Interim Report

For the six months ended 31 December 2005

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results in brief

	Six months Dec 2005 **$million** Unaudited	Six months Dec 2004 **$million** Unaudited	Year ended June 2005 **$million** Audited
Revenue	22.4	20.4	46.5
Operating surplus	5.3	4.5	12.7
Net surplus after taxation	3.5	3.0	8.3
Net surplus after unrealised revaluations*	3.5	3.0	23.8*
Total assets	204.1	168.3	188.7
Shareholders equity	130.0	112.2	128.0
Equity ratio	64%	67%	68%
Net asset backing per share	$6.50	$5.61	$6.40
Cargo volume (000 tonnes)	1,373	1,351	2,812

*The interim financial statements do not include the impact of property revaluations as these are completed at the end of the financial year in accordance with SSAP-17 Accounting for Investment Properties.

chairman's report

Directors are pleased to report that Port Otago has recorded an unaudited consolidated net surplus of $3.5 million for the six months to 31 December 2005. This represents an increase of 18% on the net surplus of $3.0 million reported for the previous comparative period. The result incorporates a net surplus from port operations of $2.36 million, an increase of 35% on the $1.75 million recorded for the prior period.

Revenue of $22.4 million was up 9% compared to the six months ended 31 December 2004.

Interim dividend

An interim dividend of $2,500,000, the same as last year, will be paid on 28 February 2006. Fully imputed for tax, the dividend represents 71% of the net surplus.

Trade

The port handled a cargo volume of 1.4 million tonnes in the six month period, an increase of 2%.

Containerised exports and imports remained strong with exports increasing by 3% and imports by 4% compared to the previous six month period. This is a reflection of the buoyant level of economic activity across the region over the period.

The increase in export trade was mainly in the traditional range of refrigerated products from the farming sector.

The rise in the number of export / import containers handled was offset by a 9% fall in empty containers moved through the port. While the total number of containers handled during the six months was similar to the previous reporting period the increased number of full containers is a positive trend for the port.

Conventional cargo volume of 506,000 tonnes was on a par with the previous corresponding six months. Increased log exports were offset by lower imports of fertiliser while the quantity of incoming petroleum rose slightly.

Port Operations

As previously indicated, the net surplus from port operations was $2.36 million.

The port operations earnings before interest and tax (EBIT) were $4.4 million, an increase of 27%. Prudent management of the port operating costs achieved a reduction to 77% of operating revenue compared with 80% for the previous corresponding period.

During the six months the port received delivery of two new Kalmar straddle carriers and completed strengthening on the inner end of the main George Street container wharf. The wharf strengthening is in preparation for the arrival of the new third ship-to-shore container crane from Shanghai, China. The February 2006 crane arrival will be followed by a period of commissioning and will give the port the capability to load and unload ships with three cranes working simultaneously.

In line with the Company's philosophy of investing in port infrastructure in order to offer superior levels of customer service, the Company has proceeded with the order of a further ship-to-shore container crane from Shanghai ZPMC. Delivery is expected early in 2007.

The timing of the second new crane order has allowed the port to take advantage of favourable foreign exchange rates and means the port will gain a pair of identical new cranes with consequent benefits from consistent maintenance routines and reduced holdings of spare parts. On arrival of the second new crane the intention is to de-commission one of the existing older cranes to leave the container terminal with three cranes.

Shipping services

Towards the end of the period Maersk Line announced new shipping services following from their takeover of P&O Nedlloyd. Starting this month, Maersk Line is introducing an Oceania Pendulum service that will operate between Australia, New Zealand, East Coast North America and Europe. Pending completion of a strategic review by Maersk Line this service will call at Port Chalmers weekly and it will replace the previous ANZ Alliance round-the-world service.

Hapag Lloyd and CP Ships are introducing a new service to the Mediterranean and Europe via the Suez Canal. The New Zealand ports for this new weekly service are Auckland, Napier and Port Chalmers.

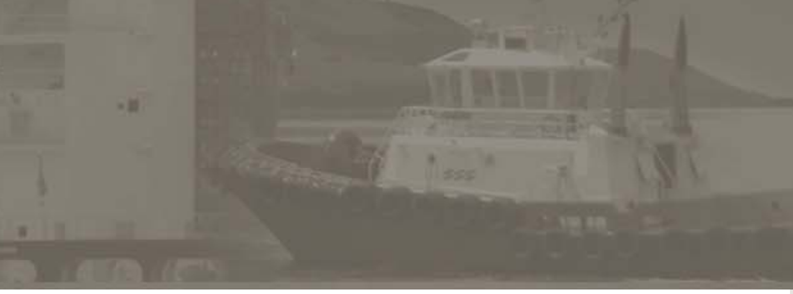
Current indications are that container shipping services announced as a result of recent shipping company rationalisation will result in connections through Port Chalmers to the world that are comparable with previous conference services.

Health & Safety

It is pleasing to report that the improving trend in the Company's health and safety performance continues to be sustained. In the current financial year to date five lost time injuries have been recorded, two lower than the same period last year. This has resulted in a further improvement in the lost time injury frequency rate to 1.6 lost time injuries per 100,000 hours worked compared with 2.5 for the same period last year.

Environmental and Community matters

The Port Environment / Liaison Committee provides a vital link to the community and is an important forum to monitor the Company's environmental performance. The main highlight over the last six months has been completing the landscaping and the placement of Ralph Hotere's artworks on Flagstaff Hill, Port Chalmers.



Work also continues on port noise management and mitigation with the acoustic treatment of a number of properties progressing to the point where work will be able to start on actual building improvements.

Staff

Our staff continue to focus on providing high standards of customer service while maintaining a positive approach to changes in the shipping industry. The results for the first half of the financial year are a tribute to the skills and dedication of the Company's employees.

Chalmers Properties Limited

The Group's investment property business, held by Chalmers Properties Limited, recorded a net surplus of $1.16 million, for the six months to 31 December 2005, a reduction of 6% from the previous period.

A $2 million redevelopment of the Company's Ronwood Avenue property, in Auckland, which was started during the period is progressing well and is expected to be finished in early March 2006. On completion of the redevelopment the property will be fully let.

The Company, via joint venture participation, has purchased two further blocks of land on the outskirts of Hamilton. This undeveloped land, along with previous purchases, is part of an area that is subject to a Hamilton City Council proposed District Plan variation.

Chalmers Properties Limited, working alongside the Dunedin City Council, continues to progress joint planning for the Dunedin harbourside area. The ideas proposed in the Harbourside Stakeholder Consultation Document, issued in August 2005, have met with a favourable response from the Dunedin community.

The Chalmers Properties Group is on track to record a trading profit after tax of $2.3 million for the full financial year, an improvement of 6% on the 2005 full year result.

Outlook

The Port Otago Group has recorded a strong start to the financial year with improved port profitability and higher cargo volumes. Shipping industry consolidation is resulting in a new configuration of container services calling at Port Chalmers. The continued upgrading of the port infrastructure, combined with the skills and commitment of our staff, means Port Otago is well placed to keep providing world-class levels of service to our customers.

On behalf of the Board of Directors

John Gilks
Chairman

21 February 2006

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consolidated statement of financial performance

For the six months ended 31 December 2005

	Note	Six months Dec 2005 $000 Unaudited	Six months Dec 2004 $000 Unaudited	Year ended June 2005 $000 Audited
Revenue				
Port operations		18,924	17,298	39,978
Investment property rental		3,501	3,120	6,529
Total operating revenue		**22,425**	**20,418**	**46,507**
Surplus before interest and unusual items				
Port operations		4,407	3,481	11,015
Investment property		2,449	2,449	4,515
		6,856	5,930	15,530
Net interest	Note 3	(1,543)	(1,407)	(2,858)
Operating surplus		5,313	4,523	12,672
Gain on disposal of investment property		-	-	158
Reorganisation costs		-	-	(258)
Surplus before taxation		5,313	4,523	12,572
Taxation		(1,798)	(1,536)	(4,223)
Net surplus after taxation		3,515	2,987	8,349
Unrealised net change in the value of investment property	Note 2	-	-	15,460
Net surplus after unrealised revaluations		**3,515**	**2,987**	**23,809**

consolidated statement of movements in equity

For the six months ended 31 December 2005

	Six months Dec 2005 $000 Unaudited	Six months Dec 2004 $000 Unaudited	Year ended June 2005 $000 Audited
Total recognised revenues and expenses			
Net surplus	3,515	2,987	23,809
Distribution to owners			
Dividend	(1,500)	(1,500)	(6,500)
Equity at the beginning of the period	128,023	110,714	110,714
Equity at the end of the period	**130,038**	**112,201**	**128,023**

consolidated statement of financial position

As at 31 December 2005

	Note	As at Dec 2005 $000 Unaudited	As at Dec 2004 $000 Unaudited	As at June 2005 $000 Audited
Equity				
Share capital		20,000	20,000	20,000
Reserves		110,038	92,201	108,023
		130,038	112,201	128,023
Non current liabilities				
Borrowings (secured)		65,603	47,190	54,230
Deferred tax		450	21	-
Employee entitlements		841	805	797
		66,894	48,016	55,027
Current liabilities				
Accounts payable		5,228	6,345	3,793
Employee entitlements		1,966	1,738	1,884
		7,194	8,083	5,677
Total equity and liabilities		**204,126**	**168,300**	**188,727**
Non current assets				
Fixed assets		76,052	69,029	72,558
Investment property		109,014	88,762	104,358
Secured advances		4,916	1,820	4,916
Property deposit		906	-	-
Goodwill		235	335	285
Future tax benefit		-	-	63
		191,123	159,946	182,180
Current assets				
Bank		5,666	197	223
Receivables and prepayments		6,390	7,216	5,735
Stores and materials		364	367	378
Income tax		583	574	211
		13,003	8,354	6,547
Total assets		**204,126**	**168,300**	**188,727**

directory

Directors

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

Executive

Geoff Plunket	Chief Executive
Chris Kaye	Operations Manager
Wayne Muir	General Manager, Port Otago Group Warehousing
Lincoln Coe	Technical Services Manager
Andrew Taggart	Chief Financial Officer

Chalmers Properties Limited

Andrew Duncan — Chief Executive

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Bankers
ANZ National Bank Limited

Solicitors
Anderson Lloyd Caudwell

Auditors
Audit New Zealand on behalf of the Auditor-General

consolidated statement of cash flows

For the six months ended 31 December 2005

	Note	Six months Dec 2005 $000 Unaudited	Six months Dec 2004 $000 Unaudited	Year ended June 2005 $000 Audited
Cash flows from operations				
Cash was provided from				
Receipts from port operations		18,689	18,686	42,501
Rental income		3,354	3,068	6,177
Interest received		191	1	178
Cash was disbursed to				
Payments to employees and suppliers		(13,898)	(13,779)	(27,142)
Interest paid		(1,702)	(1,367)	(2,926)
Income tax paid		(1,602)	(1,518)	(3,926)
Tax subvention payment		(55)	-	-
Net cash flows from operations		**4,977**	**5,091**	**14,862**
Cash flows from investing activities				
Cash was provided from				
Sale of fixed assets		52	-	12
Sale of investment property		-	-	22
Advances repaid		1,156	243	693
Cash was applied to				
Purchase of fixed assets		(5,261)	(5,618)	(11,059)
Interest capitalised		(168)	-	(65)
Purchase of investment property		(2,330)	(2,431)	(5,811)
Improvements to investment property		(766)	(185)	(425)
Advances		(2,090)	(410)	(3,553)
Net cash flows from investing activities		**(9,407)**	**(8,401)**	**(20,186)**
Cash flows from financing activities				
Cash was provided from				
Proceeds from borrowings		11,373	9,150	19,810
Cash was applied to				
Repayment of borrowings		-	(4,330)	(7,950)
Dividends paid		(1,500)	(1,500)	(6,500)
Net cash flows from financing activities		**9,873**	**3,320**	**5,360**
Increase (decrease) in cash held		5,443	10	36
Cash held at beginning of period		223	187	187
Cash held at end of period		**5,666**	**197**	**223**

The reconciliation between the net surplus and the cash flow from operations is			
Net surplus	3,515	2,987	23,809
Non-cash/investing items			
Unrealised net change in the value of investment property	-	-	(15,460)
Depreciation	1,936	1,790	3,768
Goodwill amortisation	50	51	101
Gain on sale of fixed assets	(52)	-	(12)
Gain on disposal of investment property	-	-	(158)
Non-current employee entitlements	44	41	33
Deferred tax	513	354	270
Changes in working capital			
Receivables and prepayments	(329)	1,166	2,539
Accounts payable and current employee entitlements	(342)	(917)	1
Income tax receivable	(372)	(336)	27
Stores and materials	14	(45)	(56)
Net cash flows from operations	**4,977**	**5,091**	**14,862**

notes to the consolidated financial statements

1. Financial statements

The interim consolidated financial statements of Port Otago Limited (the "Company") together with its subsidiaries and share of joint ventures have been prepared in accordance with FRS-24 Interim Financial Statements. These interim financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2005.

The interim financial statements for the six months ended 31 December 2005 and 31 December 2004 are unaudited. The financial information for the year ended 30 June 2005 has been extracted from the audited financial statements of the Company for that year.

2. Accounting policies

The accounting policies adopted for the interim financial statements are consistent with those used in the previously published interim and annual financial statements. There have been no changes in accounting policies during the period.

The interim financial statements do not include the impact of property revaluations as these are completed at the end of the financial year in accordance with SSAP-17 Accounting for Investment Properties.

3. Net interest

	Six months Dec 2005 $000 Unaudited	Six months Dec 2004 $000 Unaudited	Year ended June 2005 $000 Audited
Interest income	192	77	206
Interest expense	(1,735)	(1,484)	(3,064)
Net interest expense	**(1,543)**	**(1,407)**	**(2,858)**

4. Capital expenditure commitment

At 31 December 2005 the Group had commitments/approvals for capital expenditure of $26.6 million (31 December 2004: $10.6 million, 30 June 2005: $10.5 million).

5. Contingencies

There are no contingent liabilities at 31 December 2005 (31 December 2004: nil, 30 June 2005: nil).

As part of contractual arrangements for the purchase of a ship-to-shore container crane the ANZ National Bank Limited has issued guarantees at the request of the Group. At 31 December 2005 guarantees totalling $US2.7 million remained outstanding (31 December 2004: $US4.6 million, 30 June 2005: $US4.6 million). These guarantees progressively expire as the Group makes payments in accordance with the crane purchase contract. While the Group has indemnified the ANZ National Bank Limited against any claims made pursuant to the guarantees, the possibility of such claims occurring is considered remote.

6. Events subsequent to balance date

Dividends

On 21 February 2006 the directors declared an interim dividend of $2.5 million.

7. New Zealand international financial reporting standards

In December 2002 the New Zealand Accounting Standards Review Board announced that the New Zealand equivalents to International Financial Reporting Standards ("NZIFRS") will apply to all New Zealand entities for the periods commencing on or after 1 January 2007 with the opportunity to early adopt by up to two years.

Port Otago Limited intends to adopt NZIFRS for the year ending 30 June 2007. Accordingly, the adoption of NZIFRS will be first reflected in the Group's interim report for the six-month period ending 31 December 2006.

Port Otago Limited has commenced a project to identify the differences between existing New Zealand generally accepted accounting practice ("NZGAAP") and NZIFRS. The transition to NZIFRS is expected to impact the Group in the key areas summarised below. This summary should not be taken as an exhaustive list of all differences between existing NZGAAP and NZIFRS that will impact on the Company. The Group is not at a stage in its transition project to enable it to quantify the financial impacts on the financial results. It is possible that the actual impact of adopting NZIFRS may vary from the information presented below.

On transition to NZIFRS most of the adjustments required will be made against opening retained earnings.

Taxation

Under NZIFRS the deferred tax liability will be calculated using a "balance sheet" approach, which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items. The current approach recognises differences between the accounting surplus and taxable income.

The most significant impact identified to date will be the recognition of a deferred tax liability in respect of the revaluation of the Group's investment property and in respect to classes of the Group's fixed assets that are accounted for at fair value.

Fixed assets

The Group currently records fixed assets at cost less depreciation to date. Under NZIFRS, an entity may elect to measure fixed assets at the date of transition to NZIFRS at their fair value and use that fair value as deemed cost. Port Otago Limited is completing a valuation of its port related land (including improvements), buildings and wharves so that fair value for these fixed assets can be used as their deemed cost at the Group's transition date of 1 July 2005.

Investment properties

Investment properties are currently valued annually at market value less the estimated costs of disposal. Under NZIFRS investment properties will be measured at fair value.

The difference between fair value and market value is that disposal costs are not deducted to arrive at fair value. The result could be an increase in the value recorded for investment properties.

Hedge accounting

The Group uses interest rate swaps to manage its interest rate risks. The net differential, paid or received, on those interest rate swaps is recognised as a component of interest expense or interest revenue over the period of the contract.

The Group uses foreign currency forward exchange contracts to manage currency rate risk. Currently gains and losses on such contracts are recognised as a component of the related transaction in the period in which the transaction is completed.

Under NZIFRS all derivative financial instruments, such as interest rate swaps and foreign currency forward exchange contracts, will be recognised at fair value in the statement of financial position.

Changes in the fair value of the derivatives will be recognised in the statement of financial performance unless strict hedge criteria are met. If the criteria are met for cash flow hedge accounting, the unrealised gain or loss on the hedging derivative is deferred within equity and re-released to the statement of financial performance at the same time as the transaction it is hedging.