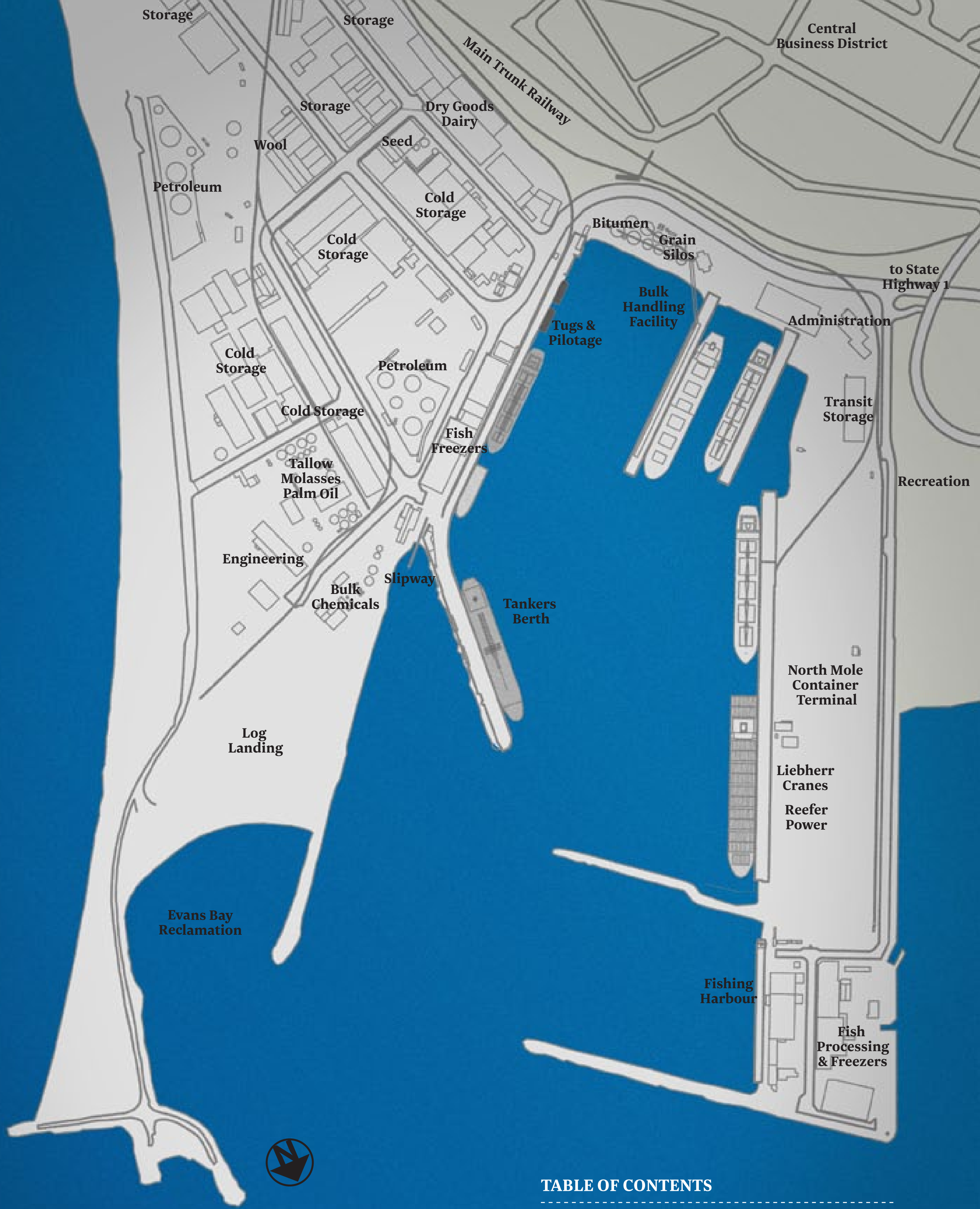
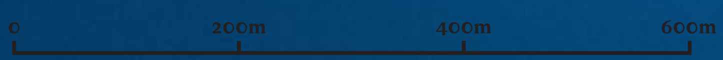
PRIMEPORT TIMARU

Annual Report 2010





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CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW 2009/2010

OVERVIEW

Ports and shipping are at the forefront of trade and the global markets that in the last two years have been buffeted by fuel price shocks and a financial crisis. In response shipping lines and major customers have consolidated to reduce services creating particular challenges for the Regional Ports of New Zealand. PrimePort Timaru was one of the Ports impacted and restructured the business in response. The challenge was compounded by the announcement early this financial year by Fonterra to divert the majority of their production from Timaru to Lyttelton. This report demonstrates resilience by the Company to not only meet these challenges but to adapt and reposition itself to present a strong base for the future.

We also comment on the purchase of rail by Government. PrimePort continues to lobby that KiwiRail's aggressive entry into the market with an effective Government subsidy has distorted the logical development of coastal options and constrained optimal use of existing infrastructure.

In reviewing the current year we note PrimePort's container throughput of 44,800 TEU was 27% down on last but this is better than the 40% drop initially attributed to the Fonterra decision. It is an outcome that reflects support of other customers and continuing focus on service. At the same time operational staff accepted a new contract that allows an efficient and very flexible approach. This multi-skilled team must take most of the credit for meeting these challenges and producing what has to be judged a successful year. The operational viability of the container business was tested and the Port had to work through a second staff restructuring plan, following a similar process in the previous year.

Operating profit before tax, and both financial and operational restructuring was $1.5 million, which despite the difficult environment was within range of previous years. The Port has retained a strong container facility and proved this part of the business can remain viable at lower throughput.

At the same time the strength of PrimePorts breakbulk service must be recognised. The central South Island location and direct link to road and rail provides an ideal distribution point that builds on excellent storage facilities. It is a business that in key areas continues to grow, and ensures the sustainability of the Port whether or not containers remain a part in the long term.

The bulk trade volumes at 782,000 tonnes remained at similar levels to last years. The installation of a LFO (Light Fuel Oil) facility last year meant volumes of fuel imports increased by 20%. Improved log prices led to an increase of log volumes by 75% and fertiliser demand increased by 15% over last year's numbers. Offsetting this was a 72% decrease in palm kernel demand, a 36% decrease in general break-bulk cargo, and 42% reduction in conventional cargo mainly attributable to a complete shut down in the export of sawn timber.

Overall PrimePort Timaru exchanged 1.2 million tonnes of cargo across the wharves, a 12% decrease on the previous year.

Port revenue decreased to $18.2 million from $20.1 million last year linked directly to the decreased container numbers.

Port investment property revaluations increased by $769,000, a slightly larger increase than last year's amount of $454,000.

Strong cash flows supported a reduction in the Debt to Equity ratio from 14% to 8%. Our net assets backing sits at $6.70 per share slightly up from last year.

The company has responded well to a difficult trading environment, and positioned itself to be stronger than at the same time last year. This view is backed by a dedicated work force to embrace new opportunities as they arise.


MAERSK
MAERSK

FINANCIAL

We report a 2010 year net profit before tax and investment property revaluations of $691,000, versus $1,815,000 in 2009. After tax profit of $633,000 was down on last year's profit of $1,713,000. As explained below, these comparisons reflect a number of one off costs. At normal operating level the outcome was $1.5 million operating profit before tax compared to $1.7 million last year.

Port operational revenue decreased from $17.6 million to $15.5 million in 2010 because of the reduced container numbers. Net cash flows from operating activities however increased from $3.5 million to $4.6 million attributable to reduced expenses, in particular dredging which was less than typical this year. ($683,000 compared to $1,446,000 expensed in the 2009 financial year). The storm damage that occurred in June 2010 will be amortised over the new financial year.

Direct expenses also reduced overall in line with our reduced revenue.

Financing costs at $935,000 were up 30% from last year due to the one off expense of $290,000 relating to breaking a loan arrangement no longer required. Borrowing costs therefore, decreased over the year, aside from this expense.

Shareholder funds increased to a level of $66.9 million from $65.5 million. No dividend has been approved from the 2009/10 earnings, reflecting the low after tax profit.

A contingent liability disclosed in last years accounts relating to an unresolved dispute with one customer has increased to $1.3 million from $862,000 last year.

Taxation expense includes a one-off adjustment for change in taxation rules related to property depreciation. This is a non-cash item that increased taxation expense by $718,000 and also increased our deferred tax liability balance by the same figure.

Reduced borrowings and positive working capital means that PrimePort Timaru is left in a very solid financial position for the 2011 financial year.


RURAL

MARKETING

Primeport Timaru remains the most ideally situated South Island connection for a logistics import/export transport hub. The port is located within 100kms of the largest area of irrigated land in New Zealand with further significant irrigation prospects on the horizon.

Primeport Timaru is adjacent or close to 3 dairy processing plants, 5 export meat processing plants, 3 major vegetable processing operations, and 3 export fishing companies. The potential for further export and import cargo is significant. Primeport Timaru also has 20 hectares of bare land which is available to third party developers for storage, distribution and furthering the logistics efficiencies of the region.

Excellent customer support is provided by a weekly container shipping service from Maersk and Hamburg Sud on the OC1 – Trident service, with support by Hapag Lloyd. This service provides a direct connection to Central Americas, East Coast North America and Europe, excellent connections to Asia and strong transhipment options to all other destinations across the globe.

Swire Shipping (previously Tasman Orient) has reconfirmed it's commitment to Primeport Timaru with an updated contract, cementing this 15 year relationship. Swire provide the South Island's only specialist breakbulk and container service for direct North Asian imports and exports and links to all Asia. This service now includes a north bound Australian connection via Brisbane, gaining good support from South Island customers.

Following the announcement of Fonterra to move more of the Clandeboye product by rail through the Port of Lyttelton, container numbers have reduced to levels last seen in 2003/04. However the continued support of local exporters, importers, regional logistics providers and commitment by all Primeport Timaru staff has substantially mitigated the impact of the announcement. Primeport Timaru's intrinsic link to a local agricultural economy that continues to prosper and grow, continues.

Trade in break-bulk commodities has remained constant overall but reflects a number of variances within. The log trade to China has seen a record tonnage through Primeport Timaru, typical of many ports in New Zealand. Storage areas have been expanded to meet this demand. Consultation with log exporters continues, as we consolidate this growth in future years and enhance facilities. In the year ahead a new log exporter has also indicated they will contribute to increased throughput.

The introduction of a light fuel oil facility by Greenstone (Shell) last year underpinned an increase in imports while the reintroduction of car imports for the region via containers shows a positive outlook for the coming years.

Holcim Cement continues to develop the proposal for a new cement plant at Weston, near Oamaru. The concept has been expanded to include the export of clinker (a product manufactured part way through the cement process). This will increase potential annual production to one million tonnes, the majority of which will be shipped via PrimePort. It is understood that this proposal will be presented for a final commitment decision by the parent company in Switzerland in late 2010. We continue to build a strong partnership with Holcim recognising the very positive contribution this project will have for PrimePort and the wider region.

Primeport Timaru appreciates the ongoing support by the many importers, exporters, and logistics providers helping Primeport Timaru through a difficult trading year.

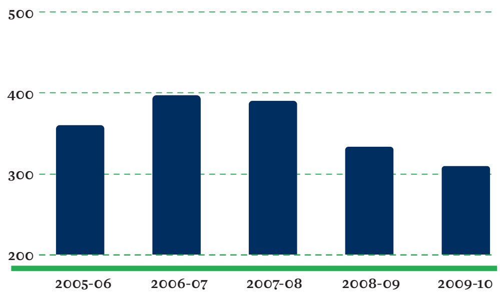

JUARA
NAMA

PRIMEPORT OPERATIONS

SHIPS

The gross registered vessel tonnage at 3.2 million GRT was down 9% on last year as a result of reduced shipping. Ship numbers were also down to 309, of which 87% were piloted. Last year we saw 327 vessels of which 81% were piloted.

SHIP NUMBERS



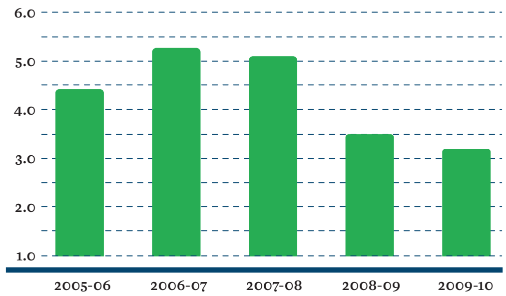
CARGO

Non-containerised cargo handled through the Port in 2010 was the equivalent of 782,000 tonnes, 9,000 tonnes less than the previous year.

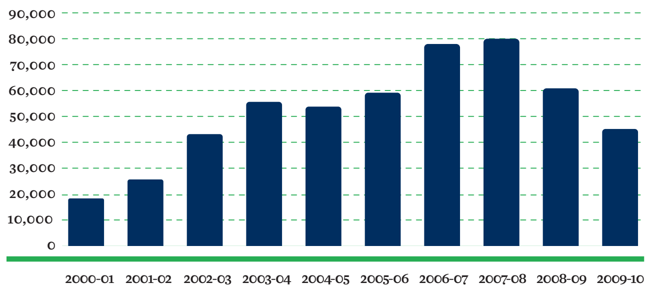
Containers handled through the Port in 2010 decreased from 60,100 TEUs to 44,800.

The combined cargo tonnage across the wharves was 1,233,000. The pie charts and cargo graphs shows our key cargo statistics for the year.

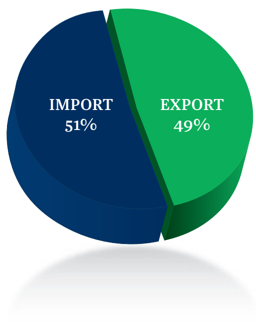
GROSS REGISTERED TONNES (MILLIONS)



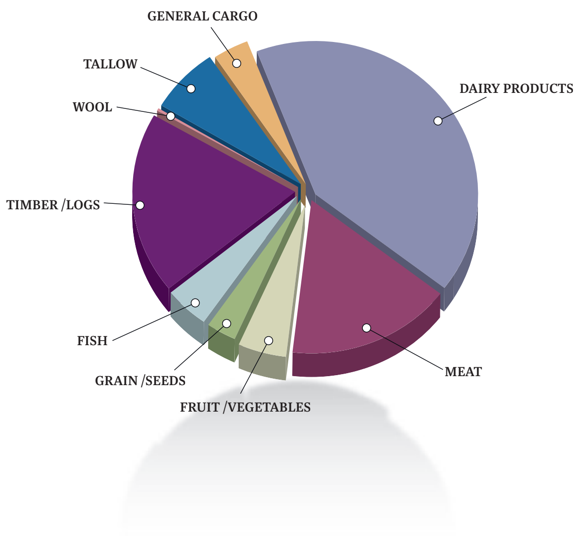
CONTAINER VOLUME (TEU'S)



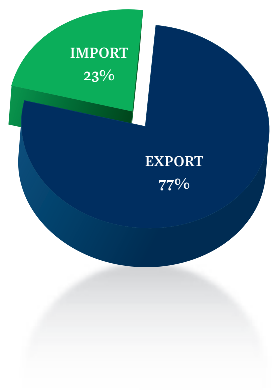
2010 TOTAL CARGO MIX (TONNES)



2010 EXPORT CARGO MIX



2010 CONTAINER CARGO MIX (TONNES)




R94506-5
340X1270X3000
3470 KG
NZAS
1070S
R94506-7
3465KG
R94503-7
R94503-5
R94503-8


EX120
CAT
320C
msc

CAPITAL DEVELOPMENT

A conservative capital expenditure programme of $800,000 was implemented in the current year with only essential replacements and development done. This does not detract from the operation of a modern fleet and proactive approach to maintenance. A similar approach has also been adopted in the budget for the 2011 financial year.

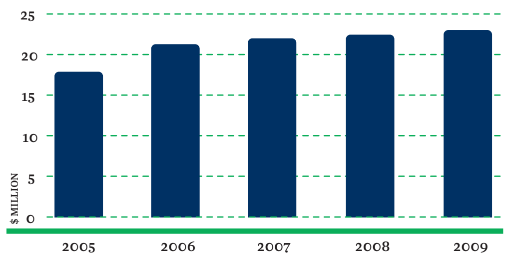
PROPERTY

All land was revalued with an overall increase in property value of $1,220,000. This reflects a $451,000 increase in operational land value and a $769,000 increase in investment property value. Investment property is now valued at $24.4 million, including $2.0 million for buildings.

The Investment property valuation graph illustrates this net growth of property values for the Port investment property over the past 5 years.

Property revaluation reserves included in equity amounts to $37.4 million, contributing $3.74 per share to net asset value.

PORT INVESTMENT PROPERTY VALUATIONS



OUR PEOPLE

In what was a particularly difficult start to the new financial year the company remains indebted to the commitment and dedication of our staff. It was regrettable that 5 staff were made redundant and not re-employed on our new operational collective. The new collective has provided a flexible and practical solution for both staff and the company. All staff have continued to take pride in delivering efficient and effective services to customers, both on and off the wharf.

Since balance date, several staff have moved to new opportunities outside the Port sector. Notably Paul McNeill our Marine Manager resigned in September after 5 years with the Port. Paul led the marine team through a period of change that included the introduction of a new tug, security regulations and Ports & Harbour regulations. We wish Paul and others success in their new endeavours.

To all staff, thank you, we appreciated your professionalism, dedication to the business and commitment to the team, in circumstances that have not always been easy.


TASMAN ORIENT


KOMATSU
NO PARKING

DIRECTORS

Messrs Nigel Gormack and Andrew Turnbull both retire by rotation at the Annual General Meeting.
They have been re-nominated by Timaru District Holdings Ltd and Port Industry Holdings Ltd respectively for a further term.

PRIMEPORT SHAREHOLDERS

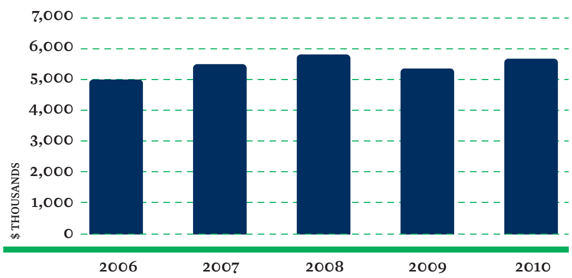
There have been no changes in shareholding during the year. The company continues to work closely with its shareholders keeping them informed of developments. The company appreciates the support from both its direct and indirect shareholders.

Shareholding equity equates to a 48% growth over the last 5 years. This is an average of 7.7% annually over that period.

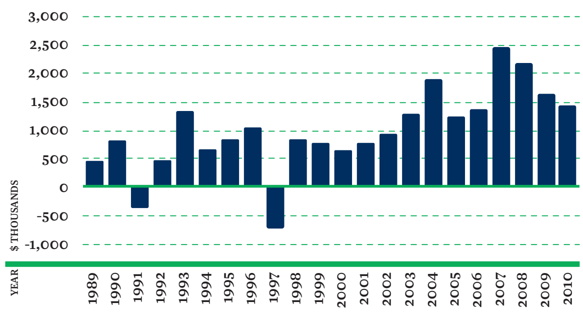
Earnings before interest, tax, depreciation and amortisation (EBITDA) remains similar to the past four years despite the challenges faced.

The normal port operating profit since port deregulation shows the trend in profitability over the past 26 years. A recent downward trend is evident but the current year remains a relative better performing year than we have had in the majority of our past.

EBITDA USING NORMAL PORT OPERATING PROFITS



NORMAL PORT OPERATING PROFITS




MAERSK SEALAND


TASMAN CHALLENGER

2010/2011 OUTLOOK

The Port and Shipping sector in New Zealand remains dynamic, with changes expected but no clear perspective how this change will evolve. The uncertainty is further compounded by major changes contemplated in the transport sector, most notably, rail. In the marine sector commentators promote catch phrases that include hubbing, rationalisation, port mergers and big ships with parties often espousing bipartisan views to the benefit of their shareholders. Most options demand significant capital with associated commercial risk and strategies that will have a long term impact on New Zealand's trading competitiveness. If the airline sector was used as to compare it would show a different approach where plane size and airport spread reflects customer demand for frequency, capacity and proximity to the customer base.

In the case of PrimePort Timaru, we remain focused on our core activities to provide good service and to optimise the advantages of a central location, direct connections to road and rail with land and storage capacity for unrestricted growth. PrimePort remains ideally suited to support breakbulk over all trades and continues to develop business plans that will stand independent of the uncertainty in the container industry.

Opinions differ as to whether the Shipping lines have weathered the worst of the global financial crisis. The reduction of shipping services through Vessel Sharing Agreements (VSA) led to a reduction in capacity which created difficulties for exporters through the peak season. At the same time larger exporters have been instrumental in reshaping the logistics chain to improve their integrity of supply and service.

The recent price increases across all shipping lines shows that capacity is now at a stage where the lines are seeking rate reinstatement and a return to profitability. We anticipate market tension as exporters are required to balance price and service going forward. Our own perception is that reduced options will also create greater dependencies.

We believe Government's investment in rail is creating another such dependency. It is an investment that has been made in isolation of a robust transport strategy for the country. Regional ports such as Timaru and Taranaki have already been impacted by this decision. Given the scale of the investment and impact on New Zealand's freight future, we believe it is a question that warrants ongoing scrutiny and comparison with coastal and other solutions.

The positive support by the key shipping lines of Maersk, Hamburg Sud and Swire ensure a vibrant container service remains in Timaru with services to all parts of the world.

The bulk trade is strong with ongoing prospects. The current increase in log exports across New Zealand is set to continue into the new financial year. This will also apply in PrimePort where we are working with exporters to increase facilities. The growth of dairying and other agriculture in the South Island supports an increase in fertiliser, stock feed and related products through Timaru. PrimePort is hopeful of continuing its support of oil exploration off the coast of North Otago that is planned next year.

The new Light Fuel Oil facility has complemented the other infrastructure ideally suited for the fishing industry which continues to provide excellent support to Timaru.

We remain optimistic that Holcim will commit to a new cement plant in Weston in the coming year. This is a 50 year proposition that will anchor future trade through the Port.

It is also an example of a number of projects that are planned in the central South Island in the next 2 to 5 years. Such projects that are planned or consented include electricity plants, irrigation and milk plants. PrimePorts heavy lift and over dimension capability are well tailored to service these projects.

PrimePort Timaru has operated in a challenging environment in the last 2 years. The commitment of staff and strong support from our shipping partners has allowed the Port to sustain a strong service and reposition itself to look to the future with some optimism. The outlook is positive with many opportunities ahead

Sid McAuley CHAIRMAN

Jeremy Boys CHIEF EXECUTIVE

PRIMEPORT TIMARU

PRIMEPORT TIMARU LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	2010 $000	2009 $000
OPERATING REVENUE			
Port operational		15,503	17,628
Property rentals	22	2,625	2,398
Surplus on disposal of operational fixed assets		-	109
Surplus on disposal of port related investment property		23	-
		18,151	**20,135**
OPERATING EXPENDITURE			
Staff	25	5,599	5,549
Port operating	20	5,091	5,772
Depreciation	7	3,442	3,288
Finance		935	720
Dredging	7	583	1,446
Dredging impairment	7	100	-
Directors		152	152
Operating leases		1,326	1,306
Audit services - Audit		48	47
Bad debts incurred		64	20
Doubtful debts		115	20
Loss on disposal of operational fixed assets		5	-
		17,460	**18,320**
Operating profit before tax and port investment property revaluations		**691**	**1,815**
Port investment property revaluations	8	769	454
Profit before tax		**1,460**	**2,269**
Taxation	2	(827)	(556)
Profit for the year	3	**633**	**1,713**
Other comprehensive income			
Operating land revaluations		451	(1,592)
Financial instrument hedging		413	(401)
Income tax relating to financial instrument hedging		(124)	120
Other comprehensive income for the year		**740**	**(1,873)**
Total comprehensive income for year attributable to equity holders		**1,373**	**(160)**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	ISSUED SHARES	HEDGING RESERVE	RE-VALUATIONS	RETAINED EARNINGS	TOTAL
Equity at the beginning of the year 2009		10,000	(472)	15,236	40,734	65,498
Total comprehensive income for year attributable to equity holders	4	-	289	451	633	1,373
Distributions to shareholders	6	-	-	-	-	-
Equity at the end of the year 2010		**10,000**	**(183)**	**15,687**	**41,367**	**66,871**
Comparatives for 2009						
Equity at the beginning of the year 2008		10,000	(191)	16,828	39,021	65,658
Total comprehensive income for year attributable to equity holders	4	-	(281)	(1,592)	1,713	(160)
Distributions to shareholders	6	-	-	-	-	-
Equity at the end of the year 2009		**10,000**	**(472)**	**15,236**	**40,734**	**65,498**

The accompanying policies and notes form part of and should be read in conjunction with these financial statements.

PRIMEPORT TIMARU LTD
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

	NOTE	2010 $000	2009 $000
EQUITY			
Issued shares	6	10,000	10,000
Retained earnings	4	41,367	40,734
Revaluation reserve	5	15,504	14,764
TOTAL EQUITY		**66,871**	**65,498**
REPRESENTED BY			
LONG TERM ASSETS			
Operational fixed assets	7	48,364	51,100
Operational fixed assets under construction	18	370	43
Port related investment properties	8	24,427	23,820
TOTAL LONG TERM ASSETS		**73,161**	**74,963**
CURRENT ASSETS			
Cash and cash equivalents		1,648	1,046
Trade and other receivables	10	1,864	2,294
Inventory	20	222	281
TOTAL CURRENT ASSETS		**3,734**	**3,621**
TOTAL ASSETS		**76,895**	**78,584**
TERM LIABILITIES			
Money market loans	11+12	**5,500**	**9,000**
DEFERRED TAXATION	2	**943**	**306**
CURRENT LIABILITIES			
Trade and other payables	14	2,719	2,568
Employee entitlements	15	625	987
Tax payable		237	225
TOTAL CURRENT LIABILITIES		**3,581**	**3,780**
TOTAL LIABILITIES		**10,024**	**13,086**
NET ASSETS		**66,871**	**65,498**

For and on behalf of the
Board of Directors.
24 August 2010

S.G. McAuley
Chairman

J.M.W. Rolleston
Director

The accompanying policies and notes form part of and should be read in conjunction with these financial statements.

PRIMEPORT TIMARU LTD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	2010 $000	2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Sources			
Cash received from customers		19,136	19,948
Disbursements			
Payments to suppliers		6,957	7,400
Payments to employees		5,991	6,171
Net GST paid		(87)	180
Income tax and subvention payments		302	250
Interest on borrowing		940	706
Dredging		394	1,735
		14,497	16,442
Net cash from operating activities	3	**4,639**	**3,506**
CASH FLOWS FROM INVESTING ACTIVITIES			
Sources			
Proceeds from disposal of fixed assets		4	100
Disbursements			
Purchase of fixed assets		541	7,372
Net cash used in investing activities		**(537)**	**(7,272)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Sources			
Loans raised		-	4,750
Disbursements			
Loans repaid		3,500	-
Dividends paid		-	-
		3,500	-
Net cash used in financing activities		**(3,500)**	**4,750**
NET INCREASE (DECREASE) IN CASH		**602**	**984**
Opening cash and cash equivalents balances		1,046	62
CLOSING CASH AND CASH EQUIVALENTS BALANCES		**1,648**	**1,046**
Represented by			
Cash and cash equivalents		1,648	1,046

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

PrimePort Timaru Limited is a company registered under the New Zealand Companies Act 1993. PrimePort Timaru Limited and its non-trading subsidiaries which are all 100% owned are domiciled in New Zealand.

STATEMENT OF COMPLIANCE

The financial statements of PrimePort Timaru Limited are prepared in accordance with the Financial Reporting Act 1993, the Companies Act 1993 and with New Zealand equivalents to International Accounting Standards. PrimePort Timaru Limited is a Port Company within the provisions of the Port Companies Act 1988.

The company is a profit-orientated entity. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial standards also comply with International Financial Reporting Standards.

These financial statements of PrimePort Timaru Limited are for the year ended 30 June 2010. The financial statements were authorised for issue by the Board on 24 August 2010.

MEASUREMENT BASE

The financial statements are presented in New Zealand dollars. The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on a historical cost basis are followed by the group, with the exception that the following assets and liabilities are stated at their fair value: derivative financial instruments, investment property, financial instruments held for trading, and operational land. Non-current assets held for sale are valued at the lower of carrying amount and fair value less costs to sell.

USE OF ESTIMATES & JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period on which the estimate is revised and in any future periods affected. Our key assumptions are outlined in the following accounting policies.

SPECIFIC ACCOUNTING POLICIES

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

A: BASIS OF CONSOLIDATION

The financial statements are for PrimePort Timaru Limited. The financial statements show no investment in subsidiaries as no share capital has been issued for the non-trading subsidiaries.

B: OPERATIONAL PROPERTY, PLANT AND EQUIPMENT

Except for land and capital dredging all owned items of property, plant and equipment are initially recorded at cost less depreciation and impairment losses. Initial cost includes the purchase consideration and those costs directly attributable in bringing the asset to the location and condition necessary for its intended use. Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future benefits or service potential will flow and the cost of the item can be measured reliably. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete.

Operational land is stated at valuation as determined annually. The basis of valuation is fair value as determined by an independent registered valuer. Any increase or decrease in the value of land is recognised directly in other comprehensive income and is accumulated to an asset revaluation reserve account in equity for that asset. Where this would result in a debit balance in the relevant asset revaluation reserve, the balance is not recognised in other comprehensive income but is recognised in profit or loss. Any subsequent increase on revaluation that reverses a decrease recognised in the profit or loss, will be recognised first in the profit or loss up to the amount previously expensed and then recognised in other comprehensive income.

C: DEPRECIATION

Depreciation is calculated on a straight line basis to allocate the cost of an asset, less any residual value, over its useful life. The estimated useful lives of property, plant and equipment are as follows:

Land	Indefinite
Foreshore, sidings and breakwaters	Indefinite
Capital dredging	Indefinite
Wharves	20 - 50 years
Floating plant	10 - 15 years
Buildings and roading	20 - 50 years
Plant, machinery and equipment	2 - 25 years

D: PORT RELATED INVESTMENT PROPERTIES

Land and buildings held to earn rental income or for capital appreciation or both are deemed port related investment property. This includes land held for a currently undetermined use that is not owner-occupied property or for short term sale.

Port related investment property is valued at the end of each financial year. Valuation is at fair value as determined by an independent valuer. They are recorded at valuation and are not subject to annual depreciation. Variation in the value is recognised in the profit or loss.

E: DREDGING

Dredging expenditure is categorised into maintenance dredging and capital dredging.

Maintenance dredging is expenditure incurred to restore the channel to a previous condition and depth. On average the Port dredges the channel every 10 months. At the completion of maintenance dredging the channel has an average service potential of 10 months. Maintenance dredging expenditure is capitalised and amortised evenly over this period.

Capital dredging is expenditure which deepens or extends either the channel or the swing basin. This expenditure is not amortised as our maintenance programme ensures that channel and swing basin depth remains at dredged levels.

All dredging is reviewed for impairment when it is felt by management that events occurring may have diminished the depth of any previous dredging.

F: TRADE AND OTHER RECEIVABLES

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

G: NON-CURRENT ASSETS INTENDED FOR SALE

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction within the next financial year. Non-current assets held for sale are valued at the lower of carrying amount and fair value less costs to sell.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the profit or loss. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have previously been recognised. Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

H: INVENTORY

All inventory on hand is recorded at cost price, less any impairment losses.

I: TAXATION

Taxation comprises current tax and deferred tax.

Current taxation is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences. Deferred tax liabilities are generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Current tax and deferred tax is recognised against the profit or loss except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the tax is dealt with in equity or other comprehensive income respectively.

J: FOREIGN CURRENCIES

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction. Transactions covered by foreign currency forward exchange contracts are measured and reported at the forward rates specified in those contracts.

At balance date foreign monetary assets and liabilities are translated at the closing rate, and exchange variations arising from these translations are included in the profit or loss.

K: FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from its activities. Derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised in the profit or loss. Where the derivatives qualify for hedge accounting, they are accounted for as set out in accounting policy 'o'.

The fair value of interest derivatives is based on market factors the issuer believes to be relevant and in accordance with their policies. The fair value of forward exchange derivatives is their present value of the quoted forward price.

Non-derivative financial instruments comprise bank deposits (m), receivables and prepayments (f), borrowings (r), and accounts payable (t). Financial assets and liabilities are measured in accordance with their respective policies identified in parenthesis.

Financial instruments are recognised once the Company becomes a party to the contractual provisions of the instrument. Financial instruments are derecognised once the contractual rights expire or are transferred to another party without retaining control or substantially all risks or rewards associated with the instruments. Fair values are determined at balance date when required.

L: GOODS AND SERVICES TAX (GST)

All items in the financial statements are exclusive of GST, with the exception of receivables and payables, which are stated as GST inclusive. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

M: STATEMENT OF CASH FLOWS

Cash and cash equivalents includes cash in hand, funds within our cheque account, deposits held on call with banks, and bank overdrafts.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and investments.

Financing activities are those activities that result in changes in the size and composition of the capital structure of PrimePort Timaru Limited. This includes both equity and debt. Dividends paid are included in financing activities.
Loans raised and paid are netted off when they are part of the roll over of money market borrowings covered in the Company's long-term finance facilities.

Operating activities includes all transactions and other events that are not investing or financing.

GST component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

N: EMPLOYEE ENTITLEMENTS

Provision is made in respect of the Company's liability for annual leave, long service leave and sick leave. The key leave provisions have been calculated on an actual entitlement basis at current rates of pay. Long service leave accrued for but not yet earned and sick leave provisions have been estimated based on management assumptions of expected tenure of employment for long service and estimated sick days taken over normal entitlements for sick leave. Obligations for contributions to Kiwisaver and superannuation schemes are recognised as an expense in the profit or loss as incurred. All employer contributions made are to defined contribution schemes.

O: HEDGING

Where a derivative financial instrument is designated as a cash flow hedge that is a hedge of the exposure to variability in cash flows that is (i) attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction and (ii) could affect profit or loss, the effective part of any movement in fair value is recognised directly in equity. When the forecasted transaction subsequently results in a non-financial asset or liability the associated gains or losses are included in the carrying value of the non-financial asset or liability. If the hedge subsequently results in a financial asset or liability the associated gains or losses that were recognised in other comprehensive income are reclassified into the profit or loss in the same period. However, if it is expected that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified to the profit or loss.

P: IMPAIRMENT

The carrying amount of the Company's assets are reviewed each balance date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. If the estimated recoverable amount of an asset not carried at devalued amount, is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in profit or loss.

For revalued assets the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in profit or loss. Estimated recoverable amount of receivables is calculated as the present value of estimated cash flows discounted at their original effective interest rate. Receivables with short duration are not discounted. Other assets estimated recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Impairment losses are reversed when there is a change in the estimates used to determine the recoverable amount.

For assets not carried at revalued amount, the reversal of an impairment is recognised in the profit or loss.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that asset was previously recognised in profit or loss, a reversal of the impairment loss is recognised in profit or loss.

Q: DIVIDENDS

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

R: INTEREST BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less any transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised costs with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest rate. Except for borrowing costs that are capitalised on qualifying assets with a commencement date on or after 1 July 2009, all other borrowing costs are recognised as an expense in the period in which they are incurred. A qualifying asset is defined as a separate asset where the construction period exceeds twelve months and costs in excess of one million dollars.

S: PROVISIONS

A provision is recognised when the company 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and where appropriate, the risks specific to the liability.

T: TRADE AND OTHER PAYABLES

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

U: REVENUE

Revenue from the rendering of services is recognised in the profit or loss at the stage of completion of transactions at balance date. Revenue from sale of goods is recognised when ownership is transferred.

Rental and sub-lease revenue are deemed as operating leases. Revenue from these is recognised on a straight line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of consideration due.

V: EXPENSES

Operating lease payments are recognised in the profit or loss on a straight line basis over the term of the lease.

All borrowing costs except for borrowing costs related to a qualifying asset are recognised as an expense in the period they are incurred using the effective interest rate method.

W: LEASES

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset. Financial leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum base payments. The amount recognised as an asset is depreciated over its useful life.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line based over the term.

X: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, funds within our cheque account, deposits held at call with banks, and bank overdrafts.

CHANGES IN ACCOUNTING POLICIES

All policies have been applied on a consistent basis with the previous year except that the company has adopted the following new and amended NZ equivalent to International Financial Reporting Standards as of 1 July 2009.

- NZ IAS 1 Presentation of Financial Statements (revised 2007) effective 1 January 2009
- NZ IAS 23 Borrowing Costs (revised 2008) effective 1 January 2009

The impact of the adoption of the above standards on the financial statements is described below:

NZ IAS 1 PRESENTATION OF FINANCIAL STATEMENTS (REVISED)

The revised standard separates owner and non-owner change in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expenses, either in one single statement, or in two linked statements. The company has elected to present in one single statement. Items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in equity.

NZ IAS 23 BORROWING COSTS (REVISED)

The revised NZ IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying assets. The company's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the revised NZ IAS 23, the company has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 July 2009. The company did not capitalise any borrowing costs in the current year, as it did not have any qualifying assets in terms of its accounting policy.

2. TAXATION

	2010 $000	2009 $000
Profit before taxation and port investment property valuations	691	1,815
Port investment property revaluations	769	454
Profit before taxation	1,460	2,269
Tax at 30%	438	681
Plus/(Less) tax effect of:		
Non-taxable income	(260)	(126)
Non-deductible expenditure	2	2
Effect of building tax depreciation changes	718	-
Deferred tax effect on tax rate change to 28%	(71)	-
Prior year adjustment	-	(1)
	827	**556**
Components of taxation:		
Current taxation	237	329
Deferred taxation	584	234
Deferred tax effect on tax rate change to 28%	(71)	-
Prior year adjustment	77	(7)
	827	**556**

DEFERRED TAX LIABILITY	LONG TERM ASSETS	EMPLOYEE ENTITLEMENTS	OTHER	TOTAL
Balance at 1 July 2008	**(474)**	**209**	**73**	**(192)**
Charge to profit or loss	(127)	(2)	(105)	(234)
Charge to comprehensive income	-	-	120	120
Balance at 30 June 2009	**(601)**	**207**	**88**	**(306)**
Charge to profit or loss	(548)	(86)	121	(513)
Charge to comprehensive income	-	-	(124)	(124)
Balance at 30 June 2010	**(1,149)**	**121**	**85**	**(943)**

Imputation credit account		
Opening balance	3,737	3,488
Tax paid	311	249
Imputation credits attached to dividends paid	-	-
	4,048	**3,737**

3. RECONCILIATION OF CASH FLOW WITH OPERATING SURPLUS

	2010 $000	2009 $000
Profit after taxation	633	1,713
Depreciation	3,442	3,288
Investment property revaluation	(769)	(454)
Movements in deferred tax	637	114
Movements in deferred tax - hedging impact on reserves	(124)	121
Surplus on disposal of long term assets	(18)	(109)
Dredging amortisation	289	(289)
	4,090	**4,384**
WORKING CAPITAL MOVEMENTS RELATING TO CASH FROM OPERATING ACTIVITIES		
(Increase) / Decrease in accounts receivable	615	(275)
(Increase) / Decrease in inventory	59	(10)
Increase / (Decrease) in trade and other payables	(137)	(664)
Increase / (Decrease) in tax payable	12	71
Net cash flow from operating activities	**4,639**	**3,506**

4. RETAINED EARNINGS

	2010 $000	2009 $000
Opening balance	40,734	39,021
Profit after tax	633	1,713
Less dividends paid	-	-
Closing balance	**41,367**	**40,734**

5. RESERVES

	2010 $000	2009 $000
Opening balance	14,764	16,637
Other comprehensive income	740	(1,873)
Closing balance	**15,504**	**14,764**
RESERVES ARE REPRESENTED BY:		
Operational land	15,687	15,236
Financial instrument hedging	(262)	(674)
Tax effect of hedging	79	202
	15,504	**14,764**

6. PAID IN SHARE CAPITAL

The company has on issue 10,000,000 (2009 10,000,000) fully paid shares. All shares have equal voting rights and share equally in dividends and any distribution. No dividend was paid during this financial year or in the previous year.

7. OPERATIONAL FIXED ASSETS

	PLANT & EQUIPMENT	FREEHOLD BUILDING	WHARVES	BREAKWATER /CHANNEL	IMPROVEMENTS TO LAND	FREEHOLD LAND AT VALUATION	TOTAL
2010							
Balance as at 1 July 2009							
At fair value						16,506	16,506
At cost	34,296	3,423	12,921	4,901	1,148		56,689
Accumulated depreciation	(17,576)	(1,060)	(2,883)	(299)	(277)		(22,095)
	16,720	**2,363**	**10,038**	**4,602**	**871**	**16,506**	**51,100**
Additions	67	3	416				486
Dredging				461			461
Revaluation						451	451
Disposal- cost	(25)						(25)
Disposal- accumulated depreciation	16						16
Dredging expenses				(583)			(583)
Dredging impairment				(100)			(100)
Depreciation expenses	(2,667)	(100)	(611)		(64)		(3,442)
Movement to 30 June 2010	**(2,609)**	**(97)**	**(195)**	**(222)**	**(64)**	**451**	**(2,736)**
Balance as at 30 June 2010							
At fair value						16,957	16,957
At cost	34,338	3,426	13,337	4,679	1,148		56,928
Accumulated depreciation	(20,227)	(1,160)	(3,494)	(299)	(341)		(25,521)
	14,111	**2,266**	**9,843**	**4,380**	**807**	**16,957**	**48,364**
COMPARATIVES FOR 2009							
Balance as at 1 July 2008							
At fair value						18,098	18,098
At cost	26,424	3,400	9,014	4,612	1,148		44,598
Accumulated depreciation	(14,978)	(951)	(2,371)	(299)	(213)		(18,812)
	11,446	**2,449**	**6,643**	**4,313**	**935**	**18,098**	**43,884**
Additions	7,878	23	3,907				11,808
Dredging				1,735			1,735
Revaluation						(1,592)	(1,592)
Disposal- cost	(6)						(6)
Disposal- accumulated depreciation	5						5
Dredging expenses				(1,446)			(1,446)
Depreciation expenses	(2,603)	(109)	(512)		(64)		(3,288)
Movement to 30 June 2009	**5,274**	**(86)**	**3,395**	**289**	**(64)**	**(1,592)**	**7,216**
Balance as at 30 June 2009							
At fair value						16,506	16,506
At cost	34,296	3,423	12,921	4,901	1,148		56,689
Accumulated depreciation	(17,576)	(1,060)	(2,883)	(299)	(277)		(22,095)
	16,720	**2,363**	**10,038**	**4,602**	**871**	**16,506**	**51,100**

Land held by the company has been independently valued as at 30 June for the 2010 financial year by GR Sellars FNZIV, FNZPI, a registered valuer with Colliers International. The valuation is based on fair value which is equivalent to freehold land value.

Operational fixed assets, other than land, which form part of the Port infrastructure are stated at cost or at the value they were acquired from the Timaru Harbour Board in 1988. The carrying amount that would have been recognised had the assets been carried under the cost model for freehold land is $1,270,000.

There were no impairment losses during the year.

There are no operational fixed assets where title is restricted.

8. PORT RELATED INVESTMENT PROPERTIES

	2010 $000	2009 $000
Opening balance	23,820	23,366
Revaluation	769	454
Property sold	(162)	-
Closing balance	**24,427**	**23,820**
Investment Properties are represented by:		
Land at valuation	22,379	21,706
Building at valuation	2,048	2,114
	24,427	**23,820**

Investment property held by the Company was independently valued as at 30 June for the 2010 financial year by GR Sellars FNZIV, FNZPI, a registered valuer with Colliers International. The valuation is based on fair value. The valuations have been completed by an experienced valuer with extensive market knowledge in the types of investment property owned by PrimePort Timaru Limited.

Where property is leased as land and buildings generally on short lease terms , the property has been valued at freehold land value. Where land is subject to a ground lease, the property has been valued at the lessor's interest in the land.

There are no investment properties where title is restricted. There are no current contractual obligations to purchase, construct or develop investment property. There are also no current contractual obligations for repairs, maintenance or enhancements to any investment property.

9. INVESTMENTS IN SUBSIDIARIES

All subsidiaries are non-trading, and have no assets and liabilities.

10. TRADE AND OTHER RECEIVABLES

Trade debtors	1,564	2,187
Port related investment property sale	185	-
Prepayments	115	107
	1,864	**2,294**

Trade debtors are shown net of impairment losses arising from the likely non-payment of a small number of customers.
As at 30 June 2010 all overdue receivables had been assessed for impairment and appropriate provisions applied.
The ageing of receivables for the group and parent are as follows:

	2010			2009		
	GROSS	IMPAIRMENT	NET	GROSS	IMPAIRMENT	NET
	$000	$000	$000	$000	$000	$000
Not past due - under 60 days	1,229	-	1,229	1,785	-	1,785
Past due - 30 to 60 days	320	(12)	308	378	-	378
Past due - 60 to 90 days	4	-	4	8	-	8
Past due - over 90 days	181	(158)	23	71	(55)	16
	1,734	**(170)**	**1,564**	**2,242**	**(55)**	**2,187**

The provision for impairment has been determined on an analysis of bad debts in previous periods and review of specific debtors.
The movement in the provision for impairment is as follows:

	2010	2009
	$000	$000
Balance as 1 July	55	35
Additional provisions made during the year	179	40
Trade debtors written off during period	(64)	(20)
Balance as 30 June	**170**	**55**

11. MONEY MARKET LOANS

Repayable as follows:		
Beyond five years	5,500	9,000

MONEY MARKET

The company has arranged money market facilities with Bank of New Zealand for a maximum amount of $7 million (2009 $13 million) to 2017, to date $5.5 million has been drawn. This facility decreases to $6 million in 2011, and reduces annually by $1,000,000. Maturity dates of interest rate instruments within this long term facility are:

Within one year	2,000	2,500
Two to three years	3,500	2,000
Three to four years	-	4,500

SECURITY

Security for the above loans is by way of a negative pledge agreement between bank of New Zealand and PrimePort Timaru Limited.

LIQUIDITY RISK

Liquidity risk is the risk that PrimePort will have difficulty raising funds to meet commitments as they fall due. PrimePort's short term liquidity is managed by ensuring that there is sufficient committed financing facilities to cover at least $1 million in excess of the anticipated peak borrowing requirement as determined by cash flow forecasts. The maximum amount that can be drawn down against our borrowing facility is $7 million (2009 $13 million). There are no restrictions on this with the exception of the negative pledge.

12. FINANCIAL INSTRUMENTS

RISK MANAGEMENT

PrimePort Timaru Limited is exposed to business risks that include market and liquidity risks. Information used to measure and manage risk includes staff experience, market commentary, strategic planning, financial planning and forecasting, financial reporting, operating and management systems, and risk management audits from external consultants.

INTEREST RATE RISK

The financial instruments at reporting date which are exposed to interest rate risk consist of bank deposits, bank overdraft, interest rate swaps and wholesale money market borrowings. The company manages its interest rate risk by using interest rate hedging instruments. A summary of interest rates are as follows:

	EFFECTIVE INTEREST RATE 30/06/2010
Bank overdraft	10.45%
Money market	4.35%-10.05%

The $5,500,000 money market borrowing is on fixed and call interest rates. The fixed term borrowings are for up to 32 month terms at interest rates between 9.06% and 10.05%. Call is currently at 4.35%.

The average interest rate on borrowings at year end is 7.61%.

PrimePorts treasury policy requires set limits for interest rate maturity profile. Hedging instruments are used to manage this profile which is based on projected borrowing requirements. As at balance date $2,000,000 of borrowings are at call (2009 $2,500,000). They are therefore sensitive to interest rate movements. The impact of this is regarded as immaterial at balance date.

The company has variable rate long term borrowings to fund ongoing activities. Swaps have been entered to manage interest rate fluctuation risks. The principal or contract amounts of interest rate swaps outstanding at 30 June are as follows:

	2010 $000	2009 $000
Interest rate swaps		
One to two years	2,000	-
Two to three years	1,500	2,000
Three to four years	-	4,500

An interest rate swap agreement was cancelled early because hedged borrowings exceeded actual borrowings.
The cost of this settlement is included in finance charges.

FAIR VALUE

The carrying value of the company's financial assets and liabilities are recorded at estimated fair value as described in the accounting policies and notes. The financial instrument hedging reserve included through other reserves and trade and other payables for interest rate swaps are -$262,000 (2009 -$472,000). A negative number represents a negative reserve. The Mark to Market valuation is determinated by the bank at close of business on the balance date.

CREDIT RISK

Financial instruments which potentially subject the company to credit risk consist principally of bank deposits and accounts receivable. No collateral is required in respect of these assets. Only reputable financial institutions are used for bank deposits. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk at the 30 June 2010 is equal to the carrying amount of these financial assets. The company continuously monitors the credit quality of its major customers and does not anticipate non-performance by those customers. Due to the nature of the business, the company is exposed to a concentration of credit risk. As at 30 June 2010 32% (2009 44%) of trade receivables were due from one customer which provides 28% (2009 32%) of the company's revenue. These receivables are considered fully recoverable.

CURRENCY RISK

PrimePort Timaru Limited has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. PrimePort Timaru Limited uses foreign currency forward exchange contracts to manage these exposures. At balance date the principal or contract amounts of foreign currency forward exchange contracts were nil (2009 Nil). The mark to market value of the foreign forward exchange contracts as at 30 June 2010 included in trade and other payables were nil (2009 Nil). PrimePorts treasury policy allows for currency management to be restricted to hedging underlying business exposures only.

CASH FLOW HEDGING

Cash flow hedges cover:

Foreign exchange – No significant foreign exchange transaction took place in the financial year. In 2009, a tug was purchased in US dollars which was recognised in operational fixed assets.

Foreign exchange hedging was taken up so that the value of plant purchased was fixed based on an expected delivery date avoiding any exchange fluctuations. PrimePort treasury policy provides that all purchases of items in foreign currency with an equivalent at spot rate greater than NZ$100,000 are to be hedged. There were no foreign exchange hedging transactions in 2010.

Interest rate swaps – managing interest rate risks up to 32 months with the impact of the hedge taken up in the profit or loss as they occur.

Interest rate swaps are taken up to lock in interest rates over future periods avoiding any interest rate fluctuations.
Our hedging at balance date matched physical borrowings.

13. BANK OVERDRAFTS

The bank overdraft facility of $200,000 is secured by way of a negative pledge.
The current interest rate at balance date is 10.45% per annum. This is a floating rate set by the Bank.

14. TRADE AND OTHER PAYABLES

	2010 $000	2009 $000
Trade creditors	715	474
Interest rate swap	262	674
Other accrued expenses	1,742	1,420
	2,719	**2,568**

Trade creditors are non-interest bearing and are normally settled on a 30 day basis, therefore the carrying value approximates their fair value. The fair value of interest rate swaps has been determined by calculating the expected cashflows under the terms of the swaps and discounting to present values, using observable inputs. The inputs into the valuation model are from independently sourced market parameters such as interest rate yield curves. Most market parameters are implied from instrument prices.

15. EMPLOYEE ENTITLEMENTS

Accrued pay	145	273
Accrued leave provision	464	677
Long service provision	14	33
Sick leave provision	2	4
	625	**987**

16. RELATED PARTY TRANSACTIONS

Timaru District Holdings Limited is the major shareholder of PrimePort Timaru Limited. Timaru District Holdings Limited is a wholly owned subsidiary of the Timaru District Council. No dividend (2009 nil) was paid to Timaru District Holdings Limited in 2010.

Directors of PrimePort Timaru Limited own 39% of shares in Port Industry Holdings Limited via three shareholdings in this group giving them an effective 11% holding of the company. No dividend (2009 nil) was paid to Port Industry Holdings Limited in 2010.

During the year PrimePort Timaru Limited leased land to Timaru Wool Dumpers Limited, The Central Stockfeed Company Limited and DC Turnbull & Co Limited , companies in which Mr AG Turnbull is a director and also a director of PrimePort Timaru Limited. The leases amounted to $105,842 (2009 $103,652)of revenue from rentals and as at balance date $26,388 (2009 $25,842) had been paid in advance. DC Turnbull & Co Limited also purchased other services from PrimePort Timaru Limited that amounted to $65,426 (2009 $48,758) of total operations revenue. PrimePort Timaru Limited purchased services from Turnbull Stevedoring Limited, a company in which Mr AG Turnbull is also a manager, that amounted to $44,603 (2009 $88,037) of total operating expenses.

During the year PrimePort Timaru Limited purchased services from the Timaru District Council. The services amounted to $372,958 (2009 $350,621) of total operating expenses. A large percentage of this relates to rates which is recovered from lessees and are netted off in the accounts.

The outstanding balances owed by related parties at 30 June 2010 are:

The Central Stockfeed Company	Nil (2009 $1,481)
Timaru Wool Dumpers Limited	Nil (2009 $1,866)
DC Turnbull & Co Ltd.	$61 (2009 $960)

The outstanding balances owed to related parties at 30 June 2010 is:

Turnbull Stevedoring Limited $1,587 (2009 Nil)

No related party debts have been written off or forgiven during the year. (2009 Nil)

Remuneration paid to key management personnel totaled $1,329,000 (2009 $1,060,000). Key management personnel include Directors, Chief Executive and the remaining members of the management team. All remuneration is classified as salaries and other short-term employee benefits.

17. CONTINGENT ASSETS AND LIABILITIES

No contingent assets exist at balance date. (2009 Nil) PrimePort has a contingent liability relating to an ongoing pricing dispute with a large customer. Management in conjunction with the board remain confident the appropriate process has been followed to claim price increases and that it will be settled in favour of PrimePort. The amount under dispute is $1,361,000 (2009 $862,000).

18. OPERATIONAL FIXED ASSETS UNDER CONSTRUCTION

Operational fixed assets under construction are those assets whose activities to bring the asset to the location and condition for its intended use are not complete. The $370,000 relates to No. 1 wharf fire extinguish system and computer equipment still to be installed (2009 $43,000 relates to No. 1 Extension upgrading).

19. COMMITMENTS

	2010 $000	2009 $000
Capital commitments	420	-

The commitments mainly relate to the dredging campaign carried out early in the new financial year (2009 Nil).

OPERATING LEASE COMMITMENTS

	2010 $000	2009 $000
Non-cancellable operating lease payables:		
Not later than 1 year	1,278	1,284
Later than 1 year but not later than two years	1,268	1,268
Later than 2 years but not later than five years	3,778	3,778
Later than 5 years	6,192	7,451
	12,516	13,781

Operating lease commitments are based on current rentals being paid. In relation to our significant leases, rentals can be increased up to every 3 years based on CPI increments with market reviews on renewal dates. PrimePort Timaru has the right of first refusal to purchase property. Terms of these leases are up to 15 years usually followed by three further periods of six years. The operating lease commitments do not include PrimePort Timaru Limited's sub lease of the South Beach Dairy Store. If this was netted off the commitment for 2010 would read:

	2010 $000	2009 $000
Non-cancellable operating lease payables:		
Not later than 1 year	326	331
Later than 1 year but not later than two years	315	315
Later than 2 years but not later than five years	3,223	2,269
Later than 5 years	6,192	7,451
	10,056	10,366

20. INVENTORY

Inventory includes consumable stocks, timber and fuel. Purchases made during the year not held in inventory at year end are included in port operations expenditure. Inventory at year end is recorded at cost price, less any impairment losses. $13,000 of spare parts deemed to be impaired in 2009 because of their age remain in 2010 (2009 $118,000). There is no inventory where title is restricted.

21. PROPERTY INTENDED FOR SALE

There is no property intended for sale.

22. PROPERTY RENTALS

	2010 $000	2009 $000
Port related investment rentals	2,433	2,213
Other property rentals	192	185
	2,625	**2,398**

Yields currently range from 6-8% on freehold land value determined at the time of rent review for port related investment land leases. Ground lease terms and conditions vary widely with a number of perpetually renewable leases. Rent review terms also vary between 2 years to 21 years. Direct operating expenses relating to port related investment properties amounts to $1,554,000 (2009 $1,496,000). Included in these figures are $41,000 (2009 $27,000) of direct operating expenses arising from investment property that did not generate rental income during the year.

OPERATING LEASE RECEIVABLES

Non-cancellable operating lease receivables:		
Not later than one year	2,351	2,219
Later than one year but not later than two years	1,965	2,075
Later than two years but not later than five years	2,947	3,706
Later than five years	8,524	7,981
	15,787	**15,981**

23. FINANCIAL ASSETS & LIABILITIES

The carrying amount of financial assets and liabilities are as follows:		
Cash & cash equivalents	1,648	1,046
Trade & other receivables	1,864	2,294
Total loans and receivables	**3,512**	**3,340**
Trade & other payables	2,719	2,568
Money market loans	5,500	9,000
Total financial liabilities measured at cost	**8,219**	**11,568**

24. CAPITAL MANAGEMENT

PrimePorts capital is its equity, which comprises of issued shares, retained earnings and revaluation reserves. Equity is represented by net assets. Section 5 of the Port Companies Act 1988 states that the principal objective of every port company shall be to operate as a successful business. PrimePorts principal objective is to operate as a successful business, exploiting opportunities and managing risk thereby ensuring the maintenance and growth in equity. PrimePort manages its equity as a by-product of prudently managing risks, revenues, expenses, assets, liabilities and general financial dealings to ensure it achieves its objectives and purpose, whilst remaining a going concern. These financial statements have been prepared on a going concern basis and the Directors assessment is that PrimePort Timaru Limited will continue to operate as a going concern. The company has complied with its bank covenants which include maintaining a minimal level of shareholder funds.

25. STAFF EXPENSES

The staff expense in 2010 includes redundancy payments $519,000 (2009 Nil). Included in staff expenses are employer contributions for employee superannuation funds. Payments for the year amounted to $175,000 (2009 $190,000).

26. EVENTS AFTER BALANCE DATE

The directors are not aware of the existence of any post balance date events in August 2010.

27. NZIFRS ISSUED BUT NOT YET EFFECTIVE

The following new standards have not been applied in the 2010 financial reporting standards.

NZ IFRS 9 Financial Instruments:

NZ IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value.

This becomes effective for reporting periods after 1 January 2013 with any impact expected to be minor at this stage.

NZ IAS 24 Related Party Disclosures (Revised 2009)

NZ IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. This becomes effective for reporting periods after 1 January 2011. This will be applied from 2011/12 financial year with any impact expected to be minor at this stage.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

AUDIT REPORT

TO THE READERS OF PRIMEPORT TIMARU LIMITED's FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

The Auditor-General is the auditor of PrimePort Timaru Limited (the company). The Auditor-General has appointed me, John Mackey, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company, for the year ended 30 June 2010.

Unqualified Opinion

In our opinion:

- The financial statements of the company on pages 14 to 29:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the company's financial position as at 30 June 2010; and
    - the results of operations and cash flows for the year ended on that date.
- Based on our examination the company kept proper accounting records.

The audit was completed on 24 August 2010, 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;
- 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 as at 30 June 2010 and give a true and fair view of the results of its 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 New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Company.

John Mackey
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 PrimePort Timaru Limited for the year ended 30 June 2010 included on PrimePort Timaru Limited's website. PrimePort Timaru Limited's Board of Directors is responsible for the maintenance and integrity of PrimePort Timaru Limited's website. We have not been engaged to report on the integrity of PrimePort Timaru Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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 related audit report dated 24 August 2010 to confirm the information included in the audited financial statements presented on this website.

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


SAN WON

STATUTORY INFORMATION FOR THE YEAR ENDED 30 JUNE 2010

PRINCIPAL OPERATIONS

PrimePort Timaru Limited operates a commercial port and its activities include ship handling, cargo handling, transit storage and ancillary services to the shipping and freight industries. The company provides quality services to shipping and freight businesses at its centrally located multipurpose and bulk handling port. There has been no material change in the nature of the company's business during the year.

CHANGES IN ACCOUNTING POLICIES

All policies have been applied on a consistent basis with the previous year except that PrimePort Timaru Limited has adopted 2 new International Finance Reporting Standards as specified in the Notes to the accounts.

AUDITORS

On their behalf, the Office of the Auditor-General has appointed Audit New Zealand to undertake the audit of the company.

DIRECTORS

In accordance with the constitution, Messrs NJ Gormack and AG Turnbull retire at the 2010 Annual Meeting. Mr Gormack and Mr Turnbull, being eligible, offer themselves for re-election.

DIRECTORS AND REMUNERATION
Authorised and paid Directors Fees

N.J. Gormack	$22,000
R.H. Gower	$22,000
J. Isles	$22,000
S.G. McAuley	$39,000
J.M.W. Rolleston	$25,000
A.G. Turnbull	$22,000

DISCLOSURE OF INTEREST BY DIRECTORS

The following entries were recorded in the interests' registers of the company and its subsidiaries:

A. GENERAL DISCLOSURES

Mr. N.J. Gormack

Director	- GSG Capital Partners Ltd
Director	- Klondyke Fresh Ltd
Director	- Opuha Water Ltd
Director	- HC Partners Ltd
Shareholder	- GSG Capital Partners Ltd
Shareholder	- Klondyke Fresh Ltd
Shareholder	- HC Partners Ltd

Mr. R.H. Gower

Director	- Gower Management Group Limited and its subsidiaries
Director	- Tomorrow's Manukau Properties Limited
Director	- CER Group Limited
Director	- Orion Minerals Group Ltd
Director	- RLV No4 Ltd
Director	- RIS Group Ltd
Shareholder	- Gower Management Group Limited and its subsidiaries
Shareholder	- CER Group Limited

Mr. J. Isles

Chairman	- Interweave Fabrics Ltd
Dep Chair	- Medical Assurance Group
Director	- PSIS Ltd
Director	- Woolyarns Ltd
Director	- Miti Partners Ltd
Member	- Development West Coast Advisory Body
Member	- Electricity Commission Rulings Panel

Mr. S.G. McAuley

Chairman	- Coolpak Cool Stores Ltd
Director	- Port Dairy Stores Timaru Ltd
Director	- McAuley Property Ltd
Director	- Hilton Leasing Ltd
Shareholder	- Hilton Leasing Ltd
Shareholder	- Port Industry Holdings Ltd
Trustee	- McAuley Family Trust

Mr. J.M.W. Rolleston

Director	- South Pacific Sera Ltd
Director	- Program Management Ltd
Shareholder	- Port Industry Holdings Ltd

Mr. A.G. Turnbull

Chairman	- DC Turnbull & Co Ltd
Chairman	- Tapley Swift Shipping Agencies Ltd
Director	- Timaru Wool Dumpers Ltd
Director	- Port Dairy Stores Timaru Ltd
Director	- Jaegar Ltd
Director	- The Central Stockfeed Company Ltd
Manager	- Turnbull Stevedoring Ltd
Shareholder	- Port Industry Holdings Ltd

B. SPECIFIC DISCLOSURES

Mr AG Turnbull gave notice that DC Turnbull & Co Ltd, The Central Stockfeed Company Ltd and Timaru Wool Dumpers Ltd lease land from the company.

C. DIRECTORS' INDEMNITY AND INSURANCE

The company has insured all its directors against liabilities to other parties (except the company or a related party of the company) that may arise from their positions as directors. The insurance does not cover liabilities arising from criminal actions.

D. SHARE DEALINGS BY DIRECTORS

Nil.

E. USE OF COMPANY INFORMATION

During the year the Board received no notices from directors of the company requesting to use company information received in their capacity as directors which would not otherwise have been available to them.

EMPLOYEES' REMUNERATION

During the year the following numbers of employees received remuneration of at least $100,000:

PRIMEPORT TIMARU LTD	NUMBER OF EMPLOYEES
$360,001 - $370,000	1
$330,001 - $340,000	1
$230,001 - $240,000	1
$200,001 - $210,000	2
$180,001 - $190,000	1
$150,001 - $160,000	1
$140,001 - $150,000	1
$130,001 - $140,000	1
$110,001 - $120,000	3
$100,000 - $110,000	3

The base salaries for senior staff were reduced for the year. Increased numbers and higher levels reflect restructuring and annual leave payouts.

DONATIONS

During the year the company made no donations.

AUDITORS' REMUNERATION

During the year, the following amounts were payable to the auditors of the company and its subsidiaries:

	AUDIT WORK
PrimePort Timaru Ltd	$48,075

REVIEW OF PAST YEAR

The review of activities of the company during the financial year is contained in the Chairman and Chief Executive's review.

DIVIDEND

Directors recommend that no dividend be declared.

STATE OF AFFAIRS

The directors are of the opinion that the state of affairs of the company is satisfactory.

STATEMENT OF CORPORATE INTENT PERFORMANCE

It is the directors' view that objectives have been met this year with the exception of:

- *Dividends (proposed) per share – no dividends are proposed as a result of the current economic conditions and reduced profitability.*
- *Cargo Tonnage – Cargo throughput decreased as a result of Fonterra's decision to move cargo to Lyttelton.*
- *Earnings (after tax) per share, return (after tax) on total assets and shareholder funds – The one off tax adjustment of $718,000 related to changes in tax depreciation rules was the reason for these targets not being met.*

	Objective / Outcome	Target	Achieved
(a)	To continue the expansion of profitable cargo volume through the Port being the preferred South Island Port in selected segments.		
	Cargo tonnage	***1,347,000***	***No***
	Vessel arrivals	***306***	***Yes***
(b)	To manage and operate PrimePort Timaru Ltd to enhance shareholder wealth through continuously improving performance.		
	Earnings (after tax) per share	***$0.07***	***No***
	Dividends (proposed) per share	***$0.02***	***No***
	Net assets per share	***$6.69***	***Yes***
	Return (after tax) on total assets	***0.99%***	***No***
	Return (after tax) on shareholders funds	***1.14%***	***No***
	Ratio of shareholders funds to total assets	***0.87***	***Yes***
	Return (pre-tax profit) on shareholders funds	***1.50%***	***Yes***
(c)	To provide a high level of service to customers		
	Customer invoices received from vessel delays	***Nil***	***Yes***
(d)	To employ the best people and develop staff to their full potential in a safe working environment.		
	Lost time injury frequency rate	***4.5***	***Yes***
(e)	To ensure activities are effectively communicated to stakeholders		
	Monthly reports	***12***	***Yes***
	Chairman/Chief Executive meet with Holdings Board	***1***	***Yes***
	Press articles in Timaru Herald	***12***	***Yes***
(f)	To accept responsibility as a user of the coastline and recognise the importance of the environment for future generations.		
	Incidents leading to pollution of harbour	***Nil***	***Yes***
	Compliance with all resource consent conditions	***Yes***	***Yes***
	Compliance with NZ Maritime Safety Standards	***Yes***	***Yes***

DIRECTORY

BOARD OF DIRECTORS

Chairman	S.G. McAuley
Directors	N.J. Gormack
	R.H. Gower
	J. Isles
	J.M.W. Rolleston
	A.G. Turnbull

MANAGEMENT

Chief Executive	J.W. Boys
Finance Manager	J.D. Cannell
Business Development Manager	D.J. Cowie
Marine Manager	Captain P. McNeill
Operations Manager	K.W. Michel

SHAREHOLDERS as at 30 June 2010

Timaru District Holdings Ltd (71.4%)

Port Industry Holdings Ltd (28.6%)

SOLICITORS

Raymond Sullivan McGlashan - Timaru

Buddle Findlay - Christchurch

AUDITORS

Audit New Zealand
for the Office of the Auditor-General

BANKERS

Bank of New Zealand

REGISTERED OFFICE

Marine Parade,
Timaru
New Zealand

PO Box 544
Timaru
New Zealand

Telephone +64 3 687 2700
Facsimile +64 3 687 2709
Website www.primeport.co.nz

OUR MISSION
Customers First

The Directors are pleased to present the Annual Report of PrimePort Timaru Limited for the year ended 30 June 2010. For and on behalf of the Board of Directors.

S. G. McAuley
Chairman

24 August 2010

J. M. W. Rolleston
Director

24 August 2010

PrimePort Timaru

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