitlements		100	50	100	50
Movement in deferred tax		(582)	(2,096)	(135)	(1,189)
Property deposit written off		336	-	-	-
Plus/(less) items classified as investing activities:					
Loss/(gain) on sale of property, plant and equipment		(1,409)	33	(1,411)	33
Loss/(gain) on disposal of investment property		(1,371)	(84)	-	-
Movement in working capital items:					
Trade and other receivables		(5,744)	4,145	(3,126)	(1,760)
Trade and other payables		4,364	(8,202)	975	180
Current employee entitlements		1,259	377	890	370
Income tax		(58)	143	(133)	110
Inventories		12	23	12	23
Movement in working capital items classified as investing activities		1,715	1,293	-	-
Net cash flows from operating activities		**15,958**	**12,672**	**15,238**	**13,080**

21. Investment in subsidiaries, associates and joint ventures

Port Otago Limited operates a full service container port at Port Chalmers and provides wharf facilities at Dunedin. The company also has substantial property holdings. The following tables detail the principal activities of the company's subsidiaries, associates and joint ventures:

Name	Percentage owned	Balance date	Principal activity
Subsidiaries			
Chalmers Properties Limited	100%	30 June	Property investment
Perpetual Property Limited	100%	30 June	Property investment
South Freight Limited	100%	30 June	Dormant (non trading)
Fiordland Pilot Services Limited	100%	30 June	Shipping services
Associates			
Hamilton JV Investment Company Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.2 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.3 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.4 Limited	50%	30 June	Property trustee (non trading)
Hamilton JV Investment Company No.5 Limited	50%	30 June	Dormant (non trading)
Hamilton JV (N3) Limited	50%	30 June	Property trustee (non trading)
Hamilton Porter JV Company Limited	33.3%	30 June	Property trustee (non trading)
Ormiston Road JV Company Limited	50%	30 June	Property trustee (non trading)

NOTES TO THE FINANCIAL STATEMENTS continued

21. Investment in subsidiaries, associates and joint ventures (continued)

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

The Group's interest in the jointly controlled entities are as follows:

Name	Percentage owned	Balance date	Principal activity
Joint ventures			
HarbourCold Dunedin	50%	30 June	Cold store operation
The Hamilton Joint Venture	50%	30 June	Property investment
Hamilton JV Number 2	50%	30 June	Property investment
Hamilton JV Number 3	50%	30 June	Property investment
Hamilton JV Number 4	50%	30 June	Property investment
Hamilton JV (N3)	50%	30 June	Property investment
Hamilton Porter JV	33.3%	30 June	Property investment
Ormiston Road Joint Venture	50%	30 June	Property investment

Port Otago Limited's investment in wholly owned subsidiary companies is recorded at cost.
The financial statements include the relevant interest in each joint venture's assets and liabilities at 30 June 2008 along with the share of trading for the relevant period.

	NOTES	GROUP		PARENT COMPANY	
		2008 $000	2007 $000	2008 $000	2007 $000
Current assets		1,872	9,406	212	148
Non current assets		26,825	20,113	38	51
Total assets		28,697	29,519	250	199
Current liabilities		(155)	(5,094)	(18)	(45)
Non current liabilities		(14,487)	-	-	-
Total liabilities		(14,642)	(5,094)	(18)	(45)
Net assets		**14,055**	**24,425**	**232**	**154**
Income		836	(3,549)	832	861
Expenses		(1,381)	(1,263)	(757)	(739)

Any capital commitments and contingent liabilities arising from the Group's interest in joint ventures are disclosed in notes 22 and 23 respectively.

22. Capital expenditure commitment

At 30 June 2008 the Group had commitments/approvals for capital expenditure of $8.2 million (last year: $13.9 million).

Included within capital commitments is the Group's 33.3% share, via joint venture participation, in a contract to purchase land at Hamilton. The joint venture has contracted to purchase the property for $19.0 million (plus GST). Both an initial deposit of $1.9 million and GST of $2.4 million have been paid to the vendor. The settlement amount of $17.1 million (Group 33.3% share: $5.7 million) is due for payment in April 2010. An independent valuation showed that the property being purchased had a fair value of $17.7 million at 30 June 2008.

The remaining capital expenditure of $2.3 million (last year: $5.8 million) relates to improvements to the port's infrastructure and assets.

NOTES TO THE FINANCIAL STATEMENTS continued

23. Contingencies

Apart from the matters noted below, there are no contingent liabilities at 30 June 2008 (30 June 2007: nil).

Port Noise
The Company continues to have an obligation to either carry out or contribute to acoustic treatment of certain properties in Port Chalmers. The Company is unable to reliably assess its future obligation since the extent and timing of noise mitigation expenditure will depend on the decisions of individual property owners.

Guarantees
The Group has a 50% interest in certain Hamilton Joint Ventures. As part of funding arrangements the Group has guaranteed joint venture borrowings from ANZ National Bank Limited to a limit of $21 million. At 30 June 2008 joint venture bank borrowings were $21 million (last year: nil) and the Group's 50% share, amounting to $10.5 million, was recorded as a non current liability in the Balance Sheet. Note 15 contains further details.

At 30 June 2007 guarantees totalling $US0.6 million were outstanding as part of contractual arrangements for the purchase of a container crane. These guarantees expired before balance date.

GST refund due to joint venture
The Group has a 33.3% interest in a joint venture which has a $2.4 million GST refund claim under dispute with the Inland Revenue Department (IRD). The joint venture also has a $2.4 million GST offset agreement which the IRD is verifying. The Joint Venture Manager is confident that these GST matters will be resolved in the joint venture's favour. If this does not occur then the Group may be obliged to contribute a 33.3% share of any GST penalties which arise.

Contract for the sale of joint venture land
A joint venture in which the Group has a 33.3% share has entered into a long-term conditional contract to sell a subdivided site for $1.8 million. The purchaser may cancel the contract if an Approved Survey Plan is not lodged by April 2013.

24. Transactions with related parties

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

	GROUP		PARENT COMPANY	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
Related party revenue/(expenditure) transactions during the year:				
• Otago Regional Council				
Contribution towards operation of Harbour Control Centre	60	60	60	60
Sale of land and buildings	3,350	-	3,350	-
• Chalmers Properties Limited				
Administration services provided	-	-	240	144
Consultancy fees	-	-	(68)	-
Interest expense	-	-	(129)	(31)

Amounts receivable from related parties are included in note 6.

NOTES TO THE FINANCIAL STATEMENTS continued

24. Transactions with related parties (continued)

(b) Financial arrangement – Hamilton Joint Ventures

The Group has an interest in certain Hamilton Joint Ventures. Pursuant to the joint venture agreements Chalmers Properties Limited (CPL), through the services of its Chief Executive, is the manager for each of the Hamilton Joint Ventures.

In April 2004 the joint venture participants agreed to the sale of 10% of a 43.7 hectare block of joint venture land (being 4.37 hectares), at its cost price of $0.4 million, to the CPL Chief Executive subject to final confirmation on the manner in which the agreement would be implemented. As reported at 30 June 2007, subsequent negotiations resulted in a decision not to proceed with the sale on the basis outlined.

Subsequent to this an agreement has been formalised whereby The Hamilton Joint Venture sells, at market value, 10% (of which the Group's half share amounts to 5%) of the 43.7 hectare block of joint venture land to the CPL Chief Executive.

The terms of the transaction with the CPL Chief Executive are as follows:

- Sale price of $2.84 million (plus GST if any) with deposits totalling $0.28 million payable when certain conditions are met and the balance payable on the vendor providing title, which is projected to occur in 2011.
- The Hamilton Joint Venture participants will pay 75% of the costs of developing the land to be sold, up to a maximum of $0.84 million before tax, which amounts to $1.38 million after payroll taxes are added. The Group's share is 50% of this amount, or a maximum of $0.69 million.

A provision was raised during the year to reflect the Group's share of:

- the difference between the $2.84 nominal sale proceeds and the net present value of the sales proceeds, and
- the earned portion of the net present value of incentives to be reimbursed by The Hamilton Joint Venture participants. The discounted incentives are recognised as earned on a straight-line basis over the period from February 2008 to September 2011.

In the Consolidated Income Statement the raising of the provision resulted in a charge to profit of $403,000. As a result of the discount partially unwinding during the year the balance of the provision had reduced to $364,000 at 30 June 2008, as disclosed in note 14.

NOTES TO THE FINANCIAL STATEMENTS continued

24. Transactions with related parties (continued)

(c) Other related party transactions

Director(s)	Related Party	Nature of relationship
D R Black	Director of Farra Dunedin Engineering Limited	Supplier to the Group Lease of property from Group
E G Johnson	Chairman of Fulton Hogan Group	Supplier to the Group Lease of property from Group
V H Pooch	Director of Key Business Partners Limited	Supplier to the Group

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

	GROUP		PARENT COMPANY	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
• **Farra Dunedin Engineering Limited**				
Property rental	21	21	-	-
Maintenance expense	(30)	(28)	(30)	(28)
Capital expenditure	(76)	(37)	(76)	(37)
• **Fulton Hogan Group companies**				
Property rental	31	56	31	56
Transport and warehouse revenue	2	2	2	2
Maintenance expense	(343)	(393)	(343)	(393)
Capital expenditure	(34)	(977)	(34)	(977)
• **Key Business Partners Limited**				
Consultancy services	(17)	(22)	(17)	(16)

Related party receivable/(payable) at year end:

	GROUP		PARENT COMPANY	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
• **Fulton Hogan Group companies**				
Receivable	3	1	3	1
Accounts payable	(4)	(189)	(4)	(189)
• **Farra Dunedin Engineering Limited**				
Receivable	7	-	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. Key management personnel compensation

The gross remuneration of directors and key management personnel during the year was as follows:

	GROUP		PARENT COMPANY	
	2008 $000	**2007 $000**	**2008 $000**	**2007 $000**
Directors' fees	369	348	264	231
Salaries and other short-term employee benefits	1,790	1,789	1,196	1,196
	2,159	**2,137**	**1,460**	**1,427**

26. Dividends – Group and Parent Company

	NOTES	2008 $000	2007 $000
Declared and proposed in respect of the current financial year:			
Interim dividend		2,500	2,500
Second interim dividend (paid 1 July 2008)		2,500	2,500
Special dividend (paid 1 July 2008)		2,500	-
Final dividend		1,900	1,900
Dividends for the financial year		**9,400**	**6,900**
Adjust for dividends declared after year end:			
2008 Final dividend declared September 2008	28	(1,900)	-
2007 Final dividend declared August 2007		1,900	(1,900)
2006 Final dividend declared August 2006		-	1,750
Dividend distributed to owners as disclosed in the Consolidated Statement of Changes in Equity		9,400	6,750
Dividends per share (cents)		47	34.5

27. Operating leases - Group and Parent Company

The future minimum lease payments to be paid under non-cancellable operating leases are as follows:

	NOTES	2008 $000	2007 $000
Payable within one year		625	720
Payable within one to two years		550	554
Payable within two to five years		827	1,377
		2,002	**2,651**

A significant portion of the total non-cancellable operating lease amount relates to the lease of a cold store. This lease commenced in April 2007 for a 5-year period expiring in March 2012. Other operating leases comprise leases of vehicles and equipment.

NOTES TO THE FINANCIAL STATEMENTS continued

28. Significant events after balance date

Dividends

On 2 September 2008 the directors declared a final dividend of $1.9 million for the year ended 30 June 2008. As the final dividend was approved after balance date, the financial effect of the dividend payable of $1.9 million has not been recognised in the Balance Sheet.

AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

AUDIT REPORT

**TO THE READERS OF
PORT OTAGO LIMITED AND GROUP'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

The Auditor-General is the auditor of Port Otago Limited (the company) and group. The Auditor-General has appointed me, Bede Kearney, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company and group, on his behalf, for the year ended 30 June 2008.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 8 to 41:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the company and group's financial position as at 30 June 2008; and
    - the results of operations and cash flows for the year ended on that date.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 3 September 2008, and is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

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

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;

AUDIT REPORT continued

- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

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

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company and group as at 30 June 2008 and the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Port Companies Act 1988 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19 of the Port Companies Act 1988.

Independence

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

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

Bede Kearney
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements of Port Otago Limited and Group for the year ended 30 June 2008 included on Port Otago Limited's web-site. Port Otago Limited's Board of Directors is responsible for the maintenance and integrity of Port Otago Limited's web site. We have not been engaged to report on the integrity of the Port Otago Limited's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and the related audit report dated 3 September 2008 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

STATUTORY DISCLOSURE

The following disclosures are made pursuant to the Companies Act 1993 in respect of the financial year ended 30 June 2008.

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

Chalmers Properties Limited, a wholly owned subsidiary, manages the Group's investment property portfolio.

Financial results
The Group recorded a profit for the year of $27.8 million compared to $39.3 million last year.

Dividends
A final dividend of $1.9 million will be paid on 5 September 2008, which brings ordinary dividends for the year to $6.9 million. In addition to the ordinary dividends a special dividend of $2.5 million was declared in June 2008 and paid 1 July 2008.

Changes in Accounting Policies
Accounting policies have been applied consistently with the prior year except as detailed in note 2.

Directors
In accordance with the Company's constitution at least one third of the Directors retire by rotation at each Annual Meeting. The Directors who retire in each year are those who have been longest in office since their last election or appointment.

At the Company's last Annual Meeting Mr J W Gilks and Mr E G Johnson retired by rotation and were reappointed. Mr G L Berry resigned on 1 April 2008.

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

	Port Otago Limited $000	Chalmers Properties Limited $000	Total Group $000
J W Gilks (Chairman)	78	12	90
D R Black (Deputy Chairman)	37	8	45
G L Berry (resigned 1 April 2008)	28	23	51
E G Johnson	32	7	39
J D Miller	30	24	54
D Rillstone	31	20	51
V H Pooch	28	11	39
	264	**105**	**369**

STATUTORY DISCLOSURE continued

Directors interests

Directors have disclosed the following general interests for the year ended 30 June 2008 in accordance with Section 140 of the Companies Act 1993:

Director	Entity	Relationship
J W Gilks	Botry – Zen Limited	Director
	Business in the Community Limited	Director
	Dublin Bay Investments Limited	Director
	Fisher & Paykel Appliances Holdings Limited (and its wholly owned subsidiaries)	Director
	Fisher & Paykel Finance Limited (and its wholly owned subsidiaries)	Director
	K.M.K Storage Limited	Director
	Merlin Genesis Limited	Director
	Philip Laing House Limited	Director
	Receivables Management (N.Z.) Limited (and its wholly owned subsidiaries)	Chairman
D R Black	Clough Holdings Limited	Chairman
	Farra Engineering Limited	Chairman
	Forests Otago Limited	Chairman
	Lifevent Medical Limited	Chairman
	Otago Rescue Helicopter Trust	Chairman
	Timberlands West Coast Limited	Chairman
	Healthcare Otago Charitable Trust	Chairman
E G Johnson	Bank of New Zealand	Director
	Fulton Hogan Limited (and its wholly owned subsidiaries)	Chairman
	Goldpine Group Limited (and its wholly owned subsidiaries)	Chairman
	MDC Holdings Limited (and its wholly owned subsidiaries)	Director
	National Institute of Water and Atmospheric Research Limited (and its wholly owned subsidiaries)	Director
	Stone Farm Holdings Limited	Director
J D Miller	Hamilton JV Investment Company Limited	Director
	Hamilton JV Investment Company No.2 Limited	Director
	Hamilton JV Investment Company No.3 Limited	Director
	Hamilton JV Investment Company No.4 Limited	Director
	Hamilton JV Investment Company No.5 Limited	Director
	West Meadows Limited	Director
D Rillstone	Crosshill Farm Limited	Director
	Hazlett & Sons Limited (and its wholly owned subsidiaries)	Director
	Medic Limited	Director
	Payton Holdings Limited	Director
	Barker Fruit Processors Limited	Director
V H Pooch	Canterbury Despatch Limited	Chairman
	Key Business Partners Limited	Director
	Number Power Limited	Director
	Trackit New Zealand Limited	Chairman

STATUTORY DISCLOSURE continued

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
480,001 – 490,000	1
320,001 – 330,000	1
180,001 – 190,000	1
170,001 – 180,000	2
160,001 – 170,000	4
150,001 – 160,000	2
140,001 – 150,000	1
130,001 – 140,000	2
120,001 – 130,000	1
110,001 – 120,000	1
100,001 – 110,000	3

Remuneration includes salary, bonuses, motor vehicles and other sundry benefits received in the person's capacity as an employee.

Directors of subsidiary companies

Directors fees for Chalmers Properties Limited are shown under directors remuneration. No directors fees were paid by Fiordland Pilot Services Limited, Perpetual Property Limited and South Freight Limited.

The following persons held office as directors of subsidiary companies at 30 June 2008, or resigned during the year - as indicated with an (R):

Company	Director
Chalmers Properties Limited	J W Gilks, D R Black, G L Berry (R), E G Johnson, J D Miller, V H Pooch, D Rillstone
Fiordland Pilot Services Limited	J W Gilks, D R Black, G L Berry (R), J D Miller, V H Pooch, D Rillstone
Perpetual Property Limited	J W Gilks, D R Black, G L Berry (R), J D Miller, V H Pooch, D Rillstone
South Freight Limited	A R Taggart

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 2008 was $91,750 (last year: $79,000).

For and on behalf of the Board of Directors

J W Gilks
Chairman
2 September 2008

D R Black
Director
2 September 2008

FIVE YEAR SUMMARY

Trade analysis	2008	2007	2006	2005	2004
Number of ships	551	617	529	494	537
Cargo throughput (000's tonnes)	3,052	2,974	2,798	2,812	2,756

Financial comparisons	2008 $000	2007 $000	2006 $000	2005# $000	2004# $000
Revenue	62,564	59,373	50,429	46,507	44,616
Surplus from operations (EBIT)					
Port operations	14,612	13,614	11,709	10,757	11,581
Investment property	7,408	6,599	5,613	4,673	4,357
Total group	22,020	20,213	17,322	15,430	15,938
Included in Surplus from operations:					
Unusual revenues/(expenses)	2,447	84	344	(100)	608
Surplus before tax (before revaluations)	14,154	16,666	14,026	12,572	13,694
Profit after tax (before revaluations)					
Port operations	6,063	9,099	6,252	5,981	6,784
Investment property	3,810	5,298	3,134	2,368	2,314
Total group	9,873	14,397	9,386	8,349	9,098
Unrealised net change in value of investment property	17,915	24,884	31,730	15,460	13,364
Profit after unrealised revaluations	27,788	39,281	41,116	23,809	22,462
Dividends for financial year	9,400*	6,900*	6,750*	6,500*	6,500*
Shareholders equity	266,315	251,923	212,904	128,023	110,714
Total assets					
Port operations	203,090	206,034	186,382	77,820	73,326
Investment property	198,409	189,907	166,704	110,907	86,283
Total group	401,499	395,941	353,086	188,727	159,609
Shareholders equity	66%	64%	60%	68%	69%
Net asset backing per share	$13.32	$12.60	$10.65	$6.40	$5.54
Earnings per share (cents)	138.9	196.4	205.6	119.0	112.3
Dividends per share (cents)	47.0*	34.5*	33.8*	32.5*	32.5*
Return on equity**					
before unrealised revaluations	3.8%	6.2%	4.7%	7.0%	8.9%
after unrealised revaluations	10.7%	16.9%	20.8%	19.9%	21.9%
EBIT return on assets					
Port operations	7.1%	6.7%	6.8%	14.2%	16.5%
Investment property	3.8%	3.7%	4.1%	4.7%	5.7%
Total group	5.5%	5.4%	5.7%	8.9%	10.9%

Financial data for 2004 to 2005 was prepared under superseded NZ GAAP and has not been restated to NZ IFRS
* Includes the final dividend for the financial year declared after balance date, as disclosed in Note 26
** Profit divided by average shareholders equity

DIRECTORY

Directors

John Gilks	Chairman
Ross Black	Deputy Chairman
Ed Johnson	
Jim Miller	
Vincent Pooch	
Dougal Rillstone	

Executive

Geoff Plunket	Group Chief Executive
Matt Ballard	General Manager Human Resources
Peter Brown	General Manager Commercial
Lincoln Coe	General Manager Infrastructure
Ron Horner	General Manager Operations
Andrew Taggart	Chief Financial Officer

Chalmers Properties Limited

Andrew Duncan	Chief Executive

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Email	pol@portotago.co.nz
Website	www.portotago.co.nz

Bankers

ANZ National Bank Limited

Solicitors

Anderson Lloyd

Auditors

Audit New Zealand on behalf of the Auditor-General

PORT OTAGO LIMITED

www.portotago.co.nz